



HOUSE OF REPRESENTATIVES

**STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND
MICROECONOMIC REFORM**

Reference: federal road funding

MELBOURNE

Monday, 5 May 1997

OFFICIAL HANSARD REPORT

CANBERRA

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

Members:

Mr Vaile (Chair)

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

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

1. Review the Commonwealth role in road funding and identify the most effective means of fulfilling that role;
2. Assess the adequacy and extent of the National Highway as currently declared in meeting the objective of providing a national road system that meets the needs of industry and the community;
3. Assess the level of funding required to adequately fulfil the Commonwealth role. This should take into account the current condition of the asset, depreciation and maintenance requirements, as well as new investment required to meet demand growth, changes in technology (especially increased weight limits for heavy vehicles) and community expectations of road standards;
4. Examine whether current administrative arrangements have an adequate performance focus, promote effective and efficient use of funds and adoption by States and Territories of best practice, and provide an effective Commonwealth/State interface; and
5. Assess the scope to supplement Government funding through innovative arrangements for private sector involvement in the provision and maintenance of roads infrastructure and the scope for pricing of road services to reflect full resource costs.

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

WITNESSES

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Inquiry into federal road funding

MELBOURNE

Monday, 5 May 1997

Present

Mr Vaile (Chair)

Mr Albanese

Mr McDougall

Mr McArthur

Mr Willis

The committee met at 9.02 a.m.

Mr Vaile took the chair.

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CHAIR—I apologise for the late start this morning. I declare open this public hearing of the House of

Representatives Standing Committee on Communications, Transport and Microeconomic Reform on its inquiry into federal road funding. Today is part of the committee's 12-day program of hearings and inspections covering all states and territories. The committee is investigating the underlying principles for funding Australia's national road system. I should emphasise at this point that, in addressing the terms of reference, the inquiry should not be seen as a forum for advocating the funding of specific road projects.

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

BERRY, Mr David, Deputy Secretary, Strategic Planning and Economic Services Division, Victorian State Government, Department of Infrastructure, Level 23, Nauru House, 80 Collins Street, Melbourne, Victoria 3000

JORDAN, Mr Colin Lawrence, Chief Executive, VicRoads, Victorian State Government, 60 Denmark Street, Kew, Victoria 3101

ROGAN, Mr John Michael, Director, Infrastructure Investment and Programs, Victorian State Government, Department of Infrastructure, Level 23, Nauru House, 80 Collins Street, Melbourne, Victoria 3000

CHAIR—Welcome, gentlemen. The committee has received your submission and incorporated that as evidence before this inquiry. Would you like to make a brief opening statement?

Mr Jordan—Thank you for the opportunity for my colleagues and me to appear before your committee on behalf of the Victorian government. As a matter of principle, the Victorian government believes that all Commonwealth funds to the states should be provided in the form of financial assistance grants or, where this is not practicable, in the form of identified funding grants.

Notwithstanding this, the Victorian submission assumes that the Commonwealth will wish to retain certain specific purpose programs and identified road grants. It acknowledges the Commonwealth's important and historical role in road funding and its increased direct role with respect to the national highway program. However, this program is now more than two decades old, and its original goal of providing safe and reliable access between the capital cities and some other major population centres has been largely achieved.

The submission recommends that the Commonwealth refocus its road funding role to give greater priority to increasing national economic efficiency and business competitiveness by expanding the national highway network so that its definition includes other strategic urban and rural corridors; funding capital projects with high economic returns on this expanded network; funding special programs of national significance, such as accident black spot and bridge programs; and assisting states and local government through identified funding grants.

The Victorian submission recommends a single category of national roads substantially expanded to include the whole of the Melbourne Metropolitan Ring Road, including the Eastern Ring Road located in the Scoresby Corridor and the Princes Highway east and west, including Geelong Road which links Victoria's two largest cities. The submission asks the inquiry to note that in Victoria there are some \$4 billion of unfunded high benefit projects. Of these about \$2½ billion worth of projects returning at least three times their cost in economic benefits could be on an appropriately expanded national roads network.

I would also like to draw the committee's attention to table 2 on page 6 of our submission, which cites Austroads' data which shows that a very high proportion of high benefit investment projects across the nation are in Victoria. In particular, increased investment is justified for concerted improvement programs for the Goulburn Valley Highway, which carries high levels of interstate freight traffic; the Calder Highway, to achieve a dual highway to Bendigo in the next decade; the Melbourne Metropolitan Ring Road; and the

Geelong Road.

A recent national study by the Business Council of Australia has highlighted the high national economic benefits to be derived from increased investment in major urban roads. In particular, the Eastern Ring Road project could deliver transport cost savings in excess of some \$300 million per year, with 45 per cent of those benefits going direct to business to improve its competitiveness.

The submission recommends that federal funding for capital works should be distributed to states and territories based on traffic needs reflected by the proportion of the national total of vehicle kilometres of travel, appropriately weighted to reflect the different traffic types. It also proposes that the Commonwealth should discontinue direct responsibility for maintenance of national roads. It proposes that current funds allocated to maintenance be redirected, with 50 per cent being absorbed in state grants identified for road purposes and therein available for maintenance, and 50 per cent being allocated to economically warrant capital improvements.

Present maintenance arrangements provide little incentive to improve service delivery or administrative efficiency. The proposal would ensure that Commonwealth effort is primarily directed to economic improvements to the nation's infrastructure; ensure that states meet their responsibilities for maintenance and are stimulated to improve service delivery; and greatly improve administrative efficiency.

Victoria's proposals for reform are strengthened by VicRoads' delivery of effective and efficient road performance outcomes, including development of strategic frameworks, leading support to national reforms and high levels of market testing of construction and other services. The submission recommends that administrative arrangements be revised to minimise detailed project approvals and to reflect a strategic approach comprising joint agreement to the national roads network and scope of national road programs; Commonwealth approval of five-year forward programs; a Commonwealth lead role in communication to the public of forward programs, project starts and project completions; and evaluation of performance against national goals and criteria. Thank you, Mr Chairman and members. We would be happy to receive your questions.

CHAIR—Thank you very much. The Victorian government's submission is certainly quite comprehensive and also thought provoking. Your submission suggests that the objectives of the current national highway program have largely been achieved. In suggesting that, are you talking in terms of only Victoria or across Australia?

Mr Jordan—We believe that the comment applies across Australia. The thrust of our submission is that Commonwealth involvement in road funding should be directed primarily at economic benefit to the nation and that the original goals relating to access and particular regional development areas have been largely achieved.

CHAIR—You do not see those important linkages from the outer regions of the metropolitan areas—such as the western suburbs of Sydney and the northern suburbs of Melbourne—to the airports and seaports as part of the national highway system, but more as roads of economic importance: this other category that you are talking about. Is that so?

Mr Jordan—Yes, I think that is correct. The national highway network has been essentially a network joining dots on a map for capital cities. What we are saying is that economic factors should carry much more weight and that certainly the ports, airports and key manufacturing and commercial areas should play a much more prominent part in the identification of the areas where Australia should focus its major road investment in the future.

CHAIR—I appreciate that. The point I am getting at is that you are not suggesting that the maintenance of those roads is the Commonwealth's responsibility. You have a couple of fairly significant ring roads going here and a privately funded connection under construction in Melbourne. The point I am making is that you are saying that the national highway system has largely achieved what it set out to achieve. But in other states indications are that it has not, because those roads that you are talking about as being of national economic importance, other states view as being part of—or needing to be part of—the national highway system.

The national highway system should not just end at the boundary of a major conurbation. It should actually get to the airport, the seaport or the centre of the manufacturing base. I am just trying to clarify that you still see that linkage as a Commonwealth responsibility.

Mr Jordan—Certainly. I am sorry. I did not understand the first time around. We are really saying that those things are the drivers of economic activity and therefore they should quite properly be within a national roads network.

CHAIR—But, if the government slotted those in to the category of roads of national importance, that would be satisfactory to you, as long as there is Commonwealth recognition of the importance of those pieces of road infrastructure.

Mr Jordan—That is correct.

CHAIR—There is a central element all the way through your submission that all road funding from the Commonwealth to the states should be untied and be just financial assistance grants: is that correct?

Mr Jordan—That is Victoria's overall position with respect to any funding from the Commonwealth to the states. I think we have said in our preamble that we recognise that it is likely that the Commonwealth will want to have a greater degree of involvement. We believe we have put forward some practical suggestions as to how that might be achieved.

CHAIR—I appreciate that. But the comment is repeated pretty well right through the submission about Commonwealth funding coming to the states. Your recommendation No. 1 is that as a matter of principle the Victorian government believes that ideally all Commonwealth funds to the states should be provided in the form of financial assistance grants, enabling the states to determine the most appropriate means of providing services. If that were the case, would Victoria be prepared to isolate or quarantine any funding coming from the Commonwealth in a trust fund for roads, so that the Commonwealth knew that it was all going to be spent on roads?

Mr Berry—I think that is a policy question for the government.

CHAIR—I know it was a bit off line, but you have to realise that that would be the first question that would be asked.

Mr Berry—I think that what we have said clearly is that the government's position is that ideally it would like funds to be untied across Commonwealth categories to states, as a general principle. However, it recognises that the Commonwealth will probably want to retain a role in national roads. The rest of our submission does not assume that it will be untied. It does suggest change in arrangements to maintenance—as Mr Jordan outlined—which we think would simplify administration and lead to greater efficiency.

CHAIR—I do not think that there is any question that in the evidence the committee has received so far from around Australia there is the opportunity for great improvement as far as the duplication of the checks and balances of where money is spent, how it is spent, and what have you, between Commonwealth and state bureaucracies. But certainly, there would be a view that the Commonwealth has a responsibility to ensure that the money that is allocated for roads actually gets spent on roads. If the Commonwealth is going to identify roads to go into a category, whether it be national highways or roads of national importance, it is going to want to ensure that that is where it is spent.

I have one last question before I hand over to my colleagues on the committee for questions. The question consistently comes up with regard to funding and the lack of hypothecation of federal fuel excise to roads. What state taxes are there on fuel in Victoria?

Mr Jordan—I am not familiar with the precise numbers. There is a state fuel franchise fee of which a component, approximately 3c per litre, is hypothecated to the Better Roads Victoria program, which is 100 per cent allocated back to road projects within Victoria.

Mr Rogan—I think last week's budget announcement was to reduce the levy on both petrol and diesel to about 7½c per litre.

CHAIR—That is what it is going to be?

Mr Rogan—That is what it is going to be, I believe.

CHAIR—And you think that about 3c of that is hypothecated to roads?

Mr Jordan—Yes, that is correct.

Mr McDOUGALL—Mr Jordan, I am interested in your comments in relation to—and I realise it is a policy question—untied grants. Would it be fair to say that the Pacific Highway in New South Wales is a classic example of untied funds going to a state in relation to work that never got done and that eventually the Commonwealth had to make a decision and tie the grants to make sure the road got done? With that in mind, if you are looking at untied grants, what sort of strategic planning has the Victorian government done through the Department of Roads in relation to prioritising and showing both the Commonwealth and the

people what the intentions are in the long term for strategic road planning? And does that also include strategic planning incorporating rail, port and airports?

Mr Jordan—Firstly, could I say that I am not familiar with the details relating to the Pacific Highway. I think that Mr Berry has already responded on the basis of what might happen in the future about untied grants; that would be a matter for the government to determine. What I can say, though, is that, in the past few years since the inception of untied arterial road fund grants to the states, Victoria has been able to provide evidence to the effect that every dollar of those untied funds from the Commonwealth has been spent on road programs in Victoria. There has been no diversion of that to other programs, which I understand has happened in other states over time.

In respect of strategic planning, we indicate in our submission that we have some \$4 billion worth of unfunded projects of which about \$2½ billion are on the proposed set of national roads. We have actually appended to our submission the plans which identify the roads which fall into that category. In terms of the planning itself, Victoria has paid particular attention to the strategic planning in both the urban areas and in country Victoria. We have published comprehensive strategies in the past two years or so, including the Linking Melbourne strategy covering metropolitan Melbourne, and Linking Victoria, similarly, for rural Victoria.

Let me take, as an example, the rural plans that identify a hierarchy of roads in country Victoria by function and then commit to the community a level of service. They identify a series of M roads, A roads, B roads, and so on, so that we have committed to providing a standard of service consistent with the function of those roads. It is a scheme that Victoria has taken to the Australian Transport Council for possible adoption across Australia, and it will be considered by ministers next month. We have identified the demands, the costing and the sort of forward programming necessary to tackle that.

In terms of the broader strategic context, the Department of Infrastructure has also published a strategic transport commitment for metropolitan Melbourne, and similar work is under way in country Victoria. Transporting Melbourne covers all modes and the interactions with the key freight and people generators. So I think that we have a very comprehensive position in respect of the issues that you raised.

Mr McDOUGALL—When is it proposed to have rural transport strategy out?

Mr Berry—That is subject to the government's consideration, but we would expect it to be released probably late this calendar year. It has been through a process of public consultation and it is currently in the report preparation phase. You might note that we did provide copies, of course, of available strategies with our submission.

Mr McDOUGALL—Can I ask a question in light of that? There has been a fairly heavy number of submissions to the committee in relation to the Goulburn Valley Highway. On the detail of the submission, and based on your strategic planning, if that road is of the magnitude of problem that people indicate that it is, how come that has not come up through the plan as having been dealt with by the Victoria government through its current planning process?

Mr Jordan—First of all, let me say that we agree with the thrust of those submissions which you are quoting to us. The Goulburn Valley Highway has reached the point where it carries a very large amount of

heavy freight traffic and, because its capacity is limited, the very high volume of traffic of that nature means that there are both operational and significant safety issues related to it.

The Goulburn Valley Highway was designated by the Commonwealth government as a national highway some years ago because it was seen as the connector between Melbourne and Brisbane. As such, under the agreements reached resulting from the special premiers' conference process, the funding for the Goulburn Valley Highway is a Commonwealth government responsibility. We have consistently submitted that corridor as one of our highest priority corridors for consideration in the national highways program and, despite a very high state of readiness, we have only been able to attract funding to date to cover planning studies and other preparatory works. Those are all in place and we are now ready to go and are waiting for the nod from the responsible government, which is the Commonwealth government, to proceed on the first section of the duplication of the Goulburn Valley Highway: from the Hume freeway at Seymour to Nagambie.

Mr McDOUGALL—I do not know the detail of it, but one of the things I have noticed in the inquiry around Australia is that quite a few of these major roads have a high component of specific commercial activity, whether it be agriculture or mining. What is your position in regard to, let us call it, developer or user contributions towards capital funding of roads, where they are taking that road far beyond the other needs of the community in that area?

Mr Jordan—It is quite common for developer contributions to take place in urban areas of Melbourne, but usually those contributions are related to the relatively immediate impacts of the particular development; it might be a major shopping centre development or a major land use development. It is rather more difficult to ascribe costs to a particular developer against a relatively long length of road. I presume you were not asking in terms of the Goulburn Valley Highway, on which there is clearly no single user impacting to any great degree.

Mr McDOUGALL—No, just in general terms. You have not considered shadow tolls in that aspect?

Mr Jordan—I am not sure. Shadow tolls are a particular mechanism for involving the private sector in the provision of the facilities. They are certainly a mechanism that we have had under review and have considered on various projects, but there has been no decision to use that mechanism on any project.

Mr Berry—In Victoria, with the state of development of both its road system and industry, the case being made probably occurs more on local roads. There have been, historically, contributions from mines in East Gippsland and the paper industry in Gippsland to the development of local roads to service their needs but, generally speaking, the issue has not arisen on roads of the significance we are talking about today—major arterials and the like—where industries have contributed to resurfacing and making a road suitable for pulling large quantities of material over it.

CHAIR—With regard to the Goulburn Valley Highway and the works that you have got planned that you have submitted to the Commonwealth for funding under the national highways program, what sort of projected cost is involved on what you have got proposed? Was it on that table?

Mr Jordan—I hope so, Mr Chairman.

CHAIR—That is the total amount, that \$320 million?

Mr Jordan—Yes, \$320 million is the corridor cost.

CHAIR—You would see that as being of higher benefit to the national and economic good than some of the internal linkages you talk about in Melbourne?

Mr Jordan—We would see a number of these projects as being of high benefit. The linkages in Melbourne are also important and they are really measured on different criteria. One of the things that I could remind the committee is that most of those linkages in Melbourne have not been available as candidate projects under the existing rules. That is one of the things that Victoria is saying: we should have a broader category of national roads. The Goulburn Valley Highway is certainly amongst our highest of all projects on the existing national highway system.

Mr McARTHUR—I raise two issues. One is on your submission on page 4, where you talk about the relativity of the national highway compared with USA, France and Canada, and you are suggesting that there is a greater rate of return on the urban network. Some people in country Australia might not agree with that assessment, but would you care to extend your point of view? I also want to raise the City Link argument.

Mr Jordan—I think that the matters listed on page 4 are quotes from authors in other areas. We were merely making the point that, in addition to rural road investment, urban roads should also be considered in this context of saying we should focus on economic improvement for Australia rather than just on connecting the capital cities; and so we are not saying one at the expense of others. In this submission we were quoting some authors who have said that they saw higher returns in the urban areas. We also made the point in the submission that if we are going to pursue a more integrated transport system and opportunities for multi-modalism, it is really necessary to consider urban areas in that process.

Mr McARTHUR—Some of our witnesses have suggested that some of the rural roads connected with important export projects provide a very good rate of return. What is your comment on that?

Mr Jordan—I am sure that is correct. We have listed in our own submission some very important rural roads which are not being addressed at the present time. I would draw the committee's attention of the first of the two maps which we submitted. You will find that, in addition to the existing national highways, we have listed the Calder Highway, which is now a road of national importance, and, importantly, the Princes Highway East and West, and the total length of both of those roads, as being of fundamental importance on a national scale, rather than on a local or regional scale. So we would concur that there are a number of important roads in rural Victoria that should receive national importance and funding.

Mr McARTHUR—I raise the matter of the City Link and some of the arguments associated with that in terms of private sector funding and the issue of infrastructure bonds. In relation to the quality of the construction, this committee looked at the M2 in Sydney and found that the cement construction gave a longer life. Would you care to comment on that and also on the reduction or control of traffic in other road

networks to ensure that the private operators gained enough traffic throughput to make the project viable?

Mr Jordan—If I could comment on the quality issue first, the City Link project was tendered on the basis of a comprehensive specification which required the successful contractor to provide a certain performance level. That specification covered all of the aspects of longevity of the project in addition to the traffic performance. The original specification was prepared by VicRoads to the same levels as would apply to any other roads in the state and I have no reason to believe that there would be any difference in the project at all.

Mr McARTHUR—I thought it might be better. That was a comment made in Sydney, that the cement road provided a longer life.

Mr Jordan—There is an ongoing debate between the cement and the flexible pavement industries as to whose produce is better on an ongoing basis. Our approach generally in Victoria is to allow either to tender, and to analyse the relative merits of the tender on a whole of life basis. The result is that we have both types on various projects within Victoria. I believe that ours is the correct approach because we are focusing on the result and we are asking the industry to find the best way of meeting those needs in that particular tender.

Mr McARTHUR—What about the infrastructure bonds and the private funding?

Mr Jordan—I am not sure of the question on the infrastructure bonds.

Mr McARTHUR—What is your attitude to the fact that the infrastructure bonds are no longer available?

Mr Jordan—Infrastructure bonds were used for the City Link project. I think it is essentially a matter on which we are waiting on the federal government. We understand that there will be some sort of replacement mechanism, but we are not sure yet what the details are. We will be watching with interest to see what occurs in the forthcoming budget.

Mr McARTHUR—And the control of the traffic that might move in or out of the City Link?

Mr Jordan—The traffic situation is essentially that the arterial network around City Link has been maintained. In some cases, as the City Link will take a substantial amount of traffic because of the significantly better performance that it will offer customers, it will not be necessary for us to maintain, for instance, as much lane capacity in some areas. We will be taking the opportunity to improve the aesthetics of some of our arterial roads as a result and to improve the amenity of those roads. We have not undertaken any specific measures to artificially constrain traffic.

Mr McARTHUR—It sounds a fairly commercial approach to ensure that the investor gets a good return on their money.

Mr Berry—I could add that the City Link will provide a very attractive route for traffic. There are

roads, such as the road along the river bank just down here, Toorak Road, and Boundary Road in North Melbourne through a semi-residential and a part industrial area, which have been subjected to heavy through traffic which has been inappropriate for the land use along them. Most of that traffic will be attracted to City Link. We will be able to back off some of the traffic management measures, such as clearways on those roads, and make them operate more in keeping with their environment. That is our approach.

Mr McARTHUR—Not just a commercial arrangement to ensure the traffic flow is adequate on the City Link?

Mr Berry—I think I have made our position clear, Mr Chairman.

Mr ALBANESE—Taking that issue a step further, we have a number of submissions before this inquiry which essentially suggest that, in order to make private tollways commercially viable, there are a number of agreements written into contracts. There has been some specific criticism of the City Link contract. Would you have any comment to make about the potential conflict between private provision of road infrastructure and arrangements such as in one of the Sydney tollways where it is written into the contract that there cannot be public transport provision along the similar route? Would you have any comment about that criticism?

Mr Berry—I cannot comment at all on the New South Wales case. I am quite ignorant of it, so it would be quite inappropriate for us to comment on it. As a general principle, in establishing a project such as City Link, the government's future plans were laid out in the deed, which is a public document saying what roads may be built over coming years, so that the bidder has a reasonable understanding of what roads may add or detract from his network and have an impact on the performance of his project. That is clearly an entirely reasonable thing. Equally well is something that is quite unforeseen or undertaken by the government in such a case. To build, say, a new parallel facility, 200 metres to one side of it, clearly would be some form of breach or impact on the contract and therefore needs to be provided for as a reasonable thing.

Mr ALBANESE—Is a date written into the City Link project with contractual arrangements?

Mr Berry—I cannot give you dates here. We can give you a copy of the deed if the committee so wants. It is a public document passed by the Victorian parliament. The overall deed is a 34-year deed. I just do not have those answers at my fingertips, I am afraid, as to particular links. It says, for example, that the Western Ring Road will be built. When they plan their road facilities and make their traffic estimates, they know that is in the government's thinking. I would think—but I am not sure—it would say that the government's thinking was that Geelong Road would be upgraded. They are fairly obvious things, but they need to be said.

Mr WILLIS—Is there any prohibition in that, in your recollection, to a rail link to the airport?

Mr Berry—I do not know of any prohibition. I think the government's position is that it reserved the option to develop a rail link to the airport. But I am not sure.

Mr WILLIS—If the option was exercised under the deed, would that require some renegotiation with

City Link and perhaps some compensation?

Mr Berry—I am not sure of that.

Mr Jordan—I think it would be best to provide supplementary information in writing on that.

Mr WILLIS—That would be fine. Just going back to the Goulburn Valley Highway, is the \$320 million mentioned in the submission the cost from the Hume Highway to Nagambie or an upgrade of the highway right through to the Murray?

Mr Jordan—That is the cost to Shepparton.

Mr WILLIS—Is there a proposal to upgrade it beyond that or is it essentially only to Shepparton?

Mr Jordan—There is a major corridor strategy, as per our earlier discussion about strategy, which has been published for the whole of the Goulburn Valley Highway. The overall pattern is basically to duplicate to and around Shepparton, and then beyond Shepparton use a lower standard, non-duplicated highway, but introduce more frequent passing lanes. Plus, there is a proposal for a fairly major new alignment on the last section at Strathmerton, which cuts off quite a travel distance and has very high economic benefits as well.

Mr WILLIS—Does that \$320 million also include the cost of property acquisitions? I understand a lot of property acquisition has to happen for the road to be duplicated.

Mr Jordan—Yes, the cost of property acquisition would be in there. It would be fair to say that property acquisition is—in dollar terms—a much more substantial component in urban areas. I am not aware of the breakdown. It would not necessarily be large in percentage terms in that figure, but in terms of impact it is very substantial. Therefore, it is a matter which requires a great deal of care and attention.

Mr WILLIS—It is also a matter that is of great concern to the property owners, who cannot develop the land which is likely to be subject to acquisition. In relation to the Metropolitan Ring Road, you have a figure in here of over a billion dollars. Can you tell us exactly what you are including in the Metropolitan Ring Road for that figure? On page 1745, you have a figure of \$1.12 billion.

Mr Berry—I think what we have here are the results of the study carried out by consultants, which included the construction of the Western Ring Road, already largely completed. We have part of the national highway up above, the balance being a ring road assumed in the Scoresby Corridor. I should point out to the committee that the Scoresby Corridor is still the subject of an environmental effects statement and this report assumes a road related solution.

Mr WILLIS—The material that we have shows that the Eastern Ring Road, in terms of connection with the Hume Highway, has a gap in the middle and there is no clear route that VicRoads or anyone else seems to have in mind for that link. Is there a cost figure implied in here for that?

Mr Berry—Yes, there is a cost figure implied in the original study for that. At the moment though, the view of the government is that there is enough to face in completing the Western Ring Road and an eastern one and, for the foreseeable future, existing roads will have to carry that orbital traffic and be managed to do so in that Greensborough-Ringwood quadrant.

Mr WILLIS—You have a figure in there of \$50 million for the Western Ring Road, which is essentially completed and about to have the last link opened in the next month or two. Can I just get clear what you were saying about maintenance? You seemed to be suggesting in your submission that maintenance expenditure on the national highway should be cut by 50 per cent. Does that mean that the state is going to pick up that expenditure or does it mean that you think we are spending a lot of money unnecessarily on maintenance that should be better spent on capital? I must say I take the second interpretation as being what you are saying, but I need to get it clear.

Mr Jordan—I think it is probably in between the two. We are certainly concerned that the maintenance expenditure in some other states is very high on a unit rate basis compared with Victoria.

Mr WILLIS—Maybe the roads are in worse condition.

Mr Jordan—I think maintenance expenditure is a function of efficiency as well.

Mr WILLIS—If I can just interrupt, looking at, say, the Hume Highway in Victoria, it is an infinitely better road than it is on the other side of the border. You would think it would need a lot less maintenance than it would need in New South Wales.

Mr Jordan—I think maintenance is really something that overall one has a regular commitment to on an annual basis. For instance, the majority of our road programs in Victoria would have a relatively constant maintenance level, after allowing for productivity improvements and so on. It is true that the Hume Highway is in good condition and we would put that down to our being both effective and efficient at our maintenance programs. We believe that in some other areas there are inordinately large amounts of money being spent on maintenance levels. As we pointed out in our submission, the emphasis should be on states and territories more appropriately matching the maintenance expenditure with the maintenance demands which are there.

Mr WILLIS—Is this a point you have made to the Commonwealth and, if so, what has been their response?

Mr Jordan—No, I believe this is the first opportunity we have had to make the point that the maintenance arrangements could be restructured.

Mr WILLIS—It does seem strange that we would be spending unnecessarily on maintenance, rather than trying to use the money to provide additional expenditure on capital projects. That is usually what people would prefer to do, rather than waste money on maintenance. I would think there would be some need for the maintenance expenditure to be undertaken.

Mr Jordan—I do not believe that I have said that we are spending money unnecessarily on

maintenance. We have suggested that the states would pick up the responsibility for the maintenance from a greater distribution of the untied funds and from other state sources. But the trade-off would lead to a more equitable distribution of national funding across the country than currently occurs.

Mr Berry—By and large, if you look at road authorities across the world, maintenance has historically been a function of resources, not a function of need. If you put it that way, what you are paying for depends on how many graders, how many men and how much equipment you have got. That is by and large a reasonable truism, I would say here. Despite efforts for the Commonwealth to increase efficiency, I think they have not been able to achieve all their goals in the maintenance area.

There is a fair amount of duplication of administration across the maintenance area with minor works subject to complex program approvals and the like. There are significant differences, when you look at the environment, between our roads and New South Wales roads. The environment and traffic demands are not all that different. There are big differences between us and Western Australia, for example. But there are substantive, 40 per cent, differences in unit costs for unit costs per vehicle kilometre of travel or area of pavement.

What is happening, we would suggest, is that funds are spent to do things rather than to achieve results. If in fact the maintenance were made the responsibility of the states, then it is their responsibility to become more efficient or not, and the Commonwealth would be able to focus its activities on economic development and equally well could require states, if it so wished, to maintain the national highways to a satisfactory condition by untying funds. We suggested a 50:50 split. That puts a fair onus on us to see if we have got the best delivery mechanisms to achieve a satisfactory performance.

Mr WILLIS—Even allowing that there might be some additional funds for capital expenditure to come from what is currently spent on maintenance, in Victoria what you are proposing is a major addition to the national highway or federal government responsibility to roads with the Princes Highway East and West and taking over responsibility for the Eastern Ring Road and the whole Metropolitan Ring Road link. Are you envisaging that there would be an increase in expenditure by the Commonwealth on that national highway or national road system, or are you suggesting it would cover this greatly enhanced network from existing funds, thereby reducing expenditure on the existing system very considerably?

Mr Jordan—We believe that there is a case for increased expenditure associated with that network, but we have also recognised in our submission that it is unlikely that it is possible for any government to fund all of the things that it might like to do at any one point in time. In the submission we have proposed the mechanism that the funding to each jurisdiction be on a basis related to the level of transport and economic activity—and we suggested a mechanism for doing so—and that the identification of individual programs and projects upon that expanded network of roads would be a joint Commonwealth-state activity. That recognises really that clearly you cannot do everything at once, but we do think there is a substantial case for an increased level of effort.

We also make the point in the submission, as I mentioned earlier, that—of the type of projects which Victoria is delivering at the present time against some national benchmarks which were published—four out of every five projects in Victoria have got benefit cost ratios over four. That is a substantially higher level of

economic return than any other jurisdiction is returning, which suggests to us that the projects which we are choosing, from the backlog at least, mean we are probably least well advanced into that backlog compared to other jurisdictions.

CHAIR—Can I just follow that point before we lose it? Would you not agree, though, from a Commonwealth perspective, that the Commonwealth should be setting priorities, not just within states but right across the nation? I know that you in Victoria continually identify that benefit cost ratio and the vehicle kilometres travelled and those indicators, but the thing is that the Commonwealth needs to set a strategic priority across Australia—not just with ‘What is the priority in this state, what is the priority in that state?’—for a national network for the national good.

Mr Jordan—We recognise that, but equally we would say that that is not working very well at the present time because—

CHAIR—Does it exist?

Mr Jordan—The Commonwealth at the present time under the current program basically focuses on national highways which link capital cities and does not focus on projects of economic merit, although the preamble to the ALTD legislation says something different. We are very concerned that in Victoria we are getting a very raw deal because the projects which we are managing to do illustrate the fact that they are very high benefit cost ratio, much higher than any other jurisdiction, and there should be a larger share and probably a larger overall cake allocated to this activity than is currently the case.

Mr Rogan—There is a committee under the Commonwealth-state offices committee, under the auspices of the Australian Transport Council, called the Infrastructure and Planning Project which has been conducting an exercise on nationally significant transport infrastructure. It has identified a number of roads, including the Princes Highway East and West, that it believes ought to be included in an expanded national network. It also includes additional routes like from Townsville to Mount Isa, up the north-west coast and things like that, but in a national sense, both Princes Highway East and West have a recognition from this committee. Now this is a draft report which is expected to go to ATC later in the year.

CHAIR—So it is only in draft form at this stage?

Mr Rogan—It is only in draft form at this stage.

CHAIR—So we would not be able to receive—

Mr Rogan—We can certainly give you a copy of that document, yes.

CHAIR—Can it be provided to go on the public record, though—as a draft?

Mr Rogan—Can I check with the chairman of the committee? It is Queensland department officers.

CHAIR—Yes, I would appreciate that. That is a sub-group of the Australian Transport Council, is it?

Mr Rogan—Yes.

Mr WILLIS—If the Commonwealth were to take over responsibility for a rather enhanced network, not just in Victoria but elsewhere—and of course you are not the only jurisdiction, as you are indicating, who is seeking an enhancement of the Commonwealth responsibility—what would you think about the Commonwealth financing that at least in part by reducing payments to the states as identified road grants?

Mr Jordan—Once again, I think that would be a matter of policy which we would have to refer to the government.

Mr McARTHUR—The committee will be looking at the Western Ring Road tomorrow. We looked at the M1 and the M2 in Sydney, and there are submissions later in the day about extending the ring road around Melbourne. Could you just give us some views on the broader policy of ring roads or orbital roads in the case of Sydney, having in mind the considerable amounts of expenditure that are required? I would be interested to know what the broader policy is in developing such concepts and where you see it in the list of priorities.

Mr Berry—Thank you very much, Mr Chairman. Firstly, the nature of travel in our cities has been changing rapidly over the past decade or two. Our cities are very diverse, and a city like Melbourne has very strong manufacturing bases throughout its eastern suburbs and its western suburbs, and these need linkages to the markets. Twenty per cent of the nation's manufacturing is in the eastern suburbs of Melbourne, and linkages to the markets are needed to reduce costs and to remain competitive.

