

Chapter 3

Issues raised in submissions

3.1 On the whole submissions welcomed and supported AusLink and the present bills. Submissions most strongly approved the overall boost to funding; the promise of integrated assessment of road and rail investment needs on key corridors; and the Commonwealth support for significant rail upgrading on the east coast main line.

3.2 However submissions did raise some concerns, which are summarised here.

‘Shared responsibility’ and bilateral agreements

3.3 The Commonwealth has, pre-AusLink, accepted full responsibility for construction and maintenance of the National Highway System. AusLink proposes to replace this with ‘shared funding’ of the National Land Transport Network - that is, States and Territories must contribute. The White Paper justifies this in several ways:

- The AusLink National Network includes links that were State or Territory responsibilities: ‘It is the unambiguous position of the Government that such elements of the network should continue to attract funding from States and Territories, at least in proportion to the benefits they obtain.’
- It is right that the parties contribute in proportion to the benefits they obtain: ‘The Australian Government will invest in those projects on the National Network that are of national priority and have substantial national benefits. The Government has a clear expectation that States and Territories will invest in those projects on the National Network which provide benefits at the State or Territory level.’
- If all parties have a stake it will encourage better planning and reduce the risk of cost-shifting.¹

3.4 The Department of Transport and Regional Services (DOTARS) stressed that AusLink as a whole involves ‘large increases’ in funding for the National Land Transport Network, and ‘...the Australian Government is continuing to fully fund many projects on the new National Land Transport Network that would have been on the former National Highway System, especially in rural and remote areas.’²

1 AusLink White Paper, p.23.

2 Submission 6, DOTARS, p.4.

3.5 Exact funding arrangements will require bilateral agreements with the States and Territories. Negotiations are now underway.³

3.6 Many submissions were concerned that ‘shared responsibility’ might lead to unclear responsibilities. They particularly regretted the Commonwealth moving away from full responsibility for the National Highway System. The Australian Local Government Association feared that ‘if the states and NT have to find extra funds to maintain national highways, this could lead to reduction of already low state expenditure on lower category roads and subsequent cost-shifting to local government.’ The Transport Workers Union argued that ‘the planning, construction and maintenance of the national Highway network clearly rests with the Federal Government and must remain so.’⁴

3.7 The Australian Road Forum thought ‘the change in Commonwealth policy needs to be more fully explained within the context of a co-operative national effort....’

Until this is in place, ARF believes it would be best not to make significant changes in the distribution of notional responsibility.⁵

3.8 On the other hand, the Warren Centre suggested that responsibilities would be clearer if the Commonwealth was responsible for construction only, and the States were responsible for maintenance, since ‘they are better able to fund this latter work through user-pays systems such as fares, vehicle charges and the like.’⁶

3.9 Unions were concerned about the Commonwealth’s intention, foreshadowed in the White Paper, to use bilateral agreements to insist that the National Code of Practice for the Construction Industry should apply to all projects which the Commonwealth funds significantly.⁷ For example, the Construction Forestry Mining Energy Union argued that ‘the Government is effectively saying that public contracts will only go to those States that are prepared to adopt the Government’s political views on the matters contained within the Code...’

That is not a proper basis for determining which States will obtain the benefit of essential transport infrastructure...It is highly desirable that the

3 Mr M. Mrdak (Deputy Secretary, DOTARS), *Committee Hansard* 18 March 2005, p.2

4 Submission 7, Australian Local Government Association, p.5. Submission 18, Transport Workers Union, p.1. Similarly submission 16, Local Government Association of Queensland, p.2. Submission 23, Civil Contractors Federation, p.3. Mr M. Apps (Bus Industry Confederation), *Committee Hansard* 18 March 2005, p.32.

5 Submission 15, Australian Road Forum, p.7.

6 Submission 9, The Warren Centre for Advanced Engineering, p.2.

7 AusLink White Paper, p.92-3.

AusLink bill should afford protection against the Government attaching its industrial relations “strings” to the funding of projects.⁸

Comment

3.10 In considering arguments about shared responsibility and funding of construction versus maintenance, or funding of different classes of roads, two issues arise:

- What division of responsibilities is best in principle, whether administratively or politically (for example, to encourage cooperative project planning, or to reduce incentives to cost-shifting between governments)?
- How should the available funding be divided between the various needs?

3.11 In principle these are separate issues. Statements such as ‘the Commonwealth should retain full responsibility for the National Highway, because the States will not be able to afford to contribute’ tend to roll them into one.

3.12 The best division of responsibilities in principle should be considered without regard to who pays what at present. If the best division of responsibilities suggests that one level of government should contribute more and another less than they do now, other areas of expenditure or untied grants to states or local government can and should be adjusted to compensate.

3.13 For example, if States are to contribute to maintaining what was formerly the Commonwealth-maintained National Highway System the Commonwealth, to maintain its proportion of the total road funding effort, will have to either spend more in other areas, or increase untied grants. The untied grants would presumably flow through to State-funded maintenance of the highway, assuming that the present maintenance was needed and there was the political commitment to continue this.

3.14 The Committee accepts the Government’s arguments for shared responsibility at paragraph 3.3. The Committee notes the Government’s assurance that AusLink, while it introduces shared responsibility for the National Network, does significantly increase total Commonwealth transport infrastructure spending.⁹

3.15 Much will depend on all governments approaching bilateral agreements in a constructive and cooperative way. The principle of sharing the total available budget among the various needs efficiently, without being driven by which government happens to have nominal responsibility for which item and how big its taxing and spending capacity is, will obviously require more effort on research and planning, so that we know what the most efficient pattern of spending on the various needs will be.

8 Submission 19, CFMEU, p.8. Similarly submission 18, Transport Workers Union, p.5. Submission 21, Rail Tram and Bus Union, p.1.

9 DOTARS, answers to questions, 6 May 2005, p.3.

3.16 The Commonwealth's AusLink proposals for the first five years are on the table. The Committee hopes that this will allow the development of the first bilateral agreements to focus on a suitable template of general conditions without the distraction of competition among the States in relation to their shares of the total funding.

