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Submission to the

House of Representatives Standing Committee on Transport and Regional Services

Inquiry into Privatisation of Regional Infrastructure and Government Business Enterprises

February 2004

1. Introduction

The Australian Automobile Association is pleased to respond the invitation from the House of Representatives Standing Committee on Transport and Regional Services to provide a submission to its current Inquiry on Privatisation of Regional Infrastructure and Government Business Enterprises.

The Australian Automobile Association (AAA) represents the interests of over 6 million motorists through its State and Territory motoring Clubs and Associations.

2. Privatisation of Transport Services in Rural and Regional Australia

AAA notes that the Terms of Reference for the Inquiry are wide ranging, in that they refer not only to road transport, but also to rail, aviation, ports, power, and industrial manufacturing sectors. However, the Terms of Reference refer specifically to "rural and regional Australia".

AAA believes that there is in fact very limited application, or potential application, of privatised services for the provision of rural and regional roads. All current Australian toll roads, and as far as we are aware any proposals for further toll roads, relate to Australia's metropolitan regions. There is an obvious and logical reason for this, namely that it is only in metropolitan areas where traffic volumes are sufficiently high to make tolling and private sector investment a realistic financial proposition (we acknowledge that, until the mid-1980s, sections of the Sydney-Newcastle Road were tolled, but this was a very highly trafficked road through difficult terrain where there were few if any alternatives, and in any case was inter-urban rather than rural or regional).

The view of AAA and its constituent Clubs' is that motorists have paid enough in taxes and charges to provide a quality road system, without having to pay tolls for selected links on top of that. We note that in 2002/03, the Federal Government collected $13.25 billion in petroleum products excise yet spent only $1.74 billion on road construction and maintenance. In short, we believe that it is appropriate and equitable that rural and regional roads should be paid for by government, out of the taxes and charges paid by motorists. There is, in our view, very limited scope for privatisation of road provision in rural and regional Australia.

The one possible exception, which to our knowledge has not previously been considered, which is to access private sources of funds to meet the critical backlog of road and transport needs in the outer metropolitan areas of our major cities. For example, in Melbourne, the Royal Automobile Club of Victoria (RACV) has identified a current backlog of projects worth in excess of $2 billion, mostly in improvements to existing roads, although with some new road links. These outer metropolitan areas are growing rapidly, and are being served essentially by former farm access roads which were designed to carry perhaps a few hundred vehicles a day, but which in many cases are now carrying some tens of thousands of vehicles a day. The need is current and urgent, and is not being addressed by State governments.

A possibility may be to assemble a bundle of these projects, engage a private consortium to finance and construct the upgrades, and repay the consortium over a period of years via some form of access charge, shadow toll, or the like. In effect, this implies a forward commitment of State and local government road funds for a future period. It could however have the very valuable outcome of addressing these urgent needs in the short term, and providing immediate benefits.

To our knowledge, this notion has not been entertained or analysed either by the private sector or by government, but it may be something which the Committee would like to examine further. Indeed, it may be an issue which AusLink addresses when the National Land Transport Plan is announced in the context of the 2004-05 Budget.

Of course, any such arrangement is in effect borrowing to invest in roads. Notwithstanding the current fetish for considering debt as a bad thing, we believe that there is in fact merit in borrowing to fund infrastructure, where that infrastructure provides community benefits over many years, possibly many generations. We do not believe that it is in any way inappropriate that future generations, which benefit from infrastructure, should contribute to the provision of that infrastructure through meeting loan repayments. Indeed this very issue was discussed in depth in a recent report by Allen Consulting Group commissioned by AAA (February 2003). The following extracts from that report elaborate on this point:

> Given the wide spreading of the benefits and costs of what is a largely public road network, it is appropriate that there continue to be a substantial public role, including substantial ongoing public investment. While there are valuable benefits available from private involvement in design, construction, operation and maintenance – as summarised in the AusLink Green Paper (e.g. p 30).
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> Private investors are typically guided by standard financial investment decision making criteria, which attempt to internalise as much of the returns as possible, and do not give weight to wider (external) benefits or costs. The kind of wider social benefits that a pure economic analysis would identify such as less congestion and improved trip times across a total road system are not of primary importance to private firms who would usually only be interested in sections of the system. As highlighted in the Green Paper (p 27),
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> "Financial analysis presents higher hurdles than economic analysis by excluding benefits for organisations or groups and only considering those for the investor. Financial analysis also has to take account of corporate taxation and does not include consumers' surplus gains, which can make an important difference for large lumpy investments."
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> For example, the costs of road maintenance have fallen by more than 15 per cent where it has been contracted out to the private sector. The evidence is less conclusive, however, regarding the benefits of private investment in roads and such investment should be examined on a case-by-case basis (BTCE 1996). Placing in private ownership and control of roads that are key links in an overwhelmingly public network is an entirely different undertaking to contracting out design, construction, operation and maintenance.
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> Each road is part of the overall network and does not operate in isolation – improving the connections in this network is demonstrably beneficial, aided by appropriate incentives. Adding tolled private roads to the network can introduce undesirable distortions/incentives, particularly where the benefits of the roads in question are widely shared – leading to an overall suboptimal outcome. There are, however, limited roles for private tollways where an