In the case of a metropolitan ring road in this state, our submission shows that a ring road, if built, would reduce travel costs in Melbourne by about \$830 million each year by 2011; it would increase national GDP by about \$600 million to \$800 million annually; it would reduce some air polluting emissions by up to six per cent from what they would otherwise be, due to vehicles running more smoothly; and it would increase equity through better access to employment for residents in the middle and outer suburbs.

The cities have grown, and we have neglected basic infrastructure to provide cross-town movement. We recognise the importance of linking that to both the hinterland and interstate links and to our airports and ports. I think these are major issues facing the larger cities, and I do believe they warrant Commonwealth attention, given that many of the benefits, of course, ultimately flow to the Commonwealth through Commonwealth revenues, as pointed out in our submission.

Mr Jordan—Mr Chairman, in terms of strategy, which comes back to Mr McDougall's question, the ring road for Melbourne is absolutely fundamental in connecting what is the existing national highway network and the road of national importance—and, I might add, the Princes Highway east and west—really linking the city to the country in every sense of the word. You can provide for the cross-town travel on the ring road but, in addition, in our road strategies we are planning to have very high standard links between each of those key rural connectors and the ring road, so it will be really the bit that joins all of those rural areas to Melbourne and to each other.

Mr McDOUGALL—I would like to go back to the strategic planning issue. We have now done all

the states. We are of the understanding that two states have strategic plans either in place or partly in place; the others still seem to be developing. It has been put to us that the federal government should be responsible for developing a strategic plan with reference to roads, but my question really is this: where do you believe that the responsibility lies, and how do we structure this strategic plan nationally in a framework incorporating the states for both roads and forms of transport? If we do not get a strategic plan in place, where are we going? We all seem to be still heading down our own little chute in each different state. And what responsibility has the federal government got in relation to this strategic planning process?

Mr Jordan—I think that is a tremendously large question. I would firstly say that, if you take transport in its broadest dimensions, the question you are asking is really one being considered by the Australian Transport Council of ministers at the present time—that is, if you remove the boundaries between individual modes, what are the outcomes that the community is seeking to achieve in terms of economic efficiency and social justice, environmental issues and so on? Each of those issues really needs to be addressed in some sort of national vision, and I believe that that properly rests with the Australian Transport Council. It is not singly a federal government responsibility; it is a responsibility of the federal government, the states and the territories, and I think the Australian Transport Council is the right place to do that.

If we are mapping down to roads in their relationship with state level activity, then I think that it is appropriate that places like Victoria do have their own strategic plans, because we have to pay attention to the interactions between those sorts of issues and land use patterns of a more detailed nature in Victoria. I do not believe it is necessary or appropriate for the Commonwealth to be heavily involved in detailed strategic planning in an individual jurisdiction. I think that is our responsibility. But I do think that it is appropriate that we have a clearer view of what the national government's involvement in things like road funding or rail projects or whatever is. I would have thought that this inquiry was the ideal place to tackle that framework issue, but I certainly would not agree that it was necessary to do detailed strategic planning at a federal level.

CHAIR—There are just a couple of final points. I know we are pushing time, gentlemen. In your submission you make the suggestion of a need for a national bridge program. Does the Victorian government have a bridge strategy, as such, in place?

Mr Jordan—Yes, the Victorian government does. We published, about a year and a half ago, a strategy document called 'Victoria's Bridges'. That is a very comprehensive plan both to monitor in an ongoing way the condition of our bridges and to tackle the problems of inadequate capacity, whether it be a weight capacity or a length, height or width capacity.

Since then, of course, the National Road Transport Commission has published its mass limits review report which recommends to the ATC an increase in mass limits of various figures—three tonnes for six-axle semis, the typical sort of vehicle. That has already been identified as having very substantial potential economic benefits for industry and obviously for Australia as a whole. But that adds, yet again, another impost onto the workload which we had already identified in Victoria's bridges, because we are talking about greater mass limits. At the moment, Victoria is very well advanced in reviewing every one of our arterial road bridges in the state, and we expect that work with respect to their capacity to carry these increased mass limits to be completed in June. Victoria is looking forward to being able to play its part in capturing the increased benefits which are available, but there are some very major issues still to be sorted out in terms of

to whom the benefits accrue and who should pay for which components.

CHAIR—My final question is in regard to City Link. What is the financial structure of that project? Is it a BOOT project?

Mr Berry—Yes, a build, own, operate and transfer project.

CHAIR—And the period of that arrangement is 34 years, I think you said.

Mr Berry—That is to the best of my recollection—34 years. We will give you written answers to those matters that were raised. I need to cross-check. I am speaking from memory on them.

CHAIR—Did that part of the agreement with the government also include the technology or a requirement that automatic tolling technology be implemented?

Mr Berry—Yes.

CHAIR—Beyond that, has VicRoads had any involvement in the selection of who is going to install that technology?

Mr Jordan—No. The tolling technology is entirely a matter for the operator—its purchase, selection and the operation.

CHAIR—One of the things that we have uncovered with this inquiry is that automatic tolling technology is being implemented in a number of projects around Australia, and it is all different.

Mr Berry—That is a significant issue. The department has encouraged VicRoads to work across the nation, and also with ITS, to endeavour to get some harmonisation of standards. We would see this as a very important technological area in which to get some harmonisation.

Mr Jordan—I might add that just last week I, with two or three other government people, met with the toll operators from across the nation. We are working with a body called ITS Australia with a view to taking a program to ministers in May and a recommendation on uniform standards to the Australian Transport Council by the end of this year.

CHAIR—I was not alluding to the fact that the technology that is going to be implemented in Victoria was substandard—in fact, I would think that it may be better. I am aware that the technology that is going to be implemented here is European and that the sort in Sydney is American.

Mr Berry—It would seem they are covered with a dozen tags for a personal plated vehicle across this one nation.

Mr WILLIS—On your map on the last page of your submission you show the Northern Ring Road as a completed road, or at least some section of it. That has been funded by the state. Is it part of your

planning to continue the funding of that back to the Hume Highway?

Mr Jordan—The section back to the Hume Highway—still looking at that map, Mr Willis—is being funded in two components. Coming from the east, there is a state-funded component. The section from the Hume across to the long-term reservation for the ultimate connection to the Hume is a Commonwealth project. Both of those projects are currently under way. Over the next couple of years, the missing section will also be completed. They are both in progress.

Mr WILLIS—All of the funding that you have got in your submission does not include that Northern Ring Road section?

Mr Jordan—No. They are both the existing projects, not outstanding ones.

CHAIR—Gentlemen, thank you very much for your attendance this morning and for the frankness with which you have assisted the committee with its questions. We might note at this stage that the only things that you took on notice to provide are the strategic plan that is in place for roads right across Australia, the Department of Infrastructure urban roads plan and also the possibility of providing a copy of the draft ATC report. I appreciate the fact that you are going to have to check that out to see if that is available, because once we receive it as evidence it is on the public record.

If there are any further questions that the committee may need to ask, we will certainly put those in writing to you. Also, at this juncture, before we call our next witnesses, I would like to thank VicRoads for their assistance in organising tomorrow's program for the committee and also for the inspection of the bridges in the northern part of Victoria. We appreciate that very much. I apologise for the late start. Thank you very much, gentlemen.

[10.10 a.m.]

GIBBS, Mr Ian, Assistant Commissioner, Industry Commission, Locked Bag 2, Collins Street East, Melbourne, Victoria 8003

SCALES, Mr William Ivan, Chairman, Industry Commission, Locked Bag 2, Collins Street East, Melbourne, Victoria 8003

CHAIR—Welcome. Do you wish to make an opening statement?

Mr Scales—Mr Chairman, thank you very much. As you are aware, the act which proclaims the Productivity Commission is still in the Senate. We have no desire, of course, to pre-empt anything that the Senate might do, so we will be referring to ourselves, as is appropriate of course, as the Industry Commission. Thank you for the opportunity to elaborate on the Industry Commission's submission to your inquiry into federal road funding. I am Chairman of the Industry Commission. My colleague, Ian Gibbs, is a senior commission officer who also headed up the secretariat for the EPAC private infrastructure task force exercise, and that is why we felt that you might want to talk to Ian about some of the issues that are in our submission.

After making some general observations on the adequacy of Australia's road network, the commission's submission, as I am sure you understand, focuses basically on ways of ensuring that future investment in roads and in the delivery and operation of those roads is efficient. This discussion is generic rather than specific to the national highway system, and draws on the commission's previous work and experience across a range of infrastructure sectors. Indeed, I want to emphasise that the commission has not yet investigated many of the specific policy issues that arise in relation to road provision and funding. This is a complex issue covering a range of issues and, to be quite frank with you, I do not know of anybody who has done a comprehensive piece of work in every element of it. Neither have we, and we would not want to pretend that we have.

However, through our infrastructure benchmarking work for the Council of Australian Governments and some proposed research projects, roads is an area in which we, as a commission, are likely to become more heavily involved in the future. We are conscious of the fact that this inquiry will complete its work and then move on, and we think it is quite important that we continue the process of monitoring the performance of roads over a long period of time, and that we continue to do some other research into this area, research which I can allude to later if you wish me to.

You do not need to be advised, I am sure, about the importance and social significance of roads in Australia. We are a large country with the majority of our population living in widely dispersed centres, so an efficient road and highway system is clearly of importance to us from a social perspective and in terms of our competitiveness.

Our submission does not seek to reach conclusions, as I am sure you are aware, on how well the national highway meets current needs or is placed to accommodate increased and changing needs in the future. What we would wish to emphasise is that the adequacy of investment in the national highway system,

or indeed roads in general, cannot be considered in isolation. Rather, we argue that policy makers must take a broad view which compares the benefits to the community of spending more money on roads with the benefits of non-road investment—or, quite frankly, with maybe not spending the money at all.

This suggests that in the long haul—please excuse the pun—effective investment appraisal is the key to achieving adequacy in the national highway system. It appears that at present the quality of investment appraisals in the road area is really quite patchy. Certainly, there is much evidence to suggest that re-allocation of the existing quantum of road funding could bring significant benefits to the community at large.

Also, in addressing the adequacy of the national highway system, the commission would urge caution in accepting the argument of what has been described as ‘new growth spillovers’ from increased spending on the highway—and we can discuss this in detail, if you wish, later on. They do not adequately explain the source of the reportedly higher returns to infrastructure spending, or the infrastructure areas in which they reputedly actually occur.

The commission’s future benchmarking in the road area will include comparisons across jurisdictions of performance in relation to levels of investment, project evaluation, financing, construction and road maintenance. The commission is aiming to publish an initial result in terms of this benchmarking in the second half of this year. Based on the experience with benchmarking in other sectors, this work should provide valuable insights into how the provision of roads, including the national highway system, can be improved. This work should complement some of the more general lessons and requirements for efficient delivery of infrastructure, including roads, as set out in our submission.

The points that I would like to make and the main points in our submission are that the clear objectives for government agencies involved in the planning, investment and delivery of roads, including the national highway system, will help those agencies to mesh the priorities of governments and the needs of road users. Systematic and consistent investment appraisal is essential for efficient investment in roads. The cornerstone of the appraisal system should be a requirement that all proposed road investments be subject to cost benefit analysis. Projects, we argue, should only proceed if the expected economic and social returns to the community exceed those from spending the money in other projects or, quite frankly, from not spending it at all.

We also argue that, in undertaking cost-benefit analysis, it is essential that road authorities compare alternative investments to meet underlying objectives with non-investments, such as better use of existing assets. In this context, consideration of road maintenance and reconstruction, as an alternative to new road construction and the scope to manage demand through electronic road pricing systems, is particularly important.

Ideally, the NHS roads should be built to the standards which give the greatest net benefit to the community. An important issue for the inquiry to address is whether current guidelines or standards of construction for the NHS allow for sufficient variation in road quality in different parts of the highway system.

Private funding of roads through BOOT type schemes has both benefits and costs relative to public

provision. Hence, the merits of BOOT roads should be considered on a case-by-case basis. Where a BOOT approach is employed, we think that competitive project tendering should really be the norm—and we can talk a bit about that later on, if you wish.

Private projects, we argue, do not warrant support through infrastructure bonds or like instruments. However, we say that there is a need to consider amending section 51AD and division 16D of the Income Tax Assessment Act which can, in fact, deny legitimate tax deductions to private infrastructure providers. And again, we can discuss that a bit later on, if you wish.

Contracting out of road construction, operation and maintenance offers the prospect for considerable efficiency gains. However, if these gains are to be realised, contracting out should be applied intelligently. Our work indicates to us that we see both good and bad applications of contracting out, and one needs to be careful about how it is applied. It is not a panacea for success. Road user charges are potentially a very valuable mechanism for guiding road investments. But, while technology improvements are bringing system wide electronic tolling that much closer, experience in other sectors suggests that road charges dependent solely on the level of use may be economically and socially undesirable.

We also argue that problems can arise when responsibility for funding and provision of a class of infrastructure involves more than one level of government. This is currently the case with the NHS. Extension of existing performance agreements in place with the states and territories might allow for at least partial untying of current NHS funding without placing the national interest at risk.

In summary, we say in our submission that good investment appraisal and efficient financing, construction, operation and maintenance arrangements are required to ensure that the community gets maximum value for its investment in the NHS. While policies and supporting institutional arrangements to achieve these objectives must be tailored to the specific circumstances of the highway, many of the underlying principles are common to all areas of infrastructure. In that sense, we suggest that the committee may want to pick up some of the experiences in other areas of infrastructure because they provide, we think, a quite valuable guide to future policy directions in this area.

CHAIR—Thank you, Mr Scales. I apologise for referring to you as representing the Productivity Commission and not the Industry Commission this morning but, certainly as a member of the House of Representatives, the spirit of what has tried to be achieved with the amalgamation of the three bodies has gone through our place and it is up to the Senate.

In your submission, you talk about the Industry Commission's plans to assess the efficiency of road provision in Australia as part of its benchmarking activities. Are you going to do that across all levels of government?

Mr Scales—Maybe I could give you a bit of background to that. The work which we are going to be doing here is a continuation of the work which had been started by the Bureau of Industry Economics. There is quite a bit of that work which we think has been extremely valuable and the bureau had done, we think, some very valuable and very helpful work.

We are currently in the process of looking at the extent of the structure of that particular benchmarking study. We are making some variations to what the BIE had done, so I guess I cannot answer that completely at this point in time. We are currently consulting with a range of people about what will probably be involved in that. I am sure you are aware that when one thinks about broad ranging benchmarking one can go about it in a number of ways. In this area I think it is very unlikely that we will be able to look at all roads in all areas so we will have to be selective, but we are still trying to work that out in detail.

CHAIR—Obviously as part of that process, and you mentioned this on the way through your opening remarks, the cost-benefit analysis is currently used. Do you see that as a sufficiently reliable tool?

Mr Scales—Maybe Ian can comment on that but, just by way of introduction, I think we would caution against using any one tool to be the only tool that one might use to judge anything; and cost-benefit analysis is one. It does have limits. We try to make sure that we charge all of these things on a range of measures. When one is looking quite specifically at a particular project, cost-benefit analysis can be valuable. But when one is trying to think about the system as a whole, then one might have to take a slightly different view.

Mr Gibbs—I think that often people talking about cost-benefit analysis view it very much in a financial sense whereas our concept of cost-benefit analysis is very much wider than that, picking up all of the sorts of environmental benefits and social effects. Having said that, Bill is absolutely right, that there are limitations on the techniques so that our submission in fact argues that you need to supplement cost-benefit analyses with the other available techniques—things like multicriteria analysis. But having said that, I think we would still see cost-benefit as a very useful starting tool in this, and certainly a way of weeding out some projects that probably the community should not be investing in.

Mr ALBANESE—In your submission you note that BOOT contracts can or have allocated a disproportionate share of risk to government. Can you give specific examples of what you are talking about there?

Mr Scales—I would prefer not to give particular examples because of the point I made earlier that we have not done detailed work in many of these areas. That is the second project which we are intending to begin later on this year and that is in fact doing a fair amount of research in just some of the criticisms of BOOT projects.

We are conscious of the criticisms that have been made by various auditors-general around the country. We are conscious of the fact that this issue of risk goes to the very heart of whether in fact BOOT arrangements are truly viable for the community at large and there are a number of ways by which people interpret risk. That is the issue which certainly interests us from a public policy perspective.

Mr ALBANESE—Perhaps taking that a step further, you state on page 106:

In turn, this points to the need to ensure that the allocation of risk in contracts is transparent.

In what ways can the risk allocation to government not be transparent?

Mr Gibbs—During the EPAC private infrastructure task force exercise, we received some examples of some of the earlier BOOT type projects in New South Wales. Actually, as the New South Wales Auditor-General has pointed out, unscrambling precisely where risk would ultimately fall was quite a detailed job. I think it is also fair to say that during that exercise the New South Wales government, the RTA, recognised that there were some problems with those initial contracts. People are learning. It is a new area in all of this and people are moving forward. But certainly that was the perception that in some of those early contracts there had been problems.

Mr ALBANESE—Given that is the case, you use an example of a socially valuable road that might be developed through a BOOT arrangement rather than by the public sector due to budget constraints. Given the concerns that you raise on the one hand, how do you justify that?

Mr Scales—Ian might like to comment on that. It is essentially about the extent to which you might bring forward certain activity.

Mr Gibbs—Delays in worthwhile road projects are a cost to the community. If they should be built and they are not being built, that is a cost. And in a sense there may be a trade-off here between those costs and the possibly higher costs in some circumstances of doing roads through the private sector. So at the end of the day, if there is a binding government budget constraint, it may still be sensible to go with the BOOT option.

Mr Scales—Could I just make one other point that relates to that? In our submission, and in my introductory remarks also, we suggested that there are other areas of activity where you may learn about this question of risk. Of course, you probably would also be aware of some of these issues as they relate to the funding of health services. We observe also with, for example, private hospitals that establishment of public hospitals through private hands has some element of transferring of risk. We are not certain, again because we have not done the work, as to whether it is the appropriate transference of risk.

Mr ALBANESE—On the risk factor as well, you say that, where an initiative of a project from the private sector is not successful, ‘Governments could consider compensating the firm for the use of its intellectual property.’ Is it not the case that the private sector’s involvement in this sort of development of infrastructure in our consideration of roads is a normal practice of risk, whether they are successful or not? Is that not taking it that step further?

Mr Scales—Again I will broaden that out slightly and Ian might want to talk about the specifics of roads. What we are trying to allude to there is quite an important issue with regard to contracting out. One of the dangers of taking an approach of contracting out of major services is that you may almost inadvertently discourage contracting out if intellectual property is not protected. Let me give you an example of what I am talking about.

If you come to me as a contractor and you want me to provide, as you were talking about earlier, quite sophisticated tolling systems, if I happen to have the intellectual property on that tolling system and I

talk to you about it and provide you with that information, but then you generally make that available to the whole of the community so that they can then quote against that, next time I might be more reticent about entering into a long-term contract with you in that form. You may inadvertently reduce your opportunity to get the very best contractors and that is what we are alluding to more generally. I do not think we want to overstate that point. But what we are saying is that, if one wants to have good contracting practice, one does need to think about some of the circumstances that might either encourage or discourage getting the best providers.

Mr McARTHUR—On page 2 of your submission you say:

And with road-related taxes and charges are \$13 billion a year compared to annual road expenditure of \$6 billion, road users make an important contribution to wider community well-being.

Could we extend the argument to the age-old debate about hypothecation? This committee has had observations from a number of the witnesses that if only some of what they would regard as legitimate funding for road activity was allocated to them, then Australian roads would be improved. Would you care to add to the debate on this whole argument of why the \$13 billion should not be allocated to road making activity and construction?

Mr Scales—Mr McArthur, you are taking me into a very difficult area, as you probably know—and I am sure you did it for that exact reason. Clearly we see no link between the amount of funds collected by states and necessarily using it for those from whom they collected it or for the purpose for which they have collected it. If I can make myself slightly clearer, we see no link between the amount of money that might be used, for example, from petrol taxes and the amount of funds which might be used on roads.

We would argue that governments are entitled to look for whatever taxing arrangements they possibly can and they should be focusing on the most efficient ways of collecting taxes, and that would be the main point. They should then make a separate allocation of those funds to certain priorities, based around good principles of decision making. But we do not see any logical link at all between the amount collected and the amount spent in this regard.

Mr McARTHUR—How would this committee argue with the road users who continually suggest that they pay an undue proportion of their costs in fuel taxes and that they suffer inadequate road infrastructure?

Mr Scales—We speak to people similarly around the country and our approach to that is to say that the taxes have to be collected somewhere; where else would they like us to collect the taxes from? They can have increased income taxes. They can have reduced expenditures in other areas if they wish. We often ask them to select how they would like either different taxes raised or expenditures reduced.

Mr McARTHUR—Are those figures reasonably accurate, do you think?

Mr Scales—That is a very good question. Maybe Ian could answer that. To the best of our knowledge they are accurate, but we have not—

Mr McARTHUR—It takes into account Commonwealth, state, and local government expenditure patterns?

Mr Scales—Could I take that on notice? What we were trying to do here was not to give you a statistical basis upon which you could make your decisions, but to draw a general picture about the difference between one and the other.

Mr McARTHUR—It accords with some other witnesses' observations. I am just interested in the validity, within a billion, I suppose.

Mr Scales—I would be fairly confident that they are certainly accurate within that sort of parameter. But can I get back to you on that?

Mr McARTHUR—Well it is just a matter of the argument, because that is the fundamental argument that this committee is confronting.

Mr Scales—I am quite happy to go on record and say that it is a fallacious argument, in my view.

Mr McARTHUR—Thank you.

CHAIR—The argument towards hypothecation?

Mr Scales—Yes.

CHAIR—I would imagine that, as a result of some of the research that one of your three constituent organisations—as we know them today—is undertaking or is going to undertake, there will be some indication ultimately from the Productivity Commission as to what a reasonable road user charge is and how it should be levied?

Mr Scales—I really do think that depends on the circumstances—for example, on whether we are talking about road user charges for a particular purpose. I will use an urban example. If we were thinking about road user charges to reduce congestion, we might take a quite different view than if we were looking at road user charges across the national highway system where we were thinking about the damage that might be caused as a result of different axles per vehicles, and so on. So it is a very difficult question to answer with a glib line.

CHAIR—I appreciate that, Mr Scales; but the point is that, whatever criteria you use, ultimately the public sector is providing a piece of infrastructure that individuals benefit from. Whether the road user charge is related to traffic management into a city, or whether it is related to heavy transport using a piece of national highway in the country, there has got to be a relationship—the point being that, at the moment, the evidence seems to indicate that there is not one.

Mr Scales—Maybe I could answer it this way. One can quite accurately—and I use those words reservedly—determine what might be the costs and benefits associated with the use of a road in any

particular circumstance. Therefore, one can, if one wishes, develop a relatively accurate user charge that will take up all of the cost if necessary. One can also—to take into account some of the points that Ian was making before—determine what might be termed the broad community benefit of the use of any road and, therefore, take that into account when one is thinking about the role that the state generally might play in offsetting some of those costs. If you are asking whether the technology is available to actually determine those sorts of prices in the circumstance, the answer is yes. But I do hasten to add that it does depend on the circumstances of the road.

CHAIR—I appreciate that point.

Mr McDOUGALL—Probably on a similar track, when we took evidence in Townsville one of the discussion points that came up was the requirement for the Commonwealth to contribute substantially to the funding of a new port road access which was supposedly going to be potentially a road and rail access. That road and rail access is planned to be put in for the specific use of about five companies, who are obviously going to benefit substantially economically from that—and, of course, so is the nation. In that case, do you believe there is an avenue for major linkages like that to have a contribution from those corporate sectors who are going to benefit most, or should it be still funded out of the general revenue of the Australian income tax system?

Mr Scales—I am not familiar with the case that you have spoken about; therefore, any comment that I would make would have to be of a general nature. It seems to me that a circumstance like the one you have described would certainly lend itself to private provision and private funding in a whole range of possible ways. There may, however, be some community benefit, and it is difficult to know that without being able to understand the case. I would not rule out certainly the possibility that there ought to be some sort of community funding of it. From the way you have described it, it seems as though it is the sort of project which would clearly lend itself to private provision and private funding.

Mr McDOUGALL—On that basis, where do you see the private funding role in the future of roads of major economic importance, as we heard from the Victorian government here this morning? They are putting a new highlight and saying, ‘The national highway should be expanded to roads of economic importance.’ Where do you believe the role of funding lies between the private sector and the public sector in relation to those sorts of road constructions?

Mr Scales—Ian will answer that in detail, but I will make a general point. Words like ‘of great economic value’, roll off the tongue beautifully, I might tell you. However, I think that one needs—again, as we are saying in our submission—to be very careful to subject those terms to reasonable analysis to determine what is in fact meant by them. Ian, because of his involvement with the EPAC task force in this area, will be able to answer in more detail.

Mr Gibbs—It sounds glib, but I guess you would want the break-up between the private and public sector, on the grounds of who can deliver the product to the community at the least cost. I guess the EPAC report argues that the form of private sector involvement is therefore going to vary, depending on what sort of road or piece of infrastructure you are dealing with. In some cases, public provision may be appropriate, with what I would call more traditional contracting out of things like maintenance and construction. In other

areas, depending on issues like the extent of network risk, et cetera, it may be sensible to involve the private sector through BOOT type arrangements. Some governments are now even considering bundled contracts with the finance broker, to try and get some competition across financiers in these sorts of areas. I guess the lesson would be that it is horses for courses.

Having said that, the other caveat to the proposition that the party that can do it most efficiently should do it again, comes back to the government budget constraints. As I said earlier, if governments find themselves financially tied for whatever reason and unable to contribute funds to worthwhile infrastructure projects, then you may have to modify the cost-benefit calculus. It may be sensible to get the private sector involved, even if there is intrinsically a higher cost than publicly provided roads.

Mr McDOUGALL—The work that you are doing at the moment relates to road infrastructure. How much work are you doing in relation to looking at rail, air and port access as part of the question of transport infrastructure and its total benefit to the economy, rather than just singling out roads?

Mr Scales—In a sense, it is behind the point we were making in our submission that one needs to look at the integrated transport system to make decisions about rail. If I could even go back to the point that Mr Vaile asked me about earlier, when we were talking about cost-benefit analysis and whether we can actually determine the price for a user charge in a particular area, one needs to take into account that there is significant under-pricing right now in some of the other transport modes.

For example, there is significant under-pricing in certain urban transport modes, particularly rail. I am sorry to go back to that point. To answer your question quite specifically, we are doing a lot of work across the whole of the transport system. It is essentially in two areas. We are conducting performance monitoring work, under the auspices of the Council of Australian Governments, that looks at roads to quite a minor extent, but more particularly at areas like all elements of the rail system. So we are doing some work in that regard.

We are about to embark upon, again, some broad benchmarking work, not only in roads, but also in terms of shipping and ports. That will be staggered because we cannot do it all at once, unfortunately, as we simply do not have the resources. One would expect that over the next 18 months to two years we will be continuing that ongoing process of benchmarking in those areas.

Mr McDOUGALL—If I could just ask a final question—and I am curious about it—what does the Industry Commission know about the private rail between Melbourne and Darwin?

Mr Scales—I guess we know as much as most other people. Obviously, we keep a watching brief on the debate. We are aware of the degree of agitation, if I can call it that—and I do not mean that in a pejorative sense—for it in some states. We are aware of some of the arguments that have been put forward, but I think it would be wrong for me to suggest that we have analysed them in great detail.

Mr WILLIS—In the submission, you refer us to the EPAC report in relation to infrastructure bonds as an indication, I take it, of your position, which was that the EPAC finding was that infrastructure bonds should not apply in any private infrastructure project, and especially not for roads. Is that the position of the

commission?

Mr Scales—That is a very good question. I would not go so far as saying that that is the position of the commission. The position of the commission in this regard is the point that we made in this submission that there are some elements of the tax arrangement that should be considered, but I do not think we could go so far as saying that that is the position of the commission, mainly because we actually have not considered that in detail as a commission.

Mr WILLIS—More generally in relation to BOOT projects, all of those on which we have detailed information seem to involve, as well as the position of infrastructure bonds in some cases, very substantial subsidies from government in one form or another: up-front grants of money, interest free loans, land acquisition acquired at public expense, and ongoing subsidies. In addition to that we have the network risk that you and Mr Gibbs have been referring to, and the higher financing costs from private financiers that the Commonwealth or the states can raise their funds at. Doesn't all of this indicate that there are really big questions about the appropriateness of BOOT projects overall?

You seem to be saying we should look at them on a case-by-case basis, but all of them seem to have substantial negative aspects in relation to their inherent nature, such as trying to run a toll system within a free network and doing it on the basis of higher cost private finance and being propped up by very substantial public subsidies. Doesn't all this raise a big question about the viability of the whole thing in your mind?

Mr Scales—Mr Willis, we can clearly understand the point you are making and we have made those same points, not only with regard to BOOT schemes but also in a range of other areas. We observe that that is the case to some extent in many states and territories. What we have tried to do is to separate out whether BOOT schemes in principle are necessarily bad and whether there are other issues that are going on that actually, if corrected, would make BOOT schemes or schemes like that more viable.

It is clear that some parliaments are less transparent than others in terms of the subsidies that they provide to various participants, whether they be in terms of road funding or whether they be assistance to industry. There is no question about that. We have written and done research on that quite extensively. There is no doubt that the extent to which there is the lack of transparency in these areas means that what are quite sensible arrangements, like BOOT schemes, will be undermined.

What we would argue is that one should go to the root of the problem, and that is if the root of the problem is lack of transparency, the lack of accountability by the parliament of the day—whether it be state or territory—if there is an issue there then that is how it ought to be addressed, rather than necessarily throw out something which could be quite sensible, like a BOOT scheme, simply because some other systems are not quite working effectively.

Mr WILLIS—It is not just a matter of transparency. Even if we knew all the detail up front and it did not have to be drawn out through Auditor-General investigations later on, the reality is that we now know that in virtually all of the BOOT project cases, certainly all those of which we have details, they are only there because there are very substantial public subsidies in one form or another, or a variety of forms, in each case. Presumably, without these very substantial subsidies, these BOOT projects would not be viable. Doesn't

that raise a big question about the inherent viability of subsidy-free BOOT projects, particularly for roads, I might say?

Mr Gibbs—I think there are two issues here. First of all there is the issue that you correctly refer to, that there is usually—on roads in particular—a big social return on top of the private return. The fact that there is that wider social return may mean that even if the road is done by the private sector, yes, you are going to need a public contribution of some sort in view of those wider benefits.

However, I think there is still a separate issue in that remaining rump, the private benefit, of what is the most efficient way of delivering that product. I guess that a BOOT scheme with some public subsidies need not be necessarily an inefficient form of arrangement.

Mr WILLIS—Because of the bring forward factor, the fact that the road gets built sooner than it would otherwise be, that sort of thing?

Mr Scales—Yes, but there might be spill-over benefits as well, that it would be quite legitimate to have funded these through some form of public subsidy. The difficulty here is that one can talk in principle about these things but it is not until one gets down to a particular example that one can actually make sometimes the appropriate criticisms that you have made. That is where we are at somewhat of a disadvantage; we are actually talking about what can be quite a sensible approach in theory to some extent, which we have seen work quite well, but then we have also seen how it can be undermined by the inappropriateness of some sort of tendering system, the inappropriateness of the sort of transparency that might apply, and even the excess of the subsidy.

Mr WILLIS—Did I understand you correctly before? Did you say that you were going to be investigating this in some detail later this year?

Mr Scales—Yes, we are. We have begun a research project that will look at BOOT schemes in general to try to, if you like, peel back the onion to address the sorts of questions which you have quite appropriately raised and try to understand where the difficulties are and whether the criticisms that have been raised about BOOT schemes are real criticisms or not.

CHAIR—What is likely to be the timing of when you will have developed some thoughts as far as that is concerned in the investigations into BOOT schemes?

Mr Scales—It is likely to be more towards the end of the year rather than earlier.

CHAIR—End of this year?

Mr Scales—Yes.

Mr WILLIS—Too late for us.

CHAIR—Yes. I was just thinking in terms of the timing of this inquiry. We are scheduled to table

this report at the end of November, so it is likely to be after that.

Mr Scales—If you feel that it is going to be of particular value to you, I could go back to the commission and see whether I can reorder some of our research priorities. I would be quite happy to do that. I cannot necessarily promise that I can, but I would be very happy to try to at least do that.

CHAIR—If you could pursue that endeavour, that would be much appreciated because I think it is a very important part of this inquiry and it in fact covers one of the terms of reference that we have been issued with. I think if we could somehow get a copy of that before we table our report, it would be very helpful.

Mr Scales—The other possibility—and, again, if you could allow me to take it on notice—is a piece of work that is not necessarily as thorough as we would like. In it we would at least begin to tease out some of the issues for you even though we may not be able to come to any robust conclusions. So I will look at a couple of options to see what we can possibly do.

CHAIR—Thank you very much. Mr McArthur has one final, short question. We are really pushing for time.

Mr McARTHUR—In relation to the submission on oil pricing and declining production over time, could you just give us a comment on the problem of the automobile environment and the public transport investment?

Mr Scales—There is a whole series of other areas, of course.

Mr WILLIS—You have at least 30 seconds.

Mr Scales—The 30-second answer is it is probably one of the most complex public policy issues that this country will have to address in the immediate future. For example, it is quite clear that around the world we are now beginning to see the emergence of what might be described as dual fuel vehicles. It is now becoming quite reasonable and possible to have electric cars also supported by various sorts of other fuels, whether it be gas, petrol or whatever, and that has some quite significant implications for infrastructure. It also has some quite interesting implications for some of Australia's other commitments, such as its greenhouse gas commitment and these sorts of things. You have asked a very difficult question. We do not have any simple answers to it. Our thinking at this stage is that that really ought to be the subject of almost a separate inquiry.

CHAIR—Gentlemen, thank you very much for making your time available this morning and also for your submission. If at all possible, it would be very helpful to this committee's work if that research that you are doing on BOOT projects could be brought forward that little bit to assist us in the finalisation of our report. That is the only question taken on notice. If any other questions arise in our deliberations and discussions, we will forward them to you in writing. Thank you very much.

[10.55 a.m.]

BROADFOOT, Mr Robert Dougall, Vice President, Australian Road Federation, 11 Fitzgibbon Street, Parkville, Victoria 3052

LODER, Mr Bruce Norman, National President, Australian Road Federation, 11 Fitzgibbon Street, Parkville, Victoria 3052

SNELLING, Mr Ian George, Treasurer, Australian Road Federation, 11 Fitzgibbon Street, Parkville, Victoria 3052

THORNE, Ms Kay Patricia, Executive Director, Australian Road Federation, 11 Fitzgibbon Street, Parkville, Victoria 3052

CHAIR—The committee welcomes the representatives of the Australian Road Federation. We have received your submission and it has been taken as part of the inquiry. Would you like to make a brief opening statement?

Ms Thorne—Yes. We will endeavour to limit this to five minutes. The ARF is a policy oriented body which is able to call on the expertise and experience of a very broad membership base in the development and analysis of road policy. The ARF has been a significant and regular contributor to formulation of roads policy since 1951. That is a record of which we are very proud. The Australian Road Federation has the objective of ensuring that the best possible policy and plans are in place to maximise benefits to society from expenditure on the road network by all levels of government.

In stressing the need for a strategic approach, which was quite obvious in our submission, we emphasise the importance of the Commonwealth government in the development and implementation of strategic planning, which is inherently required for an appropriate road system serving Australia's needs. A strategic, visionary approach requires leadership and coordination between three levels of government and between different government policy areas. The Commonwealth government has a crucially important role in the strategic planning and policy overview and in development of national standards and best practice in planning and delivery of roads.

Decisions on what roads are appropriate and feasible, the decision criteria and the priorities must be made with the leadership, the national vision and the perspective of the Commonwealth government working in cooperation with state and local governments and with community input. We see the Commonwealth government taking a leading role in the development of strategic objectives, planning, management and ongoing review of Australian roads, in conjunction with the governments of states and territories and with local government. The outcome of this process should be clear agreed objectives, criteria for decision making, standards and a staged plan, including funding arrangements for roads projects.

The strategy, planning and selection of funding methods for roads should remain the responsibility of governments. Their role is to represent the national interests and to integrate competing priorities. This requires a wide-ranging and deep knowledge of factors affecting national development and societal wellbeing

and fundamental accountability and responsibility for that. That is properly the role of government and not of the private sector. Implementation could be in the hands of a board, reporting to appropriate ministers, Commonwealth and state. We see that operating through COAG and probably ultimately through the Australian Transport Council.

We see a strategic approach to Australian roads requiring the commitment of the three levels of government to the objectives, the planned implementation and broad community understanding of intended outcomes. In the implementation of the strategic approach, roads, particularly major roads which have a national significance or importance, should be regarded as investments in efficient transport for the nation as a whole. Planning and funding of such projects should be in accordance with strategic objectives and on a total project basis, so that the implementation of the strategy is timely and cost-effective.

There is a need to recognise that roads are in fact user pays currently, through a number of mechanisms. These include registration and licence fees, fuel levies and direct charges. There are many such direct sources enabling governments to finance projects in accordance with an agreed road strategy and plan. The potential value of the future income stream available through payments obtained from road users should be utilised to best advantage rather than seeking to raise more expensive capital through private investment. Debit funding of major projects in the national interest should be undertaken using that assured income stream from road user charges. This will allow projects to proceed as a whole, and to proceed now, thus achieving best benefits, cheaper solutions and with benefits flowing to those who are current road users.

Commonwealth funding for roads should be in tied grants. The tying of road funds is essential to achieve the stated objectives, for the orderly and predictable implementation of roads planning and also for public credibility. Administration and implementation of the Australian road strategy and plan, including funding of major road projects in the national interest, could be handled by a body, as I mentioned before, set up through COAG and the Australian Transport Council. We are aware that the Australian Transport Council is looking at its role at the moment, and we see this as quite an important role for it as an overseeing body.

We see the board itself comprising people with a broad experience and expertise in road infrastructure development, charged with the development and implementation of a strategically planned road system, and calling upon services such as financial advice and demographic information on a contract or consultancy basis.

We see all of this strategic approach to an Australian road network requiring an appropriate environment and innovative framework. I will just touch on this briefly. We see the Commonwealth taking a leading and catalytic role in the setting of standards, in coordinating measurement and benchmarking, and in promoting best practice and continuous improvement philosophies in strategic planning, design, construction and maintenance, and management of all roads, however they are administered and funded.

There is a need for a balance of expertise in the public and private sectors in the development of new technologies and processes, and care should be taken to ensure that the government, or those who are acting for the government, have the appropriate technical expertise to represent the public interest.

Development of new road construction specifications should be done in partnership between the public

and private sector. Adequate funding of a dedicated research institute to undertake both privately and publicly funded road research to ensure ongoing innovation and efficiency in the public and national interest is essential. The role that Australia plays and should continue to play in the development of road infrastructure in the Asia-Pacific region will also be supported by such research.

CHAIR—Just out of interest, what sort of balance is there with your constituent members between road construction contractors and road users?

Ms Thorne—We cover a very broad range there. We have consulting companies, consulting engineers, equipment suppliers, material suppliers, major road users and major contractors. We have people who operate roads—a number of the private road infrastructure bodies.

CHAIR—In your submission—and you have just highlighted this again in your opening statement—you said that until governments adopt a strategic approach to Australian roads and develop a proper understanding of the task, Australia will not obtain the road system it needs. Where do you see the responsibility lying to begin or to coordinate that process of strategic planning?

Ms Thorne—I would see that the Commonwealth has to take a catalyst role. But I see it very much at that ministerial level between the states and the Commonwealth in a cooperative fashion.

Mr Broadfoot—We look at the roads business and see there is \$100 billion worth of assets out there in a \$6 billion per annum business; it fundamentally operates without an integrated and coordinated strategic plan at the total national level that involves all three levels of government. We see the objective way of commencing that process and establishing such a plan is by gaining agreement to a set of criteria that determines which projects are viable or not, and in what order. That set of criteria should not just be economic, but also should consider factors such as social and community needs: isolation in some of the remote places; road safety, clearly; defence and national development; tourism-type activities. In other words, a range of factors should be brought into consideration and ranked by a community-involved group to determine the criteria against which future road projects are then assessed.

The pure objectivity of the exercise has the benefit of an increased community awareness of the influence of roads upon their very being, the responsibility that is being exercised in the design, development and maintenance of that system which belongs to the community, and an enhanced objectivity in terms of the list of approved projects—or projects that pass the screening test—is then demonstrable. It builds up a bank of those projects which pass the agreed standards and therefore are able to be argued very objectively and sincerely in terms of allocation of limited government funds for resourcing all of government's projects.

CHAIR—Often at the end of the day the prioritisation of a strategic plan is something that needs the joint commitment of the Commonwealth and the states. They have got to be a party to that so that there is a commitment; and it is not just prioritising the important pieces of infrastructure within states, it is right across the nation, I suppose, isn't it?

Mr Broadfoot—Absolutely, and involving local government as well.

CHAIR—I suppose the point of my question is: should that be done at a governmental level? There is a group called AustRoads which is a loose-knit grouping of state and Commonwealth bureaucracies. Should it be done at that level or should there be private sector involvement in the strategic planning?

Mr Broadfoot—We would envisage the body that determines the criteria virtually being a task force initially. That should encompass interested groups: the three levels of government, road trauma and road safety considerations, certainly the Transport Workers Union, ambulance type services, environmental groupings—a broad cross-section of the community, catalysed probably by the federal government and through the Australian Transport Committee.

Mr McARTHUR—Would you give it any teeth to operate if it did not have ministerial or government support?

Mr Loder—That is why we want ATC to take charge of it—the Australian Transport Council, the council of ministers.

Ms Thorne—We are not envisaging it being without government support. The support of all levels of government is absolutely crucial to the proposal and that is why we are not seeing this as a totally independent corporation or some such body, but working with the Australian Transport Council.

Mr McDOUGALL—You have been in operation since 1951; various dates for the state governments. Why haven't we had a strategic plan in place by now? We are all talking about strategic planning. We have heard evidence around Australia that some states, could I say, are 'gunna' do it—we are waiting; a couple of states have started and have produced something. Why aren't we getting there? What is the stumbling block?

Ms Thorne—We have actually spoken in each state to relevant ministers—ministers change, but we have spoken to them—over the last two years and have received a lot of support for this. There is, I think, already quite a strong feeling in each state that there ought to be some strategic planning. I think what is really lacking is the ability to know how we actually do this. Where do we go from here? That is where we see the Commonwealth role as being so important in getting that process started.

Mr McDOUGALL—The two states that seem to have done something are Western Australia and Victoria. Has your federation had any involvement in the construction of the strategic plans for those two states?

Ms Thorne—We have a branch in each state and there has been some involvement in those two states. To what extent and at what stage, I could not comment. We could provide that information.

Mr McDOUGALL—I realise you are an Australian Road Federation and you are a state based body. What do you feel is the role that should be played in relation to an integrated transport strategic study and where does that fit within the framework, as far as you are concerned?

Mr Loder—We do not perceive roads as being a transport issue in the sense of something which influences modal choice. In fact, surveys carried out by AustRoads have shown that transport is not a high

priority issue of the Australian public. On the other hand, roads are an issue and they have become a political issue at the local level and at the state level. The reason for that, I think, is that transport as such is fairly good in Australia.

There is no question that we have quite good transport and we have good roads. But we do not have adequate roads from which we can operate our motor vehicles to the best advantage, safely and efficiently. That is what the roads issue is about: providing an adequate road system which will enable us to operate motor transport, the transport needed for the community's land transport needs, efficiently, effectively and safely.

Mr McDOUGALL—But this inquiry is about looking at the future of road funding needs of Australia. How can you say that we should isolate road funding from other forms of transport funding?

Mr Loder—This question needs a sort of step answer. If you look at the purpose of road funding, it is to develop an adequate road system to cater for the safe and efficient movement of the motor vehicles engaged in satisfying the community's land transport needs. It was initiated at state level in each of the states when they established state road authorities and when motor vehicles were first emerging as a perceived efficient means of transport. That was based, if you look at the legislation, on the idea that the motor user would pay for the roads.

The traditional Australian practice is to raise the funding in its entirety through motor vehicle taxation, fuel tax and tolls, from those owning and operating motor vehicles. Tolls are actually a very insignificant part of the whole thing. That is equitable and we consider that that process should be continued. But the perception is that governments act as the agent for the road user because government involvement in providing the roads is essential. You cannot do this without government involvement.

Governments have a responsibility because of the importance of road transport to the community—economically and socially. They have a responsibility to see to and to facilitate the provision of that adequate road system. They in fact act as an agent to collect the money from the road user and make it available and disperse it in accordance with a plan. We do not have an overall plan at the present time. But it is our proposal that there should be a plan based on the road policy of obtaining an adequate road system for everybody in Australia, right throughout the whole nation, not just in any one state.

Mr McDOUGALL—You said that we have a good road system.

Mr Loder—Yes. We have.

Mr McDOUGALL—We have a fairly adequate road system.

Mr Loder—No. I said we have good roads.

Mr McDOUGALL—We have good roads. Okay. If you came up with an integrated strategy which took a lot of the current road users off the roads and put them onto another form of land transport—I think it is fair to say that rail is a land transport as well as roads—maybe we have got an adequate road system.

Mr Broadfoot—What we are advocating, however, is that there be a set of yardsticks against which one can determine whether there is an adequate road system and whether there is a series of projects that, in the community interest, are viable and therefore justifiable in terms of competing for the government expenditure against other projects, be they, indeed, health, education or rail transport. It is the lack of objectivity in assessing the very initial ingredients that constitute, ultimately, a road plan that we see as the fundamental starting point to all of that to determine whether the road projects are good or not and whether they then compete against other bidders for government funds.

Mr McDOUGALL—So you are suggesting that we do a strategic plan for roads and then afterwards do a strategic plan for rail—not to integrate the two? That is what I seem to be getting back from you.

Ms Thorne—No. I think we are saying that our expertise is in roads and therefore what we are looking at here is how we believe you could go about allocating funding and planning a road system. The decisions about other systems and the integration are very important, but that is not covered by the expertise with which we are speaking here today. We believe that, having made those decisions, having done whatever planning you want to do for other modes, you will always have to come back to which road projects will proceed and in what order. This is a way of looking at that. I also believe that the technique could be expanded considerably to look at transport overall and a number of other portfolios, but we speak here today with an expertise in roads.

Mr WILLIS—I want to take you to that part of your submission which talks about the need for Commonwealth funding for roads to be in tied grants. As you would be aware, recently we moved to untied grants, identified road grants for the state funding from the Commonwealth. As from this forthcoming budget the proposal is—this was agreed a couple of years ago—that we will move to distribution on a FAGs basis, a financial assistance grants basis, rather than on a road formula for the distribution of those funds as between the states, but that there will still be identification of the road moneys and a footnote to the table. So there will still be some capacity to find out what moneys have been given to each of the states for roads.

It seems to me that that system puts pressure on the states to spend the money on roads, but gives them freedom, should they believe that there is a better project than a road project that they could spend the money on, to use that money for another purpose. Obviously they do not have to defend that, because what they got from the Commonwealth on roads is a publicly known number; if they spend it on something else they have to be prepared to defend that. To follow up Mr McDougall's point: if, for instance, there was some extremely pressing and highly beneficial rail project that the states wanted to fund with some of that money, why would it not be a good idea to allow them to have that freedom to spend it on a rail project which might get a better transport outcome than just another road project?

Mr Broadfoot—I think we are saying that the bit that is missing is the transparency of the initial decision that a project was in the community interest and justifiable in the community interest. From that point on, the objective of the government of providing a national road system that meets the needs of industry and the community is fundamentally internally contradictory with giving untied grants. If the agreement to a strategic roads plan—indeed, there can be strategic other plans, but we are coming with an expertise in roads—is in place and the plan gains approval for funds from whatever level of government provides the funds, then we believe the commitment to implement that should be tied from money that the Commonwealth

sources to the states or indeed to the local government areas.

Mr WILLIS—The trouble is that it is not the only plan that governments have. They have road plans, but they have rail plans and shipping plans and all sorts of other plans, and they have to make decisions about which of those plans are going to be promoted at any particular point of time or given the maximum emphasis. It seems to me to be not unreasonable for them to have the freedom to make those choices. I might say that the changes that are being made to move from tied grants to untied grants in the form that will now be in this budget are being made particularly because the states wanted that freedom.

You probably heard the Victorian government say before that they spend all of their money, since the untying, on roads. So there is no leakage of funds from roads in Victoria, although they thought it had happened in other places. Where it has happened in other places, presumably those governments took the decision that there was a better project than a road project. Although I can see from a narrow roads perspective that this might lead to some leakage, governments have to take a broader view and decide what is in the overall interest as between a lot of intensely competing priorities.

Mr Broadfoot—Certainly we do not contest a government's prerogative to spend its money where it deems it appropriate. What we are actually—

Mr WILLIS—But you are; you are really saying that the money that comes on roads has to be kept on roads.

Mr Broadfoot—But let me go back to the establishment of that roads plan and the timing of such, in a forward rolling program such that we are not making decisions one financial year against the other and just providing funds until next June. What we are looking at is a mechanism that gives rise to a genuinely strategic, objectively determined forward program.

Mr WILLIS—I think we are all of a mind to support that.

Mr Broadfoot—The assessment between road and rail, or road and education, should in fact be made at that time of derivation of what is going to be the national forward plan.

Mr WILLIS—I guess there is a difference between having a plan for various things, with broad objectives over time, and how you actually go about fulfilling those competing plans year by year. It may well be that circumstances change from one year to the other which require a government to amend decisions so that it puts more emphasis here rather than there, and that may mean less on roads and more on something else. As I say, this was all done because the states wanted that freedom and not to be tied up by the Commonwealth into having to spend money in areas where they may not see the maximum benefit.

Mr Loder—I think what we are saying is that the funding is part of the strategic planning, that a plan is not worth the paper it is written on unless you have the means of implementing. And funding is the means of implementing.

Mr WILLIS—In reality it is not going to mean a very big leakage of funds, we all know that.

Mr Loder—No, it is not.

Mr WILLIS—That is because the states will have to start justifying why they are sort of using all this road money to build schools or monuments to past leaders or something. They are going to be up for a lot of scrutiny as to why they have not spent the money on roads and they will need a damn good argument, and presumably it will be because there is a very good reason.

Ms Thorne—I would like to comment on that. The whole issue is not leakage of funds. That is not relevant as far as what we are saying is concerned. We are saying, however, that if a plan is to have credibility—and as much as anything else it has to have community credibility—then if you have a plan and the funding does not follow the plan there is immediate loss of confidence in the strategic process and in the plan. That is not to say that in specific cases you would not make a definite decision to do that, but again it is the transparency that you have made a decision to depart from the plan and do something different. If strategy and planning is to have any credibility, it has to be open and the means of implementation has to follow the decision making.

Mr WILLIS—I would just say, on that, that there is transparency, because it is known each year what the amount of money is that is given by the Commonwealth to the states for roads.

Ms Thorne—Sure, but I think you made the assumption that we were concerned about leakage. We were not. We were concerned about this planning process having credibility.

CHAIR—I have just one final question. In your national policy on tolls, which forms part of your submission, you state that the ARF advocates the appropriate application of tolls in achieving an efficient road use. What do you mean by appropriate application of tolls?

Mr Loder—Our policy cites examples of what are appropriate use of tolls. An important role of tolls on urban roads is to price the road and reduce the congestion, so that the highly valued traffic has more freedom of movement and the less valuable traffic is discouraged. That is one of the uses. I think we cited the M4 as being a case there, where you have Parramatta Road parallel to the M4.

Another appropriate use is with the Sydney Harbour Tunnel, a massive work which benefits a particular segment, so the segment that benefits pays for the project. If you perceive that you cannot fund it some other way, you can get the funds for a major work that enable you to do that high return, high economic value work much earlier than you would otherwise get it.

CHAIR—You enunciated two different reasons there for the implementation of tolls. Do you see with roads a strategic economic importance that may substantially benefit an industry? Would you not foresee a problem with seeking a major contribution from that industry for the development of that road?

Mr Loder—That has occurred in the past, so there is no real problem there. If some group specifically benefits, that is a good way of extracting some of that benefit. I do not see tolls as a good way of

financing roads.

Mr McDOUGALL—Just to follow up on tolls: you said that you price a toll to be able to encourage one group to use it and one group not to use it, so that you get maximum use out of that facility.

Mr Loder—I did not put it very well if that is what I said.

Mr McDOUGALL—That is the impression I got.

Mr Loder—I am sorry. No, where you have a lot of congestion, for some of that traffic stream on a road time is very important and important to the economy, some do not care how long it takes them to get there. By having a tolled route parallel with an untolled route, you can ensure that there are better conditions of travel on the tolled route for those who are prepared to pay that little bit extra. It is worth it to them because they get it back in time saved, fuel saved, and so on. You have the other route available for those who are prepared to just take their time.

Mr McDOUGALL—I wish you could convince the road transport industry in Brisbane to use the Gateway Bridge instead of the Valley for that reason. It did not work.

CHAIR—Maybe you should put a higher toll through the Valley. I would like to thank the representatives from the Australian Road Federation for your submission and your attendance this morning. If there are any further questions or points that the committee may want to pursue with you we will do that in writing.

[11.28 a.m.]

HUETT, Mr Douglas Edward, National Executive Director, Civil Contractors Federation, 1/8 Glan Avon Road, Hawthorn, Victoria 3122

JACKA, Mr Ian Maxwell, Executive Director, Victorian Branch, Civil Contractors Federation, 1/8 Glan Avon Road, Hawthorn, Victoria 3122

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

Mr Huett—Thank you, Chairman. We would like, first of all, to thank the committee for the opportunity to be here today and the opportunity that it does give the government to address what we see as an area of some considerable concern. The single uppermost thing that we see as emerging—and we do not think we are on our own in this area—is that there is a great need for some form of national vision.

In our submission, we said that the one category of road funded by the Commonwealth should be roads of national importance, with the strategic planning and full funding the responsibility of the Commonwealth. I note the question directed to the ARF by Mr Willis. It must have interaction with other transport infrastructure. We also noted that the funding needs to be defined, committed over a rolling term and, in the absence of any better means yet to be identified for funding, hypothecated from a dedicated fuel excise. We also submit that grants to state and local government should be tied.

I take the committee to a paper I believe you have on what is happening in New Zealand. There are some interesting parallels there. These comments, attributed to the Secretary for Transport, Mr Stewart Milne, and reported in a publication called *Contractor* by our kindred organisation in New Zealand, state:

We now have a dedicated roading fund. All the money collected from road-user charges, vehicle licensing, registration fees and some of the money from petrol tax set by the Government goes straight into roading, alternatives to roading, (e.g. public transport) and road safety.

Owners of petrol-powered vehicles pay 9.4 cents of tax a litre of petrol to the national road funds and another 20.8 cents a litre of petrol into the general government revenue.

This means that funding for roading is largely driven by annual traffic flows.

The law states that once the money is paid into the national roads fund it must be spent on roading and specific road-related matters. There is no need for further government approval and the money cannot be diverted for any other purpose.

Once the money is collected it is immediately available to Transfund New Zealand to distribute to Transit New Zealand and local road-controlling authorities. Funding of local roads is associated with rates and raised by the appropriate local authority.

Further on in that article there are some pertinent points that I think could be taken on board by governments in Australia. They are:

Under a programme due to be completed by July 1998, all work on roads funded by the national roads fund must be subject to competitive pricing procedures. Roading authorities are not allowed to award contracts to themselves.

Local government can either choose a commercial-sector contractor to do the work, form a separate business unit, or form a local authority trading enterprise (Late) to bid for the work. A Late is a fully stand-alone company with the shares owned by local government.

I also draw to the attention of the committee a publication released last week in Canberra. Can I assume you all have copies of *Australia at the crossroads: roads in the community—a summary*?

CHAIR—Yes.

Mr Huett—We would certainly support the concluding remarks of that excellent work, that was launched last week, in which the overriding message is the need for a national vision for land transport to provide long-term direction, purpose and coherence across Australia to strategic planning of these systems.

CHAIR—In your submission, you note that the stated objectives for the national highway system are, in a broad sense, relevant but the national highway system is currently defined as not providing an adequate basis to meet those objectives. Does the problem lie with the objectives for the national highway system or the nature of the national highway system itself? I presume you are alluding to some of the important linkages within the major conurbations in Australia that are not within the national highway system.

Mr Huett—I suppose, to put it very simply, the bits do not meet up. The national highway gets to a certain point and stops. Those vital connectors to the industrial areas of our cities and to the ports and airports et cetera are just not there at the moment, as they should be. I guess we would not get a better example of the need to do something than City Link right here in Melbourne at the moment. God knows what we do in Sydney.

CHAIR—Thank you. By referring to that article that was identifying some of the mechanisms in place in New Zealand, I presume that your organisation supports some form of hypothecation of fuel tax directly to roads?

Mr Huett—In the absence of any better alternative method, yes.

CHAIR—Also, a tying of road funds: I have not read the thing, so I am at a bit of a loss to exactly understand, but the way it sounded is that there is a roads trust fund, separate from the general revenue account, that money for roads goes into and that money is spent only on roads. I presume that you support that concept as well?

Mr Huett—We do.

CHAIR—I understand there is a similar trust established within Western Australia so that different road user collections are paid into that trust to be allocated from there.

Mr McDOUGALL—You are representing a body of civil contractors who are, I presume, getting involved in all sorts of infrastructure construction and transport. We have heard a lot of discussion here this

morning about strategic plans. We can do strategic planning on roads, but I would like your comments as to where you feel the responsibility for strategic planning lies. Is it related to total transport or should there be a strategic plan just for roads?

Mr Huett—Strategic planning for roads becomes part of strategic national planning for transport. Civil contractors are involved in all aspects of transport infrastructure—ports, airports, rail and road. We have no particular allegiance to road construction in totality. It is very important that there be interaction with other transport sectors—very important.

Mr McDOUGALL—Has your organisation, either at a national level or a state level, been involved with any of the state departments of transport, main roads or infrastructure in relation to the development of such strategic plans? Have you had any input?

Mr Jacka—Yes, we have had an involvement in all the Victorian documents concerning Melbourne and Victoria. We are involved in the hub transport study. We have an involvement at all those levels. We also have an involvement with the Australian Road Federation. We consider it an industry role to be involved in all those exercises and we do have an excellent relationship with VicRoads and department of infrastructure.

Mr McDOUGALL—That is in Victoria. Why is it not happening in the rest of Australia? Why are we not getting this integrated strategic planning? Can you help us to find out why?

Mr Huett—I think there is only one government that can bring that together and that is the Commonwealth. In my role as national executive director, with branches in all states and 19 divisions in regional centres, the requirements of my constituents, which would be state branches, are somewhat different to the national role. So the Commonwealth, we believe, has the capacity to put that structure in place.

Mr McDOUGALL—If it has not, it needs to get it.

Mr Huett—It needs to get it, yes. Such a national strategy cannot be driven by a state or by the states.

Mr McARTHUR—In your submission, on page 18, you talk about the Commonwealth's role in ensuring consistent standards and adopting best practice by states and territories, confinement of tendering processes, benchmarking best practice across territories, and monitoring overall performance of state and authorities. It has often been put to the committee that one of the problems of tendering is the number of smaller jobs that develop because of the flow of funds by both the Commonwealth and the state. What would be your recommendation in terms of the flow of funds to ensure that the contractors had the right equipment and personnel that could be utilised most effectively?

Mr Jacka—Whilst that may be raised as a debatable point I think everybody has great confidence that Australia, through the national highway system and through constant road funding, is always going to have money next year to continue work on roads of significant importance. There is always a debate as to whether projects should be large or small in their nature before being put out to bid, and that will always be

an ongoing argument. In the VicRoads area there is a very carefully worked out balance between which projects are seen as being most viable in a very large lump and which projects are seen to be most viable, both for expenditure control and for actual costing, to be allocated in smaller pieces.

Mr McARTHUR—So you do not see a problem there? It has been put to us in former inquiries that this was a major problem for the contractors. You are saying that, in Victoria, it is not a difficulty?

Mr Jacka—I think contractors are becoming more and more Australia wide and I think they would love to know what was going to be happening next year. But, as an industry, it has had to develop with the flexibility to be able to handle a flow of funds and a flow of projects that has varied from time to time.

One of the questions that was asked earlier was, ‘Why wasn’t there a national study?’ There was. The study by the National Association of State Road Authorities, which preceded AustRoads, was done 15 or 20 years ago. It was a lovely document but there was no commitment by the federal government, at that time, to say, ‘We will produce rolling funds to make sure that happens.’ I guess the same problem exists at this time; there needs to be commitment from the federal government to say, ‘These are the reasons that we will finance given projects and the finance will be made available.’

Mr McARTHUR—Following up on the specifications and guidelines and on benchmarking, do you agree the Commonwealth has an important role in that across every state?

Mr Jacka—AustRoads is a vital organisation and the role of the Commonwealth in that organisation is vital. There are still different standards and different documents within the states such as New South Wales.

Mr McARTHUR—What do you think is the reaction of the state authorities to that?

Mr Jacka—I think they totally support AustRoads. Ultimately, each state road authority has to say, ‘We are striving for best practice.’ If they are not, there is something wrong with the road authority.

Mr McARTHUR—We hear a little bit of a different message.

Mr Jacka—I am sure you do.

Mr WILLIS—You come out in this submission fairly strongly against tolls—at least up-front tolls—and you think that shadow tolling is probably a better way to go. The main reason seems to be that you think that tolls are unpopular. If governments are prepared to live with the unpopularity of up-front tolls then why shouldn’t you just let governments wear that?

Mr Huett—We would all be happier without tolls in a perfect world, but the reality is that Australia is a very big country and to develop the road network to the efficiency and the extent that we all believe is desirable, tolls have emerged as a cost-effective way of introducing new projects. Quite frankly, without some form of tolls in Australia at the moment, particularly in Melbourne, Sydney, and to a lesser degree Brisbane, the road system would be a lot poorer. In the absence of a better alternative, I think we have to accept tolls,

and maybe that is part of the ongoing move to user pays. From a commercial aspect, maybe governments should have got into tolling because they seem to be quite profitable.

Mr WILLIS—Are you really saying that the best system would have been for roads to have been properly funded through the vehicle charge or whatever, through a road user charge system, and that is the most desirable way to go and that, if governments cannot manage to do that somehow, then the private sector which has got funding with tolls is a second best?

Mr Huett—Yes.

CHAIR—As there are no further questions, thank you very much for making your time available this morning.

Resolved (on motion by Mr McDougall):

That the committee accepts as evidence the following documents taken from a magazine called *Contractor* of February 1997 and December 1996 presented by the Civil Contractors Federation for inclusion in the committee's records as exhibit No. 41.

CHAIR—Thank you very much for your submission and for those exhibits. If there are any further questions we need to direct towards your organisation, we will put them in writing.

[11.48 a.m.]

PICCININ, Mr Claude, Assistant Director, Economics, Business Council of Australia, Level 15, 10 Queens Road, Melbourne, Victoria 3122

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

Mr Piccinin—In the interests of brevity, it is such a short submission, I think we can open up the batting, if that is all right.

CHAIR—We have had a fair amount of discussion this morning with regard to the utilisation of the private sector in the provision of road infrastructure. What is the view of the Business Council of Australia with regard to roads such as the City Link in Melbourne, the M2 in Sydney and the involvement of the private sector in providing that infrastructure? Does the Business Council have a view on that?

Mr Piccinin—We are very much in favour of private sector involvement. There has always been involvement in respect of funding through bonds and there has always been involvement in respect of construction. We do not see any problem at all in areas such as operations where it is appropriate. Invest Australia, which oversees the old infrastructure bond program, indicated that there were substantial savings, both in terms of construction costs and time in which it takes to construct, in allowing the private sector to do it and also in terms of operations. If those savings can be had, I think it is for the benefit of the nation.

CHAIR—Alternatively, concerning the road user charges that are collected, particularly by the Commonwealth, what is the Business Council's view on the equity of the road user charges and the impact on business generally, considering that on all the indications we have received in this inquiry only a small percentage of those charges is actually allocated back to roads? Does the Business Council have a view on hypothecation of fuel taxes?

Mr Piccinin—As we said in our submission, the amount of revenue that is collected from road user charges is about twice the level of expenditure on roads. The problem with that is that it imposes costs on business. We do not see that as an appropriate mechanism as it is undertaken at the moment. We would prefer to see the road user charges then hypothecated to a fund which is responsible for maintenance and the management of the road network.

Mr ALBANESE—We have received substantial evidence, not just today but as a general theme, that with the private provision of roads they have only been provided due to substantial government funding arrangements. There is a question mark over how transparent those arrangements have been with various reports, including the Auditor-General's report in my state of New South Wales, into some of the private tollway arrangements which have been entered into. Given your understandable support for the private provision of those roads, would you like to comment?

Mr Piccinin—I cannot comment on specifics, but in general terms the first thing I would say is that there is a distortion in the existing taxation system in terms of allowing the losses that are incurred in the first

few years to flow through to the individual shareholders. To the extent that the Australian taxation system does not allow for that flow through of losses, although it does allow for dividend income flow through to those individual shareholders, it is quite appropriate for either fixing that end of the taxation system or allowing other measures which attempt to address that problem.

Mr ALBANESE—How would you respond to the argument that without that public support the private capital would not be available?

Mr Piccinin—We believe that the private and the public sector ought to compete on equal terms. The problem with infrastructure is that there are benefits that accrue to people outside the providers of that infrastructure. For instance, land values go up, et cetera. The public sector is allowed to recoup those benefits through other taxation means. If you like, the competition is not equal between the two parties. Am I making myself clear on that point?

Mr ALBANESE—I understand what you are getting at. I think you are drawing a long bow, but I understand what you are saying.

Mr Piccinin—You also have the additional problem that I mentioned before of not allowing the flow through of losses to the original shareholders. That being the case, if you want to have competitive neutrality between private sector bidders and public sector bidders, you need to address those two problems.