3.17 Concerns about cost-shifting also arise between State and local government. It is a large part of the controversy over proposals to close some smaller grain branch lines in New South Wales where it appears that road transport would be cheaper than maintaining the railway.¹⁰ Many local communities, apart from their concerns about the safety implications of more trucks on local roads, fear that a rail maintenance saving to the State will become a road maintenance cost to local councils, without adequate compensation.

3.18 In this case the same principles should apply. Which option is most economical for the community as a whole (after including full life-cycle costs and externalities such as road accident costs) should be assessed objectively without regard to who pays what. If that suggests that there should be a new division of responsibilities (for example, local councils spend more on road maintenance), the money needed to carry out the responsibility will have to follow. This would have to include arrangements to guarantee that the funding stream will be secure into the future.

Arguments about the total level of funding

3.19 Since the 1970s investment in infrastructure has fallen from about 7% to about 3.6% of Gross Domestic Product.¹¹ It is widely argued that it needs to increase. Arguments about road and rail funding are part of that broader argument.

3.20 The Australian Automobile Association quoted surveys showing that most people would like to see more infrastructure spending in preference to a government surplus.¹² The Transport Workers Union advocated 'innovative mechanisms' for addressing the infrastructure backlog, including 'engaging the private sector on projects that could potentially provide a return to shareholders.'¹³ The Civil Contractors Federation argued that government should not be afraid to borrow to fund infrastructure:

10 A 2004 report recommended five NSW grain lines for upgrading, three as 'unlikely to justify upgrading,' and seven for further assessment. Grain Infrastructure Advisory Committee, *Report on Rail/Road Options for Grain Logistics*, 2004, p.31-32.

11 Submission 4, Railway Technical Society of Australia, p.1.

12 Submission 13, Australian Automobile Association, p.2.

13 Submission 18, Transport Workers Union, p.3.

Public debt in Australia is low by OECD standards and accordingly there is scope to use borrowings, not for financing recurrent expenditure, but to finance long-term infrastructure assets.¹⁴

3.21 These arguments extend easily to arguments for increased spending on roads and railways. Engineers Australia's *Australian Infrastructure Report Card* in 2001 gave national roads a grade of C and railways a grade of D minus. The Australian Automobile Association argued that new AusLink funding is not as great as it seems, and there is a backlog of economically viable road projects of \$4.4 billion in New South Wales, \$3.8 billion in Victoria, and \$2.2 billion in Western Australia. Similarly, the Civil Contractors Federation claimed that 'against the overall need it is only a beginning and spread over five years the "new money" component is relatively minor.'¹⁵

3.22 The Australian Rail Track Corporation in 2001 estimated a cost of about \$3 billion to bring the interstate rail network up to the Australian Transport Council's targets for speed, axle load and train length. The Australian Council for Infrastructure Development in 2004 estimated an investment backlog of \$10 billion in roads and \$8 billion in railways.¹⁶

3.23 AusLink aims to encourage private sector investment in transport infrastructure. The White Paper argues that experience has shown that private tollroads can be efficiently run and release government funding for other worthwhile public infrastructure. It suggests that there are opportunities for capturing increases in land value caused by transport improvements.¹⁷

3.24 The Australasian Railway Association (ARA) noted that there is strong support for further private investment in rail infrastructure. However the ARA was concerned that the AusLink framework 'does not easily allow for blended private public investment':

14 Submission 23, Civil Contractors Federation, p.2.

15 Submission 13, Australian Automobile Association, p.3-5. Submission 23, Civil Contractors Federation, p.3. Submission 28, Engineers Australia, p.1. For the Government's answers to the AAA's argument that new funding is not as great as the Government claims, see DOTARS, answers to questions, 6 May 2005, p.3.

16 Australian Rail Track Corporation, *Interstate Rail Network Audit - summary report*, 2001, p.4. Australian Council for Infrastructure Development, *Modelling the Economic Effects of Overcoming Underinvestment in Australian Infrastructure*, 2004, p.14ff. Mr C. Althaus (Australian Trucking Association), *Committee Hansard* 18 March 2005, p.15-16. ACID's rail figure exceeds the ARTC audit rail figure mainly because it includes a Melbourne-Brisbane inland route (\$1.8 billion), Sydney urban projects (\$2.5 billion) and various projects not on the interstate routes which were the subject of the ARTC audit.

17 AusLink White Paper, p.26.

It also has no apparent capacity for public investment in privately owned infrastructure where there is a public benefit.¹⁸

3.25 The ARA also noted that because below rail and above rail investments need to be well co-ordinated for maximum benefits, train operators need to have track investment plans that are long term, transparent and have clear timeframes: ‘Uncertainty in investment in track increases the risk for above rail investments.’ Others also stressed the need for long term certainty about funding.¹⁹

3.26 The Australian Logistics Council stressed that ‘it will be important to ensure that infrastructure is not addressed in isolation...’

Logistics is a system and investment in infrastructure must be matched by attention to reform and streamlining of regulations and by the development of people with the skills to operate the system. These three areas, infrastructure, people and regulation, must all be considered within the AusLink framework.²⁰

Comment

3.27 The Committee agrees with the need to upgrade Australia’s infrastructure investment. However spending on things like roads and railways must compete for public funding with other important areas of government responsibility such as defence, education and health care. Deciding the right balance of expenditure between these widely different goods is essentially a political, not economic matter, because of the difficulty of comparing their very different, and often non-quantifiable, costs and benefits. However orderly the cost-benefit study of a new highway deviation is, whether it should take priority over a new operating theatre comes down more to community values than economic analysis.

3.28 Similarly within the transport sector: showing that a road or rail project is beneficial considered in isolation is only the first step in showing what priority it ought to have for funding. The task of government is to set priorities within limited budgets. The Committee supports corridor strategies as a way of doing that in an economically sound way.

3.29 While the Committee agrees with submissions that there is nothing wrong with public borrowing to fund infrastructure, this needs to be done with discipline to ensure that the benefits which flow from the investment will be at least enough to pay the interest. Direct private investment should also be encouraged, but that will tend to be limited to situations (such as rail freight and urban tollways) where it is practical to

18 Submission 22, Australasian Railway Association, p.2.

19 Submission 22, Australasian Railway Association, p.2. Submission 5, Monto Shire Council, p.5. Submission 15, Australian Road Forum, p.4. Submission 25, Western Australian Government, p.5.