economically warranted premium (i.e. a toll which does not exceed the value of the premium service offered by the tollway over unconstrained nearby alternatives) can fund appropriate commercial investment returns.

In short, private equity investment funded by tolls poses both governance issues as discussed in the Green Paper (e.g. p 31) and the potential for significantly distorted overall pricing. There is the potential for advantageous private equity investment in some cases. However, of the reasons for considering it, among the least convincing is the argument that Australian governments are tightly constrained in their ability to fund economic infrastructure by public borrowing.

On the contrary, there are good grounds for concluding that a substantial public investment program funded in substantial part by borrowing is feasible at present. Certainly the substantial road use-related revenues which are the natural source of funding for it are already being collected.

The grounds for such a conclusion are broadly as follows:

- Currently Australian governments' balance sheets are generally strong, and their budgets sound. The Commonwealth's balance sheet and debt position are particularly strong.

- There is thus at present no tight public borrowing constraint per se, only an overall budgetary constraint on accruing public expenses, including the net servicing costs of road infrastructure (interest, depreciation, operation and maintenance less road use-related revenues, including fuel excise). Moreover, if new road investments are economic they will generally yield additional revenues to governments through a number of revenue channels (not limited to road user charges).

- A substantial component of public debt finance which can be affordably funded within these annual budget constraints is indeed an ideal way to match the flow of benefits over time with the flow of revenues over time.

3. ANOP survey results

Turning to the general issue of toll roads, the December 2003 survey conducted by Australian National Opinion Polls (ANOP) for AAA, included a section on public attitudes to toll roads and the perceived condition of local roads. ANOP provided the following commentary on their results:

When the motoring community is probed specifically on the state of Australian roads, attitudes emerge as fairly stable as regards major highways (a bit over '5' or 'good' on a 7 point scale and major arterial roads (a bit under '5' on the same scale). The major problems continue to be with local roads, where motorists' assessments, although possibly on a long term upward trend, remain poor at around 4.5 on a 7 point scale. This is a low rating in the context of the survey. Local roads are deemed not as good as they should be by about 6 in 10 motorists (seven in ten in NSW), with the major problem cited as maintenance and surface issues - clearly ahead of the under-rated design and safety aspects.

Toll roads represent a divisive issue in Australia - irrespective of where the motorist lives. On a national basis, nearly two in three are opposed to more toll roads, with the opposition slightly higher in non-toll road areas of Australia, but not by much. There is a strongly held belief by motorists that they already pay taxes sufficient to build new major roads. There is high toll usage in the three eastern capitals (in the last six months usage is 81% in Sydney, 75% in Brisbane and 59% in Melbourne) but there is also high avoidance (41% in Sydney, 32% in Brisbane and 48% in Melbourne have intentionally avoided toll roads in the last 6 months).

These sentiments regarding roads, in part are influenced by the huge community over-estimate of how much of the petrol tax is spent on roads. Motorists believe about twice as much of the federal government tax on a litre of petrol is spent on roads than is the case in reality. When told the actual amount, around nine in ten think it should be higher.

4. Summary

To sum up, AAA considers that there is very limited application, or potential application, of privatised services for the provision of rural and regional roads and that motorists have paid enough in taxes and charges to provide a quality road system, without having to pay tolls for selected privatised links on top of that.

We know that there is a significant backlog of road projects in Australia, including in regional Australia and recent AAA research indicates that motorists believe that existing local roads are not up to scratch. Governments have the major role to play in meeting road construction and maintenance needs and if there are community benefits from such investment, there are good grounds for concluding that a substantial public investment program funded in substantial part by borrowing is feasible at present. They key, therefore, is for road expenditure to bee seen as providing a benefit to the community, not a cost to the Budget.