Mr McDOUGALL—I would like to take the private sector funding issue a little further. Let's take the situation where you have major transport infrastructure, whether it be road, rail or a combination, and it can involve also water supply or power. Let's say a major corporation needs that development to take place to be able to get an economically viable project up and running. What does the Business Council feel in regard to the level of contribution that the private sector should be making towards that infrastructure, particularly on the basis that that infrastructure may die at the end of the project and have no public benefit at the end of that time?

Mr Piccinin—I guess it depends on who the beneficiaries are. If you are talking about a specific infrastructure which is of benefit to nobody else but that corporation, one could understand why in that circumstance it should be that corporation that undertakes it. But, as with most infrastructure, the benefits accrue to a larger community—it just depends on where it is. You cannot generalise on those things without looking at the specifics of a specific project.

Mr McDOUGALL—No, but we could be looking at a situation down the track where we are trying to suggest some policy in relation to future road funding needs and how it should be handled. Would you agree that there has got to be scope within that framework where there can be contributions from the private sector towards not only the initial capital cost but also the maintenance to be able to keep that project going?

Mr Piccinin—It depends on how you can identify those benefits. If you can identify those benefits, in principle, it could be looked at, yes.

Mr McDOUGALL—So the Business Council would not have a problem with that?

Mr Piccinin—It depends on the specifics. I think the devil is in the detail.

Mr McDOUGALL—Sure. What is the Business Council's position in regard to this major question of strategic planning that we have been talking about today and in other evidence around Australia in regard to integrated transport mechanisms? Have you got a position on it? Have you looked at making a contribution to that question?

Mr Piccinin—We have not specifically addressed it, but it has been spoken about in general terms. Certainly in relation to transport, a strategic look in terms of intermodal issues needs to be considered—also in terms of the logistic chain, not just purely the transport problem itself. We see that as a role of government. It depends on whether it is a national type issue or whether it is a local type issue, as to which level of government is most appropriate to look at.

Mr McDOUGALL—How does government do that strategic planning if it is not getting input from the private sector who are carrying out the basic economic development of the nation?

Mr Piccinin—Sorry, I do not understand your point.

Mr McDOUGALL—Basically, what I am getting at is that industry—and I come from industry—expects government to supply all the infrastructure. But industry, in my experience, has not always had a good record in telling government what the future needs are in relation to strategic planning. So we end up with crisis planning and trying to fill in to overcome a problem. So if we are really going to address the strategic issue of infrastructure planning and integrated transport, what role does the private sector have in relation to getting that on the board? I do not think you can just pass it straight off to government and say that that is their problem.

Mr Piccinin—No; I understand that. What I am saying is that it is ultimately their responsibility. That is not to say that business does not have a role in terms of keeping the dialogue open as to what their future plans are.

Mr McDOUGALL—Have you got a plan that you would like to put to us to say, 'These are the bones of a plan that we would like you to have a look at'?

Mr Piccinin—That is not the role of the Business Council; that is the role of individual companies. We do not know what our members' plans are in terms of investment 20 years from now. That is not what the Business Council does.

Mr McDOUGALL—Who is the organisation then that can help us with that sort of information?

Mr Piccinin—There isn't one.

Mr McDOUGALL—So, again, government comes back to crisis planning.

Mr Piccinin—I do not think so. My experience, prior to the Business Council, was 8½ years in ICI;

and we were constantly keeping in touch with government as to what our future plans were.

Mr McDOUGALL—Commendable. I wish everybody was.

Mr McARTHUR—Earlier today we heard evidence that governments collect \$13 billion from road taxes and spend about \$6 billion. What is the attitude of Business Council towards that problem and hypothecation?

Mr Piccinin—As I said, we do have a problem with that because we see that as a business input tax which cascades down the chain and makes Australian firms uncompetitive. In terms of hypothecation, we would favour a system where road revenues went directly into a fund that provided funding for roads and that then could be used to upgrade the roads, maintain the roads and build new roads.

Mr WILLIS—I would like to ask you about your proposal that road charges, in a system that you envisage of road user charges, should encompass the fact that urban marginal social road costs are around six times higher than rural costs and that, therefore, road charges for rural areas should be substantially lower than for urban road users. How do you envisage that would apply?

Mr Piccinin—You could do it in a number of ways. Let us say that you went for a fuel charge: you would have to have a fuel tax which is different, depending on location. But you would have to be very careful how you did that because, where there are states with different taxes on fuel, there is a fair amount of switching and you have to do it fairly gradually.

Mr WILLIS—Have you given any thought as to how that might happen? We would be very grateful for any thoughts you have on that.

Mr Piccinin—It is a problem, but I would put it to you that it is a heck of a lot better than the present system where everybody is charged, it goes into a pot, some of it goes into roads and most of it goes God knows where.

Mr McARTHUR—Don't people travel on all roads—just to help my friend here?

Mr Piccinin—As I said, there are problems with that.

Mr WILLIS—You also suggest that the major benefit from this would be that we would spend a lot less on rural roads.

Mr Piccinin—I was going to mention that. What we are saying is that the biggest benefits from the sort of reforms that we are talking about would be in actually spending money on the roads on the basis of economic criteria. That might be unpalatable to certain members from rural electorates, because the biggest bang for your buck is in fact in spending money on urban roads rather than rural roads. If you devised a system where at least you could go and say, 'You will also be charged less because your marginal cost is actually lower than in urban areas', there might be at least a quid pro quo for rural voters.

Mr WILLIS—On the issue of private sector involvement in the funding for roads, you say there that you have significant reservations about the EPAC finding that infrastructure bonds were inappropriate for any infrastructure project, and especially for roads. Where do you think EPAC got it wrong?

Mr Piccinin—Let me quote from the Allen Consulting Group private provision of infrastructure report. They say:

There are a number of points which need to be made in response to this argument. Effective tax rates for infrastructure investment are largely driven by the assumption that capital gains accrue tax free. While this is true, it is of dubious relevance since, under the Australian tax system, capital gains are in fact taxed on disposal, not accrual i.e. capital gains accrue tax free on all assets, not just infrastructure projects. Moreover, infrastructure BOOT projects are eventually transferred from the private owners to the public sector *free of charge* at the end of a specified period.

So the argument made by EPAC that the capital gains tax eventually fixes that problem is just spurious.

Mr WILLIS—You are relying on the Allen Consulting Group for your views on this, are you?

Mr Piccinin—No, we had those views before. I am just quoting somebody who is independent.

Mr WILLIS—What do you have to say about the issue of network costs, which has been an issue that has come up before the committee quite a bit in relation to this issue—that is, the problems that are involved with private sector BOOT type projects having to constrict the development of the rest of the system to make the project viable, prevent the development of alternative transport systems, close down some of the existing operation, et cetera?

Mr Piccinin—We have not looked at that. Let me tackle it from another angle. We are not averse to toll charges. We think they are a very neat way of basically tackling the problem of road user charges. One of the difficulties with toll charges is when they are done in an area where you can divert traffic to other areas and then cause congestion where there was none before. One needs to be very careful about where one places toll charges.

CHAIR—In your submission you suggest that road expenditure should be shifted away from rural roads to urban roads. I know that you flew past this a while ago, but I wanted to ask: what benefits would accrue for such a shift of funding, and which urban roads or class of roads should receive additional funding?

Mr Piccinin—Let me just refer to the Refocusing Road Reform Report.

CHAIR—The member for Corangamite has a rural constituency.

Mr Piccinin—Yes. We saw benefits accruing of about \$2.5 billion from investment from rural to urban, about \$2.3 billion from local to urban investment and about \$1.6 billion from maintenance to urban investment. They are substantial figures.

CHAIR—They are substantial figures and, if you draw that out to its natural conclusion, we will all end up living in the city.

Mr McARTHUR—We would have no roads at all.

Mr Piccinin—No. Put it this way: the fact is that people are leaving country areas and going to urban areas, and that has taken place in Australia for the past 150 years and it will continue. As productivity increases on the farm sector, as it does elsewhere, migration from the rural areas to urban areas will take place.

Mr McARTHUR—You have to get the produce from the farms to the city.

Mr Piccinin—Absolutely, but you do not need quite so many people. Traffic in urban roads is decreasing, in absolute terms.

CHAIR—Is the assumption in that report and that view based purely on vehicle kilometres travelled?

Mr Piccinin—No. It is based on a variety of studies in terms of cost-benefit analysis: basically, you get a bigger bag for your buck in urban areas than you do in rural areas.

CHAIR—Yes; but, by saying you get a bigger bag for your buck, are you talking in economic benefits? I keep coming back to vehicle kilometres travelled. Is that the only criterion you are using? Are you saying that, because we have got X number of million vehicle kilometres travelled in urban areas, we therefore must get a better benefit?

Mr Piccinin—I would have to pass on that one, because I was not associated with those cost-benefit analyses. But there is one point and that is that, over time, the average cost-benefit ratio for investment in urban roads has increased, whereas the average cost-benefit ratio for rural roads has actually decreased.

CHAIR—Given that most major urban roads such as the Western Ring Road carry more local traffic than they do through traffic, would a shift to urban funding via the Commonwealth on your suggestions of BCA merely offset state funding?

Mr Piccinin—We have actually agreed with the National Commission of Audit that, if a road is under the jurisdiction or responsibility of the state government, the money should be provided without directing where the money be spent. We would prefer the level of government that is responsible for that particular expenditure to have a completely free hand, rather than having duplication and second-guessing between different states.

CHAIR—I would like to thank you very much for your submission. We all have a copy of the document that you have got in front of you, as well. If there are any further questions that the committee might like to ask, we will certainly forward those to you in writing. Thank you very much.

[12.09 p.m.]

HURLSTONE, Mr John, Chairman, National Road Transport Commission, PO Box 13105, Law Courts, Victoria 8010

O'SULLIVAN, Mr David, Chief Executive, National Road Transport Commission, PO Box 13105, Law Courts, Victoria 8010

STANLEY, Mr John, Deputy Chairman, National Road Transport Commission, PO Box 13105, Law Courts, Victoria 8010

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

Mr Hurlstone—Yes, we would like to make an opening statement, which will in effect comment on the major thrust of our written submission.

The commission's responsibilities for heavy vehicles greater than 4.5 tonnes gross vehicle mass extend to almost every aspect of vehicle operation and manufacture, but are more limited for light vehicles. Under the heavy vehicles agreement, the commission is responsible for heavy vehicle charges; regulations relating to the design, construction and operation of heavy vehicles; vehicle registration and driver licensing. The commission is not responsible for setting charges for light vehicles.

The terms of reference of your inquiry are broad, and the commission will make no attempt to address all of them. In our submission we would set out to cover two areas: firstly, to explain the commission's role in determining national heavy vehicle charges—the inquiry can then take this statutory role of the commission into account when considering funding and resource allocation issues before it; and, secondly, to explain the status of the current commission proposal to improve road transport efficiency by providing increased mass limits for heavy vehicles and to set out the commission's approach to funding of the bridge expenditure necessary for the higher mass limits to be implemented.

I turn now to the NRTC role in heavy vehicle charges. The heavy vehicle agreement contains the brief for deliberations on charges for trucks and buses, and arose from work undertaken by the Commonwealth-State Overarching Group on land transport as part of the Special Premiers Conference process. The charging principles and instruments have been described in the commission's submission to the inquiry. In 1992, the Ministerial Council for Road Transport accepted the uniform national heavy vehicle charges determined by the commission. These charges were finally implemented by jurisdictions during 1996, approximately a year later than the date required under the agreements, which was July 1995.

Some features of these charges should be noted. Whilst the annual heavy vehicle registration charge is real money and flows directly to states and territories, the road use charge is notional only. The designation of 18c of the diesel excise as a charge has no effect on the amount actually paid at the pump. The current level of diesel excise, as you all would know, is around 35c per litre.

The NRTC has no statutory role in road funding or investment, and there is no linkage between NRTC charges and funding or investment. The NRTC charges include only a subset of government imposts on the road transport industry. Other imposts include the remainder of the diesel excise, state-territory diesel franchise fees, stamp duty, payroll tax, tariffs and sales tax, and direct taxes.

The charges are based on the PAYGO assumption—that is, the pay as you go method—that current expenditure reflects annualised costs of providing and maintaining roads for current vehicles. If there is significant network growth or deterioration in infrastructure, this is not an appropriate basis for charges. The NRTC national mechanisms are not well suited to charges which need to be specific to time or geographic location, and most externality effects fall into this category—for example, noise, congestion and emissions.

The NRTC charges form only a subset of the factors which must be considered in determining competitive neutrality between transport modes. A full assessment would require consideration of all government imposts on each transport mode, and of the pricing-charging methodology applied in each mode. Many of these are for road transport outside the ambit of the NRTC.

To move on to the mass limits review: the background to, and current status of, the commission's proposal for increased mass is set out in our written submission. It is of concern to the commission that the report of the Mass Limits Review Steering Committee was released in May 1996 but there is still no agreement on implementation. The premise on which increased mass limits is based is that vehicles fitted with road-friendly suspension systems can carry higher mass without any increase in pavement damage. The finding of the steering committee, which was unexpected, was that these vehicles would adversely affect some types of existing bridges.

This focus on bridges has revealed a poor state of knowledge of the condition of bridges by most road authorities, including local governments. Bridges are a crucial part of the national infrastructure. The need to upgrade these bridges is the bottleneck at the moment in the way of improved road transport productivity by virtue of increased mass.

The commission estimates direct savings from increased mass limits for heavy vehicles of between \$150 million and \$420 million per annum, and GDP growth of \$460 billion to \$1.25 billion per annum. In summary, the present situation is that there is widespread agreement—though not unanimous at this stage—that allowing higher mass limits for vehicles with road-friendly suspensions would lead to large net social benefits, but that implementation is dependent upon agreement on funding of bridge upgrades.

Increased mass limits will result in a substantial growth dividend to the Commonwealth and a lesser growth dividend to the states and territories. The commission estimates net increases in taxation revenue of \$50 million to \$300 million per annum to the Commonwealth, and \$5 million to \$35 million to states and territories.

Under current arrangements, bridge upgrades would require significant expenditure on arterial and local roads, and lesser expenditure on national highways. Initial estimates of required expenditure on bridge upgrades are up to \$290 million on arterial roads and national highways, and up to \$180 million for local roads, although these numbers are subject to the bridge assessment review under way at the moment.

The view of the commission is that in these circumstances it may be appropriate for the Commonwealth to bear a higher proportion of the additional expenditure than it would under normal arrangements. Transport ministers will be discussing funding options at their meeting in Cairns on 23 May, although final assessments must await the results of the bridge assessment program. That is the opening statement.

CHAIR—Thank you very much. We have had a number of different suggestions with regard to the Commonwealth role and the current arrangements between the three tiers of government. Do you see the current delineation of road funding responsibilities as being acceptable?

Mr Hurlstone—That is not a question that the NRTC has addressed, and it is not within our statutory ambit.

CHAIR—Let me put it to you this way. Most witnesses have indicated a need for the implementation of a forward strategic plan for the road network across Australia. The question we have been asking most witnesses is who should lead that and who should be involved in that. Would you see a role for the NRTC to be involved in a group that was developing a national strategic plan for Australia's road network?

Mr Hurlstone—I am certain that the NRTC would welcome being involved in such a group, to the extent that we could contribute to it. That would be a natural outcome of the overall work that we do. But firstly such a national group would have to be set up to undertake that task.

CHAIR—In your opening statement you indicate that the main focus of NRTC has been to address the mass limits issue. You say that, in that research you have done, you identified a deficiency as far as the capacity of a lot of the bridge infrastructure in Australia is concerned, and the fact that increasing mass limits will cause that to suffer. You say that there is a concern there and a need for better resourcing of that infrastructure. I presume that that is across all classifications of roads.

Mr Hurlstone—It is more on the state arterial roads and local roads than it is on the national highways, although at this stage some bridges on the national highways have been identified that would need upgrading.

CHAIR—You have indicated that, with the increase in mass limits, there could be a problem with the bridge infrastructure. What about pavement? Are you satisfied that the pavement on most roads is going to be able to withstand that—subject to alternative uses of suspension, as I think you said?

Mr Hurlstone—The studies show that trucks with road-friendly suspensions, which are generally air suspensions, create less damage for the same load than do the normal steel suspensions. So the mechanism in the study is that the masses on these road-friendly suspensions can be brought up without any additional road pavement damage. We would hope that that would apply also to bridges; but it has been found in the study that, at the higher mass, certain bridges would incur additional damage with the road-friendly suspensions.

CHAIR—You probably were not here this morning when we took evidence from the representatives of VicRoads. They indicated that the Victorian government has a long-term strategic plan for the upgrading

of its bridge infrastructure. Part of their submission was that the Commonwealth, right across Australia, should also have that type of strategy. I imagine you would support that recommendation of theirs.

Mr Hurlstone—Yes.

Mr McDOUGALL—On the funding issue, do you think that road funds should be subject to full cost recovery?

Mr Hurlstone—Are you referring to heavy vehicles?

Mr McDOUGALL—If we are going to invest in roads and we are going to make funding available for that purpose, should that be subject to full cost recovery?

Mr Hurlstone—That is a reasonable approach; yes.

Mr McDOUGALL—The reason I ask is that we were given evidence in New South Wales, a few weeks ago, by a truck operator who said that he would be happy to pay a \$70 toll for the Pacific Highway if it was going to provide him with a fast and reliable road along the coast from Sydney to Brisbane. On that basis, would the NRTC support the introduction of tolls, or shadow tolls, on roads which carry those significant volumes of freight?

Mr Hurlstone—I think it is a question of government policy as to whether governments wish to fund that sort of activity by private investment through tolls or whether the policy is to fund it via the normal taxation arrangements and arrangements for charges on the industry. I do not think it is a question that the NRTC can get involved in taking a position on, as to one versus the other.

Mr McDOUGALL—Following on from the chairman's question a moment ago, you obviously have a fairly narrow statutory role, and it was put to us this morning by one group that maybe you would be the ideal body to be involved in the strategic planning issue. Would you see the broadening of the statutory role of the NRTC as a benefit?

Mr Hurlstone—I think it could be broadened, yes, if that is the wish of the stakeholders in the NRTC.

Mr McDOUGALL—Would you be prepared to give us a response if we were to put a question in writing about what other areas you feel that the NRTC could offer if it had a broader statutory role?

Mr Hurlstone—We would certainly undertake to answer a question along those lines if you wish to put that in writing.

Mr McDOUGALL—I would appreciate that.

Mr Hurlstone—I do not guarantee that we can give you an answer, but we would certainly be willing to look at it.

Mr McDOUGALL—In relation to mass limits, I am a babe in the woods, although as a young person I lived on a major highway in Australia for many years. It was the Pacific Highway, which is still not up to scratch—and I am getting older and longer in the tooth waiting. I get the impression we are looking at solving the mass limits problem by funding roads and bridges to upgrade them. Why aren't we looking at an integrated transport system as an alternative way of solving this mass limits problem?

Mr Hurlstone—Can I ask the Deputy Chairman of the NRTC to field that question? It is more in his field.

Mr Stanley—If the strategic planning processes you previously asked about were in fact in place, that would probably be what would be done. It is not part of our charter at present. Certainly the case for increasing mass limits on road is so strong in economic terms that, whatever you did in terms of taking a more integrated approach, you would still reach the same answer in terms of whether there should be increased mass limits on road. But at the margin you might reach different answers, and that certainly requires the strategic planning approach that you have talked about.

Mr McARTHUR—I want to pursue the bridge argument, with the funnelling effect. Who is going to pay for all these bridges, having in mind that you would have to upgrade or repair every bridge on a particular arterial highway? Could you make some comments on the other argument of, say, the B-doubles being placed on highways to get greater mass limits? I also want to ask again if you are very confident that friendly air suspension does not cause any trouble to the pavement. I suspect that the road operators have developed some of these arguments about increasing their mass limits just to suit profitability, without much regard to the road structure and the road pavement.

Mr Hurlstone—With regard to the benefits of road-friendly suspensions, there have been a lot of independent studies done on that overseas, and it seems to be very clear that there are road pavement benefits from air suspensions.

Mr McARTHUR—What sort of relativity: 42 tonne to 46 tonne types of operations?

Mr Hurlstone—We are currently looking at 42½, for six-axle articulated vehicles, going up to 45.5.

Mr McARTHUR—With no other change except their suspension?

Mr Hurlstone—Correct.

Mr McARTHUR—Is it right that that leads on to the bridge, so that you are looking at three tonnes extra for every bridge on the particular stretch of road?

Mr Hurlstone—Yes.

Mr McARTHUR—Who is going to pay?

Mr Hurlstone—This is the item that is holding up the process at the present time. There are actually

two things holding up the process: one is to determine just how many bridges need to be upgraded or indeed replaced, and what their locations are; the second is who is going to pay for it. John Stanley has recently chaired a group from all the jurisdictions and the Commonwealth, seeking to define possible funding options for the program. John might like to comment on where that stands.

Mr Stanley—We will be putting a recommendation on that to ministers at their meeting in Cairns in about three weeks time. The general thrust of the recommendation will be that we believe the Commonwealth should carry the major part of the upgrade costs. It is our belief, from the analysis we have done, that the Commonwealth will be far and away the biggest single beneficiary of increased mass limits.

Mr McARTHUR—That would be an unusual request, would it not?

Mr Stanley—It is a similar principle that has been accepted in the Hilmer process where, basically, by reforming the regulatory framework, you generate much larger benefits than you would normally get from most sorts of investment activities. The Commonwealth, with its control over things like corporate taxation and personal taxation, gains a significant 30c or so in the dollar of any increase in GDP that flows from this process. It is our belief, therefore, that the Commonwealth should, in a sense, make an investment in the process that will be a significant growth generator for Australia. But, also, state and territory governments on the arterial system and local governments on the local road system should contribute, albeit at a smaller rate than the Commonwealth should. On the maintenance cost side, the government that has responsibility for the particular function or class of road should share the costs with the users who will be directly using that system.

Mr McARTHUR—Can you give us some arguments for why B-doubles should run on the main arterials, bearing in mind the difficulties they encounter on the minor roads, plus some of the problems of traffic passing B-doubles? It is not a one-way argument, as I hear it.

Mr O'Sullivan—Without lapsing into technical detail, our view about access constraints for B-doubles is that, based on the vehicle dynamics and the geometric properties of the machine itself, a B-double is no better or worse than an ordinary six-axle articulated vehicle. In fact it is marginally better, some would argue, in terms of its performance, including its axle loadings and its impact on pavements. If we had our way—and we do not get our way on this issue, of course—we would argue that, everything else being equal, there is no fundamental reason why you would deny access to a B-double as a configuration as against the sorts of access you would provide to a six-axle articulated running at 19 metres.

Mr McARTHUR—What do you say about passing B-doubles on the main roads?

Mr O'Sullivan—We are saying that the sorts of experiences we have had in this country thus far with running B-doubles—depending on which state or territory you are talking about—have been very favourable in terms of the community acceptance and the increased overtaking times that are required. There have not been the sorts of accidents that everybody foresaw in terms of B-double overtaking manoeuvres. In other words, we have a mixture of community acceptance or road user acceptance to the B-double phenomenon—as well as, of course, the straight increase in numbers. In the past three years we have moved from something like 1,800 B-doubles moving around the country to something like nearly 3,000 as we speak.

Mr McARTHUR—We did have some interesting evidence in the Mount Isa region about B-doubles and longer trucks that were causing difficulty in passing lanes and for local traffic. It is not a one-way argument, and it might be worth observing the evidence.

CHAIR—They were bigger than B-doubles, though.

Mr McARTHUR—That just extends the argument.

Mr O'Sullivan—I was referring particularly to B-double configuration and not to road trains, nor to longer, B-triple, combinations. B-double is a device which has almost general access status throughout the country and in a lot of the urban areas of this country on the arterial networks. Of course, there are exceptions to that.

CHAIR—What would the NRTC's priority be, if you had the opportunity, as far as improving GDP goes? Would it be increasing mass limits, or increasing access to B-doubles around Australia?

Mr Hurlstone—I think there is not too much further to go in terms of access for B-doubles. There are some local—

CHAIR—They do not run up the Pacific Highway. They do not go any further north than Hexham.

Mr Hurlstone—Yes, but the point is that there has been a lot of progress made in that area, and we would see that progress as continuing. But, in terms of the economic benefit to the nation, the mass limits review would be the first priority at this stage. Anything else we can do within the practical safety limits to improve access for the bigger vehicles would be in the national interest. But I stress that it has got to be not at the expense of safety. It is one of our charters to make sure that anything we do has regard to high standards of safety on the roads.

CHAIR—Some commentators have claimed—and we more or less had it here this morning from VicRoads—that the rural elements of the national highway system are virtually completed to an adequate standard and that funding should be now concentrated in urban areas. Do you agree with this view?

Mr Hurlstone—We really do not have a view on that question. It has been debated certainly. We would feel that it is not really within our bailiwick to make a judgment on that at this stage.

CHAIR—With regard to the research that you have done on the increase in mass limits and the impact on bridges, have you any documentation?

Mr O'Sullivan—We have.

CHAIR—Is there anything extra that you could give us on that specific issue?

Mr Hurlstone—We could give you the whole steering committee report on the mass limits recommendations.

CHAIR—Is it available as a public document?

Mr Hurlstone—Yes, since 1996.

CHAIR—Okay, fine. We would appreciate it if we could receive a copy of that to form part of the evidence.

Mr Hurlstone—There are a lot of technical supplements. I am not sure that you would want all those, but we are quite happy to make those available.

CHAIR—No, we do not necessarily want those.

Mr Hurlstone—There is an executive summary and a main part of the report.

Mr O'Sullivan—The reason we were smiling is that the technical supplements are as thick as your leg, Mr Chairman.

CHAIR—No, I do not necessarily want those. The executive summary might highlight the findings that you have come up with.

Mr O'Sullivan—We have an evaluation that we could make available too, which would be of assistance, I am sure.

CHAIR—That would be much appreciated. Gentlemen, I would like to thank you very much for participating this morning. There was one question you took on notice regarding expansion of the role of the NRTC. Would you please also provide us with a copy of that executive summary and the evaluation with regard to the bridges. Thank you very much.

Luncheon adjournment

[1.49 p.m.]

ALLAN, Mr John, Federal Secretary, Transport Workers Union of Australia, 18-20 Lincoln Square North, Carlton, Victoria 3053

NOONAN, Mr William, Federal Vice-President, Transport Workers Union of Australia, 18-20 Lincoln Square North, Carlton, Victoria 3053

CHAIR—Welcome. I invite you to make a short opening statement.

Mr Allan—The committee should be aware that the Transport Workers Union is an active member of the Road Transport Forum, our industry group, which is a bipartisan employer and employee. The union put a fair amount of energy into the RTF submissions. In my opening statement I wish to expand upon the foundation issues of the inquiry.

The key point that the unions see on behalf of their members is that the Commonwealth should define a national road network which incorporates the national highway network and other roads of national importance. These roads should be funded 100 per cent by the Commonwealth. These roads should not only link major cities but also provide freeway access to ports, rail terminals, road freight terminals and airports. The Commonwealth should require strict accountability for all funds that are provided for road construction, with external audits for those receiving road funding: for example, the state governments, local governments and private providers.

The black spot program should continue, as the program's effect on reducing accidents is now well documented. Further, with the RTF, the Swan report established that the 18c per litre of diesel fuel excise can be identified as a road user charge. We are of the view that the government understands that and accepts that position. Therefore, it is the union's view that the Commonwealth should pay the full 18c of that excise collected to the road providers, on the basis that those road providers meet a number of efficiencies—those being a common electronic tolling system and the best practice standards for road construction works. We look at it as a point that the TWU members spend the vast majority of their working time on the road network. Effectively, it is their place of work. It is an issue which I will allow our federal vice-president to briefly expand upon.

Mr Noonan—The roads are the day-to-day working environment of our members. We have had 60 years of participation in the road transport industry as the Transport Workers Union, and we have an active commitment to the future of the industry as a whole. We would make two quick submissions regarding that.

Firstly, on duty of care, employers, employees and owner-drivers have a duty of care to provide a safe working environment to other workers in the transport industry and to the public, as part of the occupational health and safety framework. TWU has taken a leading position which demonstrates that policy issues such as safety require the active participation of transport workers. Transport industry safety seminars, which involve both the state coroner of Victoria and the Victorian minister for roads and ports, have been convened to provide participation by managers and transport workers to increase the awareness of the duty of care towards safety and what it means.

The duty of care can only be met and implemented in the work environment which exists. The extent, condition and adequacy of our roads is a fundamental part of the work environment. The TWU's view is that the federal government has not fully met its duty of care to provide an adequate and suitable national highway system. As per John Allan's comments, real questions exist as to whether the Commonwealth has met its obligations in terms of funds allocated to road funding and its distribution.

I would like to comment on the condition and extent of Victorian roads. VicRoads has facilitated direct input by transport workers into specific local problems in the metropolitan road network. We commend them for that. It has enabled the direct participation of transport workers in workshops to assist VicRoads in identifying problem areas. Similar input can be made into the road funding question by transport workers to demonstrate the importance of issues and to assist in prioritising areas of concern. This input has the potential to improve efficiency and productivity in the transport system and to improve overall economic performance. The TWU encourages the process of direct input. It is our workplace, and we want it to be as safe and as efficient as possible.

I am sure you would have heard about the specific programs: the completion of the Western Ring Road, which is absolutely vital to connect the Western Highway and the Hume Highway—enormous transport cost savings available, estimated at \$830 million per annum; the Scoresby Corridor; the Eastern Ring Road—a vital part of the Metro Ring Road. We have got 45 per cent of Melbourne's industry in that part of town. I mention also the Geelong Road and the Princes Highway—the upgrading to the third lane. It is the second largest city not connected to the national road system; a cost saving of \$50 million per annum, servicing a rapidly expanding industrial need. An issue that is quite often forgotten is that it is a vital tourism link to the Great Ocean Road. The Port Campbell National Park is expecting about a million visitors this year. We will talk to you tomorrow in Wodonga about the Goulburn Valley Highway duplication. I mention also the Hallam, Pakenham and Craigieburn bypasses, which are part of the metro network. They are the key priority areas.

Members have also identified a range of required road improvements, both in country and in metro Melbourne. We have referred those to VicRoads. As John Allan says, if VicRoads are building to a tender, it will really depend on the funding of the black spots program—again, a vital issue. Of major concern in country Victoria is the large number of substandard bridges—and I am sure you have heard about those—adjoining key country areas. This has become a critical issue as local industry and the road system attempt to cope with the rapid expansion of the dairy industry—an industry which is a vital export industry for Australia.

Finally, it is important for the inquiry to recognise Melbourne as a transport hub. It is important to give meaning to the catchphrase 'transport hub'. We need to do more than just complete national highway systems linking cities. There is a need to connect the highways and make linkages across the metropolitan area to aid and recognise economic development. The challenge, therefore, is to put in place infrastructure which meets modern economic requirements—interstate and international trade and productive and efficient business. As was indicated earlier, we need to have due regard for the road system as a workplace and the requirement of a duty of care.

The TWU and its members are committed to ensuring that the transport industry makes its contribution to this effort. It is also about a partnership, and we look to the federal government to meet its

commitment in this regard.

CHAIR—Thank you, Mr Noonan. You made mention of the fact that the national highway system does not directly link right through to the key freight terminals in Melbourne; that it actually stops in the outer reaches of Melbourne. Does it matter to the TWU whether that is classified as a national highway, roads of national importance, or whatever, or is it just a case of the upgrading taking place?

Mr Allan—The important part is the upgrading taking place. But one would think that once the upgrade occurred, it would maintain its identity as being of national importance, and be funded and controlled by the Commonwealth in that respect. It is not only in Melbourne, either; in virtually every major city there are no links. The amount of time lost at present going from the port of Sydney, for example, to the western suburbs of Sydney is ludicrous. It is just a waste of productivity.

CHAIR—Would you like to elaborate a little on the 18c a litre you spoke about? You said it can be justified that 18c a litre of the diesel fuel excise should be returned to roads.

Mr Allan—Yes. It was developed through the Road Transport Forum and it is called the Swan report. It was submitted to the previous government and this government. It highlights that the industry has identified that 18c per litre of diesel fuel excise can be classified as a road user charge. On that basis, it would be the industry's view, as well as the union's, that that 18c should be provided to the road providers, whether it be in the form of a shadow toll or in the form of payments to various state or local governments.

CHAIR—It would not worry you if it was directly allocated to roads—if 18c a litre of every litre of diesel fuel that was bought was hypothecated directly to roads. That is what you are suggesting?

Mr Allan—Yes.

CHAIR—Earlier, we heard from the NRTC with regard to the increase in mass limits. What is the Transport Workers Union's view on increasing the mass limits? I think Mr Noonan mentioned the state of the bridge infrastructure in Victoria, and what they have uncovered with regard to the adequacy of the bridge infrastructure to cope with an increase in mass limits.

