

Chapter 5

The role of the Australian Government

5.1 This chapter reviews arguments put in submissions about a possible greater role for the Australian Government in developing public transport. All submissions argued that the Australian Government should take a greater role.

Past Australian Government involvement in public transport

5.2 Historically the Australian Government has had little involvement in urban public transport. In the 30 years to 2004 it spent \$58 billion on roads, \$2.2 billion on rail, and \$1.5 billion on public transport. The Australian Government has had little or no role in policy or regulatory reform or public and passenger transport services.¹

5.3 The most recent significant Australian Government involvement in urban affairs or public transport was in the early 1990s, through a short-lived Urban Public Transport Program, and through the Better Cities program. More recently the Australian Government has had minor involvement by assisting 'Travelsmart' behavioural change programs, however this funding ended in June 2009.

Urban Public Transport Program 1990-1993

5.4 The Urban Public Transport (UPT) program aimed to improve public transport in the outer metropolitan regions of the capital cities and major provincial centres. Projects were undertaken by state and territory governments with Commonwealth funding. Over \$220 million was provided under the program between 1990 and 1993.

5.5 Almost two-thirds of the 148 projects received less than \$1 million and 90 per cent received funding of less than \$5 million. Projects were mostly measures such as interchanges, rail station upgrading, and bus priority measures. A few projects were of a more major engineering character such as contribution to rail duplication or electrification.²

Better Cities program 1991-1996

5.6 The Better Cities Program (originally 'Building Better Cities') ran from 1991 to 1996. Commonwealth funding contributed to improvements in urban areas

1 Submission 77, National Transport Commission, p.2

2 Department of Infrastructure, Transport, Regional Development and Local Government, additional information 30 July 2009. Department of Transport, *Evaluation of the Urban Public Transport Program*, April 1995. The biggest projects were Shellharbour electrification, Riverstone-Richmond electrification, Kuraby-Beenleigh duplication, and 22 Sprinter trains for Victoria.

identified in area strategies. These included redeveloping inner city precincts, building and refurbishing housing, building and upgrading railways and transport interchanges, new light rail systems, new water management infrastructure, as well as developing under-used government land. Construction and development activity was carried out by the States and Territories, which also contributed financially. Over six years the Australian Government provided \$816 million and the states/territories \$1,519 million.

5.7 Many projects focussed on urban renewal (for example, Newcastle waterfront, East Perth). Transport projects included contribution to the Gold Coast railway (opened 1996-98); to the Sydney light rail line (opened 1997-2000); and to the Parramatta 'Y-link' (which allowed trains to run directly from Parramatta to Liverpool, opened 1996).

5.8 A planned second tranche (Building Better Cities Mark 2) was approved in the 1995 budget, but was cancelled after the election of the Howard government in 1996.³

5.9 A 1995 evaluation report was generally positive:

The availability for Commonwealth funding for the Area Strategies has enabled many desirable projects to be undertaken years before they could otherwise have been progressed... Projects which might otherwise have been designed from a narrower functional perspective have instead been planned on a cross-agency basis with an emphasis on improved integration of facilities and services and maximising community benefit. State, Territory and Local Government, business and community assessments of the Area Strategies are generally positive.⁴

Travelsmart

5.10 'Travelsmart' refers to activities to promote behavioural change in favour of less car use by direct approach to targeted households - for example, to provide information about public transport services. Larger projects routinely show decreases in car use of 4-15 per cent, and increased walking, cycling and public transport use. Results are extremely cost-effective compared with public transport infrastructure projects. Evaluation of Travelsmart projects in Western Australia found a community benefit of \$30 for every \$1 invested.⁵

3 Collins et al. 1995:78. Hon. J. Sharp, Minister for Transport and Regional Development, *Regional development*, media release 17 July 1996. Australian National Audit Office 1996.

4 Collins et al. 1995:78.

5 Submissions 123 & 186, WA Department for Planning and Infrastructure, C. Ashton-Graham (WA Department of Planning and Infrastructure), *Committee Hansard* 23 March 2009, p.16. Department of Environment and Heritage 2005:5. Department of Environment, Water, Heritage and the Arts 2008:7.

5.11 From 2003 to 2007 the Australian Government contributed to Travelsmart projects through the Greenhouse Gas Abatement Program (GGAP). 38 projects in Victoria, Queensland, South Australia and the ACT were part funded with \$6.4 million. This funding ended with the Greenhouse Gas Abatement Program.⁶

5.12 The Western Australian Government advised that 'despite the success of the GGAP co-funded program the Department of Environment, Water, Heritage and the Arts advised that, after June 2009, it will not be able to provide any funding or provide a coordination role for work on travel behaviour change.... it is unlikely that the national transport portfolio will take on this task as the Department of Infrastructure, Transport, Regional Development and Local Government (DITRDLG) does not appear to see a role for itself in this area.'⁷

Recommendation 1

5.13 That the Commonwealth recognise the cost-effectiveness of the 'Travelsmart' behaviour change program and consider reinstating funding for it from an appropriate department.

Recent Australian Government policy on public transport

5.14 Apart from its small contribution to Travelsmart programs through the Environment portfolio, the Australian Government's policy in recent years has been that urban public transport is the responsibility of the states. The 2004 Auslink White Paper, which established the current system of Australian Government land transport funding, said:

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.⁸

5.15 However the Australian Government has recently signalled a renewed interest in urban policy by establishing a Major Cities Unit in Infrastructure Australia, the Government's new infrastructure advisory body, 'to identify opportunities where federal leadership can make a difference to the prosperity of our cities and the

6 Kemp 2003. Maunsell 2008:7

7 Submission 186, WA Department for Planning and Infrastructure, p.16. C. Ashton-Graham (WA Department for Planning and Infrastructure), *Committee Hansard* 23 March 2009, p.21

8 Department of Transport and Regional Services 2004:9. Similarly submission 52, Department of Infrastructure, Transport, Regional Development and Local Government, p.1

wellbeing of their residents'.⁹ The 2009 budget funded a number of significant urban public transport projects (mostly rail), with a total commitment of about \$4.6 billion, as noted in paragraph 4.55.

Australian Government contribution to community transport

5.16 The Australian Government contributes to the joint Commonwealth/State Home and Community Care program (HACC). This includes a transport component, as discussed at paragraph 4.67ff. On the evidence it seems that there is potential to improve the interface between regular public transport and community transport to ensure the most cost-effective service to the most people. The Committee recommends that the Department of Health and Ageing, which is accountable for the efficient use of HACC transport funds, should be mindful of this in negotiation of future HACC agreements.

Recommendation 2

5.17 The Commonwealth in future negotiation of HACC agreements should be mindful of -

- **the effectiveness of present community transport services;**
- **future transport needs of groups targeted by community transport;**
- **appropriate balance between community transport, regular public transport and taxis to meet those needs; and**
- **appropriate division of responsibilities, actions and funding to meet those needs.**

Submissions on a future Australian Government role

5.18 Almost all submissions argued that the Australian Government should take a greater role in promoting public transport for the sake of sustainable cities. The most common reasons put forward were related to climate change, peak oil and urban congestion, serious issues of national importance that require a nationally led response.¹⁰ For example the National Transport Commission said:

9 'Major Cities Unit' at <http://www.infrastructureaustralia.gov.au/mcu.aspx> accessed 30 July 2009. Infrastructure Australia is a statutory authority established by the *Infrastructure Australia Act 2008* to advise government on infrastructure needs and priorities. It does not itself make funding decisions, which remain with government.

10 For example submission 27, Australian Conservation Foundation. Submission 155, Municipal Association of Victoria, p.16. M. Roth (RACQ), *Committee Hansard* 3 March 2009, p.74-5. Cr C. Moore (Sydney City Council), *Committee Hansard* 6 March 2009, p.12. Prof. D. Hensher, *Committee Hansard* 6 March 2009, p.31. B. Nye (Australasian Railway Association), *Committee Hansard* 20 March 2009, p.39. M. Paterson (Veolia Transport Australasia), *Committee Hansard* 30 March 2009, p.64. K. Petersen (Tourism and Transport Forum), *Committee Hansard* 31 March 2009, p.24

Urban congestion is an issue of national importance. When considering what is 'national' it is no longer sufficient to look at issues that are Commonwealth responsibilities or those that relate to 'cross-border' issues. A 'national' issue is one which affects a significant proportion of Australian, irrespective of where they live. Public and passenger transport should no longer be considered the domain of one state or local government, but an issue which is going to affect the majority of Australians, and our potential economic growth. Many OECD countries have developed national 'moving people' strategies, and the increased interest in public and passenger transport by the Commonwealth, including Infrastructure Australia, is welcome.¹¹

5.19 The Western Sydney Regional Organisation of Councils (WSROC) argued that 'the Federal Government is already involved in urban issues but in a piecemeal and inconsistent way...

...for example, in relation to airports and national highway and freight corridors, many of which also combine Local, State and Federal responsibilities. The Commonwealth needs to have a much more strategic and integrated focus to its engagement in urban areas.¹²

5.20 Mr Litman (Victoria Transport Policy Institute) noted that in North America highway programs which ostensibly related to regional and interstate transport have in fact had strong, perhaps unplanned effects on urban transport systems, since in urban areas the vast majority of motorists on the 'interstate' highway are making urban trips.¹³ The same point could apply in Australia in relation to the urban sections of the Auslink national network which has been the focus of the Australian Government's recent road funding.¹⁴

5.21 Submissions noted that in most developed nations the central government takes a significant role in public transport planning and funding:

The general Federal position on urban public transport involvement has been that it is the responsibility of the States. This is unfortunate since there are clearly important national economic, social and environmental objectives (see earlier) which public transport can assist with. This position is also in stark contrast with the position of other countries... Australia is

11 Submission 77, National Transport Commission, p.2

12 Submission 67, Western Sydney Regional Organisation of Councils, p.20. Similarly S. Holliday (Planning Institute of Australia), *Committee Hansard* 20 March 2009, p.21-22.

13 T. Litman (Victoria Transport Policy Institute), *Committee Hansard* 31 July 2009, p.6

14 Dr J. Stone, *Committee Hansard* 30 March 2009, p.49. Australian Government contributions or commitments to recent or planned major urban roads have included Sydney's M7 (\$356 million), Brisbane's Ipswich Motorway (\$2.5 billion) and proposed Northern Link (\$500 million), Melbourne's Western Ring Road (\$900 million) and Adelaide's Northern Expressway (\$451 million) and South Road upgrade (\$500 million).

unique in being the only OECD country which does not have some Federal role in funding and supporting public transport.¹⁵

5.22 The contrast between the past disinterest of the Australian Government, and the US Federal government's urban transit initiatives, was much noted.¹⁶ The US Federal Government funds public transport through SAFETEA-LU, which also funds roads.¹⁷ Funding includes capital support for startup projects, and some support of recurrent operating costs. 15.5% of gasoline tax is hypothecated to the Mass Transit Account. The current program provides \$US52.6 billion for urban transit over 2004-2009, or about \$US9 billion per year. Weighting for population this would be equivalent to the Australian government spending about \$A800 million per year.¹⁸

5.23 As to how the Australian Government should be involved, the main themes in submissions were:

- need for national leadership and coordination;
- need for a national research body; and
- Australian government funding of public transport and active transport.

National leadership for best practice transport planning

5.24 Submissions argued that there should be greater national coordination of transport policy and greater Australian Government involvement in promoting best practice transport planning for national goals such as sustainable cities and greenhouse abatement.

5.25 For example, the National Transport Commission said that 'potential opportunities for a more coordinated national approach to public and passenger transport could include...'

- national objectives and strategies for people movement, linked to regional strategies to underpin the next generation of investment in passenger transport;
- best practice transport governance structures - for regulators, government agencies and service providers across all modes - to ensure urban transport works more effectively together as an integrated system;

15 Submission 34, Prof. G. Currie, p.5

16 For example, submission 33, Bus Industry Confederation, p.33. Submission 34, G. Currie, p.5. Submission 87, Australasian Railway Association, p.65. Submission 136, Public Transport Users Association, attachment, p.14

17 SAFETEA-LU: Safe Accountable Flexible Efficient Transportation Equity Act - A Legacy for Users. Total SAFETEA-LU funding includes roads is \$ 244 billion: see <http://www.fhwa.dot.gov/safetealu/summary.htm> accessed 7 August 2009. US Federal transport funding has generally been about 80 per cent to roads, 20 per cent to public transport: T. Litman, *Committee Hansard* 31 July 2009, p.5

18 Submission 34, Prof. G. Currie, p.6

- minimum standards for transport access;
- a common technology platform for integrating 'smart card' technology on any transport mode in any city...¹⁹

5.26 The National Transport Commission in early 2008 provided wide-ranging advice to the Australian Transport Council (ATC - Australian and state/territory transport ministers) on a 'national transport policy framework'. On 28 February 2008 transport ministers agreed that 'there is a need for a national approach to transport policy'. Since then the ATC has affirmed the joint development with the Local Government and Planning Ministers Council of guidelines for integrating transport and landuse planning, especially in outer urban locations. The ATC has agreed to implement a future work agenda arising from the NTC's proposal through a structure of subcommittees of the Standing Committee on Transport.²⁰

Committee comment

5.27 The committee agrees that there is a need for a more coordinated approach to urban transport planning and supports the ATC's initiatives in this regard.

Nationally coordinated public transport research

5.28 Submissions argued that there is a need for greater national coordination and support of research relating to best practice public transport planning and operations. Prof. Currie noted a lack of interstate knowledge sharing, leading to duplication of research and an emphasis on reactive rather than proactive research:

Because planning and management is State based, there is a tendency for localised planning with a lack of cross border cooperation and sharing of knowledge.... Road authorities have solved this problem through the development of the Austroads national group which is supported by the Federal Government. No such body exists for public transport which is again disadvantaged compared to the roads sector. There is a clear role for the Federal Government to address this issue.²¹

5.29 Again Australia performs poorly compared with its peers:

Yet again this problem does not surface in our comparable overseas partners. Europe, like the United States is encouraging an active development and sharing of knowledge about managing and planning public transport systems on a national and trans-national scale.... [In the USA] SAFETY-LU includes over \$US 373M to undertake research in public transport (2004-2009).²²

19 Submission 77, National Transport Commission, p.3

20 Australian Transport Council communique 29 February 2008, 7 November 2008, 22 May 2009

21 Submission 34, Prof. G. Currie, p.7-8

22 Submission 34, Prof. G. Currie, p.7-8 & *Committee Hansard* 30 March 2009, p.29

5.30 Similarly the Bus Industry Confederation (BIC) regretted that there is no peak entity for public transport related research, at the the level of technical detail which is normal for roads:

Transport research is very poorly funded in Australia, relative to the size of the sector (e.g. compared to the multitude of such institutions in agriculture). In particular, there is no peak entity that leads research in public transport. Several university institutes undertake research in the field and there are two chairs of public transport that have been established in recent years. However, Australia has no public transport equivalent to Austroads.²³

5.31 The National Transport Commission suggested as a short to medium term priority 'establish a national transport research board... this will include facilitating a collaborative approach to transport research in conjunction with Austroads, BITRE, ARRB, Rail CRC and university centres.'²⁴ The BIC suggest that the Australian Government 'should establish an Australian Transport Research Board (similar to the US Transportation Research Board, scaled down), to be the peak body co-ordinating Australian transport research. The agency should have a sufficient budget to be able to support original research that assists development of public passenger transport in both urban and regional Australia'.²⁵

5.32 The Australian Transport Council (ATC) has .accepted that 'there is a need to support a new National Transport Policy with a collaborative strategic research agenda that looked beyond a modal focus.' Minister agreed to examine whether existing relevant bodies could take this role or whether a new body is needed.²⁶

Committee comment

5.33 The committee agrees that there is a need for a national transport research agency whose remit includes detailed technical research on public transport and active transport. Whether this should be a new body or should be done by extending the

23 Submission 33, Bus Industry Confederation, p.39

24 Submission 77, National Transport Commission, attachment 1, *National Transport Policy Framework - a new beginning*, February 2008, p.19

25 Submission 33, Bus Industry Confederation, p.40

26 Australian Transport Council, communique 2 May 2008, p.5

remit of one of the existing bodies (BITRE, Austroads or ARRB) would be a matter for further consideration.²⁷

Recommendation 3

5.34 The Australian Government in consultation with the states/territories and other stakeholders should establish a national transport research body suitable to be a national centre for detailed research into world's best practice public transport and active transport.

A public transport and active transport funding program

5.35 Many submissions urged the Australian Government to establish an ongoing funding program for public transport and active transport comparable to its roads programs. For example the Australian Automobile Association said:

The cost of congestion in Australian cities is significant and demands attention. Currently, Federal and State Governments are investing billions in road construction that can help to relieve this congestion by removing bottlenecks and improving links to ports. However, this investment is not being matched by Commonwealth investment in public transport which is clearly necessary given the large scale funds required for major projects. Such investment in public transport can help to improve the overall efficiency of the transport network, the livability of Australian cities and generate overall benefits to the nation.²⁸

5.36 Submissions suggested types of projects that could be funded. These could include not only major projects such as those that have been put forward to Infrastructure Australia, but also many small scale, widespread continuous improvements (comparable to the smaller roads programs) - for example bus priority measures (bus lanes, queue jump lanes, traffic light priority), interchanges, bus stop or train station facilities (real time information, Easy Access upgrades); park and ride and secure bike parking; cycle paths and bike storage centres; and Travelsmart behavioural change programs.²⁹

27 A detailed discussion is in submission 77, National Transport Commission, attachment 2, *National Transport Policy Framework - a new beginning*, vol.2 February 2008, p.89ff. The Bureau of Infrastructure, Transport and Regional Economics (BITRE) is a work group within the Department of Infrastructure, Transport, Regional Development and Local Government. Its focus is on statistics and higher level economic analysis. Austroads is the association of Australian and New Zealand road transport and traffic authorities (with the Australian Local Government Association (ALGA)). It publishes detailed guidelines and reports on technical matters (mostly written by ARRB). ARRB Group Ltd is a non-profit company owned by the Australian and New Zealand road transport and traffic authorities (with ALGA). It does publicly funded research, competitive research and consulting, and publishes *Road and Transport Research Journal*.

28 Submission 127, Australian Automobile Association, p.11

29 For example submission 27, Australian Conservation Foundation, p.7. Submission 63, Bus NSW, p.2. Submission 91, Blue Mountains Commuter and Transport Users Association, p.5

5.37 Several submissions suggested a program modelled on the 'Roads to Recovery' roads program, or suggested that Roads to Recovery funds should be able to be spent on other transport infrastructure to give councils more freedom to fund things like public transport interchanges and bike racks.³⁰

5.38 It was sometimes unclear whether submitters were suggesting that the Australian Government should contribute to infrastructure costs only, or also to operating costs. Most comments implicitly referred to infrastructure. The equivalent US program does include some funding of operating costs, but the committee was told that this element is controversial.³¹

5.39 Submissions argued that Travelsmart behavioural change programs should be supported.³² The WA Department for Planning and Infrastructure thought that a national coordination role is needed for this 'relatively new discipline':

Whilst the CCEEWG has indicated a willingness to consider national level travel behaviour change initiatives, further progress will require an on-going coordination and facilitation role at a national level. Travel behaviour change programs are a relatively new discipline in the transport sector and are likely to require on-going coordination and funding support by the Commonwealth Government at least until they can be mainstreamed.³³

Need for funding to be conditional on good planning and governance

5.40 Submissions argued that future Australian Government funding for public transport infrastructure should be conditional on having best practice integrated management of the whole network; a strategic long term transport plan with goals, actions and performance criteria detailed enough so that performance can be monitored over time; and rigorous cost benefit analysis of project proposals that includes the indirect benefits and those that are hard to quantify:

30 For example submission 56, Local Government Association of Queensland, p.4. Submission 134, Western Australia Local Government Association, p.14. Submission 136, Public Transport Users Association, p.27. J. Fristacky (Metropolitan Transport Forum), *Committee Hansard* 30 March 2009, p.81. Roads to Recovery funds local councils on a lump sum basis according to a formula to help them with local roadworks. \$1.75 billion will be provided over five years from 1 July 2009. 'Roads to Recovery' at <http://www.nationbuildingprogram.gov.au/funding/r2r/index.aspx> accessed 31 July 2009

31 Mr T. Litman (Victoria Transport Policy Institute), *Committee Hansard* 31 July 2009, p.5

32 Submission 6, D. Kilsby, p.14. Submission 63, Bus NSW, p.3. Dr M. Burke (Pedestrian and Bicycle Transport Institute of Australasia), *Committee Hansard* 3 March 2009, p.19

33 Submission 186, WA Department for Planning and Infrastructure, p.16

Funding should require States to undertake a public planning process which generates a long term agreed public transport plan as a condition of receipt of such funds.³⁴

The Commonwealth should also continue its encouragement of detailed cost-benefit analysis to help make those decisions; make sure they are based on evidence and make sure that they look at the problem and quantify it before jumping straight to solutions.³⁵

5.41 Submissions urged the need for good reporting of outcomes:

Commonwealth requirement for providing funding support for public transport infrastructure and services should be the preparation and annual updating of publicly available information on asset stocks and condition, and on service utilisation in an agreed format..³⁶

5.42 In its December 2008 report Infrastructure Australia said:

With the Commonwealth signalling that it might invest in urban transport systems as a means to boost national productivity, now is the time for nationwide reform to improve public transport governance.³⁷

Committee comment

5.43 The committee agrees that the demand on public transport infrastructure will continue to rise and require an expansion of its role and capacity in meeting the commuter task. Nevertheless, public transport has traditionally been the responsibility of the states and a key element of service delivery regarding which the voting public quite rightly hold their state governments to account. