

Chapter 2

Background: Commonwealth road and rail funding

2.1 Building, maintaining and operating roads and railways is a responsibility of the States and Territories.¹ For many years the Commonwealth has contributed heavily to improving roads, by way of grants to the States/Territories or direct to local government. The Commonwealth has contributed to improving railways to a much smaller extent.

Commonwealth road funding

2.2 The Commonwealth has made grants to States for roads since 1922. It started full funding of a National Highway System in 1974. At the beginning of the 1990s the Commonwealth funded roads in the categories: the National Highway, national arterial roads, state arterial roads, and local roads. After various changes during the 1990s, the Commonwealth now (pre-AusLink) funds roads in the categories:

- the National Highway
- roads of national importance
- Black Spots
- local roads.

2.3 The National Highway, roads of national importance, and Black Spots are funded on a project by project basis. Local roads are funded by direct grants to local councils under the *Roads to Recovery Act 2000*, and by untied grants ‘through’ the States, under the *Local Government (Financial Assistance) Act 1995*, on the understanding that they will be spent on roads. The local roads grants are shared among the councils by a formula.²

2.4 In the 25 years to 1999 the Commonwealth spent \$43 billion on roads (including untied grants to States with a view to road expenditure; 1998-99 dollars). Of that, \$18 billion was for the National Highway System, including \$3.7 billion for the Hume Highway alone.³ Since 1997-98 Commonwealth road expenditure has been:

1 Subject to transfer of some railways to privatised track owners in recent years. Most of this has been by long lease.

2 The formula differs slightly between Roads to Recovery and other local roads grants.

3 P. Laird & others, *Back on Track: rethinking transport policy in Australian and New Zealand*, 2001, p.9, 199.

\$million current dollars	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	total
National Hwy	706	752	632	697	784	763	705	5039
Roads of National Importance	109	123	184	135	234	214	227	1226
Black Spots	36	37	38	41	42	44	45	283
Roads to Recovery				150	302	202	302	956
State identified road grants	391	397	409*					1197
Local gov't identified grants	370	377	389	406	425	451	462	2880
other	2	2	3	2	3	9	43	64
TOTAL	1614	1688	1653	1432	1790	1684	1785	11646

Totals may not add due to rounding. 2003-04 is an estimate.
 * Rolled into GST grants to States from 2000-01, so figures before and after are not strictly comparable.
 source: DOTARS, *ALTD programme progress reports* various years. DOTARS, *Portfolio Budget Statements*, 2003-04. Bureau of Transport and Regional Economics, information sheet 23: *Public road-related expenditure and revenue in Australia (2004)*. Parliamentary Library Bills Digest on AusLink (National Land Transport) Bill 2004.

2.5 In assessing the 'right' amount of road spending in an economic sense, the relevant figure is of course not Commonwealth spending, but total spending. Since 1988-89 total road spending by government has been:

\$ million current dollars	Commonwealth	State	Local	Total	Cth as per cent of total
1988-89	1232	1603	1431	4266	29%
1989-90	1358	1908	1635	4901	28%
1990-91	1596	2224	1556	5376	30%
1991-92	1720	2046	1570	5337	32%
1992-93	2177	1877	1706	5760	38%
1993-94	1552	2207	1636	5396	29%
1994-95	1535	2264	1503	5303	29%
1995-96	1602	2616	1654	5872	27%
1996-97	1623	2905	1845	6373	25%
1997-98	1636	3378	2000	7014	23%
1998-99	1707	3246	2329	7282	23%
1999-00	1675	3135	2585	7395	23%
2000-01	1458*	3911	2254	7624	19%*
2001-02	1821	3545	2214	7580	24%

Source: Bureau of Transport and Regional Economics, information sheet 13: *Public Road-related expenditure and revenue in Australia 1999*. Information sheet 23: *Public road-related expenditure and revenue in Australia (2004)*. Totals may not add due to rounding.
 * State identified road grants were rolled into GST grants to States from 2000-01, so figures before and after are not strictly comparable.
 Figures for Commonwealth spending in this table exceed those in table 1 because of the inclusion of Federal Interstate Registration Scheme amounts.

Note: 'These figures provide a picture of the expenditure on roads by each level of government net of transfers of funds from higher levels of government... it is a measure of the financial effort made by each level... While an effort has been made to estimate the expenditure on road construction and maintenance only, there is still some expenditure included on administration, regulation and subsidies.' BTRE Information sheet 23, p.1

2.6 Private spending on roads has also become significant in recent years, through privately financed urban tollways. An estimate of total spending on new fixed assets in roads, excluding repair and maintenance, is:

\$ million	Common-wealth	State	Local gov't	subtotal: gov't	private	TOTAL
2000-01	883	1953	1486	4322	870	5192
2001-02	1246	1001	1622	3869	1411	5280

Source: Bureau of Transport and Regional Economics, *Australian Transport Statistics*, 2003,2004. Derived from unpublished ABS and DOTARS data. Figures differ from those in previous tables because they exclude repair and maintenance.

Commonwealth rail funding

2.7 Commonwealth capital spending on rail, compared with its road funding, has been irregular and, on average, very small. It has mostly related to particular projects such as gauge standardisation from Adelaide to Crystal Brook and Melbourne (1982, 1995), and the Alice Springs - Darwin railway (2001-02).

2.8 In the 25 years to 1998-99 the Commonwealth spent \$1.2 billion on railways (excluding its subsidy of the operating losses of the then Commonwealth-owned Australian National).⁴ Since 1997-98 Commonwealth rail expenditure has been:

\$million current dollars	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	total
Alice Springs - Darwin railway				55	165	14		234
mainline track upgrade		5	50	46				101
AusLink investment							450	450
ARTC equity injection	18						143	161
other	3	7	9	13	9	3	1	46
TOTAL	21	12	59	114	174	17	594	992

source: DOTARS, various. Parliamentary Library Bills Digest on AusLink (National Land Transport) Bill 2004.