Mr Allan—With regard to the mass limits, I was on the working party with the NRTC. The union's concern with the increase in mass limits initially was with safety. We believe the safety element has been identified with the road friendly suspension. We believe that the industry should be as efficient as possible. Those additional weights can be carried, but unfortunately it has been identified—on bridges for example, which I will let Bill talk about—that there are a number of bridges that cannot handle that. So our view would be that it should be delivered in full or it should not be delivered at all, because it is too inconsistent to try to manage a 45-tonnes payload on one load and then go on to another road with a 42-tonnes payload.

Mr Noonan—If you take the Western District of Victoria, which I think is as good an example as any because of the growth of the dairy industry—Bonlac Foods, Warrnambool Cheese and Butter Factory, Kraft Foods and those companies that are down there—the economies of scale are demanding that bulk milk tankers going onto farms are larger. To properly utilise the milk, to add value to it, to prepare it for export in

the form of a type of cheese or powder, it is trans-shipped by B-doubles from places as far apart as Warrnambool to Leechville, which, in Victoria, is probably as far apart as you can get. Quite simply, the road infrastructure has not kept pace with that.

In terms of national highways, I am starting to become more and more drawn to the argument for a new classification regarding roads of economic importance. The position is that we must have regard to the growth of industry, where roads are required and future export potential. We will talk tomorrow about the Goulburn Valley Highway—a classic case.

As the federal secretary says, quite frankly, this industry is a dynamic industry, subject to change and absolutely vital in terms of looking after the imports and exports of this country. It is important that the road system and the bridges, particularly in country Victoria, keep pace with that.

CHAIR—Does the transport industry feel that it has been disadvantaged at all over the years by the amount of money and alleged subsidy that has gone into rail in comparison to the perception of a lack of funding going to our national road infrastructure?

Mr Allan—Yes. Quite clearly, we see that there has been a disparity in funding. We would like to see that disparity balanced.

Mr McARTHUR—What evidence have you got for that?

Mr Allan—It is the old road-rail debate, I suppose, and there are a number of structures to look at. But the TWU and the road transport industry believe that the inefficiencies in the rail network have been subsidised by various state governments or federal governments, whereas the inefficiencies in the road network have been through lack of money, lack of investment and lack of construction.

Mr McARTHUR—Could you give a perspective from the TWU's point of view as to the benefits of the Western Ring Road—how it is operating?

Mr Noonan—The Western Ring Road has been an absolute boon for the road transport industry. It is probably about 20 years too late. Now it is there, it is terrific. If you could imagine the development of the road transport industry in Victoria, it started basically in Footscray Road. For traffic going to the north from Footscray Road, it was necessary to navigate through Sims Street, Racecourse Road, Dynon Road, Low Bridge, Kensington Road, through the community area there, to pick up the bottom of the Tullamarine Freeway. There were enormous community pressures regarding that. The TWU have been involved in many traffic management areas to try to alleviate the problems with truck traffic for local people.

With the development of the Western Ring Road, we have seen many of the road transport companies in Melbourne moving over to Laverton, Brooklyn and Tullamarine, so that the large trucks simply come down the Hume Highway, around the ring road into the depots, and smaller trucks go out and deliver the goods. In terms of time, I think the savings have been enormous because time in our industry is money. In terms of safety, it is a similar situation both for our members who are operating the vehicles and for the local community, given that the trucks are no longer required to go down through those narrow streets, as had been

the case.

So I cannot sit here and say to you that it has been \$100 million, \$200 million, \$300 million; but certainly, in terms of real time saving and in safety, there is no doubt at all. If we can develop the total link, to link from Laverton to Dandenong, given that 45 per cent of the industry is over in that Scoresby area I think similar savings to industry, the road transport industry and the community will also be developed.

Mr McARTHUR—What about access to the port from the Western Ring Road? Could you give us a comment on that?

Mr Noonan—I think it is similar with the access to the port, yes. If you were coming from the north, it is a matter of simply coming around through the ring road, picking up the West Gate, coming up over the West Gate Bridge and you are virtually there at the port, and with the City Link development you will have Webb Dock. Toll Transport, we have been told, are going to move their total operation to the bottom of the West Gate Freeway, so all their trucks will be able to do the West Gate Freeway-ring road route.

Mr McARTHUR—The theory of that is working out in practice, from your point of view?

Mr Noonan—Absolutely. We have been an advocate of the ring road for years and years. I do not resile from that. As the federal secretary says, we felt that a lot of the money that should have gone into building these ring roads in days gone by has not come our way. Now that the federal and state governments have moved to develop a ring road I think it is terrific. It is a matter of getting on and completing it. By the year 2000 we will have a ring road from Laverton to Greensborough and that will be a terrific benefit to the city of Melbourne.

Mr ALBANESE—Mr Allan, in your submission you referred to private sector involvement in roads. Of course, that is one of the terms of reference for this inquiry. Might I take it from what you did not say that you do not see any role for, say, private sector provision of road infrastructure?

Mr Allan—Yes, we do see a role for private provisions. That is where we have got to come to grips with the question of tolls because every time a new major road project has been announced it has always been a tollway, and I suppose the union has taken a negative position to oppose it. The reality of life is that it is probably the only way a lot of roads are going to get funded. Therefore, the view we are taking is looking at the private provider actually constructing the road. What we are implying there is that the money that we currently pay for excise—this 18 cents we have identified as an industry—should be given to the provider, whether it is the state government or a private company.

Mr ALBANESE—On a case-by-case basis?

Mr Allan—Yes. If that could be tracked through a common transponder system, you could pick up when that truck hit the tollway in Brisbane, for example, or whether there was going to be a tollway in certain areas of the Pacific Highway, or whatever, and you could track it down as to the number of kilometres that truck actually traversed on the journey.

Mr ALBANESE—How about the fact that, in evidence that we have received, it would appear that New South Wales and Victoria, for example, are looking at different companies to provide the electronic monitoring?

Mr Allan—That is a ludicrous situation. We seem to think that as an industry, through the NRTC, we are finally getting this national position, and to have a number of transponders for tollways is just ludicrous. It is just going to cost our industry money which is just going to be passed on to the consumer and passed on to industry.

Mr ALBANESE—Would you envisage a shift in charges? I guess what I am getting at is the argument that your local car with one person in it does not cause as much damage to the roads as a large truck.

Mr Allan—That is certainly an obvious fact. However, the truck is paying, we consider, sufficient taxes to compensate for that and, if roads are constructed and maintained properly, the weight issue does not become a problem.

Mr ALBANESE—So it should be done through the tax system rather than through the toll system?

Mr Allan—The toll system, as it stands now, is just a double tax upon an industry which I believe everyone now agrees is overtaxed.

CHAIR—On that issue of the technology being developed for collecting tolls, it is interesting to talk to some of the organisations involved. You have got VicRoads organising the City Link but a legal arrangement has been entered into to build and operate the City Link. The same arrangement has been put in place on the M2 in Sydney, yet there does not seem to be any coordination of the development of electronic tolling. I suppose it is in the specifications that the governments want electronic tolling in those areas, but there is no coordination.

The general view is that there are not going to be too many people from Melbourne driving around using the Gateway Bridge in Brisbane but, from a transport industry perspective, there are a lot of trucks that are going to be, aren't there? And it is a fairly narrow view to think that we can, in Australia, run a number of different systems. For instance, the one in Sydney is American technology, the one in Melbourne is European technology and there are obviously going to be different transponders involved. It is a bit of narrow view really, isn't it?

Mr Allan—It is a narrow view, I think, with the progress we have made in identifying national issues through the NRTC, for example, where we are now looking at virtually introducing single licences, single logbooks and so forth. I believe that the NRTC should have carriage of that responsibility to ensure that the toll collecting system is consistent nationally.

CHAIR—You can see a good argument for an expansion of their role to a certain extent?

Mr Allan—Oh, yes, especially in regard to those areas that need a national identity.

Mr McDOUGALL—Mr Noonan, I was interested in your comments on the point of roads of economic importance and your views towards that. I take in your comments in regard to the dairy industry, and the upgrading in the size of transport, and obviously using them on what would mostly be termed as local roads. Have you got any thoughts as to whether the industry itself should be making a contribution to upgrading of roads where they are going to use those bigger transport vehicles—on roads that, without them, probably would not need any upgrading at all?

Mr Noonan—I suspect it is one of those questions you could run a seminar on. I think what does occur in respect of some of the larger dairy companies in Victoria is that they are not opposed to making a contribution in respect of some of the roads around their areas.

I think we have got to come back and recognise what is happening around us. If I come back to the Port Campbell National Park area, the Twelve Apostles, we have a million people visiting that area this year. Thirty per cent of them are overseas visitors. Their normal modus operandi is to hire a car in Melbourne, drive down through the Great Ocean Road or Apollo Bay and around to Port Campbell into Timboon, back to Colac, into Geelong and home. A lot of them have an accident somewhere around Colac, for reasons that would be well known to us all. If they want to do a two-day trip they go off to the Grampians and stay there.

They are getting mixed up with an expanding dairy industry. They are being mixed up with farmers who are moving into feedlot cattle to expand the dairy industry, tourist coaches and all the rest of it. It is a terrific cocktail for disaster. In addition, you have got the Haytsbury and Moyne shires, which may well make a submission. The roads have been built in a soldier settlement area—high rainfall, very prone to slip. A road that is at one level today might be a few centimetres lower the next day.

In the middle of all that, I guess what I am trying to say is that you cannot have one without the other. The position is that the dairy industry is developing into an enormously important export industry for this country. We would have 500 or 600 members in country Victoria driving these bulk milk tankers. It is a matter of us all recognising that we have got to stand back from the traditional funding mechanisms of developing road funding. I would be hopeful that the committee would have some regard for regional problems, regional issues, in respect of the road funding area.

The Western District is an area that you can talk about at some length. It is probably not a bad little example. I am sure if you went, as we will tomorrow, into Shepparton and talked about their particular problems for north-eastern Victoria and also went down to Gippsland, you would hear a similar tale. It is important for us, when we are talking about this road funding issue, to have a huge regard for what the road is doing and its economic importance to the country as a whole.

Mr McDOUGALL—I will lump in a question on the use of B-doubles and bigger trucks on other than the national highway or even roads of national importance. We have had evidence from the state departments of transport on their different levels of activity in regard to strategic planning. VicRoads said to us this morning that they are putting together a strategic study for country or non-urban Victoria on the future needs. Has the union been involved in that study for that strategic purpose, which I assume involved what you are talking about and this change in dynamics to trucks?

Mr Noonan—I sit on the VicRoads Advisory Board representing employment in the transport industry and there are a number of other committees, like the Victorian Road Freight Advisory Council, on which the union is represented. We believe we have a contribution to make. Our people are out there doing the work. They are very close to the action. They are able to advise and give an indication where they believe the problems are, particularly in things like black spot programs. On a day-to-day basis, they can give you that proper advice. Clearly, we have an ongoing concern in respect of this, as I indicated in my submission. The duty of care really demands it of all of us.

Mr McDOUGALL—Are there no forward guesstimates on whether it should be a national funded or state funded area in the report?

Mr Noonan—I am not across all that. I would be loath to talk about those sorts of things. I am only on the advisory board; I am not the chief executive.

Mr McDOUGALL—In regard to another strategic issue, we have taken a lot of evidence and questions about the potential of strategic planning on integrated transport throughout Australia to address some of the problems that we discuss about getting to the ports and airports. If a successful integrated transport strategy developed which gave greater involvement to the rail and combined with private sector on the rail, it might have a fairly major effect, particularly in large industries where you have large tonnages. It might have an effect on the trucking industry as we know it today. Are you prepared to face that? Do you have any problems about that?

Mr Allan—We do not have any problems with it. There are areas where rail is most efficient. For example, the coal haulage in the Hunter Valley just could not be done by roads. The infrastructure is not there. The number of trucks required would be too high. In areas of bulk steel, for example, when BHP used to be in Newcastle, the components there were designed for rail. No, we do not have any problems with that.

Mr Noonan—The position is unless you build a railway line into every supermarket, every service station and every pub, there will always be goods carried by truck. We have worked with that proposition for as long as I have been involved.

Mr WILLIS—I was pleased to hear your positive comments about the Western Ring Road. It is certainly accords with my impressions about its value, but it is good to hear your view of it as an expert. I would like to ask about your priorities. You have given a long list of additions where you think the Commonwealth ought to get involved: we should be doing more on the Goulburn Valley Highway, bridges, Geelong Road, the Eastern Ring Road. There are lots of projects which you obviously feel there is a need to spend money on. Unless there was to be some vast increase in Commonwealth funding for roads, obviously it is going to take a while to get around to doing all those things if the Commonwealth takes them on. What is the real priority in all of this?

Mr Allan—The priority would be the actual maintaining of road funding. It is disappointing to hear that it is expected to be decreased this year. We would like to see the priority being the maintaining of road funding and, specifically, the accountability of that road funding money being spent on roads. In my time within the transport industry, we saw the then Labor government introduce the Commonwealth road grants

with a percentage of money per litre of fuel. That was identified right through the end of the chain to go into road construction work. Our priority would be to maintain and identify the funding to ensure it is spent on roadworks, because we are seeing a lot of state governments virtually fall out of the equation of road funding, relying on three by threes or whatever, and putting very little revenue back into the road network.

Mr WILLIS—The Commonwealth funding on the national highway system, the black spots, the Pacific Highway upgrade and roads of national importance is all clearly identified. The money given to the states is now going to be untied—it has been untied for a couple of years—and put into the financial assistance grants, but still with a note saying what amount of that money was allocated for roads. There is still a sense of clarity or transparency about what the Commonwealth is providing for roads.

What is your feeling about the cut that occurred in the funding for the national highway system in the last budget? This was made up by the black spots program and the funding for the Pacific Highway. The end result was pretty much the same amount of money as if the national highway system had not been cut. What is your feeling about that change in arrangements?

Mr Allan—We were extremely disappointed with the outcome. We have made the government aware of our concerns over the reduction of road funding. It is really just a transfer into specific areas of the Pacific Highway and some black spot funding. We are seeing and experiencing a virtual degrading of the other road systems because they are not getting the attention. It seems to be a political issue to fix up the north coast at the expense of the rest of Australia.

Mr McDOUGALL—Maybe the Pacific Highway had been lacking for about 40 years and desperately needed it.

Mr Allan—Coming from that area, I fully support the construction of the Pacific Highway.

Mr McDOUGALL—That is where I come from as well.

Mr Allan—But not at the expense of the rest of the road network.

CHAIR—Thank you very much for coming in this afternoon and having a discussion with us. I presume we will see Mr Noonan tomorrow. We look forward to discussions on that piece of road infrastructure in that part of Victoria.

[2.22 p.m.]

BENNETT, Mr John, Policy Analyst, Municipal Association of Victoria, 11 Milton Parade, Malvern, Victoria 3144

LA FONTAINE, Mrs Dominique, Executive Officer, Timber Towns Victoria, 8 Chestnut Street, Carnegie, Victoria 3163

MURPHY, Mr Michael, Councillor, Moyne Shire Council, 12 Coxs Street, Port Fairy, Victoria 3284

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

Mr Bennett—I would like to introduce the three of us and ask Michael and Dominique to add a little bit more. I will not go through the submission in detail, but perhaps will highlight four points. The first is that we believe the Commonwealth of Australia does have a strategic role and, as an example, I would use the mass limits study and the need for a strategic approach to things like bridge testing and upgrading of bridges.

The second thing is that we think funding to Victoria is inequitable. Basically, Victoria is contributing 27 per cent of the funds and is receiving back about 18 per cent. We think there needs to be a more equitable distribution of funds. The third thing is that funding needs to be tied to economic development and policies of the federal and state governments. To give you a quick example, the federal government is suggesting that plantations be trebled by 2020 and we believe that there needs to be an allocation of funds for roads to recognise that initiative.

The fourth point is that all roads contribute to our transport task, and not just the main roads, the main highways or the roads of national importance. Economic activity occurs in a factory, which then uses the local roads to get goods onto the main road network. As a local government body, we believe that the local roads are an important part of the whole transport task. That is a very quick summary for you. I will now ask Michael and Dominique to give further examples.

Mr Murphy—Thank you, Chairman. I would like to focus on two points. First is the extent of the current federal road funding. I know that the state has made a submission, on behalf of us and everyone else in the west of the state, for the extension of funding to cover the Princes Highway to the west. In particular, I would like to draw the committee's attention to the exponential growth in the food and dairy industries in that area; to the very strong focus on exports; and to the need for access to ports, particularly the port of Melbourne, which is the principal outlet.

The second issue I would like to draw to your attention and respond to questions on, if it is appropriate, is the level of funding for local roads, as touched on by Mr Bennett. As an example, our municipality, the Moyne shire, has just worked through the AAS 27 assessment of our roads. It appears that the level of funding that we are able to achieve—and we apply 63 per cent of our discretionary funds to roads—is about 60 per cent of what is required to maintain the local road system in its current condition—not

to improve it but to maintain it in its current condition.

With Business Victoria, we are currently looking at a dairy industry infrastructure project which is principally addressing telecommunications, power supply and road infrastructure. In conjunction with the industry, we are in the very early stages of that, obviously; but the clear message is that there is great concern from the dairy industry that the infrastructure investment in roads, telecommunications and power is not keeping pace with the exponential growth in that industry. That, at the end of the day, links back to all levels of road funding but in particular, from a municipal point of view, to local roads and the untied grants through the Grants Commission.

Mrs La Fontaine—Timber Towns Victoria put a separate submission in, but we are appearing with the Municipal Association of Victoria. The federal government goal to treble Australia's plantation estate by the year 2020, together with other forest industry development policies—such as regional forest agreements, and the wood and paper industry strategy—recognises the immense opportunities before the industry and, most importantly, the direct and indirect social and economic benefits this will bring to regional Victoria through employment, which is itself obviously one of the most important benefits.

To realise these benefits, though, the provision of suitable transport infrastructure is critical. One-half of the cost of industry's wood consists of transport costs, and this obviously includes local roads. In the case of forest industries, much of this transport infrastructure is made up of the local road network and, due to many factors, the local road network is in a very poor state.

The shortfall in funding for local timber road infrastructure is also negatively impacting on local government's willingness to support the development of the forest industry, particularly in areas where no processing facilities are present. This attitude is borne out by councils' opposition to 'as of right' plantation development, one of the critical factors affecting the realisation of the treble plantations goal. The national forest policy calls for the implementation of as of right planning schemes in appropriate zones, and industry also strongly asserts that as of right development is necessary.

This opposition to as of right plantation establishment, and thus the development of plantations, is partly due to councils' inability to fund current infrastructure and the future road infrastructure costs that industry development will bring. As an example, the state government announced a \$2.4 million annual allocation to assist local timber roads. Applications for over \$70 million in funding were made in one year. Clearly, greater funds are needed, but we see that somehow the Commonwealth government needs to assist municipal regions to look at the sort of local road development that is needed to support industry growth. It is not just a matter of untargeted funds, but funds that are targeted towards industry development—but particularly for local roads, because they are such an important part of the road network.

CHAIR—Thank you. On that point of funding coming through to local government from the Commonwealth, notwithstanding what you think about the actual amounts, do you think that the process that it goes through is acceptable to local government through that Grants Commission arrangement?

Mr Murphy—Mr Chairman, without have canvassed the industry, our stance would be that we have some concerns about the formula but we are generally comfortable with the process.

CHAIR—Okay. Mr Bennett, in your opening statement you spoke of Victoria contributing 27 per cent, I presume from road users, and only receiving 18 per cent of the piece of cake back on roads. Can you just elaborate on those figures for me, please?

Mr Bennett—Right. I guess there are a number of figures we could use. In terms of overall population or economic activity, we are talking about Victoria contributing around a quarter of Australia's total. In terms of manufacturing, we are talking perhaps around 40 per cent. In return, Victoria is getting well under 20 per cent. I guess the point I was making is that, if we keep focusing on the economic development issue, Victoria is contributing more than we are getting back in terms of funding. That was really the point I was trying to make.

CHAIR—They were not figures that were directly related to contributions by road users, though?

Mr Bennett—Not directly, no. I am sorry if that was misunderstood.

CHAIR—And as a general view from the Municipal Association, does your association represent regional councils as well?

Mr Bennett—Yes. There are 78 municipalities in Victoria and the association represents 76 of those—and that is across the whole of Victoria.

CHAIR—Is there a major problem with bridge infrastructure in regional Victoria?

Mr Bennett—It is not known at this stage. We are going through a bridge testing program in terms of the mass limits review.

CHAIR—Who is coordinating that?

Mr Bennett—VicRoads is coordinating that.

CHAIR—Right.

Mr Bennett—So I cannot give you an answer to that; it is not known at this stage.

CHAIR—Mrs La Fontaine, did you want to make a comment?

Mrs La Fontaine—For instance, if you look at Tallong Shire, which is in north-east Victoria, as well as East Gippsland Shire, they have huge problems with their bridges. They have to transport wood fibre around their shires to get to processing, and they are finding that in having to deal with their bridges and the fact that the bridges were made so long ago, that they are so old and have to cope with such huge trucks, that the bridges are literally falling down. And I know in Tallong Shire and in East Gippsland there are a couple of bridges that are looking at having to be closed, because they are just not safe.

CHAIR—Yes. So if the mass limits are increased to 45.5 tonnes, you would suggest that that is going

to have a detrimental effect on that bridge infrastructure. Is local government in a position to be able to cope with it?

Mrs La Fontaine—No.

Mr Bennett—On the face of the sort of information that Councillor Murphy has given, no, we just do not have the funds at this stage to do that. We are contributing in terms of this assessment. The sort of comments that are being made are correct, but we do not have any sort of quantitative basis for assessing what bridges need to be replaced, how many or what proportion.

CHAIR—Earlier today we had evidence from representatives of the Business Council of Australia indicating—bearing in mind the alleged limited amount of money in Australia being spent on the road network—that there would be far greater benefit to the national good, to the national economy, if that money were spent in urban areas rather than regional Australia. You have just given evidence that, because of the rapidly developing dairy industry in Victoria, it needs to be spent in regional Victoria, and the witnesses before you from the Transport Workers Union also agreed on that. Have you seen any of the comment that has been made by the Business Council of Australia?

Mr Bennett—No.

CHAIR—Would you like to comment on that?

Mr Bennett—I think it comes back to the argument that, if there is a policy to encourage economic development, then the total infrastructure package must be looked at. We have had instances where—for instance, with new dairy factories—sure, government is prepared to contribute to new sewage treatment plants, or to power upgrades, or to those sorts of things, but when it comes to roads there is no money. So it seems to us, in terms of what we have been talking about, that there is a need to look at that in a comprehensive way.

CHAIR—But in those areas the majority of those roads would be a local responsibility, not that of the state government?

Mr Bennett—Yes.

CHAIR—Then that becomes an easy decision for them to make.

Mr Bennett—Yes.

Councillor Murphy—It really is a blending of the three in that the state highways are the principal points of access or routes of access to the ports, and the arterial roads are the principal routes once you have gone off the local road collector system. So it impacts across the whole range of the current road classifications.

With the dairy industry in particular—and I must stress that our municipality is a snapshot of all the

municipalities in Victoria that focus on dairying—about 75 per cent of our production goes straight to port. If we are serious about export issues, balance of payments, clean and green, all those sorts of things, I do not think there is any need for us to be mutually exclusive in urban versus rural funding. What we have to do is get the blend right so that the country as a whole gets the maximum benefit.

CHAIR—Are there many new greenfield dairy processing plants being developed in your area?

Councillor Murphy—Last year \$80 million was invested in our municipality in terms of new plants. However, they were additions to existing plants rather than greenfield.

CHAIR—The only reason I asked that was because I have lost one from my electorate to Victoria. The point I am getting at is that you have had that investment in your council area. Does your council collect what we know in New South Wales as section 94 contributions from developers?

Councillor Murphy—The sole source of revenue directly to the municipality would be in increased rates.

CHAIR—In local government in New South Wales they have the ability, particularly if it is a brand new development, of collecting section 94 contributions which then go towards community facilities, but also towards road infrastructure.

Councillor Murphy—Unfortunately, the manner in which road infrastructure has been treated through the planning process has always been different to the other infrastructure, the telecommunications, power and so on, that we have talked about, so we do not have any established direct opportunity to do that.

Mr McARTHUR—Could you help us with definitions of the national highway system, the state highway system, the arterial roads and local roads as between the three tiers of government?

Councillor Murphy—My understanding is that the national highway system is relatively limited. If I can apply the Victorian examples, it is principally the Hume Highway, the Western Highway and part of the Western Ring Road. They are seen as roads of national importance that contribute to the national economy. In regard to state highways, I do not have all the names at my fingertips but they are principally the ones that are 100 per cent funded and 100 per cent the responsibility of the state government.

The arterial road system is what we would call the main road network. It is generally looked after in Victoria by municipalities and it is funded 100 per cent by state government. They are generally the link between the local road system and the state highways.

The local road systems are what I would term the collector roads. They provide access from farm gate or from factory to the main road network. They are funded principally from two sources, one from rate revenue and the other from Grants Commission funding. They are generally 100 per cent the responsibility of local government for both the carrying out of the work and the funding of the work from those sources.

Mr McARTHUR—Are you happy with those definition and the responsibilities by the various

funding authorities?

Councillor Murphy—I am concerned that we need to revisit the national road system. To quote one that I am familiar with, the western Princes Highway between Geelong and the South Australia border, it must be seen as of national importance given the amount of export that comes down that road now to the port of Melbourne, in particular, from the food industry.

I could reasonably extend that into the eastern part of the state for the timber industry and for the dairy industry. The chairman is probably aware of a significant new greenfield site in East Gippsland in the dairy industry. So if we are arguing—

Mr McARTHUR—Not being a Gippslander is a drawback for him, but he is aware of everything else!

CHAIR—You stole it from my electorate! It went to Darnum.

Mrs La Fontaine—Road funding was the major attraction!

Councillor Murphy—I think there needs to be a rejig, Mr McArthur, of the current arrangements to extend the definition of national roads.

Mr McARTHUR—We have heard evidence previously about the expansion of the dairy industry. Could you comment on the problem of the dairy industry and the timber industry road infrastructures, with the incidence of high rain on those particular types of road?

Councillor Murphy—In relation to the timber industry I would have to bow to the knowledge of Mrs La Fontaine. The dairy industry is obviously in a high rainfall area because that is the most attractive climate for the industry. This leads to all the problems that are associated with wet subgrade conditions. Historically, much of the dairy industry is in what were previously termed soldier settlement areas where very low grade pavements and roads that basically were not meant to service 40-tonne-plus vehicles were constructed. We are now seeing the potential in the not too distant future for B-doubles to be using those roads. That, combined with wet subgrade conditions for much of the year and the fact that the loadings are way beyond what the pavements were designed for, is contributing greatly to the problems.

Mrs La Fontaine—Given that the forestry industry operates according to the code of forest practice, there is no harvesting during rainfall time, so for much of the winter there is no harvesting going on. You may have some transportation from log dumps going out, but I think the rainfall situation is perhaps not as critical as for the dairy industry. Certainly the problem is the poor quality of the roads. They were built decades ago and have to cope with such huge trucks, the B-doubles, which are constantly using roads in frequently going from harvesting sites and are causing an impact on the roads. I know that residents who live on those roads are constantly complaining—especially in summer—about their houses and gardens being covered in dust because of the condition of the roads.

Mr McDOUGALL—Earlier today we heard some evidence from VicRoads of a strategic planning

process going on with regard to rural Victoria. Has the Municipal Association and your industry, Mrs La Fontaine, had an input into that strategic plan?

Mr Bennett—We are certainly aware of the strategy being prepared and we are contributing. We have constant liaison with VicRoads—for instance, we are involved in the Transporting Melbourne policy. So as this process proceeds, yes, we will be involved.

Mrs La Fontaine—Our organisation is not aware of it. We support strategic planning, but we think it is important to do that strategic planning in conjunction with industry so that whatever planning is done is reflective of the industry development opportunities in the region. I do not know if you are aware of the timber industry road evaluation study which was completed in north-east Victoria. Our organisation thinks that a similar study, and perhaps one for other industries as well, should be repeated across the state so that each region looks at its industry development opportunities and then strategically plans for its local road development. That would also very clearly identify the sorts of funds that are required over the next decades—as I stated in my opening address—to meet federal government policies for industry development.

Mr McDOUGALL—Mr Murphy, would the dairy industry have been involved or not?

Councillor Murphy—VicRoads provided us with a copy of *Linking Victoria*—I think that was the name of the document—and we made comments on it. That was our single involvement in the process. As to whether any officers from the municipalities or members of the various companies that make up the dairy industry were involved I would not know. But certainly it was not a major issue that came before council.

Mr McDOUGALL—For the timber industry, particularly the plantation industry, is there any access at all to rail in your area of development?

Mrs La Fontaine—I do not think so. Most of the operation is around the road network. Where rail exists more strongly, up in north-western Victoria, you do not have the rainfall to support the plantation development. So, although it would be very general, I would say no. It is fairly strictly road based.

Mr McDOUGALL—Basically, you are stuck with roads.

Mrs La Fontaine—Yes.

Mr McDOUGALL—We have taken evidence in Queensland in regard to, say, the mining industry, which I think you would agree in most cases has got a limited life—some of those mines might only have a 20- or 30-year life—where they are moving out into an area that has basically got some tracks and a few local roads. You are dealing in a new industry that has got an extended life.

Mrs La Fontaine—That is right.

Mr McDOUGALL—Some of those mining industries are making contributions towards the capital upgrade of roads and the maintenance of roads during that life span. Do you see your industry making that contribution, on the basis that you do not have an avenue—through, say, section 94 in New South Wales—to

be compelled to do so under a development plan?

Mrs La Fontaine—In some instances where permits are required for plantation establishment, the forest industry has been required to spend money on roads. There has been an instance recently in the Colac-Otway area, where a particular developer was required to build the road from the plantation to the sawmill, and the developer is not very happy about that, as you can imagine. The industry very strongly argues that it contributes already, via its taxes and fuel excise, et cetera, and should not have to contribute any more. Certainly, Timber Towns Victoria, the local government association that I represent, supports that view and says that it is a local, state and federal government responsibility to provide road infrastructure.

Further to that, it is a little different from the mining industry, in that the growth of the plantation industry will take place, either as an extensive operation where one—probably overseas—developer comes in and develops a plantation over a very large area or on a smaller basis with farmers who plant up to about 20 per cent of their property with trees. You also have the situation where the processor is the enterprise that is developing and purchasing the wood, and so, if you are looking at talking about user pays, you have to say who actually pays for the road. That would certainly become a much more difficult proposition. You also have the situation of native forest industries and sawmills, so you are then looking at competition: ‘If the plantation people have to pay for their road, why don’t the native forest people pay for their road? The state government owns the native forests.’ It would become very tedious.

Mr McDOUGALL—You are saying, effectively, that you are satisfied that some industries in Australia can pay but that others should get it for free, are you?

Mrs La Fontaine—I do not think the industry would argue that it gets it for free. I think it would say that it already contributes to the cost of it: it is just the distribution of the funds.

Mr McDOUGALL—But other industries are paying over and above the same cost that you are talking about.

Mrs La Fontaine—The mining industry is paying.

Mr McDOUGALL—Yes.

Mrs La Fontaine—For their own private roads on their own private land.

Mr McDOUGALL—Plus they are making a contribution to maintenance on local roads and capital infrastructure on local roads. We are one nation: that is what I am getting at.

Mrs La Fontaine—But—

Mr Bennett—There does exist a mechanism in Victoria to contribute. It is called a section 173 agreement. It is under the Planning and Environment Act and it only applies when a planning permit is issued. So there is a mechanism. As Councillor Murphy says, it generally has not been used in that instance. But, just to clarify, there is that mechanism and it is certainly very commonly used for urban types of

development. If you get an urban subdivision, the developer gets loaded with all sorts of extra charges. But, generally, it has not been used very much in terms of mining or forestry or dairying or any of those sorts of rural industries.

Mr McDOUGALL—But a PAYE taxpayer who wants to buy a block of land has got to pay for the infrastructure. That is the point I am getting at.

Mr WILLIS—I want to take you back to your point, Mr Bennett, about Victoria getting a bad deal from the current split of funds between the states, and getting less than 20 per cent. The figures in front of us from VicRoads show that in 1996-1997 Victoria got 18.1 per cent of the roads money from the Commonwealth, with a population split of about 24.6 per cent—and GDP is probably fairly similar. But, if you have a look at those figures, you see that the area where Victoria is really losing out is from the national highway system and the roads of national importance and the black spots—from the direct Commonwealth funding. Yet you are here arguing that there ought to be more of the roads in Victoria put into this category in which Victoria only gets 14 per cent, as against the area of untied grants where they get 22½ per cent. It would seem to me that you are arguing against your own interests. If you want a better share for Victoria, the best deal would be for you to say, ‘Let us get rid of the national highway funding altogether—all that direct Commonwealth funding. Put all the money into untied grants and Victoria will get a lot more money for all roads, including local municipal roads.’

Mr Bennett—As a general comment, all roads have to be considered in terms of the total package. They all contribute to economic development. We can argue about the relative splits with costs, whether the road is of a national interest or a local road or whatever else. But I think the fact remains that Victoria is still getting less than its fair share of justice in terms of economic development; I am not sure about the population, but certainly in terms of economic development and manufacturing. In terms of manufacturing in Victoria, all classes of roads are getting a lot less than perhaps you would be saying was a fair thing. I think Councillor Murphy was talking more about looking at roads in a comprehensive sense in terms of the funding.

Councillor Murphy—I am not across all the detail, particularly on the funding figures for national highways, so I could not contribute much to this part of it. I am aware, though, that if we are looking at the one nation issue we do have a number of routes that have shifted in focus from being state highways to roads of national importance, given the change in demography and also in the location of our major export based industries. That should be reviewed as part of this process. I could not argue on the facts as you have presented them.

Mr WILLIS—If Victoria wants to be sure of getting a better deal, in its interests it is really much better to say, ‘Let us get rid of direct Commonwealth funding altogether. Just make all the money an allocation to the states and local government.’ That way, under the present split, you will do better. What you are arguing for is to take more roads, classify them as national highway roads of national importance, put them into a category in which Victoria gets a very poor deal in terms of percentages as against population, and then somehow think that that is going to give you a better outcome. That would only be so if there were a major change in the way in which the Commonwealth distributes its direct funding between the states—the historical precedents do not give you much hope that that is going to be the case—or if there was going to be

some major increase in funding by the Commonwealth. Again, one cannot see an immediate prospect of that happening.

Councillor Murphy—As a general comment, our argument is based on the fact that we need to see cost benefit considered in prioritising all these things. As I said, I am not across the specifics of the matter being discussed in detail, but I think the principle of cost benefit has to be applied in prioritising works in the future. I would also expect that, if there were some shift away from direct Commonwealth funding, there may have to be some changes in the taxing processes to raise the incomes. I do not claim any expertise in those areas.

Mr McARTHUR—It has been alleged that local council roads have now reached the end of their 40-year life in terms of the pavement and the foundations, and that the alternative is to rip them up and put them back to gravel. Would you care to comment on that allegation and suggestion?

Councillor Murphy—I mentioned earlier that many of the areas that I am specifically referring to were opened up under the soldier-settlement program. At the time of construction of those roads, a five-tonne truck on every second or third farm was the norm and one trip into town per week was probably its usage. What we have got now is intensive farming with significant increases in mass limits and significantly more day-to-day use of the facility. Overall, if we look at it in a structural context, we had a lightly constructed facility that is now being loaded more heavily and more often.

Our colleagues next door in the shire of Corangamite, which Mr McArthur is very aware of, have certainly put forward the scenario of having to rip up sealed pavements and return them to gravel because they cannot maintain them. I would think that is a solution that all of us will have to look at in the not too distant future. I certainly, as former civil and municipal engineer can endorse the fact that much of the infrastructure has got beyond its useable life in its current form.

CHAIR—We might complete the evidence. Thank you very much for your attendance and assistance this afternoon. If there is any further questions that the committee might be interested in asking, we will put them in writing to you.

[2.55 p.m.]

CONROY, Councillor Mark Timothy, Councillor Representative, Frankston City Council, Eastern Ring Road Steering Committee, City of Greater Dandenong, PO Box 200, Springvale, Victoria 3171

KERR, Mr Brian, Manager, Infrastructure Planning, Eastern Ring Road Steering Committee, City of Greater Dandenong, PO Box 200, Springvale, Victoria 3171

LYNE, Mr Graeme Francis, Civil Planner, Eastern Ring Road Steering Committee, City of Greater Dandenong, PO Box 200, Springvale, Victoria 3171

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

Mr Kerr—Just a short one, Mr Chairman. It should be pointed out from the start that there was a change with the recent election of council. The committee previously comprised numbers of commissioners from the various councils which you referred to there. These are now councillors. Our first committee meeting is yet to be held. I am not speaking on behalf of the current committee but the former committee members, I suppose.

CHAIR—So, we have got real councils in Victoria again.

Mr Kerr—Yes, we do.

CHAIR—Sorry, Mr Kerr.

Mr Kerr—That is okay. There are a couple of things I would like to elaborate on. The committee comprises the nine municipalities along the corridor referred to on the plans. I presume that you understand that we are essentially pushing for the development of the Eastern Ring Road which runs between Ringwood and Frankston. This is a component part of the entire ring road around Melbourne, as has been proposed in a number of government reports.

The committee was originally formed because councils in what is known as the Scoresby corridor—which is the Eastern Ring Road area—were very concerned about the lack of appropriate road infrastructure necessary to service a region with economic and community transportation needs. The committee's submission highlights the impact of this underfunding.

The committee hopes that the Scoresby Freeway, or the Eastern Ring Road, will ultimately be extended north to link with the Western Ring Road. In the meantime, what is being sought is for the Scoresby Freeway to act as a much needed north-south link and feeder road to the south-eastern arterial and eastern freeway. Without such a road, existing roads are being placed under increasing pressure as rapid population growth in the south-east of Melbourne continues unabated. The projections in this corridor are around about \$200,000 in the next 15 years, so it is quite significant.

At the moment it is understandable that both Springvale and Stud roads are presently under great stress. For those who know Melbourne, the distance between Springvale and Stud roads is similar to that between Warragul and Springvale roads. However, between Warragul and Springvale roads there are three intermediate roads to service this distance, those being Blackburn, Stephenson's and Huntingdale roads. Just from the point of view of the distribution of Melbourne's population, apart from any other economic benefits, there is a need for some intermediate road between Springvale and Stud roads.

What the Eastern Ring Road Committee submission points out is that the prevailing classification criteria for major road funding, which generally relates to the linking of capital cities, has had the effect of excluding funding for a much needed road for the movement of goods and services, both within the Scoresby catchment and to export markets. Irrespective of the number of government publications which identify the Eastern Ring Road, it is an essential element in linking Melbourne's economy to internal and external markets. Existing funding criteria resulted in funding for such roads being overlooked.

As pointed out earlier, the region which would be served by the development of such a road is expected to expand by about 200,000 in the next 15 years. The economy of this area could be stifled if something is not done to improve the major road network. Manufacturing and production activity in the corridor contributes significantly to both the state and national economy, and Australia's focus is now increasingly on economic activity. It is considered that the road funding criteria should reflect this. In essence, we are now talking about the fact that the network criteria as they presently are tend to link points on a map rather than maximising the contribution to national interest and, being in a global economy, it is considered we should be keeping pace with overseas infrastructure which is necessary to compete in a global economy.

With respect to what was referred to earlier by the MAB concerning contribution by states, I understand that Victoria's contribution is 27 per cent of the fuel excise as opposed to the 19 per cent return to the Victorian economy. The benefits to be derived from building the Scoresby or the Eastern Ring Road have been highlighted in the submission. I can go through them again, but one of the most important aspects is that it has a cost benefit of five to one, which means that in essence it returns \$5 to the community for every dollar expended on construction of the road.

In summing up, therefore, the committee requests that you review the present road funding and national highway criteria to give greater consideration to the national economic benefit as grounds for road funding and highway classification. It also requests that you give consideration to early funding of projects having potential economic benefits to the nation, which the Eastern Ring Road can provide.

CHAIR—Your submission makes reference to the importance of the Eastern Ring Road, and you have in your opening statement enunciated the importance of the road to the development of industry based in that region of Melbourne. Also, you are premising it on the basis of population growth. Is there not also in there the fact that some responsibility should accrue to the state government of Victoria to make a start on this?

Mr Kerr—If experience is any guide, funding for highways such as this in other states appears to have most recently been developed by a shandy of federal, state and private funding. Yes, I believe the state

should make some contribution to this, but I am not sure what percentage we would recommend.

CHAIR—In evidence this morning from VicRoads, and in their submission, we were given a list of major road program investment needs in Victoria. I might be wrong, but I do not see the Eastern Ring Road on their list of priorities. What about Metropolitan Ring Road 1?

Mr Kerr—That I believe is Scoresby.

CHAIR—That includes the Eastern Ring Road, does it? They have the cost-benefit ratio down to 3.4.

Mr Kerr—The figures I am quoting are out of the FDF report, the Fred David Fred report.

CHAIR—By private consultants?

Mr Kerr—By private consultants on behalf of VicRoads, yes.

CHAIR—And it is a total project they have listed here as \$1.12 billion?

Mr Kerr—I suspect the figure that is being referred to there is the entire ring road linking through to the Hume Highway. In fact we see in the foreseeable future the link between Ringwood and Frankston, which is in the vicinity of \$600 million.

CHAIR—So the section you are talking about is \$600 million?

Mr Kerr—Yes.

CHAIR—Has the Victorian government made any start as far as planning is concerned on this?

Mr Kerr—The reservation has been there for about 20 years. The former country roads board established the reservation, and about 85 per cent of it, I understand, is owned. As to what steps have been taken towards planning the road, I believe it is little from the state government, but I really cannot answer that. They would have to answer that question.

CHAIR—What would your group's view be of a suggestion that the Eastern Ring Road be developed in a fashion similar to the City Link project, with private sector funding?

Mr Kerr—I can only speak personally on this one, but I believe the committee expects that it would be unlikely to be funded other than with the inclusion of some private funding. We have not had a direct representation, but a consultant who worked for City Link suggested there could very well be some interest in that.

Mr ALBANESE—On the issue of tolls that normally go with private funding, do you accept that that would be part of the recouping of the \$600 million?

Mr Kerr—What has been discussed at the committee is that apparently overseas tolls now on major roads are a fact of life and that perhaps we have been cushioned from that for quite some time.

Mr ALBANESE—The elected councillors might not be so enthusiastic.

Mr Kerr—That could be true, but I think certainly most of the former committee members accepted that. In fact we have had representatives from Macquarie out talking to us about what is required to convince private investors to fund a road such as this.

Mr ALBANESE—Councillor Conroy had a legitimate point—made, perhaps, spuriously. Certainly, from my experience in Sydney with tollways, you would not get an elected councillor anywhere near the M4 or the M5 who would do anything other than say publicly and privately that they opposed a tollway.

Councillor Conroy—I agree. I cannot speak for my council, because we have not discussed it. But I personally believe that this road is of absolutely vital importance for the eastern and south-eastern suburbs of Melbourne. We would consider it as an absolute last resort because this road is so important. I understand what you are saying. Tolls are not the flavour of the month where I come from, either. But, because of the vital significance of this road, we would consider it as an absolute last resort.

Mr WILLIS—The rationale for the Commonwealth getting into ring road development in the first place was—and it is only a few years ago that that happened in 1994—the linking of the national highway into and out of the capital. Here it was linking the Hume Highway with the Western Highway and, because the road that had been planned by the state was going through to the Princes Highway anyway, eventually we succumbed to pressure and paid for that as well.

But the original rationale was a fairly sensible one, and that is that the ring road becomes part of the national highway since it links the highway in and out of the city. That rationality seems to be missing here. In regard to roads of national importance, the Commonwealth does not pay 100 per cent but shares with the states. What are you actually seeking here? Are you seeking the Commonwealth to make this part of the national highway system? If so, what is the rationality for doing that? Are you asking that it become a road of national importance, in which case we would pay half? Exactly what are you asking?

Mr Kerr—The grounds on which the roads are presently defined as roads of national importance are generally that they link the capital cities. I am not sure what the real reason behind that was, other than either economic or defence purposes. I suppose what we are suggesting is that the criteria ought to be looked at whereby, irrespective of what you call the road, the cost benefit of the development of such a road to the national economy is what should drive the development of that road, and not whether it goes between one point or another. So it is the contribution to the national economy or the state economy.

Mr WILLIS—Obviously, it is a strategically important road. So, under present classifications, it would become a road of national importance and not part of the national highway system: is that right?

Mr Kerr—I suppose what I am saying is that we do not care what you call it, if the cost benefit is used as a guide.

Mr WILLIS—My point is that it makes a big difference to the amount of Commonwealth money if the Commonwealth is so minded to pick it up, because it paid 100 per cent of the ring road because it regarded it as the national highway. In this case it is difficult to see how it becomes part of the national highway, unless it was to greatly expand the concept of the national highway to include the Princes Highway, east and west. In that case it might be linking the Princes Highway on both sides of the city and it could become part of the national highway system in that way.

Mr Kerr—I suppose we would be very happy to see that as well.

Mr WILLIS—I thought you might.

Mr Kerr—What we are trying to say is that, with essentially 46 per cent in the corridor of the metropolitan production in this particular area that is providing the drop, it is a considerable part of the driven economy for Melbourne and, therefore, for the national economy. It is important that the various businesses along the corridor which move and distribute component parts within the corridor and feed onto the links back to the export markets can readily gain that access. The transport costs are essential for dealing with the global economy. Getting ready access to the export markets is very important.

It is a fact of life that we have manufacturing in this precinct, and that generally follows the population which is in the precinct. It is unlikely that that trend is going to revert in the future, based on projections. So the economies to the south-east of Melbourne we would expect would only continue to grow, but I believe it will be stifled if it cannot access external markets.

Mr WILLIS—It is hard to see how this road helps greatly to access external markets. It does not lead to a port or to a railhead. It could lead to the airport perhaps, but there is a very small proportion of exports going by air, and about 98 per cent go by ship.

Councillor Conroy—It is next to Westernport.

Mr Kerr—It not only connects down to Westernport, but it picks up goods from along the corridor and feeds them onto the arterials into Melbourne, and therefore through to the markets. At the moment the goods cannot get north-south to get on the south-eastern link, the eastern freeway link or up to the Hume Highway, essentially. But at least if they can get two-thirds of the way, they can cut across to the Hume, and that would be an improvement.

Mr WILLIS—If they only got to the east, to the Maroondah Highway, and they then had to belt down the Maroondah Highway, they would have a pretty messy entrance into the port and railhead area.

Mr Kerr—Yes. If you could split this road about midway between Ringwood and Dandenong, you would probably have a number of the businesses going north from the midway point, up to the eastern freeway, up Reynolds Road and so forth, through to the Hume Highway and a number of others coming south and up the south-eastern arterial. City Link will improve that link to the airport and the ports, once that happens.

Mr McARTHUR—Could you give me a simplistic argument as to why the rest of Victoria should allocate \$1 billion to the Eastern Ring Road?

Mr Kerr—The simplistic argument is that, as a percentage of the state's and Australia's economy, it warrants it.

Mr McDOUGALL—Your submission notes that there must be an unbiased body to control at the national level road development and maintenance standards. By 'road development', I am not sure whether you are talking about construction or strategic planning. Do you consider that the current arrangements are biased, because you are calling for it to be unbiased, and if so, in what way?

Mr Kerr—I suppose the bias is only seen from the point of view of the contribution that is presently being distributed, whereby our contribution in Victoria of 29 per cent of revenue receives only 19 per cent of Commonwealth road fund allocations. Some criteria which would alter that to reflect the economic activity would be preferable.

Mr McDOUGALL—So it is more of a funding question rather than a maintenance question?

Mr Kerr—Yes.

CHAIR—Thank you very much for appearing before the committee this afternoon.

Short adjournment

[3.34 p.m.]

NUGENT, Mr Peter, MP, Unit 7, 426 Burwood Highway, Wantirna South, Victoria 3152

MAHER, Mr Terry, 511 Burwood Highway, Wantirna South, Victoria 3152

CHAIR—Welcome. In what capacity are you appearing before the committee?

Mr Nugent—I appear as the coordinator of a group of some 30 signatories to a one-off submission.

Mr Maher—I am Chief Executive of the City of Knox and I am representing the group of signatories to that submission.

CHAIR—Mr Nugent, would you like to make an opening statement?

Mr Nugent—Thank you, Mr Chairman. Some eight federal members of parliament based in the eastern suburbs of Melbourne, including two cabinet ministers, some 16 state members and 18 of the local government organisations, decided that we would make a joint submission to your inquiry. The names are all contained within the submission that we gave you.

We have not produced any original research in terms of road volumes, paybacks, cost benefits and all of that sort of thing. We have drawn on material that has been available from a number of other sources. Some of those sources I understand have made separate submissions. I trust that, by and large, the figures that we have used are not incompatible with the producers of that original material from other submissions.

The nub of our submission is really quite simple. We are taking the Eastern Ring Road, which incorporates the Scoresby transport corridor, as an example. We have put a map on page 4 of our submission, which is page 1027 in your numbered book. We are talking about the thick, dark line appearing on the right-hand side of the map just below the shaded area.

In essence, what we are saying is that we believe it is a road of national importance and there is a justification for building it as a national need. Whatever the present system of allocating road funding in this country, whether you call it the national highway or roads of national importance, and whether it is the responsibility of the state government or whatever, if there is a road of genuine importance—and this is just an example; there may be many others around the country—then the structure that we have in place should not inhibit the building of that road. Given that this is a road that we believe is of national significance and that it cannot be built under the present structure, we believe there is therefore something wrong with the present way we handle road funding in this country. Therefore, there is a need to change it.

The federal minister has said that there will be no federal funding for this road. The state government says that it is outside its capacity to pay in toto. Therefore, we have a road here that we think ought to be built, but nobody says they are able or willing to build it. The justification for saying that we think it ought to be built is quite simply that it services an area of Melbourne and Victoria which produces some 46 per cent of the manufacturing base of this state. It has a large population and has a cost-benefit ratio of one to

five, which I understand in the technical area of road building—and I do not claim to be a road building expert in that sense—is a very good payback ratio.

We believe that, given there is not only a large amount of population and industry in that sector and that it has a good payback, the road is necessary—obviously, you go to the docks on the South Eastern Arterial—but there is also the need in the east, south and south-east, which is a growing corridor in Melbourne, to transport goods and material north and south to airports, to the Hume Highway and to states in the north of Australia, into New South Wales and on upwards. At the moment the roads that are there are frankly not coping with the load. Over the next few years they will probably become totally gridlocked.

There might be other roads in the country that have the same problem, where the federal government either cannot or will not fund them and it is outside the capacity of the state. We believe, therefore, that the fundamental system of funding major roads in this country is flawed and needs to be re-evaluated. My colleague, Mr Maher, would probably like to add some comments.

Mr Maher—Mr Chairman, I may take a few moments to reinforce some of the comments that have been made by Mr Nugent. The councils in that area of Melbourne represent a total of around one million of Victoria's population. I believe you heard earlier today from the City of Greater Dandenong in relation to some of the key areas there. I will try not to repeat some of what you have already heard.

The eastern and western port areas of Melbourne, as you would be aware, have been amongst the most significant growth areas in new manufacturing businesses during the past decade. As Mr Nugent has indicated, in the context of this submission we are simply taking what is considered to be a reasonable approach. We understand the state government has taken a separate view, in a global sense, of the state's point of view.

Since the lodgment of submissions, elected councils have now been returned to each of those municipalities. Therefore, in terms of the positions of each of those councils, I do not believe that in the six weeks they have been returned they have formulated a clear position on this. Nevertheless, the submission has been made and I know the City of Greater Dandenong has made their position quite clear. The overall position really relates to Victoria getting a more equitable share of the federal road funding arrangements. I would simply reinforce the comments that Mr Nugent has made, that we believe that the current arrangements are fundamentally flawed and, therefore, a review should be undertaken.

Within our submission, we have referred, as an example, to the Eastern Ring Road and the Scoresby transport corridor. Point 9 of the submission refers to the financial justifications for the Eastern Ring Road-Scoresby transport corridor links. Reference is also made to another example, the Hallam bypass. I heard you ask a question earlier in your discussions with the City of Greater Dandenong about the actions and initiatives at the state level. The state government—and I believe this would have been referred to in their submission—made reference to the environmental effects statement for the Scoresby transport corridor, which is substantial in its scope and will be completed towards the end of this year. In our view that has lent very strong support from the state government in recognising the importance of the corridor, both at a state and national level.

The submission referred to growth in population and business development in both the eastern and

western port areas of Melbourne and of Victoria. That area approximates about half of the state's manufacturing production output. So the issue really is whether the Eastern Ring Road-Scoresby transport corridor should be given the classification of a road of national significance. Based on the research that we have done to date, there is a very strong argument, we believe, that supports the view that it is not just a Victorian issue, it is one that does have a very significant impact in terms of the future growth for export and manufacturing within the state and the nation as a whole.

The prevailing view of the councils at the time of preparing the submission was that we do not believe that the councils, and the state as a whole, are receiving their fair share of federal funding. You would be aware of the statistics, so I will not requote them, on what the federal government receives and what comes back to Victoria. On that basis, we believe that there ought to be a review undertaken of the current funding arrangements.

In relation to traffic movements within the metropolitan area of Melbourne, at present there are about eight million vehicle movements each day and about 40 per cent of those begin or end within the transport corridor that is referred to in the submission. Our two major roads, Stud Road and Springvale Road, are currently bottle-necked. You would only need to experience peak traffic at either one of those locations on the north-south routes across eastern Melbourne to demonstrate the point. As a result of the constraints in traffic movement, it could be argued that the current economic health of the region could be jeopardised. We have no empirical evidence to suggest that, but we believe that there is probably a real risk of that, given the frustration and the lengths of time to get from point A to point B, unless something occurs in a reasonable period of time.

As has already been pointed out, it is not possible either for local government or state government to fund in its entirety either the Eastern Ring Road or the Scoresby transport corridor without a substantial injection of federal funds. On the basis of research undertaken through our submission, we believe that the delaying of the construction of the Eastern Ring Road beyond the year 2011, which is not that far away now, will result in local traffic facing gridlock during peak hours; increased greenhouse emissions; and average local trip times being increased by the order of 19 per cent. User costs could increase to around the order of 45 per cent.

In addition, the submission makes reference to commercial freight which will be forced into local roads, making existing congestion even worse, resulting in local councils across that region having to implement costly and unnecessary local area traffic management schemes. The submission has outlined in detail the potential benefits of the Eastern Ring Road construction. Mr Nugent has already made reference to the benefit-cost ratio. The submission also refers to the progress on acquisition of the land required for the Scoresby freeway section, which certainly goes back to the 1960s. I remember seeing signs out there many years ago that indicated very strongly the position and the intent.

In summary, the benefits obtained from the proposal are: the opportunity to improve the public transport network serving the region; improved freight movement vital to centres such as Dandenong and the Cranbourne and Pakenham corridors; a continuous major freight route around Melbourne; a more efficient cost-effective route for road users, particularly those in the transport industry; an area which will be more attractive to export oriented businesses; greater potential to attract new residential and industrial development;

less cause for industrial traffic to use residential streets; and better road safety throughout the region.

When taken in context, the above suggested benefits we believe will lead to greater efficiency and better opportunities for business growth within that region, and ultimately for the nation. That is the reason why we have clearly identified the Eastern Ring Road and Scoresby transport corridor as an area which is of national significance and certainly should be funded, either through federal-state funding or, alternatively, through a complete review of the existing funding arrangements.

CHAIR—In VicRoads' submission they have a list of their major road program investment needs in Victoria, identifying benefit-cost ratios for each of those. I know that the Eastern Ring Road—and you are appearing here on behalf of the group that put the submission together—only forms a part of the Metropolitan Ring Road, but VicRoads indicate a benefit-cost ratio of 3 to 4 on that.

Mr Nugent—I think they are talking about the total ring road and that is one point something billion dollars.

CHAIR—It was \$1.12 billion.

Mr Nugent—We are talking about the Eastern Ring Road and the Scoresby transport corridor and our figures came from VicRoads. We are talking about a cost of between \$550 million and \$600 million. Frankly, I think it depends on the time when the figures were taken—it was a year ago or six months or whatever—and the cost-benefit ratio came up at 5:1. Those were figures that we got from VicRoads to input into our submission.

Mr WILLIS—I think the answer to that is within that map on page 1027 in our papers, where we see the area marked C, which is the Ringwood-Greensborough connection. I think it said somewhere in the VicRoads submission that this would probably involve considerable tunnelling and so the cost is obviously much higher in that section. I think Mr Nugent's point about the 5:1 ratio for the Eastern Ring Road is not inconsistent with the 3 to 4 ratio for the whole ring road from the Hume Highway right around to Frankston.

Mr Nugent—In one of the annexes we have actually given the cost of the road by sections—in other words, down to Maroondah Highway, from Maroondah Highway down to Dandenong, and from Dandenong down to Frankston. So we have actually broken it down into about three component parts, making up the \$500-odd million, so it is quite clear which section we are talking about.

CHAIR—My understanding is, although there was Commonwealth money involved in the development and construction of the Western Ring Road, that the state government also participated in the development of that particular piece of infrastructure. Has the state government made any move at all in contributing to the Eastern Ring Road project as proposed by yourselves?

Mr Nugent—Let me make it quite clear that we are not suggesting that this should only be a federal government funded road. Quite clearly, we believe that some of it has got to come from the state. The state has already allocated land, and the land reservation is very substantially in place. Frankly, I migrated to this country 20 years ago and I went to live in this area at that stage, 1977. The signs were up for the Scoresby

freeway, which is what the Scoresby transport corridor is, when I arrived in the country as a migrant 20 years ago. So the land has been there and reserved and given by the state government for some time.

The state government has undertaken and funded the environmental impact statement. Clearly, it is not in a position to start construction on this section until it knows that it is able to pay for it and fund it. Nevertheless, it has built the Eastern Freeway; it is currently building the extension to the Eastern Freeway, which of course will link into the Scoresby transport corridor; and it has also built the Ringwood bypass, which is linking into those two roads.

So the state has actually started on building some of the base of the road, and it is doing the environmental impact statement for the rest of it. It has started to make those contributions. But it made the point to us, when we took the matter up with them about 'Why do you not pay for it?' that, in terms of the amount of money that the state gets for total road funding, were it to commit to this project it would in fact take up more than half of its capital funds every year. Clearly, that is difficult for any state to undertake on one particular project. So it needs some further assistance.

It went on to make the point to us—and this is why we felt we should make our submission—that it feels it is making a larger contribution to the roads revenue, if you like, than it is getting back. And I think I heard Mr Willis in a question to an earlier witness make the point that something like 18 per cent of the funding is coming back, whereas we have got 24 or 26 per cent of the population and the contribution. So they feel that, firstly, they are not getting an appropriate share back; but secondly, that, however committed, to take on the road which is just so large in one go would be outside their scope to do.

The federal government, as I understand it, is saying they do not class it as a part of the national highway; it is inside the metropolitan boundaries, and is not on the map, if you like, of the country for the national highway. They are not willing, because it is inside the municipality boundaries, to classify it as a road of national importance. Victoria is in the position where it has not got the financial wherewithal to fund a project of this size. So, one way or the other, it cannot be built. Yet we have a road with a very high cost-benefit ratio that is going to service a major population centre and is going to service a major manufacturing base.

It is a pity that Mr Albanese has just left because he and I have just come back from two weeks in China where we were watching some of the huge economic development that is going on there, on a tremendous scale and in short order. They are building roads and airports and all sorts of things at a rapid rate of knots. If we are to grow our business with that country, which we believe as a nation we should—and not only the current government; the previous government had that commitment—if we are going to survive economically in the world, we have got to put in the infrastructure. And for this part of Australia, which has got a major part of that infrastructure, there is a need to build a decent road to get things up and down that particular corridor, and all the statistics demonstrate that.

We understand, of course, that this committee is not in a position to say to the minister, 'You must build this road.' That is not what your terms of reference are all about. But what we are saying is that this is a good example. There may be others around the country in other states where you have got good justification for building a road but, because of the structure of the funding system, they are not getting built.

That is detrimental to Australia's future prospects, and we think, therefore, the system needs to be changed.

Mr McARTHUR—I asked a previous witness this question. If you were to simply describe the Eastern Ring Road to the rest of the Victorian population, how would you do so to demonstrate your point in simple terms? Secondly, can I ask how you are going to complete the Eastern Ring Road if there is no foreshadowed plan connecting the Hume Highway to that Maroondah Highway bit on your map, at Ringwood?

Mr Nugent—This is a map which we have obviously taken from VicRoads; it is not a map that we have constructed from scratch. In terms of justification to the rest of Victoria, I think our view is that here we have a major part of the population of Victoria which makes a significant contribution in financial terms and is looking for some return; we have a major part of Victoria which produces some 46 per cent of our manufactured base and, therefore, it is going to pay for itself and, therefore, the whole of Victoria will benefit from putting this road in this particular part of Victoria.

In terms of the completeness of the road, quite clearly the original intent when the Eastern Ring Road was envisaged 25 or 30 years ago, or whenever it was first mooted, was that the ring road would go through that shaded area on the map and link directly down in a southerly direction into the Scoresby transport corridor. There are significant environmental problems, as I understand it, in that shaded area of the map, and the Victorian government and VicRoads have not in fact resolved how they are going to deal with it. One of their potential solutions, hence the increased cost that Mr Willis talked about, is that if you are going to avoid the environmental damage you would have to do extensive tunnelling in that part, and that is what would push the cost up for that particular part.

But there are two points that I would make. Even if we have not yet got to the point of dealing with that shaded area, the area of high environmental difficulty, firstly, you can actually start to build the rest of the road in anticipation of resolving that problem and ease a lot of the environmental congestion and economic problems in the rest of the corridor—because not all the goods are going to go all the way around; there is a lot of movement up and down that area anyway; it is a very heavily developed light industrial area, so you do get some of the benefits up front.

Secondly, taking that extension to the Eastern Ring Road—I need to hold the chart up, Mr Chairman; I know you do not like them—that was the original intention of a full ring road. The chart shows you the Eastern Freeway that has already been built and the extension that is being built. The reality is that those two are working closer together, and in fact it is possible to get up through the way I am pointing out here. That is not an ideal linkage; ultimately, tunnels through here may well be a better linkage, but there is a way that you can connect at the present time. Can you see that?

CHAIR—I am just thinking about the tunnels.

Mr McARTHUR—How much is a tunnel going to cost, Mr Nugent?

Mr Nugent—I am not advocating tunnels. I am picking that comment up from Mr Willis's comments earlier. I am not advocating tunnels in that area. I am not advocating a particular solution. What I am saying

is that, first of all, in the Scoresby transport corridor area, which is the north-south bit, there are considerable benefits to be gained from just putting that part of the road in. By the time that is built it may well be that in the environmentally difficult area the problems will have been resolved.

Secondly, I am saying that that Scoresby transport corridor links to the Eastern Freeway which goes very close to linking into the start of the Eastern Ring Road from the Hume Highway, so there are options available there. It may not be perfect, but certainly it is a heck of a lot better than is there now. And given the volume of population and business compared with other parts of the state, it seems to me that it should have a high priority.

Mr WILLIS—Can I just ask you about the rationality for roads of national importance that are supposed to link particularly with ports, railheads et cetera to make it easier for exports? If you look at your map on page 1027, the South-Eastern Arterial obviously leads into the heart of the region that you are concerned about, half way through the Eastern Ring Road. If someone's truck is coming down the Hume Highway, with the Western Ring Road it can link now through that ring road, across West Gate, through City Link down the South-Eastern Arterial, virtually non-stop, right into the heart of that region with the road system that is now in place and being upgraded through City Link which obviously takes out the real mess in the middle of the city. So that becomes a non-stop run right through from the outskirts of Sydney, or whatever, to the heart of your area.

Obviously that does not account for some of the links within the area. But does that not mean that right in the heart of this area there is a direct link through the South-Eastern Arterial to the port, the railhead, the airport and, indeed, to Adelaide and Sydney?

Mr Nugent—There is no question that the City Link, when it is finished, and the links that you have described will make a significant improvement. But all of the VicRoads studies and figures show, as I understand it—and this is the reason we put in the submission—that whilst that is a very important linkage effectively in the southern part of the area, and certainly will do a number of the things you have described, nevertheless the ring road going around will in fact give us even better cost-benefit analysis and it will give us even better environmental solutions than using the roads that are there at the present time. Certainly in terms of passenger vehicles and travel time, the benefits you get from cutting travel time, the reduced environmental damage you get from reducing commuter travel time and so on, will flow very substantially in that area.

In fact, one of the annexures we have put in our submission shows a series of graphs plotted to show the availability and access for work and opportunities for employment in the western half of the city pre the Western Ring Road, the improvement that was delivered by the Western Ring Road and the subsequent benefits that will be shown similarly on the eastern side of the city. So whilst, as you suggest, the City Link would have a significant impact, it is only part of the solution. Providing that Eastern Ring Road and the Scoresby transport corridor would make it a much more complete solution.

Mr WILLIS—Sure, after you have spent another billion dollars—or half a billion dollars anyway.

Mr Nugent—No, \$600 million we are talking about. The other point we would make is that we

believe if you compare the significance of this road to some of the other roads that are being funded around Victoria at the moment, then the others do not stack up by comparison. That is the point we are trying to make.

Mr McARTHUR—You ought to go and ask them that question.

Mr Nugent—I am happy to ask both of those people who get those roads. That is really what the point boils down to.

Mr WILLIS—That is the point. There are lots of other competing priorities. Some of those might not be in the same league as yours in your opinion, but that is not the way governments have seen it. Also, in other cities, of course, there are demands for similar sorts of ring road developments. Sydney is screaming for an orbital road to be built to link the Hume Highway in and the Pacific Highway out, and that obviously is a major impediment to good traffic flow that they do not have at the moment. With the Western Ring Road being built in Melbourne they think they are next in line for a ring road development.

From the Commonwealth's point of view there are tremendously expensive demands being raised on it. The ring road in Sydney is within the concept of the national highway system, and this is not even within that. So it seems to me to be difficult for the Commonwealth to pick this up in the context of there not being substantial additional funds for roads. If more funds are made available for roads then, yes, this becomes the sort of thing that might be possible but, within current funding constraints, I would not see that as being likely to be an immediate priority.

Mr Nugent—Our response to that is to say that we are disputing that the current concept is the appropriate concept. It is connecting lines on a map around Australia and building roads on that basis, that this is a national highway. If some of those points on the map that are being joined up do not stack up economically yet a road like this—and there may be others in other parts of the country—does stack up economically, then should we be joining those lines on the map? That is the point we are making. We are challenging the fundamental concept.

Mr Maher—I add to what Mr Nugent has indicated. We are not really here to argue the merits of the current funding arrangements for the Eastern Ring Road and the Scoresby transport corridor, but to demonstrate the significance of the issue in terms of the manufacturing elements of the Australian economy, and then highlight the importance of reviewing the current formula for funding arrangements. That is the issue, rather than trying to argue here today with you the case for allocation under the current funding arrangements, and to suggest that, in the light of the exclusion of the program at the moment due to the current parameters that Mr Willis referred to, an extensive review should be able to be undertaken so that this may qualify in the future for those arrangements.

Mr McDOUGALL—Mr Maher, I am curious, just for interest sake because of your argument, as to what the difference is between commercial and passenger vehicle traffic using Springvale Road and Bell Street, because you are arguing this all around commercial transport. What is the difference between the volumes in regard to Bell Street and Springvale Road? If you want to send that to us, I would be very interested to see it.

Mr Maher—We will take that on notice. We can certainly provide the information.

Mr McDOUGALL—Finally, why not take the leaf out of the Sydney book on the M2 and get the private sector to build it and put a toll on it? You get it back in 45 years. You then have your infrastructure for the remainder of the period.

Mr Nugent—We have not in any shape or form suggested to you that we would not believe that a toll or some form of private participation would not be appropriate. You also have to look at how many large projects you can digest within the metropolitan area in a relatively short period of time. We are already doing that effectively with City Link. There is a limit.

Mr McDOUGALL—We have had evidence before from the private sector that they are looking for more projects nationally.

CHAIR—Gentlemen, thank you very much for your submission and appearance this afternoon. Mr Maher, we would appreciate it if you could get back to the committee on the question you have taken on notice on traffic volumes. If any other questions arise in our deliberations, we will put them in writing to you.

[4.08 p.m]

PARKER, Mr Alan Arthur, Secretary, People for Ecologically Sustainable Transport, 50 Stirling Street, Footscray, Victoria 3011

CHAIR—Welcome. Is there anything you wish to say about the capacity in which you appear?

Mr Parker—I am making an input on behalf of three other organisations besides my own. I have fallen foul of your procedure—I only have e-mail letters and there are no signatures on them. However, I do have one letter from the Bicycle Industries and Traders Association and I have been asked to give an apology from the Bicycle Federation of Australia. I would like to read one paragraph from their document.

CHAIR—Is it the wish of the committee that the copy of the correspondence from the Bicycle Industries and Traders Association be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The document read as follows—

CHAIR—Mr Parker, I invite you to make a brief opening statement to the committee.

Mr Parker—The document that I have from the Bicycle Federation of Australia says that they support the second response to the committee by the People for Ecologically Sustainable Transport, dated 18 April 1997. It also says:

I regret that the Bicycle Federation of Australia is unable to appear before your enquiry in person but support Mr Alan Parker and People for Ecologically Sustainable Transport in their submission. The Bicycle Federation of Australia has member bodies in every state and the ACT representing more than 40 000 cyclists in Australia.

The other letter I have is from Mike Krockenberger of the Australian Conservation Foundation. The letter says:

Further to your discussion with ACF last week, this is just a note to confirm that we are fully supportive of the principles which have been enunciated in the submission by People for Ecologically Sustainable Transport to the Inquiry into Federal Road Funding . . .

.

The submission further argues that this commitment should be underpinned by a legislative framework. The US Intermodal Surface Transport Efficiency Act (ISTEA) is a possible model for such a legislative framework.

I would like to introduce my two submissions, which are on record. The main concern of the Bicycle Federation, the ACF and PEST is ecologically sustainable development. The fact is that Australia is going down the wrong track and not following world best practice. In terms of road funding, it is a bit of a disaster, quite frankly.

We have brought up the example of the US Intermodal Surface Transport Efficiency Act as a model. We realise that the US is well behind, say, the Netherlands and Northern Europe in terms of implementing ESD or in reducing greenhouse gas emissions. However, since 1991, when the ISTEA Act was introduced, the US Department of Transport and the Environmental Protection Agency set in place a funding mechanism and an administrative mechanism designed to make urban transport more sustainable.

In the USA, there is now a very real commitment to non-motorised users and public transportation. The ISTEA 1991 legislation authorises \$151 billion over six years for highways, public transport and safety programs. But, instead of separately allocating federal highway funds for roads, as was done previously, recipient states can spend highway funds on roads, on public transport, on other measures—particularly safety measures, or measures to reduce the environmental impact of road use. For example, over \$10 billion has been spent in California on public transportation. Public transport is now being revitalised in most American cities of over 200,000 in population.

As transport bureaucrats in Australia tend to follow 10-year-old US transport policy, it is not surprising that the ISTEA initiative is being ignored in Australia. It is almost as if the climate treaty did not exist, and as if Agenda 21 did not call on all nations in the following terms:

Transportation strategies should reduce the need for motor vehicles by favouring high occupancy public transport and

providing safe bicycle and foot paths. Municipalities need to be developed in ways that reduce the need for long distance commuting.

The ISTEA and the US Clean Air Amendment Act 1990 are designed to require that states and cities engage in integrated transport planning with full community participation. The idea of the US Department of Transport was to ensure that full information on all transport modes was provided and to develop management strategies to monitor and maintain the implementation in a sustainable way. In other words, you do not just get funding for a plan or a project; the thing has got to be maintained and the agencies that spend the money have got to produce evidence of this.

The key environmental objectives of the ISTEA are twofold. Firstly, there is tying of funds to the achievement of clean air initiatives, with no road funding if smog levels are increased. Secondly, there is insistence on the use of planning processes that heavily involve community participation before funding is provided for construction. In the United States there is no longer a gun at the head of the state to accept funding for a major highway or lose it altogether.

An Australian ISTEA could improve upon the US act. For example, any new or upgraded heavy or light rail development or an Obahn proposal for a bus system should go ahead only if there is a coherent policy that increases housing, jobs, services in the transit station precincts. This has been successfully done in most Canadian cities and is common practice in northern Europe. This is the basis of the British government's new environmental powers with regard to urban transportation. The PPG 13 1994 in the UK states their prime objective is as follows, and if you do not satisfy this prime objective you do not get your transport funds. It states:

. . . reduce the growth in the length and number of motorised journeys; encourage alternative means of travel which have less environmental impact; and hence reduce the reliance on the private car.

Since 1992 the performance of all Australian state governments in implementing their own greenhouse gas and ESD strategies in the transport sector has varied from poor to absolutely abysmal. The Australian Conservation Foundation did a rating of this. An Australian ISTEA would greatly assist in changing transport behaviour but it would need to be supported by other legislation on a climate treaty commitment. When Australia attends the climate treaty conference in Japan it will have very little to show in the way of progress and it will be isolated by its current stance. When the USA attends the conference they will be able to show that much has been achieved. Apart from Australia, all the OECD countries will reach an agreement. The Japanese Prime Minister, who is hosting the conference, has made it very clear that sources of confrontation are to be resolved before the conference.

Australia's credibility would be enhanced by a commitment to prepare an Australian ISTEA. If the Commonwealth did this it would be a very good initiative which would certainly get the support of the Americans. I suggest that this inquiry should take this opportunity to suggest that an ISTEA, as a greenhouse gas reduction initiative, be taken very seriously by the Commonwealth government.

Our key recommendation is that because the US has a similar federal government structure to ours, the ISTEA is a very good legislative model for Australia to follow. Also, as an Australian ISTEA would provide the necessary Commonwealth funding for public transport, walking and cycling as part of a totally

integrated land use package, it is sustainable and very suitable for reducing greenhouse gases emissions and would be a practical step to achieving ESD.

The ISTEА is considered by transport planning professionals to be radical. The good news that I get from the people that I talk to is that it is also considered to be extremely sound legislation. In California there is a two-day conference proceeding at the moment for the revision of the ISTEА after six years, and it seems pretty likely that the Americans are going to finetune it even further. This will become one of their instruments in the way of transport funding to honour their commitments when they sign the climate treaty in Japan at the end of this year.

As an organisation, we would be very happy to provide the full text of the ISTEА legislation and the proposed further improvements to the acts, which are known as the NEXTEА, in this year's revision, if the committee does not already have it.

CHAIR—Thank you, Mr Parker. With all due respect, this inquiry really is about the Commonwealth's role in road funding. You spent a fair amount of time in your opening statement addressing ecological and greenhouse gas issues. That is fair enough. I presume that, on that basis, you would support the proposition that was put by the Municipal Association of Victoria that more of the road funding should be spent outside of the major urban areas rather than within them, rather than encouraging the use of the automobile in the centre of the cities, would you?

Mr Parker—No, I would not support that at all. Even though I talked about the ISTEА in the broad sense with public transportation, in the second submission I made to you I made it perfectly clear that the bicycle movement and the environment movement find completely intolerable the 30 years of chronic discrimination that there has been by the Commonwealth against pedestrians and cyclists, as compared with what is provided in the Netherlands and northern Europe and, since 1991, what has come in on the side from the USA. Last year, because of the ISTEА legislation, \$450 million was spent on bicycle and pedestrian projects throughout the USA.

We want to see an end to the discrimination and we certainly want to see an end to the seeming preoccupation with the fact that roads are perceived as being just for trucks or buses or cars: they are not. A definition of a road happens to include, under traffic law in every state, bicycle facilities. An off-road bicycle path is a shared footway, and it comes under the Traffic Act, and what we are seeking is proper recognition of the role of non-motorised transport. The only way we are going to get that in this country is if we have this kind of legislation; but, at the moment, you have got a Senate environmental powers inquiry that is going to look at why Australia's performance is so pitiful, so bad and so fundamentally useless. And it has got a lot to do with the fact that there is no enabling legislation. We need that enabling ISTEА legislation.

We are saying go back to the drawing board. The entire system of road and transport funding is utterly and totally obsolete. Your terms of reference make it perfectly clear that you are entitled to look at the whole question of road funding and how it relates to long-term needs, so we are arguing that we would like to see the thing tipped upside down. We would like to see this country dragged in to the end of the 20th century, and we would like to see the US EPA and the US transport department model adopted because it does work and it is extremely sound. I repeat the offer: if you want the ISTEА CD-ROM and you want to

know exactly what the Americans are up to, okay.

CHAIR—I come back to my question. In clearly defining the roles and responsibilities of road funding—and that is what this inquiry is all about—where do you see the responsibilities of the Commonwealth finishing and those of the states starting, as far as the implementation goes of the sorts of measures that you are talking about? You are not talking about pathways and bicycle ways away up on the Hume Highway; you are talking about them in and around cities like Melbourne. Should it be a state responsibility, or should it be a Commonwealth responsibility?

Mr Parker—It is not that simple. In the USA, implementation is a state and local government responsibility, in the same way as it is here; but there is US federal funding in every city above 200,000 in the United States, and public transportation projects are going ahead because the federal government over there considers it a prime responsibility to provide the funding. In every single American state, there is a state bicycle/pedestrian planning unit with half-a-dozen engineers and planners working away, and that is all funded under the ISTEA program. I recently listened to the transportation manager for the city of Seattle talking about the developments they have got there, with the provision of light rail systems, et cetera. All that I am saying is that you have got a system that is fundamentally irrational and does not address major issues. I cannot alter the fact that you do not see the reduction of greenhouse gas emissions the way it ought to be seen. It is fundamentally a national security issue.

CHAIR—It is a national issue. You made reference to what is happening in Europe. As far as greenhouse gas emissions in Europe are concerned, they are focusing on public transport infrastructure and on trying to keep the motor car out of the major cities. But I certainly do not subscribe to the point of view that you do, that this country is suffering environmentally in the way some of those countries in Europe are and the way the United States is.

Mr McDougall—Mr Parker, I understand your passion and what you are saying about greenhouse emissions. But when you consider the treaty that was signed and the standard that has got to be met, Europe and America are starting at a far higher base than we are to be able to get down to meet those standards that have been set under that treaty. In fact, because we are at such a low base to start off with, it is probably going to be near impossible to meet that. To make the comparison as broad based as you have, you make the assumption that we are on the same sort of emission levels that the US and Europe are so that we can automatically bring them down because we have the same amount of problem. I would question that.

I came from local government prior to becoming a member of parliament. I come from a city where there was an enormous amount of money put into bicycle ways, both recreational and commuter—alongside freeways, right through creek systems, connecting shopping centres and schools, connecting community areas. The consequence of that has been very little use of the bikeways over a 10-year period and an increase in public transport and bus fares by 63 per cent. The reason all that has happened is that people are not using them. We have got a cultural problem. So, in realistic terms, I would like to know how we get people out of cars and into these systems even when we supply the infrastructure for them?

Mr Parker—First of all, with regard to greenhouse gas emissions, I take the point that we are in a different ball game; I have no objection to that. The point I am making is that, in the area that you are in,

you are not making your contribution because you are not looking at what you can do under your terms of reference. I take your point about the—

Mr McDOUGALL—I challenge you on that last bit because, during that 10 years, that bike construction was half funded by the Commonwealth government.

Mr Parker—That is your second question. If I can answer that second question, you are talking about Canberra, obviously.

Mr McDOUGALL—No, I am not. I am talking about Brisbane.

Mr Parker—Brisbane! You are kidding.

Mr McDOUGALL—We have got bikeways. They are there. They are not being used.

Mr Parker—I do not consider Brisbane to be a satisfactory example of world best practice; it is a basket case compared with most of Europe. For God's sake, man, let's be realistic! When did you ever know anybody who had any experience of riding over bicycle paths in Europe and is aware of what world best practice is? It is 28 per cent of trips to work in the Netherlands. The Netherlands, I might add, has the same population as Australia.

Mr McDOUGALL—Completely different terrain.

Mr Parker—They have been spending \$150 million to \$200 million a year for 20 years—since 1974. It is not a cultural thing. It has got to do with building the infrastructure. If you think that what you have got in Brisbane is in any way related to that, I just cannot see it. You go and take the average woman and put her on a bicycle in Brisbane, and then put her on a bicycle in a Dutch city, and you will tell the difference. In Australia, with male sexist bicycle planning and male sexist attitudes to transportation, only one woman cycles for every four males. That is because of the way the road system is designed.

If you go to the Netherlands, out of the 28 per cent of all trips to work made by bicycle you will find that 15 to 16 per cent—that is, just over half—are made by women because the physical environment is basically bicycle friendly. That is the simple answer to your question. I have got the Dutch bikeway design manuals. I will tell you this: the Dutch invested \$150 million to \$200 million a year, which is a useful yardstick, because we have roughly the same population and have comparable urban areas in the Netherlands and Australia. The Dutch do not cycle to Lisbon and they do not cycle to Naples any more than we cycle to Alice Springs or whatever. If you look at the surface area of the urban areas you will find that they are approximately the same—37,200 square kilometres in the one case and 32,600 square kilometres in the other case. But there is a difference. There are little green belts all over the place and you have got medium density development in between.

However, the point that I am making is that nobody could accuse the Dutch government of discrimination against cycling generally and female cyclists in particular. There is no way anybody could do that because they put their money where their mouth is. Following the 1974 oil crisis, they realised what

problems they were going to have and they put in the funding. We have never had that. I want to know why, when this Commonwealth government consults with its national greenhouse strategy, the bureaucrats come along and put in a great big wish list: 'These are all the things we want to do for cycling.' They want state and local government responsibility but we get no federal funding. You get federal funding in Norway, Denmark, Sweden, Finland and even Britain now. It is conditional with the transport regulations, and we are now getting it even in the USA. Why can we not catch up? This is the other reason, which brings me back to the ISTEPA legislation; let us get it.

Mr WILLIS—Mr Parker, I just make the point that the reason that we have a relatively high level of greenhouse gases per head of population compared with a lot of other countries is not because we have a high level of cars per head, certainly nothing like the USA. It is because we have an economy which is conducive to the production of greenhouse gases—in particular, a very high proportion of cattle and sheep, which produce methane gases—and an energy intensive economy using high producers of energy like coal, which emits greenhouse gases particularly when used to produce energy intensive products, which we are very much into. That is why we have a relatively high level of greenhouse gas development and why we have a particular problem in that area. It is not because we are being prolific in the use of cars compared with countries like the United States, which is much more prolific than we are. That said, can I ask you what you are suggesting here? You talk about a need for a Commonwealth government to invest \$1 billion in a bicycle infrastructure master plan. What is this bicycle infrastructure that you would have us spend \$1 billion on over 10 years?

Mr Parker—I am using a rough rule of thumb.

Mr WILLIS—Sure, I appreciate that; but what is the infrastructure? Is it just bike paths? Where do they go? What is the derivation of this sort of money?

Mr Parker—It is really simple. I have got bicycle plans for over 80 municipalities in Australia. I have got them for all the capital cities, in my own private library. I have been involved in negotiations with all of them. Most of them have never been properly implemented. We have got \$70 million worth of facilities queuing up in a plan here in Melbourne and we have been going backwards because we have only been getting \$1.5 million per year. You actually do come across some sympathetic politicians. Recently, the Premier of Western Australia—we had our international bicycle planning conference in Perth—gave us \$25 million over four years to implement the Perth Bicycle Plan. But, on a pro rata basis compared with the Netherlands, you cannot seriously say that you are looking at providing bicycle facilities for a city the size of Melbourne with under \$25 million a year. You are kidding yourself. What is actually happening is that those outer suburbs are exploding. You are getting an increase in bicycle use in the inner suburbs and there all that you are getting is more and more car usage. There are no transport strategies in place.

In my second submission I have outlined what world best practice is in this area. You should accept your responsibility—which, from what I gather, you do not. I am not getting into the business of talking about greenhouse gas reductions from cows or the agricultural sector or mining: that is another problem. I am sitting here today talking about the transport sector and what can be done in the transport sector, for which you gentlemen have some kind of responsibility.

I have some kind of responsibility in the sense that it is an area that I know something about and I liaise and work with a lot of the environment groups. So let us stick to our own area, which is transport, and do the best that can be possibly done in the transport area and forget the other issues, because other people are going to deal with those and other inquiries are going to deal with them.

Mr WILLIS—We keep going back to the Netherlands. Well, the Netherlands is as flat as a tack and there are lots of small towns. It is an entirely different place from Australia, as it is much more conducive to bicycles than this country is geographically and with the way in which we developed our large cities. Are you talking just bike paths or are you talking about bike sheds at railway stations or anything else?

Mr Parker—There is a great swag of facilities that are needed.

Mr WILLIS—But you give us no idea of what it is.

Mr Parker—I am working at a conceptual level here. First of all, I am not really flogging the Dutch way of planning their cities. I am actually saying to use America as a model, because their problem is even worse than what we have got and at least they are tackling it, getting the facilities built and getting positive changes.

I did start off by talking about using this ISTEA American model because it is far more relevant to what we have got. I really do not like getting into the Dutch thing, because on residential streets, for instance, they have a 30 kilometres per hour residential speed limit. It is now 20 miles an hour in the UK. The whole of Scandinavia has moved to a 30 kilometres an hour residential speed limit. There are a load of traffic management devices backing that up, and stuff like that, but that costs money.

I am talking about facilities like bicycle lockers at railway stations, as we have done in the better cities program in Perth. We are talking about the containment of traffic in residential areas, low speed limits, everything. The Australian situation is a lot different to Europe and there is nobody more aware of it than I am because I have cycled around eight or nine English new towns. I have cycled around Amsterdam and I am going to the Netherlands to ride in two months time to do a big photographic collection. I have also got the Dutch national bikeway design manual, which is far superior to ours.

Mr McARTHUR—Could I get a short assessment of your part in the submission about using bikes from railway stations or bus stops and the way in which you move people by bicycle back to their domestic dwelling? Could you give me your assessment of those possibilities?

Mr Parker—In Australia it should be extremely good to do that. I will give you a model. Up to 40 to 50 kilometres outside Tokyo or outside Osaka, you will find that 40 to 50 per cent of the population get to a railway station and they come about the same distance as they do here, but they come by bike. They are not going to do it here because you do not have a national government that sees it as in its best interest to encourage public transportation.

Petrol in Japan, for instance, is about \$2.50 a gallon. It has got the most stringent and the most vicious anti-parking legislation of any country in the world. If you want to buy a car parking space in the

middle of Tokyo it costs \$120,000. Of course, in Japan everybody uses public transport. The government spent over \$3½ billion in the last 15 years on providing secure bicycle parking facilities at stations.

Of course, it works; and, of course, 3½ million Japanese ride bikes to the railway station. But, there again, you have got to provide the funding. The only funding we have ever had from federal sources was under the better cities program, with Brian Howe's department. But, even then, only half the railway systems thought to take it up. The interesting thing about the American legislation is that each city has to have a proper overall transportation plan and all of these things have to be dealt with; and so you do not lose out on things like that.

CHAIR—We are just about out of time. Mr Parker, I would like to thank you very much for coming along this afternoon and also for your submission. If there is any further information the committee might like to get from your organisation, we will put that in writing to you. Thank you very much for your evidence.

[4.41 p.m.]

OGDEN, Professor Kenneth, Group Manager—Public Policy, Royal Automobile Club of Victoria Ltd, 550 Princes Highway, Noble Park, Victoria 3174

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

Prof. Ogden—Firstly, thank you for giving us the opportunity to appear before you today. We have, as you say, made a written submission to the inquiry, as indeed has the Australian Automobile Association, which is the national secretariat of all of the state motoring clubs. The AAA submission sets out some broad national principles; and, in the RACV submission, we have elaborated on these principles as they apply in Victoria. I should say also that the AAA submission also attempts to answer each of the specific questions that you raised in your issues paper. Having had a look at most of the submissions, I think we are one of the few submissions to have done that.

I would like in this opening statement to highlight what I believe are the seven key points that essentially summarise the RACV position. Firstly, we believe that there is a legitimate and important role for the federal government in road funding. Secondly, we believe that it is vital that the federal government involvement is such that it maximises the achievement of explicit national economic and other goals. Thirdly, we call for a national inquiry into the adequacy of Australia's road and transport infrastructure and hence the level and direction of investment that is needed to maintain our international competitiveness.

Fourthly, we note that there are important road projects that would contribute to national economic and social goals, but which are not being funded, because the Commonwealth currently funds projects on a very limited network only. We therefore submit that the federal government should take responsibility for a broader network than the existing national highway system and roads of national importance. We have called this broader network 'ARNED', the Australian Road Network for Economic Development. We further argue that candidate projects on ARNED should be prioritised according to explicit economic and other criteria.

Fifthly, we propose the corporatisation of the federal government's road program. I point out that this will bring roads into line with every other major infrastructure sector, where decisions are at arms-length from government; where there is transparency in decision making; and where there is a close relationship between customer and provider, and also accountability to the community. A federal roads corporation would operate under a statement of intent with the federal government and would have an explicit charter to invest in road projects which maximised national objectives.

Mr Chairman, I think it is very significant that, in their submissions to the inquiry—in addition to the motoring clubs—the Business Council of Australia, the Road Transport Forum and the Australian Tourism Council have all called for corporatisation. This means that all the major user groups—the private motorists, the business users, the trucking companies and the tourist operators—have seen corporatisation as an essential reform.

Sixthly, we recommend that the federal roads corporation should be funded, initially at least, by a fuel

based road-user charge levied in lieu of a corresponding amount of the federal petroleum excise and credited directly to the corporation, without going into consolidated revenue.

Finally, the RACV proposes that the principles which have been outlined in the AAA submission, as they apply in Victoria, would see the ARNED network in Victoria comprising the routes shown on the map which we have tabled and is being distributed to you. This would include the existing national highway system and roads of national importance, namely, the Hume, Western, Goulburn Valley, Sturt and Calder highways and the Western Ring Road; but, in addition, we would propose the remainder of the Metropolitan Ring Road or orbital corridor, plus the Princes Highway East and West. Thank you, Mr Chairman.

CHAIR—Professor Ogden, you were talking about the corporatisation of all the stakeholders or interested parties in the national roads network. Could you clarify that for me?

Prof. Ogden—I have had a look at the submissions to the inquiry and I noticed that the four groups that I mentioned—that is, in addition to the AAA, the Business Council of Australia, the Road Transport Forum and the Australian Tourism Council—all called for corporatisation of the road funding function.

CHAIR—You mentioned the hypothecation, I suppose you could call it, of road user charges. Are you talking about all the mineral oil excise that is charged?

Prof. Ogden—No; and I would not call it hypothecation. I would no more call that hypothecation than I would call my telephone bill or my gas bill or water bill hypothecation. It is a charge for a piece of public sector infrastructure. What we would see is that the corporation would be set up and it would have a revenue stream. For the moment, the most convenient revenue stream is one based on fuel, because that relates to usage; we might want to finesse that and have some fixed charge as well, but let us keep it simple for the moment, as a fuel based charge. But we would see that charge as being the revenue for the federal roads corporation and that charge would be levied in lieu of a corresponding amount of the federal excise.

CHAIR—Okay, you are drawing that equivalent. So you are saying that there should be \$10 billion or \$11 billion allocated to that organisation annually?

Prof. Ogden—We would see this emerging over time. Initially, we would see the first step as establishing the corporation. Over time, we would then see a closer link—a market link, if you like—between the provider of the service and its customers; in time, the appropriate level of charge would be settled, in a sense, in a market mechanism. The starting point, however, would be from where we are now, with the current level of federal roads expenditure being credited directly to the corporation and not going through consolidated revenue.

CHAIR—Okay. In all the evidence that we have been gathering in this inquiry, just about every witness has beaten a path around the issue of how we go about getting a national strategic plan, a vision, of where we are going to go with the road network in Australia for the future. You are suggesting there should be a federal roads corporation as a coordinating body to establish that strategy?

Prof. Ogden—I would point out, Mr Chairman, that this is not particularly radical. We have gone

through this route with just about every other major infrastructure provider. I would see the formation of a corporation as falling short of what my vision of transport would be. I would see it as being an important ingredient in the way forward, but I think the vision needs to be broader than that. Our submission makes clear that the role of the corporation is to bring roads into something more aligned with a market economy, so that there are some market signals from the corporation, from its customers, regarding the investments it would make and the charges it would levy—in other words, that it would operate like just about every other sector of the economy. As I have said, we have come this route with all of our other major infrastructure providers over the last 20 years.

CHAIR—Sure, but the difficulty we have in getting agreement on roads emanates from the federal system of government in this country. Until such time as there is some coordinating body where all the states and territories are going to agree to one overall plan and stick to it, and where the plan will be adhered to by all the parties involved, including the stakeholders you are talking about, whether the funding projects go for 10 years or 20 years, it is not going to work. That is going to require a great deal of commitment from all the people involved.

Prof. Ogden—Granted, a great majority of roads are not under the control of the federal government. However, those that are are best administered in this fashion. That is why we have put forward this notion of ARNED—the Australian Road Network for Economic Development—a very limited network but, nevertheless, a greater network than what the federal government envisaged before now.

CHAIR—Do you see that as a bit parallel to the current government's roads of national importance?

Prof. Ogden—No. There will be some important distinctions. It would incorporate the current roads of national importance, at least as far as Victoria is concerned. I have no brief to speak for other states. It would include the current national highway system. It would include, in addition to that, other roads that clearly serve an important national function and contribute to the national economy and national development, roads which are not being funded now simply because of the arbitrary definition of what the federal government will even consider as candidates.

CHAIR—So would you see this category as superseding the national highway and roads of national importance?

Prof. Ogden—That is correct.

CHAIR—And then, underneath that, a subset of state roads and local roads?

Prof. Ogden—We believe that the states would be responsible for roads of a strategic importance within the state. The local roads would be the responsibility of local government, much as they are now.

CHAIR—Would you see all the funding that currently emanates from the Commonwealth via the states to state and local government and also directly to local government going through this corporate body you are talking about?

Prof. Ogden—No, not necessarily. That is essentially a role for the Commonwealth government to play as part of its fiscal equalisation program.

CHAIR—We have been hearing a bit about that today, haven't we?

Mr McARTHUR—I want to follow that line of questioning and your concept of a corporation. Could you give us an example of any other corporation that operates like this? I am concerned about the statutory or commercial framework. Would you set it up so it would actually work?

Prof. Ogden—Yes.

Mr McARTHUR—I accept what you are saying in terms of the possibilities. Could you help the committee a bit with that?

Prof. Ogden—The way we envisage it, Mr McArthur, is that it would operate under a statement of intent with the Commonwealth, so its charter would be clear. Its charter would be to invest in roads that maximised the national economic benefits, and it would operate under possibly a three-year rolling corporate plan, so that it would be accountable to parliament and to the public. It would receive its funds from user charges, as I have said, and its charter would be to invest in projects that maximised the economic development of the nation within the Australian Road Network for Economic Development that we have proposed.

Mr McARTHUR—Can you give us an example, either from Australia or around the world, where this model has worked?

Prof. Ogden—Perhaps the closest would be in New Zealand. The corporatisation model applies to most other areas of infrastructure investment. What is different about this and why it cannot quite work in exactly the way that, say, the Federal Rail Corporation or the Federal Airports Corporation works is because it is responsible for only a part of the network. We are not for one moment proposing that the federal government should take responsibility for the whole of the Australian arterial road network. For that reason, there has to be a certain benefit that you do not put around the other organisations.

Mr McARTHUR—In conceptual terms, what exactly would you see the source of revenue to this corporation as being?

Prof. Ogden—As it is now, based on excise in lieu of a corresponding federal petroleum charge.

Mr McARTHUR—We talked earlier in today's proceedings about \$13 billion being received and \$6 billion being spent. I want you to be a bit more precise on the amount of money this corporation would receive. Is it just that money that the Commonwealth allocated to it?

Prof. Ogden—The starting point would be the funds that the Commonwealth currently allocates to the national highway system and roads of national importance.

Mr McARTHUR—What would happen if government changed their priorities in allocation of road

funding?

Prof. Ogden—This, of course, is part of the point of corporatisation. It moves away from government determination as to what is spent in this sector and into a closer link between provider and customer, as indeed is the case with all other sectors of the economy. The government does not prescribe how much is produced in any other sector of the economy, yet it still does that in the road sector.

Mr McARTHUR—Surely this allocation of the revenue to the corporation is the problem. The problem to the states, the Commonwealth and local government has been how much the Commonwealth would allow them to have.

Prof. Ogden—That is true. I am challenging you to think of a different way of thinking about what that revenue is. If we are used to thinking of it as Commonwealth revenue that goes through Treasury and is allocated according to annual appropriation, then we are suggesting that we should think about that differently—that at least some of that remains a tax, but part is a user charge. We may find, some years down the track, that that may well be an interim measure.

Mr McARTHUR—How would you develop the user charge?

Prof. Ogden—I think we have to walk before we run here. The first step is corporatisation. The starting point is what we are spending now but, over time, I would believe that, as with other sectors, the link between the provider and the customer would see an appropriate level of investment, therefore an appropriate set of prices, and therefore an appropriate level of investment.

Mr WILLIS—On this ARNED concept, firstly, what do you see the funding arrangements as being? Is this supposed to take the place of the national highway system and the roads of national importance, so those categories would disappear and we would have this category instead? That is a mix of funding. There is 100 per cent funding of the national highway system and shared arrangements on roads of national importance, so how do you see this being done?

Prof. Ogden—The role of the Federal Roads Corporation, as we propose it, is that it would fund projects on a network such as that that you have before you. The responsibility for ownership of that network, as indeed it is now, is with the states. The states actually own the network, and the Commonwealth funds work on that network. We are proposing that the states would have responsibility for maintenance of that network, but the projects on that network would be funded by the Federal Roads Corporation and they would be prioritised against explicit national economic criteria.

Mr WILLIS—So it would be 100 per cent funding?

Prof. Ogden—Yes.

Mr WILLIS—In relation to the proposal to have a bit of a crack of the whip for Victoria—and you might have heard me ask the question earlier—is it not the case that this national specific purpose payment to the states for national highways and roads of national importance and so on is the category which

discriminates most severely against Victoria in the way it turns out with the funding? Rather than developing some new system, would not Victoria do better by simply saying, 'Get rid of that categorisation; just give all the money to the states via untied grants on the basis that you are giving it now, which is much closer to the population share'?

I just quickly calculated that if Victoria got 25 per cent of the national highways and roads of national importance black spots money, rather than 14 per cent, it would get about another \$80 million a year. If that were distributed on an untied grants basis, like the other moneys that come to the states, Victoria would do much better. Why do you not go down that path rather than this other course which is probably not going to give Victoria anything like the same deal?

Prof. Ogden—Thank you for that question. There are two or three points I can make in answer to it.

Mr WILLIS—It is not meant to indicate a point of view of mine, necessarily; it is just to challenge you to a response.

Prof. Ogden—You are quite right that, if in fact our objective were to maximise Victoria's revenue in the short term, that may be the way to go. However, it is a national inquiry and we do believe that there is a legitimate role for the national government. If it were left solely to the states, there would be important national objectives that were unlikely to be met.

Secondly, we see the difficulty and the reason Victoria falls short of receiving what some may regard as a more equitable share of the national highway program as being that that is a very limited network and that there are very good projects in Victoria that are not even candidates because they are not on the network—and no doubt there are in other states as well, but we will talk for the moment about Victoria.

The third point is that what we would see emerging from this is a very clear role for the national government. Within that ARNED program that we put forward, we would see certainly some very worthy candidates that would be very good candidates for funding by the Federal Roads Corporation. But we are starting from a point of recognising and acknowledging the terms of reference of the inquiry: it is a national road funding inquiry, and our purpose is not to end up with funds for Victoria. But, if indeed we do that—and we believe we would—that is an outcome of the process and not the starting point.

Mr WILLIS—Does not that answer indicate why there is this imbalance for Victoria? You said the first point in response to me was that you need this national concept because there are national objectives to be met. That is precisely the point, it seems to me. The national government, in looking at the competing priorities around the country, has decided that there are better priorities for expenditure, rightly or wrongly—and it has done this fairly consistently over a long period of time—in places other than Victoria. So Victoria is losing out because of this concern about national objectives.

If that is the case, doesn't that indicate that in Victoria the problem has not been that there is a lack of projects here—there are plenty of other projects on the existing national highway network that you have indicated and that others have talked about that could be funded—but that there are better priorities, in the view of the Commonwealth, in other places, including the possible classification as roads of national

importance?

Prof. Ogden—It is that last point we are challenging. We would say that if there are important projects that satisfy clear national objectives in the state but that are not being funded because the system does not allow them to be funded, there is something wrong with the system.

Mr WILLIS—But the system is elastic in the sense that roads can be classified as roads of national importance. There is nothing that stops other roads being included in that, other than the Commonwealth's decision as to whether it will include them or not.

Prof. Ogden—That is really why we are suggesting we have another good look at what it is that the federal government is trying to do with its roads program. We think the historical basis of the national highway system, which is really to link the capital cities, has largely been achieved. Roads of national importance are a very recent innovation and their criteria are, to say the least, vague. We think the committee should give serious consideration to broadening the network that would be candidates for federal government funding and then, within that, to fund on the basis of clear economic criteria.

Mr WILLIS—Do you think that requires additional funds to be made available by the Commonwealth through the process that you have articulated here?

Prof. Ogden—In our submission we do not explicitly call for more funds as such. However, we note there is evidence of inadequacy in the road funding and, indeed, in transport infrastructure funding generally. You will notice that one of the points we have made is that we call for this committee to call for a broader inquiry into the way that Australia thinks about its infrastructure.

I read the transcript of the Sydney hearings and, Mr Willis, I think you expressed very succinctly the reason why the private sector, for example, is becoming more involved with infrastructure funding; and that is, essentially, because governments have a preoccupation with cutting taxes and reducing debt. This has reduced the amount available to spend on infrastructure, and so the private sector has come in.

We think that, while that may be a good thing, it should happen on some basis of a national vision for what our future is, what the role of infrastructure is, and what the private sector role in that infrastructure is. We think it has come about in a somewhat ad hoc fashion. A consequence of that is that, as a nation, we are spending less on infrastructure than those countries we compare ourselves with, and that is not just transport infrastructure.

Mr McDOUGALL—I am looking at your little map, and you have outlined on that a range of roads which would come under this network that you are proposing. Your sister or brother organisations in the other states did not supply us with such a wonderful document, but I would assume you have all got together under the AAA and come up with a total of what you are suggesting would be this economic network for economic development. Is that available for the committee to have a look at and, if so, have you costed it, in rough terms?

Prof. Ogden—The answer is no to both parts of your question. The criteria were developed by the

Australian Automobile Association by a small committee drawn from several of the motoring clubs. The concept of ARNED was developed within AAA. The definition of ARNED and the notion that projects within ARNED should be prioritised according to their economic and social importance to the nation is within the AAA submission. That AAA submission has been endorsed by all of the state automobile clubs. It is not our role in RACV to speak for other states. What we did was to look at that ARNED proposal which emanated from AAA and ask how that would apply in Victoria, and what you have in your hands is what we came up with.

We have not spoken to our colleagues in the other states to see if they have done the same thing. I presume they have, but we have not spoken to them about that. As I said in answer to an earlier question, we believe that this was a national inquiry and it should be tackled at the national level through AAA. Our submission from RACV endorses totally the AAA submission and then goes on to say, within the AAA submission, how it would apply here in Victoria.

Mr McDOUGALL—I suppose I am saying that, at the end of the day, if you were to consider such a proposal as a policy track you would end up with the roads corporation that you are talking about. I assume that would have some sort of rolling strategic planning as well as in construction. Once you set up, you get to the sorts of costs involved. I am trying to run through some figures in my mind. At the end of the day you have two options: either you take a bigger slug out of the petrol excise than is currently used on roads or the states lose a lot of money back to the Commonwealth in relation to being able to fund such a program. Which way are you proposing that that should go?

Prof. Ogden—Again, over time, the corporation would develop a market link—or a link through pricing, through demand, with its customer—that would settle the price it was charged and would settle the investment program, as it does with any other commodity in our economy. However, we would say that the starting point is the current level of investment in the national highway system and roads of national importance. That would be levied as a user charge and paid directly to the corporation and the corporation would expend that on projects within this network. You would not, as with the national highway system, be responsible for the maintenance of that network. Its role would be explicitly to fund projects of significant national benefit.

Mr McDOUGALL—Are you suggesting that the current federal money that goes to maintenance should come out of maintenance and go into construction for this network?

Prof. Ogden—No, we would propose that that would go to the states for maintenance.

Mr McDOUGALL—As it does now?

Prof. Ogden—Yes.

Mr McDOUGALL—Where are we going to find the extra money? The network that you are proposing is much bigger than the national highway and the national roads of importance. Looking at that alone, it is considerable. How much dent is that current budget going to make in that?

Prof. Ogden—The difference is that at the moment the federal government is responsible for

everything that happens on the national highway system. We are saying that it should consider a larger system but that it should only fund specific projects that have a high cost-benefit ratio—if that was your criterion—on that network.

Mr McDOUGALL—So then you are passing other work within the national highway system back to the states.

Prof. Ogden—On what is currently designated to the national highway system, yes.

CHAIR—We have received the map on the ARNED roads from RACV. Is it the wish of the committee that the document be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The document read as follows—

Mr McARTHUR—Your interesting proposal emerges from what criticism of the current arrangements? We have had a lot of debate around Australia about tied and untied methods of funding state and local governments. What does your organisation say is wrong with the current arrangements, with all their imperfections?

CHAIR—They want to take the politics out of it.

Mr McARTHUR—I did not ask that, Chairman.

Prof. Ogden—The role of the Federal Roads Corporation, if that is what you are asking about, is to fund projects within this Australian Road Network for Economic Development. That is its role. We see the problem with the current system as being that the candidate projects are too restrictive. They are very good projects that serve national needs but they are not even being considered as candidates for federal funding because they are not on the candidate list. They are not part of the national highway system.

Mr McARTHUR—But what about the suggestion from Mr Willis about the availability of resources to fund these sorts of projects? Fundamentally, even under the current regime, the question of the availability of funds is the final determinant.

Prof. Ogden—As I have said, the starting point would be where we are now.

Mr McARTHUR—Is it your organisation's view that there needs to be more funds available for road funding?

Prof. Ogden—We would certainly not say it was no. But we are saying that Australia needs to address in a broader context what it is committing itself to in terms of its investment in infrastructure generally. It is not just a road issue, and it is not even just a transport issue. Look at the level of expenditure, at the renewable capital, at the rate at which we are running down our capital stocks—not just in roads but perhaps especially roads—right across Australia. We are not renewing our capital stock at as rapid a rate as our competitors, which means that we are falling behind. These are very lofty questions, and we think that they are beyond the scope of your inquiry. But perhaps this inquiry would do well to recommend that we take a good hard look at those questions.

Mr McARTHUR—The counterargument to your proposition could quite simply be that it is another mechanism for getting further funds from the Commonwealth purse.

Prof. Ogden—But remember that we have taken the funds out of the Commonwealth. We have established a direct relationship between the Federal Roads Corporation and its customers.

Mr McARTHUR—The Commonwealth will fund it. You have not given us any tangible evidence of how any further funds will flow, except from the fuel excise. User charge is a word that you have used, but there is no evidence of what that means. We have all struggled with that argument—

Prof. Ogden—I am sorry if I have not made it clear. At the moment, we have a federal excise. A

portion of that can be regarded as a tax, and governments are entitled to tax whatever they want. We would not argue with that. A portion of that can be regarded as a road user charge. We are saying that the starting point will be what is spent now but that, over time, there would be a relationship between the Federal Roads Corporation and its customers—as between any other provider and its customers—that would settle price, a revenue stream and the level of investment. But this would take time to emerge and I cannot sit here now and say what that level of charge would be. But I am saying that the starting point is where we are now.

CHAIR—In the proposed Federal Roads Corporation, what role would the Commonwealth play in that?

Prof. Ogden—The Federal Roads Corporation would have a relationship with the Commonwealth through a statement of intent. That is a term that is used in New Zealand, and we may wish to use some other term; but I think it sums up very well what the relationship is. It makes it very clear what the role and the charter of the Federal Roads Corporation are; and there would be, as we would expect, within that statement of intent an agreed corporate plan—perhaps a three-year corporate plan, a rolling plan, or some such mechanism—that would make the Federal Roads Corporation accountable to parliament through the minister.

CHAIR—So is it going to be a corporation that is a government business enterprise? Are we talking about that sort of a corporation?

Prof. Ogden—It is a corporation, analogous to the Federal Airports Corporation or the Federal Rail Corporation.

CHAIR—So you are talking about a corporation that is established and the Commonwealth is the shareholder?

Prof. Ogden—Yes.

CHAIR—And, at arms-length, responsible to the minister for transport, both by way of funding and also by way of regulation.

Prof. Ogden—Exactly, and its funding stream is a road user charge.

CHAIR—Does something similar to that exist in New Zealand?

Prof. Ogden—Yes. Of course, the difference in New Zealand is that there is a single level of government. So there is not the complication that Australia has.

CHAIR—But, by the same token, if it is a GBE in New Zealand, it would be responsible to two ministers. There is normally the regulatory minister, the portfolio minister, and a minister responsible as a shareholding minister.

Prof. Ogden—We would see the regulatory mechanism as being through the ACCC.

CHAIR—Okay. I know we have laboured this point but we may as well get ourselves prepared for when the AAA appears before us in Canberra. The level of initial funding that is being suggested is, I think, about \$800 million or \$900 million, which is what is spent at the moment on the national highway system, plus what is spent on state highways.

Prof. Ogden—That is what is spent, to my knowledge.

CHAIR—Currently, the Commonwealth has about \$867 million on national highways and it has the RONIs, the roads of national importance and black spots. That is the total amount of money you are looking at, at the moment, to go directly into the Federal Roads Corporation.

Prof. Ogden—I do not think we have been clear, one way or the other, about the black spots issue; but certainly there are the RONIs and the national highway system.

CHAIR—The debt is coming out of the Federal Office of Road Safety.

Prof. Ogden—Yes, it may well be that that should continue, with a mechanism similar to the current mechanism. But the investment in major new projects of national significance would be the funds that currently go into the national highway system, plus those that go into RONIs.

CHAIR—Okay. But, ultimately, you want that related to a road user charge. Call the fuel tax what you like, but ultimately you want that related to a road user charge.

Prof. Ogden—Yes: that portion of the current fuel excise that is equivalent to the amount that you have just outlined should be paid as a road user charge directly to the Federal Roads Corporation.

Mr McARTHUR—The element that is untied from the Commonwealth and comes back to the states is designated for road funding. What is your attitude towards that amount of money?

Prof. Ogden—We would see that—pro tempore, at least—as being unchanged. That is a legitimate role for the federal government to play vis-a-vis its relationship with the states and local government.

Mr McARTHUR—Would you reallocate the amount of money that was untied?

Prof. Ogden—No. Remember that what we are talking about here with ARNED is a limited network. The funds that you are talking about do not go onto the existing national highway system, nor would they go onto ARNED. We see no reason to change that.

Mr McARTHUR—So you would end up with a dual system. You would have the Commonwealth funding through your corporation and you would have the untied grants moving to the state instrumentalities to spend on road funding and maintenance as they saw fit.

Prof. Ogden—The untied grants are with FAG, and I do not think that that would need to change because of the evolution of an ARNED proposal. Those funds are not spent on ARNED.

Mr McARTHUR—But this argument of the untied grants through the FAG, as compared with direct federal funding, is fairly significant though, is it not?

Prof. Ogden—That is why we think that there is an advantage in corporatising that part of the highway network—and we will call it ARNED—for which the federal government is directly responsible; and there are advantages in having that funded through an explicit user charge.

Mr McDOUGALL—The chairman was going through the figures that were going to add up to the figure that was going to the corporation. But, in adding all those up, he has added the maintenance side that goes through now. What you have to take out of that \$900 million is the maintenance component, which is considerable.

Prof. Ogden—Could I take that question on notice? I do not have the numbers in front of me.

Mr McDOUGALL—Could you do that so that we could just clarify that point?

Prof. Ogden—Certainly.

CHAIR—Are you happy to get back to us with that information in regard to the maintenance component?

Prof. Ogden—Certainly.

CHAIR—Because part of that certainly is relevant to maintenance on those roads. Thank you very much for your submission and for helping us out this afternoon.

[5.17 p.m.]

MANNERS, Mr Clay, Policy Director, Victorian Farmers Federation, 24 Collins Street, Melbourne, Victoria 3000

WALSH, Mr Peter, Deputy President, Victorian Farmers Federation, 24 Collins Street, Melbourne, Victoria 3000

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

Mr Manners—We see road funding as very important to Australia. We have the highest volume of road freight per capita in the OECD. Therefore the task of this committee in terms of the road funding issue is a very important one. The proportion of fuel tax that is spent on roads has been steadily declining over the past 10 or 15 years, as I am sure a number of witnesses would have discussed.

The pressure is on governments to spend more on consumption and less on investment with a flow-on to roads. We think that there needs to be a hold put on those trends so that the proportion of revenue that currently goes to roads as a proportion of fuel excise is hypothecated to roads, so that those trends do not continue into the future. Over time, we would like to see those trends reversed and a greater proportion of taxes that are raised from road users through fuel used back on roads.

The other issue we see is that road funding is currently very fragmented. We have federal road funding programs, state funding road programs and local government road funding programs. We think that this fragmentation is one of the problems that we face with roads. Our view is that road funding is an appropriate prime state government responsibility. The state government should be responsible for roads and they should have the taxing powers and the funding capability to undertake that responsibility.

We believe that economics and cost-benefit ratios are not the sole factor that should drive road funding, but that there are social issues that need to be taken into account. We believe that state governments have the capability to set the appropriate balance between social and economic objectives in allocating road funding between competing projects.

The Commonwealth's role in funding is that it is to pursue the national interest, and nobody doubts that. The question that we would critically raise is: how do the state's objectives differ from the national interest? It is in Victoria's interests to build roads which enable Victorian industry to service national markets as efficiently as possible. It is also in Victoria's interests to ensure that the goods that Victorians buy from interstate are efficiently transported into this state. In short, Victorian priorities in our view correspond to national priorities.

The assumption that we need significant Commonwealth intervention to ensure that state funding priorities coincide with national priorities needs to be challenged. There is a role for the Commonwealth in setting standards and making sure that we do not have separate gauges between the states. But the role of the Commonwealth in ensuring that what the states pursue in their own interests differs from the national interest is probably much less than, certainly, the level of Commonwealth funding.

Now our argument is not that there should be less funding on roads. Quite the contrary. We believe that there probably is a strong economic argument for more funding on roads. In fact, many of the cost-benefit ratios that you see suggest that there is a strong argument for funding in roads. But our view is that the responsibility for roads ought to be a state responsibility and the states ought to have the commensurate taxing powers to undertake that task. The Commonwealth should step back from direct involvement in road funding and back off from taxing road users through fuel taxes.

We are also very concerned about the balance of taxes in Australia. Most other OECD countries tax diesel at a lower rate than they tax petrol. Australia is an exception. In Victoria we currently tax diesel at a much higher rate. Fortunately, since our submission was written, the state government has amended that and reduced the tax on diesel from 1 June. Diesel powers Australian business. It particularly powers business in rural areas, and we believe that there is a need to look at reducing the overall tax on diesel to that which equates to the amount of a road user charge. We should be reducing and ultimately removing the general taxation component of the tax on diesel. Certainly, we believe that the first step to doing that should be to remove the indexation.

The question of country and city prices for fuel is one that our organisation has had a strong interest in. There is an argument that, based on the external costs of things like air pollution, air congestion, noise pollution and the like, the costs of road use in the cities is higher than in the country, and that the cost of fuel should correspondingly reflect those externalities. The reality is of course that fuel prices in the country are much higher. The wholesale price of fuel sold to the country is about 3c per litre higher than it is for fuel sold to the city.

In fact, in our view there is a strong case for the government to correct this market failure by taxing fuel in the country at a lower rate than in the city. South Australia already does that to some extent, and some other overseas countries, particularly British Columbia, are looking at the same system. In Victoria there is a problem with local roads. That is partly due to the fact that we had a wet winter last year, and the changes to local government are anticipating it. Our members are telling us that there is significant deterioration in local roads in country areas.

I am sure that this has been discussed earlier today, but Victoria seems to be disadvantaged by the current system of federal road funding. Victoria appears to get a much lower proportion of Commonwealth road funding than the road transport tasks that occur in this state. I think the VFF would support calls for that issue to be addressed, but the proposals that we are suggesting, if implemented in that way, would address that problem. I think that the proposal stands alone and you can adjust the state and federal relativities without altering the proposal itself.

In summary, we recommend a rethink of the road funding arrangements so that there is a shift back to the states for road funding. Also, the states should be given the taxing powers—that is, the Commonwealth should reduce its excise on fuel with a corresponding increase in state fuel franchise fees, so that the actual tax take remains the same—and the states should be given prime responsibility. We reiterate the problem we see with the diesel taxing rate, which disadvantages business in the country.

CHAIR—So you would see that the Commonwealth is not involved in road infrastructure in Australia

at all?

Mr Manners—That is a big statement, but I certainly think that the responsibility for the Commonwealth's involvement in road infrastructure is far less than it currently is. If there is a case for it, it ought to be where the states' priorities differ from the national priorities—and, frankly, that is pretty hard to see, in many cases.

CHAIR—You are suggesting that the Commonwealth should only play a coordination role between the states and should not be involved in the strategy as far as roads are concerned, are you?

Mr Manners—Pretty well, yes.

CHAIR—I see us going back to a system of running six or seven different outfits around Australia.

Mr Manners—Would we? We have six or seven different outfits now. We have state road authorities in each state that build and maintain the majority of roads. The actual involvement of the Commonwealth is relatively small. If you drive a truck or a vehicle from Shepparton or some country area down to the port of Melbourne, it is an integrated road network, but you will travel on a local road, a state arterial road, a road of national importance, and a national highway; and then you will fall back into an arterial road and a local road, possibly. It is an integrated road network, but the actual standard of those roads depends very much upon what the grading of any particular road is. We think that is a weakness of our system.

CHAIR—I would suggest to you that the weakness of your proposition might be that, if that were the case and the states were responsible for that infrastructure, a lot of the Hume Highway in the southern part of New South Wales would not have been built.

Mr Manners—That might well have been the case some time ago, but the integration of the Australian economy means that it is just as much in New South Wales's interests as it is in Victoria's interests to ensure the efficient movement of goods between the two states. Really, that argument—which has traditionally been put and has been put for some time in the literature—in the current environment needs to be challenged. In most of the situations that we currently face, the states' interests also correspond to the national interest. Some time ago, when states had distinct economies that were focused on their own capital cities and we were very much a non-integrated nation, indeed, that argument might well have had a lot more strength than it does today.

Mr McDUGALL—Your proposition certainly interests me, but have you done the work to show, on what you would collect on both petrol and diesel litreage sold in the state to give the state government the capacity to put money into roads, how that dollar value works out between the length of road in each state, on a state-by-state basis?

Mr Manners—No, I have not.

Mr McDUGALL—I am trying to find what sort of economic question we are going to be asked if you propose this, and where the imbalance comes, in relation to what is always the question: one state

collects the tax and puts it into their roads, but the volume of traffic uses the roads of another state, which does not get any value out of it. That argument could be put up, particularly where there is a lot of cross-border operations. Have you done that exercise?

Mr Manners—No, I have not.

Mr McDOUGALL—It would have some validity, wouldn't it, if you were able to tell us that, to justify your argument?

Mr Manners—There are lots of things that states do. We have a state system, and states are responsible for a whole range of things. I feel that roads fit within that category. Are you not saying, 'You can't go in this direction because, oh my goodness, it'll mean that some states'—which presumably have long distances of road—'may lose out in revenue, and we couldn't have that.' Is that what you are saying?

Mr McDOUGALL—I am not saying it, but I am putting the proposition to you because, at the end of the day, the question is going to be asked of the politicians who make the decision. The public will have an input into it and the public will ask exactly that question.

Mr Manners—But if each state's road tax was based on the fuel tax within that state—fuel use is a fairly good proxy for the amount of traffic and road use in that state—so that the state's revenue raising potential would be related very closely to the road transport task in that state, states would have the option to have higher or lower levels of tax on fuel as they perceive it is in their state's interest to pursue.

Mr McDOUGALL—So you are going to get rid of federal excise on fuel?

Mr Manners—No.

Mr McDOUGALL—With federal excise on fuel, currently some of it goes towards the roads and the rest of it goes to general revenue. If you do not get rid of federal excise on fuel, you are going to have to—in the case of Queensland—actually create a tax that does not exist. I am sure they are not going to agree to it on that principle alone.

CHAIR—You are already paying it as federal excise. My suggestion is that the responsibility of collecting that be devolved back to the state.

Mr McDOUGALL—So you are getting rid of the tax that the Commonwealth is collecting back to the state. So what is the Commonwealth then going to do to replace the tax that they are currently getting as excise but which they would then give back to the state to collect? We all know the Commonwealth uses the majority of excise collected for other general expenses, not for hypothecating back to roads.

Mr Walsh—But our submission says that the percentage that is currently used for road funding out of that tax would be sent back to the states in their taxing powers, and the rest of it that is used for general revenue tax would be maintained by the Commonwealth.

Mr McDOUGALL—On that basis, then, I would need to see the figures—we are back on the original question I asked in relation to kilometres—for how much money that is, as against how much is currently spent on the road by state and federal combined, and whether or not they would get the same amount of money or better than they are currently getting. It is going to be an economic argument, either way you are arguing it.

Mr Walsh—At the moment, is it fair that Victoria pays more tax to fund the Queensland roads, which have no tax?

Mr McDOUGALL—We could argue that one in a lot of other areas in relation to how one cross-subsidises the other. One of the reasons we have cross-subsidy is that we are a large nation with its typical distribution of population. We have had to have cross-subsidies. We have been through that in other areas. Earlier today we heard evidence from a witness who was saying that everyone is going to leave the bush anyway, and everyone is going to live on the eastern seaboard of Australia. So the argument that I think you are advancing would only advance that a little more quickly. It was the Business Council of Australia that said that.

CHAIR—We are not here to advance that argument.

Mr McDOUGALL—No. Can I ask you this question then? Does the National Farmers Federation agree with your proposal?

Mr Manners—The National Farmers Federation is like every other organisation—it has not quite got to our stage of enlightenment yet. I think there are two issues here. The first issue is about the best way to manage the road system. There is a whole range of government responsibilities within Australia, and we have a federation of states. Some issues ought to be identified as state responsibilities and some issues ought to be identified as Commonwealth responsibilities. We run into problems where there are overlapping sets of responsibilities.

In our view, roads is one of those issues of overlapping responsibilities. Our view is that roads are logically a state responsibility, that states have traditionally been the major players in roads and have the service delivery infrastructure, and that we ought to say, ‘Right, this is the responsibility of the states; it is not a responsibility of the Commonwealth.’

We ought to make that judgment on the basis of the strengths of that argument. Then the issue arises, ‘Oh my goodness, if you move in the direction that we are suggesting, some states will be disadvantaged.’ Then you can ask, ‘Is that true?’ If it is true, then you can simply make adjustments. If, for example, the Commonwealth excise on fuel is 35c and 10c is currently spent on roads, then allocate 9c to the states and the Commonwealth can keep 1c to play with. If there is this need to make adjustments so Queensland does not miss out, then -

Mr McDOUGALL - What about the Northern Territory?

Mr Manners - Or the Northern Territory - I do not care.

Mr McDOUGALL - There are only 140,000 of them up there.

Mr Manners - Whatever the issue, that can be accommodated. It is a separate issue from the question of separating the responsibilities to the states between the Commonwealth and the state, having that level of government which is most appropriate for attacking roads - which we are talking about now - and providing a funding system that is appropriate, giving the state the power to tax that.

I come from the point of view that Victoria gets an unfair crack of the whip. I am sure it has been that about 27 per cent of the road transport task might be in Victoria and that we get 18 or 19 per cent, or some lower percentage of the revenue, back from roads. You may come from a different state, perhaps the Northern Territory, where you have different views -

CHAIR - He is from Queensland.

Mr Manners - Fancy that! You may have a different point of view, but they are two arguments, and if you move in our direction you can still accommodate that. You can accommodate it through the equalisation process, if it comes to that.

CHAIR - If you take that argument to the next stage, would you expect the Commonwealth to hand back responsibilities for health, education and social security to the states? They are the other balancing features in the economy relevant to your 27 per cent and 18 per cent.

Mr Manners - This is getting a bit off the track, because we are talking about roads; but as a country we need to decide whether it is the states' or the Commonwealth's responsibility for education. What we need to avoid is the duplication of responsibilities. Often the public perception is that the Commonwealth has a mortgage on good sense and good government, and that is simply not true. The Commonwealth has its fair share of mix-ups.

A lot of people have the view that only the Commonwealth can do things properly. Both the Commonwealth and the states mess it up from time to time. We have got to choose those functions which are best performed by the states and those functions which are best performed by the Commonwealth, and then allocate them. Where problems arise is in this crossover.

We are talking about roads at the moment, and our view is that roads have traditionally been a state responsibility: the states have the infrastructure and they are best placed to manage roads. We should have the states take on the prime responsibility for roads and the Commonwealth, within reason, should step back from that, except for this coordination role, so we do not have two different gauges and things like that.

Mr McDOUGALL - One more funding question. We heard evidence today about the growing plantation industry and the milk industry growth - which has destroyed our chairman's area! Should the farming industry and the plantation industry be making a contribution towards road construction and maintenance in their areas because they are getting the economic advantage out of those roads?

Mr Walsh - But they are paying for that through the fuel tax at the moment. They are freighting

because -

Mr McDOUGALL - We have other industries that actually make contributions as well as paying their taxes and their fuel taxes. We also have the private sector, like you and I, who buy a block of land and build a house on it but we pay for the infrastructure for that block of land in the price of the block of land. We pay for that development right around this nation. Shouldn't the farming industry, as any other industry, pay their share of the cost of the infrastructure when those roads are upgraded to be able to let them get the economic advantage out of that area?

Mr Walsh - What are examples of the other industries that do it?

Mr McDOUGALL - The mining industry do it. The housing development industry does it. When you buy a block of land you pay for the infrastructure that is put in there. Road, sewerage, water, electricity and all of those infrastructure costs that have gone into developing that piece of land are amortised into the cost of the land. The whole lot, including the major trunk main infrastructure, is amortised.

Mr Walsh - But in the case of mining and housing development where they fund that infrastructure, that would be for their specific own use.

Mr McDOUGALL - No, it becomes public use afterwards.

Mr Walsh - But in general, a street in an urban development does not turn into the Tullamarine Freeway without the government making -

Mr McDOUGALL - No, it is a public street.

Mr Manners - The reality is rural people through the fuel excises pay a disproportionate share of that. The tax on rural people, the 35c -

Mr McDOUGALL - You are coming back to my argument about your suggestion - a disproportionate amount.

Mr Manners - No, rural people, because of the nature and geography of rural areas, are more heavily dependent on vehicles; their industry is dependent on vehicles and road transport. Because the Commonwealth chooses to use fuel as a general taxation measure, they pay a disproportionate share in that form of tax which disadvantages rural people and farmers, classically so. You are suggesting, 'We are giving you that and we are going to charge you a little bit more as well.' We just will not wear it.

Mr McDOUGALL - Be honest with yourself. You get a diesel fuel rebate for the fuel used on the land.

Mr Walsh - We are talking about road freight.

Mr Manners - At least half of the fuel that farmers 'use', that is used in agriculture, is used on the

road, either to transport the goods into the farm or off the farm. Agriculture is a very heavy user of road transport as an industry.

Mr McDOUGALL - You do not have to argue - I came from the farming industry. What I am trying to do is challenge you to give us the answers as to why your proposition has merit. That is what I am trying to find out.

CHAIR - Mr McArthur - who I think is probably a member of the VFF - has a question.

Mr McARTHUR - I declare an interest; I am a paid-up member. Now that the age of enlightenment has reached the VFF in Victoria, could you advise the committee how you are suggesting on the one hand that the tax on diesel be reduced and on the other hand that road funding be increased? How would you organise both those scenarios?

Mr Walsh - I think the reduction of tax on diesel, and fuel taxes in general, is part of the debate for tax reform in Australia, which goes a lot wider than road funding. The argument for increases in funding on roads is the fact that that tax has become a revenue raiser more than a road tax and proportionately roads have suffered as more of that tax has gone to general revenue and less to roads.

Mr McARTHUR - Yes, but if you want to increase the allocation of resources to roads, you have got to find the source of revenue as well. You cannot have it both ways. Whilst I accept the broad thrust of what you are saying - that the fuel taxes have become a source of general revenue to the government - the government is pressed on all fronts, so that if you on the one hand cut down the source of revenue by a reduction in the diesel tax, how are you going to tell your constituency that they can fix up their roads?

Mr Manners - The tax on diesel is 35c a litre, of which, say, 10c goes to roads. Nobody is arguing that that 10c ought not -

Mr McARTHUR - You ought to remember there is a diesel fuel rebate that affects your members as well and that there seemed to be some debate about it over the last 12 months.

Mr Manners - No, we are talking about the diesel used on roads.

Mr McARTHUR - I am aware of that.

Mr Manners - The diesel fuel rebate for off-road use is a very valued change to agriculture. Of the 35c, eight cents goes to roads and there is no argument about that. In fact, there is probably merit in increasing the 8c to 10c. Say it is 10c to keep the arithmetic easy. Our view is that the other 25c which goes to fund general revenue is a tax on regional businesses particularly and it affects the competitiveness of the Australian economy, particularly the export sector which is very heavily dependent upon road transport.

A specific general revenue tax on diesel, as an input to business, does not make a lot of economic sense for a country like Australia, except that the Australian government has financial constraints. So the removal of 25c a litre off the general revenue tax for diesel is not a politically feasible proposition in the

short term. But our view is that as a longer term objective, probably coupled with more general tax reform in Australia, the Australian government ought to be moving to reduce and ultimately remove the general revenue tax on diesel in order to improve the competitiveness of Australian business.

Mr McARTHUR - And you are going to substitute what other tax for that?

Mr Manners - That is a whole other area of debate. One accepts that those sorts of changes cannot be made quickly. Our view is, though, that as a matter of principle that should be accepted by the government and that as a matter of principle the government ought not index diesel on a six-monthly basis and make the current tax system worse. The actual cost to revenue in the short term of not indexing diesel is very small, and that would enable those adjustments to be made.

CHAIR - We might wrap it up there. Thank you, gentlemen, and I appreciate you waiting until this late hour to give your evidence. We certainly appreciate the frankness of the discussion and the thought provoking suggestions that you have made in your evidence this evening and in your submission. On behalf of the committee, I would also like to thank all the witnesses who have given evidence before the public hearing today.

Resolved (on motion by Mr McDougall):

That this committee accepts as evidence and authorises for publication, as submission No. 752, the submission from Balance Research.

Resolved (on motion of Mr McArthur):

That this committee accepts as evidence the documents entitled *Rail based futures project* from Balance Research for inclusion in the committee's records as exhibit No. 42.

Resolved (on motion by Mr McArthur):

That this committee authorises the broadcasting of this public hearing and the publication of the evidence given before it today.

Committee adjourned at 5.49 p.m.