20 Submission 26, Australian Logistics Council, p.1.

recover costs through direct user charges. Where benefits are widely spread among the community at large or it is not practical to recover costs commercially, it is necessary to make the investment publicly and pay for it either through general taxes or through government levied charges on user groups, if they can be identified fairly.

3.30 An arbitrary preference for private investment over public borrowing is not advisable, since it may bias investment in favour of the types of projects which most lend themselves to private funding, when other projects that require public funding might be just as beneficial.

Giving adequate priority to maintenance

3.31 It is natural that if the total capital stock increases at a linear rate, the cost of maintaining what exists already, relative to the cost of increasing it further, will increase. As well, it is argued that many roads and bridges built in the 1950s, 60s and 70s are coming to the end of their lives, and ‘the chickens are all roosting at once’.²¹ In recent years there have been suspicions that some privatised rail track owners have been economising costs unsustainably by deferring maintenance. In large part the present debate over the future of grain branch railways, especially in New South Wales, is caused by inadequate maintenance in the past.²² Maintenance deferred too long can increase the eventual expense of restoration disproportionately.

3.32 Submitters were particularly concerned about the maintenance backlog on the existing network, especially on local roads.²³ For example, Engineers Australia was concerned that AusLink might be too focussed on new projects:

Existing infrastructure is, in some cases, in a disturbing state, especially rail and local roads. The emphasis of AusLink is on the development of new projects. However, existing investment in infrastructure, and overall system performance, needs to be safeguarded as well. We believe it essential that the national infrastructure programming methodology adopt a whole of life analysis approach when prioritising investment in the expanded National Land Transport Network.²⁴

3.33 The Australian Automobile Association (AAA) quoted estimates by the Bureau of Transport and Regional Economics (BTRE) that the maintenance needs of the National Highway would be \$360 million a year by 2014-15. On this basis the AAA thought that planned AusLink maintenance funding is insufficient:

21 Submission 15, Australian Road Forum, p.7.

22 Submission 21, Rail Tram and Bus Union, describes problems of the Eyre Peninsula system. There are similar problems in Victoria and Western Australia: Dr P. Laird (Railway Technical Society of Australia), *Committee Hansard* 18 March 2005, p.36.

23 For example, submission 15, Australian Road Forum, p.4. Submission 23, Civil Contractors Federation, p.2.

24 Submission 28, Engineers Australia, p.1.

Increased funding needs to be allocated to maintenance... the government needs to identify and report on the asset value of the National Network so that the appropriate level of maintenance spending can be identified and account for depreciation of the asset.²⁵

3.34 The Western Australian Government was concerned that the Commonwealth's proposed maintenance funding formula might favour the more populous states.²⁶ The ACT Government noted that maintenance funds are not indexed whilst performance outcomes sought are constant: 'This will potentially see costs and risks shifted to States and Territories in the longer term.'²⁷

3.35 Monto Shire Council stressed the need to plan capital expenditure and future maintenance together in order to optimise the present value of the investment.²⁸ This is relevant, for example, in the debate over the future of grain branch railways which are in poor condition because of deferred maintenance. The high cost of restoring them may tempt governments to turn to road transport; but the ongoing road maintenance costs must also be considered.

Comment

3.36 The Committee agrees with the importance of prioritising maintenance needs appropriately. The proportion of the budget that should go to maintenance as opposed to new projects needs to be assessed in an economically sound way. It is perhaps tempting to put more of the money into new projects because they are more visible. Conscientious governments should try to resist the temptation to overfund new projects and underfund maintenance because of that. Inadequate maintenance prejudices the whole network.

3.37 As to the proposed 'Commonwealth responsibility' for maintenance, the comments at paragraph 3.10ff apply. The fact that there are urgent maintenance needs does not necessarily mean that it should be the Commonwealth's responsibility to meet them. It does mean that the division of funds between governments should match the division of responsibilities so that where the responsibility lies, the spending capacity is found, subject to the constraints of the total budget.

3.38 The Committee notes that under AusLink the Commonwealth is committing \$300 million per year to road maintenance in the five years to 2008-09, compared with \$289 million per year on average in the five years to 2003-04.²⁹

25 Submission 13, Australian Automobile Association, p.5.

26 Submission 25, Western Australian Government, p.26.

27 Submission 27, ACT Government, p.2.

28 Submission 5, Monto Shire Council, p.3.

29 DOTARS, answers to questions 6 May 2005, p.4.

Need for clear principles for prioritising projects

3.39 The White Paper promises a new approach to prioritising projects in a transparent, orderly way through corridor strategies and the National Land Transport Plan. However in the bill the Minister's discretion to approve and fund projects is extremely wide. The sections that could be regarded as guiding the Minister's discretion are brief, rudimentary and expressed at a high level of generality.³⁰ The intention is obviously that more detailed guidelines will be developed at the administrative level.

3.40 According to the White Paper corridor strategies will allow managing the total transport needs of a corridor by the most efficient means available, rather than a modally based approach'.³¹ DOTARS advised:

The development of corridor strategies will be supported by a range of rigorous studies to determine needs, deficiencies and future investment priorities. For each corridor, the following assessments will be made:

- how the corridor needs to perform to meet future demands safely and effectively;
- relative benefits of, and synergies between, transport modes;
- consistency with, and contribution to, national priorities; and
- how to maximise private sector involvement and potential for public private partnerships.

3.41 DOTARS advised that all jurisdictions have agreed to adopt a standard methodology for project assessment, and pilot strategies are now under way for the Sydney-Melbourne, Adelaide urban, Brisbane-Cairns and Adelaide-Perth corridors. DOTARS promised that 'the input and views of non-government stakeholders will be sought during the development of the corridor strategies...'³²

3.42 Submissions generally welcomed the promise of more holistic corridor planning. For example, the Australian Trucking Association said:

The development of agreed investment appraisal guidelines, which include the need to assess both public and private investment opportunities, should provide a rational basis for government investment, whether from recurrent expenditure or debt funding, or in partnership with private investment.³³

3.43 However some submitters were concerned that the bill leaves too much discretion to the Minister in approving projects. Others were concerned that the first