4 P. Laird & others, *Back on Track: rethinking transport policy in Australian and New Zealand*, 2001, p.199.

2.9 In assessing the ‘right’ amount of rail spending in an economic sense, the relevant figure is of course not Commonwealth spending, but total spending. It appears that there is no readily available time series information on total rail investment comparable to the figures for roads in table 2 above. This is most unfortunate, and the Committee hopes that the research needed to plan economically sound corridor strategies will remedy this.

2.10 States have from time to time made significant investments in their total rail networks,⁵ but overall it appears that most of their efforts are concentrated on maintaining capital city passenger services where the political pressure is highest. For example:

The [NSW] government will rise or fall on what it does about its CityRail. That is where its focus is; not on its regional rail. I think that is throughout the country and that is part of the problem.⁶

2.11 In calculating the total State effort to improve rail infrastructure, a complication is that vertically integrated State rail authorities may count as capital expenditure both below rail network improvements and purchase of rolling stock such as urban passenger carriages. The latter is often a high proportion of the total but, however worthy, it is not ‘infrastructure’ in the AusLink sense.⁷

2.12 An estimate of total spending on new fixed assets in railways, excluding repair and maintenance, follows. The figures for roads from table 2 are repeated for comparison.

Table 5: Total spending on new fixed assets in roads and railways: 2000-01, 2001-02						
\$ million	Common-wealth	State	Local gov't	<i>subtotal: gov't</i>	private	TOTAL
2000-01 rail	40	223	0	263	46	309
2000-01 road	883	1953	1486	4322	870	5192
2001-02 rail	17	1311	0	1328	485	1813
2001-02 road	1246	1001	1622	3869	1411	5280

Source: Bureau of Transport and Regional Economics, *Australian Transport Statistics*, 2003,2004. Derived from unpublished ABS and DOTARS data.

5 For example, Queensland main line upgrading in the 1990s, and Victoria’s current Regional Fast Rail projects.

6 Mr B. Nye (Australasian Railway Association), *Committee Hansard* 18 March 2005, p.25.

7 The cost of vehicles, whether it is borne privately or publicly, must of course be included in the total economic evaluation of transport alternatives. In the case of fully commercial transport services vehicles/rollingstock, over time, are effectively a consumable, and we may hope that their economic cost is adequately reflected in their financial cost to the operator. In comparing purchase of urban buses and trains for subsidised services with private spending on cars the situation is less clear. In both cases environmental aspects, such as the energy embodied in the vehicle, or the problems of disposing of it, should be considered.

2.13 The AusLink White Paper comments:

It is well-documented that the rail system in Australia has been under-funded for a long time and its role in handling the nation's freight task has been declining relative to road. The \$1.8 billion to be invested in the rail system improvements over the next five years will begin to turn this around. Rail has the potential to substantially increase its share of the freight task if significant improvements are made to rail infrastructure and operational practices are modernised.⁸

Comment

2.14 The disproportion between Commonwealth spending on road and rail improvement has often been excused by the claim that 'under the Constitution' railways are a State responsibility. This refers to the fact that at Federation railways were left in State ownership.

2.15 In fact both railways *and* roads are a State responsibility - they are crown land vested in a State.⁹ Both are also a Commonwealth responsibility insofar as the Commonwealth voluntarily accepts responsibility for helping to improve the national transport network. The fact that the Commonwealth has contributed primarily to improving the national highway system has been a matter of history and political choice.

2.16 After including State, local and private spending, it appears that a very large gap still remains between the rate of capital formation in roads and railways.¹⁰ Whether this balance between road and rail investment is economically optimal appears to be unknown.

2.17 The economically correct rate of investment in each mode depends on many things such as their relative importance in Australia's total transport task (present and predicted), the quality of their existing assets and the likely trend in the productivity of their use of assets and, therefore, the likely rate of return on further investment.¹¹ The Committee is unaware of any past attempt by government to assess these things on a unified basis in order to discover whether the balance of public spending on road and rail is economically sound - that is, whether it directs investment with priority to

8 AusLink White Paper, p.62.

9 In recent years some railways have been transferred to privatised track owners, usually by long term lease.

10 Subject to the qualification that longer time series information comparable to that in table 5 seems to be not available.

11 Road and rail have about equal shares of Australia's freight transport task in tonne/kilometres (35% and 37% respectively; with 28% sea and 1% air). 86% of the rail share is bulk commodities, mainly coal and ore. AusLink White Paper, p.3. Australasian Railway Association, *Australian Rail Industry Report 2003*, p.9.

where the returns are highest, without preconceived bias towards one mode or the other.

2.18 Considering the large amounts of public money involved, this is regrettable. The Committee is optimistic that corridor strategies under AusLink will fill this gap.

2.19 This comment is mainly about the National Network and long distance non-bulk freight transport, since this is the area where road versus rail choices most arise.¹² The Committee accepts that spending on local roads and regional projects is affected by social policy considerations to do with supporting rural communities. Thus, as a matter of policy, they may take a priority higher than that suggested by a purely economic calculation. However it is still important that these projects should be prioritised in a disciplined way, with economic and non-economic motives clearly distinguished.

12 Most other traffics clearly belong either to rail or road. Rail dominates transport of bulk commodities. Road dominates non-bulk freight traffic over short distances or on diverse routes with low densities. Road dominates passenger transport except on a few routes in big cities.