30 These are the sections of the bill headed 'Is it appropriate to approve a project?'

31 AusLink White Paper, p.22

32 Submission 6, Dept of Transport & Regional Services, p.2,4.

33 Submission 8, Australian Trucking Association, p.2. Similarly submission 13, Australian Automobile Association, p.7.

five year plan has been settled in the absence of corridor strategies, and without any clear statements of reasons about the chosen priorities. For example, the Civil Contractors Federation was concerned that:

The identification and prioritisation of projects lacks transparency or a clear methodology (although the development of a cost-benefit based approach is promised). Such a methodology needs to be completed quickly. Also, the degree to which funding decisions are discretionary in the hands of a Minister is not preferred.³⁴

3.44 The Australian Automobile Association (AAA) ‘would have liked to have seen the increased transparency and the application of benefit cost analysis which was promoted in the White Paper to have been applied to the project selection *prior* to the commitment of funding.’³⁵ The AAA ‘looks forward to seeing the benefit-cost ratios of all AusLink projects made available in the near future.’³⁶

3.45 The Sustainable Transport Coalition WA urged the need for triple bottom line assessment including environmental, social and economic costs and benefits. It argued that this should include giving due attention to future oil vulnerability:

The economic and social consequences of oil supply shocks and escalating fuel prices... must make this a key factor in planning and funding land transport infrastructure.³⁷

3.46 Concerns about the need for clear transparent project selection criteria arise particularly in relation to Strategic Regional Projects. For example, the Australian Local Government Association said:

ALGA is concerned that many of the guidelines and processes for the operation of the SRC are yet to be released. It is important that that the SRC administrative arrangements are simple, efficient and transparent and should clearly specify how SRC projects are selected in terms of criteria, priority and timing.³⁸

Comment

3.47 The Committee affirms the need for disciplined, transparent, publicly available project assessment guidelines. The Committee looks forward to seeing the National Land Transport Plan and the corridor strategies which will guide this.

34 Submission 23, Civil Contractors Federation, p.3.

35 Submission 13, Australian Automobile Association, p.7. Similarly submission 16, Local Government Association of Queensland, p.6. Submission 18, Transport Workers Union, p.2.

36 Submission 13, Australian Automobile Association, p.2.

37 Submission 29, Sustainable Transport Coalition WA, p.1.

38 Submission 7, Australian Local Government Association, p.4.

3.48 The Committee is sympathetic to concerns about the commitment of such large amounts of money in advance of the project assessment methodology that AusLink promises. However, the Committee notes DOTARS's assurances that the White Paper projects were the outcome of exhaustive consultation, both with the states and through submissions to the AusLink Green Paper:

The department received some 550 submissions in a very open process of discussion with a whole range of parties.... The states put forward to us what their priority projects would be on the network in the lead-up to the preparation of the white paper... I think it is fair to say that from our dealings with the states on the whole we have picked up the bulk of their priority projects, if not all of their projects, in this five years.... The timing of our payments to some of those projects may differ to what they would have hoped, but on the whole my experience has been that all the states have seen this as according with their own priority needs.³⁹

3.49 The Committee suspects that submitters would not suggest that the AusLink funding boost should be postponed for two or three years to allow corridor strategies to be completed. The Government's approach is a necessary compromise between the urgent need for a boost to transport infrastructure funding, and the fact that setting in place new planning systems will inevitably take time.

3.50 The Committee stresses that in the longer term it is the unified project assessment methodology that is most important element of AusLink. The success of AusLink will depend on continued effort, and the Committee urges the governments to make this a priority.

3.51 The Committee is pleased to note that the Commonwealth and State/Territory transport ministers in November 2004 agreed to a set of national guidelines on how projects will be planned, brought forward, and assessed on a common basis across the country.⁴⁰ The Committee will take an ongoing interest in reviewing progress on the national plan and corridor strategies.

3.52 Clear project assessment criteria are particularly necessary for the Strategic Regional projects, to avoid accusations that the road funding decisions are influenced by political considerations.

Non-economic considerations

3.53 The Commonwealth funds rural local roads which would probably score poorly in a formal cost-benefit analysis in comparison with urban arterial roads. This funding appears to be for social policy reasons to do with supporting rural communities. Some submissions were concerned that too 'economic' an approach to project appraisal will militate against these:

39 Mr M. Mrdak (Deputy Secretary, DOTARS), *Committee Hansard* 12 April 2005, p.28.

40 Mr M. Mrdak (Deputy Secretary, DOTARS), *Committee Hansard* 18 March 2005, p.2.

Prevailing practices in government transport agencies suggest that such assessments will be biased to proposed road projects where high traffic volumes or significant delays dominate all other considerations. As such, it is unlikely a strategic project in a rural area will out-rank a project in an outer urban area or in a major regional centre.⁴¹

3.54 As well, it must be said that prioritising projects on economic criteria may cut across concepts of giving each State, region or council its ‘fair share’ of funding according to some formula. It may happen that the economic analysis suggests that funding should go with priority to a particular area, simply because that area has been most under-funded in the past in relation to need. For example, arguably this applies to upgrading the Melbourne-Sydney-Brisbane railway.

3.55 The Western Australian Government was concerned that ‘such an approach will not adequately take into consideration social and equity objectives, benefit the more populous States, and penalise those States that have historically been a good custodian of their transport infrastructure.’⁴² The Local Government Association of Queensland thought that ‘funding must be allocated equitably across states and regions...

...there should be no nationally competitive process - The total strategic funding pool should initially be divided on the same individual council allocation as the core component to determine a state and then regional shares...’⁴³

Comment

3.56 In the Committee’s view there is a need for social policy considerations to be factored into funding decisions. For example, it is essential to keep up the effort in maintaining rural local roads for the sake of the overall prosperity and social cohesion of Australia’s regions. However the goals must be clear, the criteria transparent, and projects must be prioritised in a disciplined way with reference to their social purposes just as they should be with reference to their economic purposes.

3.57 On the matter of a cost-benefit approach to distributing money versus ‘fair shares’, the Committee comments: there may well be a tension between these motives. A strict ‘fair shares’ approach militates against ‘nation building’ projects, since they inevitably involve one particular area getting more than its ‘fair share’ this time round. This would be undesirable. For example, upgrading the Melbourne-Sydney-Brisbane railway should not be put off simply because it does not benefit Western Australia.

3.58 On the other hand, a competitive application system, taken down too far towards the local level, becomes administratively cumbersome. Formulas for

41 For example, submission 5, Monto Shire Council, p.2.

42 Submission 25, Western Australian Government, p.5.

43 Submission 16, Local Government Association of Queensland, p.4.

distributing funding to states or regions rely on the assumption that on average their needs are similar, and the money will be as well spent in one region as another. In the case of local road grants this is probably a reasonable assumption.

3.59 Strategic Regional Projects stand somewhere in the middle. The White Paper proposed that they would be funded by competitive applications, but including some concept of ‘fair shares’ among States. The Committee notes that as an election commitment the Government decided to allocate the strategic regional allocation promised in the White Paper (\$400 million over four years) to councils by a formula similar to the Roads to Recovery formula. The Government also committed an extra \$150 million for strategic regional projects. DOTARS advised that the Government has not decided how to allocate the part of this which has not already been committed.⁴⁴

3.60 The Committee notes also the argument of Monto Shire Council that ‘continuity of funding to local governments is essential in ensuring sound asset management practices’.⁴⁵ At the local level formula based shares are more likely to ensure this.

Need for efficient charges for use of infrastructure

3.61 Efficient charges for the use of transport infrastructure are an essential prerequisite to economically sound decision-making about priorities for infrastructure investment. If use is underpriced, for example, use will be greater than is economically optimal. An investment which reduces costs per user will then seem to be more beneficial because there are more users; but it may simply be causing the growth of sub-optimal economic behaviour.

3.62 Heavy vehicles pay to use public roads through registration fees and fuel excise. Rail train operators pay access charges to track owners.

3.63 Heavy vehicle road use charges are based on a formula for distributing road costs among the various road users devised by the National Transport Commission (NTC - formerly National Road Transport Commission). Whether the charges adequately cover costs which should be attributed to heavy vehicles (such as road wear) is disputed.

3.64 The Australian Trucking Association argued that heavy vehicles pay 110% of the costs allocated to them. The Rail Tram and Bus Union claimed that heavy vehicles underpay. The Railway Technical Society of Australia noted that ‘there is a strong

44 AusLink White Paper, p.83. Mr M. Mrdak (Deputy Secretary, DOTARS), *Committee Hansard* 18 March 2005, p.3-4,13.

45 Submission 5, Monto Shire Council, p.5.

debate about the adequacy of the level of road pricing for heavy trucks and the structure of the present charges.⁴⁶

3.65 The Bureau of Transport and Regional Economics (BTRE) in 2003 said that ‘current heavy vehicle infrastructure pricing arrangements achieve the objective of recovery of aggregate distributed costs, including capital costs (108 per cent)’.⁴⁷ This refers to heavy vehicles as a whole - an important qualification in respect of the heaviest vehicles is mentioned at paragraph 3.69 below.

3.66 Arguments that heavy vehicles do not pay their way have two strands. Firstly, critics point out that the cost elements which are the basis of the NTC charges exclude some costs, such as heavy vehicle registration and enforcement costs, and external costs such as congestion, pollution and crash costs (excluding externalities favours road over rail because external costs are higher for road than for rail).⁴⁸

3.67 Secondly, critics argue that the NTC’s detailed methodology for distributing costs among road users is inappropriate in some ways.⁴⁹ For example, ‘non-separable’ costs, which are regarded as including the cost of building a minimum possible standard of road, are allocated across vehicle classes according to total vehicle kilometres travelled. Some argue that these costs should be allocated according to Passenger Car Units (a measure of the road space a vehicle takes up). This would increase the proportion of the cost borne by heavy vehicles.

3.68 In relation to this the BTRE notes that ‘the appropriate choice of road use parameter, and consequently the share of road expenditure attributable to heavy vehicles, is not certain...’

For example, in the first determination road maintenance expenditure was attributed according to ESA [equivalent standard axles]-kms whereas in the second determination road maintenance expenditure was allocated by AGM [average gross mass]-km. The effect of this change was that larger heavy vehicles paid a smaller share of road maintenance costs under the second determination than previously.⁵⁰

3.69 Regardless of these arguments, it seems to be agreed that the heaviest vehicles and the most fully loaded vehicles do not pay their way, but are subsidised by lighter

46 Submission 8, Australian Trucking Association, p.3. Submission 21, Rail Tram and Bus Union, p.1. submission 4, Railway Technical Society of Australia, p.3.

47 Bureau of Transport and Regional Economics, *Land Transport Infrastructure Pricing: an Introduction*, working paper 57, 2003, p.vi.

48 The NTC is to consider external costs as part of the third heavy vehicles charges determination due to be implemented in 2005.

49 For example, see submissions of Pacific National Pty Ltd to Productivity Commission review of National Competition Policy reforms, 2004.

50 Bureau of Transport and Regional Economics, *Land Transport Infrastructure Pricing: an Introduction*, working paper 57, 2003, p.5

heavy vehicles (if one argues that heavy vehicles as a whole do pay their way) or by other road users (if one argues that heavy vehicles as a whole do *not* pay their way).⁵¹ The BTRE, which as noted says that heavy vehicles as a whole do pay their way (given the methodology for distributing costs), qualified this by saying:

The arrangements achieve only 90 per cent recovery for the heaviest vehicles.⁵²

3.70 The AusLink Green Paper noted that averaging provisions in the NTC methodology mean that ‘those trucks that carry greater than average loads and travel greater than average distances bear less than the costs attributed to them by the NRTC’.⁵³

3.71 Another difficulty in setting charges is that using fuel excise as a charge for marginal road wear costs is not ideal, because as vehicle load increases fuel use increases at a declining rate, but road wear increases at an increasing rate.⁵⁴ This favours the heaviest vehicles. Mass-distance charges have been suggested as an alternative.⁵⁵

3.72 These points are significant for competitive neutrality because it is the heaviest vehicles that compete most directly with rail.

3.73 Rail access charges usually comprise a ‘flagfall’ charge per train plus a charge per tonne-kilometre. According to the BTRE track owners report positive returns on assets, however it is likely that the returns, while they may cover track maintenance, may not be enough to cover track renewal and investment needed in the long term: ‘It follows that current charges may not reflect the economic cost of providing rail freight infrastructure in the long run.’⁵⁶

3.74 In the case of some lightly built and poorly maintained New South Wales grain lines, it appears that access charges cover only a very small proportion of the cost of maintaining the asset.⁵⁷ On the other hand, the NSW Farmers Federation argued that ‘current road freight rates offered by some companies to attract grain into super sites do not reflect the actual cost of moving grain and are not sustainable over

51 ‘Heavy vehicles’ are those with a gross vehicle mass of 4.5 tonnes or more.

52 Bureau of Transport and Regional Economics, *Land Transport Infrastructure Pricing: an Introduction*, working paper 57, 2003, p.vi.

53 AusLink Green Paper, 2002, p.36.

54 Road wear increases greatly with increasing axle load.

55 Bureau of Transport and Regional Economics, *Land Transport Infrastructure Pricing: an Introduction*, working paper 57, 2003, p.9-10.

56 Bureau of Transport and Regional Economics, *Land Transport Infrastructure Pricing: an Introduction*, working paper 57, 2003, p.vi. AusLink Green Paper, p.36.

57 Grain Infrastructure Advisory Committee, *Report on Road/Rail Options for Grain Logistics*,

the longer term.’⁵⁸ This complicates the issue of deciding whether it is more economic to upgrade or close smaller lines.

3.75 The discussion above refers mostly to long distance freight transport. Efficient pricing is also needed in urban areas. The Australian Automobile Association stressed the need to ‘address the issue of transport pricing sooner rather than later, and how it might helpfully address the congestion problems in our major capital cities.’⁵⁹ This refers to proposals for ‘congestion pricing’, so that vehicles which drive in the most congested areas, or at the most congested times, pay more to reflect the costs they impose on others.⁶⁰

Comment

3.76 The Committee affirms the need to continue working towards efficient pricing of access to infrastructure as a prerequisite to sound corridor strategies and related matters such as deciding the future of grain railways. The Committee acknowledges the work of the National Transport Commission in this regard and notes that the Commission is now working towards its third heavy vehicles road pricing determination with a view to bringing proposals to the governments in 2006.⁶¹

Improving urban transport infrastructure

3.77 Some submitters argued that the Commonwealth should be more involved in improving urban transport infrastructure, since its quality intimately affects the efficiency of the long distance freight movements which are AusLink’s focus. The Civil Contractors Federation said:

The inherent competitive advantage of road transport, at least, is the capacity to move passengers and freight from a multiplicity of origins to destinations with great flexibility. The proposed legislation does little to address new road funding, maintenance and remediation in the urban and regional catchment areas at either end of the national corridors.⁶²

3.78 Some extended this idea to argue that it should include improving urban public transport infrastructure as a way of moderating road congestion. The Western Australian Government argued that ‘AusLink, in its present form, can only be considered a freight policy and not a comprehensive transport policy while it is not

58 Submission 20, NSW Farmers Association, p.1.

59 Submission 13, Australian Automobile Association, p.2. Mr J. Metcalfe (Australian Automobile Association, *Committee Hansard* 12 April 2005, p.11.

60 A motorist entering a congested road is delayed by others but also causes delay to others. This delay increases greatly as the level of congestion increases. If motorists are not required to pay for the costs they impose on others, economically inefficient overuse of the road will result.

61 Mr M. Mrdak (Deputy Secretary, DOTARS), *Committee Hansard* 12 April 2005, p.31.

62 Submission 23, Civil Contractors Federation, p.3.

more inclusive of all modes of transport such as public transport and cycling infrastructure...’

In reality, lack of alternatives in passenger transport is of profound importance to freight as the two tasks compete for space on the same network.⁶³

3.79 The Rail Tram and Bus Union argued that ‘urban public transport infrastructure requires urgent federal support, as it receives in all other federal OECD countries’. The Chartered Institute of Logistics and Transport in Australia suggested that Roads to Recovery should include public transport.⁶⁴ The Sustainable Transport Coalition WA said:

If the aim is to enhance transport efficiency for national benefit... then other measures should be eligible for funding. For example, improvements to urban public transport services or a behavioural travel demand management program could reduce commuter traffic to the benefit of freight transport efficiency...⁶⁵

3.80 The AusLink White Paper considered and rejected such arguments, saying: ‘the Australian Government’s position on public transport is clear: it is primarily a State and Territory Government responsibility...’

The Australian Government considers that State and Territory governments are best placed to deal with the metropolitan and local complexities of public transport. The Australian Government’s role has focused, and will continue to focus, on interstate connectivity and trade and commerce between the States and with other nations.⁶⁶

3.81 The White Paper argued that ‘even if service improvements on public transport could be achieved, it would still not be enough to significantly affect growing road congestion.’⁶⁷

3.82 However it appears that these issues are still on the table. DOTARS reported that in November 2004 the Australian Transport Council decided to commission work ‘on the key issue of urban congestion.’ As well, corridor strategies ‘will examine issues impacting on the efficiency of the urban links on the National Land Transport Network, including the role of public transport.’⁶⁸

63 Submission 25, Government of Western Australia, p.1. Similarly submission 4, Railway Technical Society of Australia, p.5.

64 Submission 21, RTBU, p.5. Submission 24, CILTA, p.1.

65 Submission 29, Sustainable Transport Coalition WA, p.2.

66 AusLink White Paper, p.9.

67 AusLink White Paper, p.9.

68 Submission 6, DOTARS, p.5-6.

Comment

3.83 The efficiency of urban passenger transport, and the efficiency of the freight transport which is the focus of AusLink, are intimately connected, since trucks and cars use the same roads, and freight and passenger trains share the same tracks.⁶⁹

3.84 The Committee notes that Strategic Regional Projects under the AusLink bill can include *any* road or rail projects which are not on the National Land Transport Network (clause 54). Although the criteria at section 55 seem to assume that they will be rural and regional, the Minister is not limited by these criteria. They could include urban projects. The Committee suggests that any move in this direction should relate to projects that support the goals of AusLink.

3.85 As for the arguments about urban public transport: to say that improving public transport will not significantly affect road congestion may be true overall, but it does not prove that improving public transport is unimportant. In favourable corridors, in conjunction with congestion pricing of road use, it may help. In the long term, by increasing the public transport mode share, it may hope to at least moderate the *growth* of traffic and therefore reduce or postpone the pressure for new roadworks. This also depends greatly on having urban planning policies which shape city growth in ways that allow public transport to work efficiently. Urban planning issues are a State responsibility.

3.86 Efficient transport investment requires better road pricing. This will probably mean significant new charges for using urban roads at the most congested times and places. This is unlikely to be politically acceptable without serious improvement to public transport networks, so that more motorists have other choices.

3.87 Serious improvements to public transport infrastructure - particularly rail extensions - are costly, tend to come in large, indivisible packages, and have very long payback periods. They are hard to program within State-sized budgets, and easy to shelve in favour of more incremental roadworks. However this outcome is not necessarily optimal in the long term.

3.88 The Committee does not suggest that the Commonwealth should take over the States' basic responsibility for urban public transport. However there may be a case for Commonwealth assistance to major projects such as rail extensions which are unlikely to happen, or unlikely to happen soon enough, without the involvement of the bigger budget which the Commonwealth commands.

69 The second point is most significant in Sydney, where freight trains are curfewed for long hours during peak periods so as not to risk holding up commuter trains.

Extending Roads to Recovery to public transport, rural airports runways etc.

3.89 Submissions were divided on whether Roads to Recovery money should be used for things like cycleways, pedestrian facilities, public transport or rural airport runways. Some were concerned that this would reduce funds available for roads. For example, the National Farmers Federation said:

Despite the *Roads to Recovery* program, there remains inadequate funds available for the maintenance and upgrade of rural roads. As a result, any change to the program which would dilute the resources available for road upgrades should be strongly opposed.⁷⁰

3.90 Some accepted the value of these other things, but did not think they should be mixed with Roads to Recovery. The Australian Local Government Association said:

ALGA considers the prime purpose of R2R is to reduce the local roads maintenance backlog and thus suggests that any such wider funding should essentially be limited to the current provisions for cycling and walking facilities, where these are proposed by a council. However, with the increasing pressures on public transport, there is growing justification for federal involvement in a new dedicated public transport program.⁷¹

3.91 Others supported greater flexibility, mostly on the grounds that local communities should be able to make their own choices. For example, the Municipal Association of Victoria ‘would support the broadening of the scope of R2R criteria to enable local councils to have a degree of choice in relation to their transport-related priorities.’⁷²

3.92 The Warren Centre pointed out that limiting eligible cycleways to those ‘associated with a road’ (as at present) favours on-road cycleways which must have road thickness pavements, whereas it might be possible to build an off-road cycleway with a thinner pavement much more cheaply.⁷³

3.93 The Australian Airports Association argued strongly that Roads to Recovery money should be available for rural airport runways and ancillary aeronautical equipment. The AAA argued this on the grounds that:

70 Submission 3, National Farmers Federation, p.2.

71 Submission 7, Australian Local Government Association, p.4.

72 Submission 10, Municipal Association of Victoria, p.2. Similarly submission 18, Transport Workers Union, p.5

73 Mr K. Dobinson (The Warren Centre for Advanced Engineering), *Committee Hansard* 12 April 2005, p.5. The limitation ‘associated with a road’ arises from the definition of ‘road’, which limits eligible projects: *Roads to Recovery Act 2000*, section 3. AusLink (National Land Transport) Bill, section 4.

- since the Commonwealth handed responsibility for these airports to local government in the 1990s, local councils have not been able to afford to maintain them adequately;
- in remote areas upgrading airports may be less costly than upgrading roads;
- communities should be able to choose their priorities.⁷⁴

3.94 Others argued against extending Roads to Recovery to airports, again because it could reduce money for roads. The National Farmers Federation thought that any initiative to upgrade airports should be considered separately.⁷⁵

3.95 DOTARS noted that Roads to Recovery money can already be used for pedestrian and cycling facilities associated with a road. It advised that government policy is that ‘public transport is the responsibility of the states’. It noted that local councils may use their untied grants to meet other needs such as the needs of rural airports.⁷⁶

Comment

3.96 The Committee notes that pedestrian and cycling facilities associated with a road can already be funded under Roads to Recovery. The AusLink bill does not change this, as the definition of ‘road’, which includes these things, is unchanged.⁷⁷

3.97 The Committee accepts the Government’s argument that councils may use their untied grants for purposes such as maintaining rural airports. However the Committee is concerned by the evidence that in practice many councils find it difficult to afford this. The Committee suggest the Government should keep this issue under review. There may be a case for compensation where one council is responsible for maintaining an airport which is used by others in the areas.

3.98 Public transport infrastructure (as opposed to operations) controlled by local councils would probably be limited to bus-related roadworks and bus shelters and interchanges. Bus-related roadworks could be funded as roads. In relation to other facilities, the argument that local councils may use their untied grants would also apply.

74 Submission 14, Australian Airports Association. Similarly, submission 12, Outback Areas Community Development Trust. Submission 25, Western Australian Government, p.7.

75 Submission 3, National Farmers Federation, p.2.

76 Submission 6, DOTARS, p.6.

77 *Roads to Recovery Act 2000*, section 3. AusLink (National Land Transport) Bill, section 4.

Whether there should be a National Transport Advisory Council

3.99 The AusLink White Paper advised that the Australian Transport Council ‘intends to establish a National Transport Advisory Council to provide strategic analysis and advice to ministers on the long-term development of the national transport system....

The council will focus its analytical and advisory work on three important transport policy areas agreed by Ministers:

- developing advice on priorities for national infrastructure investment
- advice on reforms to support modal integration
- advice on strategies, policies and options for infrastructure pricing.

The structure and detailed operations of the Council have not yet been agreed by the Australian Transport Council. The Australian Government will discuss with the States and Territories the extent to which a National Transport Advisory Council might be appropriate for progressing some of the strategic planning issues associated with AusLink and the development of future versions of the National Land Transport Plan.⁷⁸

3.100 Since then it appears that the ministers have had second thoughts. DOTARS advised that in November 2004 the Australian Transport Council ‘took a decision that it was not the right time to establish such a council, that the issues did not warrant such a council being effective at this point, that they would prefer to work through existing Commonwealth and state mechanisms to do further work and that they would review that decision in about 12 months time.’⁷⁹

3.101 Almost all submissions strongly supported establishing a National Transport Advisory Council including stakeholder representation. For example, Engineers Australia thought that relying on existing State/Federal working groups would lead to too ‘narrowly focused’ advice:

At present, the government’s internal advice comes from bodies with a narrow division of responsibility (on the basis of transport modes), which leads to advice that is narrowly-focused. It is our view that a single body be given responsibility for providing advice on all transport modes, to provide greater integration.

Engineers Australia strongly believes that an independent advisory body is essential to the AusLink process. We believe that the advisory body needs to include representatives from the private sector, as well as Federal, State and local government representatives.⁸⁰

78 AusLink White Paper, p.95.

79 Mr M. Mrdak (Deputy Secretary, DOTARS), *Committee Hansard* 18 March 2005, p.14. Similarly 14 April, p.34.

80 Submission 28, Engineers Australia, p.2.

3.102 The Australian Road Forum ‘would also like to see more effective consultation between governments and industry stakeholders...’

In part, that has not been possible simply because of the number of stakeholders that are on the job, if you like, and the fact that there is no effective means of ever bringing them together.⁸¹

3.103 Only the Australian Logistics Council did not support creating a new body, but this was not because it thought the proposed activities are unnecessary, but because it thought the Australian Logistics Council could carry the role.⁸²

3.104 It appears that the proposed role of the advisory council would be more higher level stakeholder consultation and priority setting than detailed project analysis. It is unclear how much it would be involved at the middle level of working out corridor strategies under the National Land Transport Plan. Engineers Australia suggests that the role of the council would be to provide a national perspective on matters including:

- strategic development, best practice and standards;
- cross-jurisdictional issues and impacts;
- relationships and interaction between different forms of infrastructure;
- the application of the principles of ecologically sustainable development; and
- overall balance of infrastructure provision.⁸³

3.105 Engineers Australia suggested a framework ‘which combines a top-down approach which establishes the appropriate level of funding in relation to need and resources, at a strategic level, and conducts a bottom-up technical analysis of candidate projects – and then matches the two via a needs analysis and some form of optimisation process.’⁸⁴

Comment

3.106 In the Committee’s view it is essential to have a forum for co-ordinating policy on the three areas suggested in the White Paper as roles for the council’s advice: investment priorities, modal integration, and infrastructure pricing. It is essential for it to include industry and other stakeholder representation.

3.107 The Committee has concerns about whether existing Commonwealth/State working groups can carry this role. The Committee notes the strong support for the proposed council among almost all the key interest groups who submitted to this inquiry. The Committee supports reconsidering this matter, as the transport ministers’

81 Mr I. Webb (Australian Road Forum), *Committee Hansard* 12 April 2005, p.25.

82 Submission 26, Australian Logistics Council, p.1.

83 Submission 28, Engineers Australia, p.2.

84 Submission 28, Engineers Australia, p.3.

resolution implied. The Committee hopes and expects that ‘review in 12 months’ will involve a genuine review.

Research and information

3.108 The bill allows for funding ‘transport development and innovation projects’ (part 4) and ‘land transport research entities’ (part 5). The White Paper proposed that of the \$8.6 billion five year Commonwealth commitment to the National Network, one per cent will be spent on research and technology:

The Australian Government will consider technology-based solutions as part of, or as alternatives to, the construction of new infrastructure or as increases to the physical capacity of existing infrastructure. Funding support for applied research and development will also be considered.⁸⁵

....These funds could be used for:

- the development of transport data sets
- research and development
- planning, investigations and feasibility studies
- the development and trialling of new technologies and practices.

Funds are earmarked to contribute to improved corridor planning, the development and trialling of innovative technological applications, and as Australian Government contributions to national research organisations. The Government will also contribute funding towards enhancing the development and analysis of nationally important data on the National Network.⁸⁶

3.109 Submissions supported an improved research effort. The Australian Road Forum noted that road research today is ‘at greatly reduced levels’, and is ‘generally reactive in nature’, compared with what it was in the 1960s and 70s. It welcomed AusLink’s commitment to research.⁸⁷

3.110 The Sustainable Transport Coalition WA argued that the definition of ‘research’ in the bill appears more restrictive than the definition in the *Australian Land Transport Development Act 1988*, which the AusLink bill will replace. It thought that ‘areas worthy of greater research attention include land use and behavioural measures that could reduce urban car dependence, transport energy including vulnerability to peaking oil supply, and smarter freight logistics.’⁸⁸

3.111 Submissions stressed the information needs to enable the best management of the national assets in roads and railways. The Australian Road Forum said that ‘Australia lacks a transparent system of national road accounts which aggregates the

85 AusLink White Paper, p.30,67.

86 AusLink White Paper, p.94.

87 Submission 15, Australian Road Forum, p.9. Similarly submission 21, Rail Tram and Bus Union, p.3. Submission 23, Civil Contractors Federation, p.4.

88 Submission 29, Sustainable Transport Coalition WA, p.2.

road infrastructure expenditure of our various levels of government'. The Australian Automobile Association argued that 'the Government needs to identify and report on the asset value of the National Network so that the appropriate level of maintenance spending can be identified and account for depreciation of the asset.'⁸⁹

3.112 The Committee notes that the Australian Transport Council in November 2004 endorsed a National Transport Data Framework. This 'adopts a high-level strategic planning focus with the aim of advancing a better approach to assembling data to meet long-term strategic planning of transport infrastructure....' It recommended an incremental approach to establishing the framework, and stressed the need for it to be owned by all jurisdictions.⁹⁰

3.113 The working group report on this noted that in general 'basic road infrastructure data is extensive and reasonably consistent, but the position with respect to road-usage data appears to be mixed. Comparable data on rail asset condition is not yet available... Basic information on intermodal transport facilities is even less readily available.'⁹¹

3.114 The Committee supports work towards better data to inform planning transport infrastructure. In the case of rail, it will be important to have protocols to ensure that the move to corporatisation and privatisation in recent years does not fragment information-gathering of industry-wide importance.

Recommendation

3.115 The Committee recommends that the bill should be passed.

Senator the Hon. Bill Heffernan

Chair

89 Submission 15, Australian Road Forum, p.6. Submission 13, Australian Automobile Association, p.5.

90 Australian Transport Council, *National Transport Data Framework*, 2004, p.iii,2.

91 Australian Transport Council, *National Transport Data Framework*, 2004, p.iii,2.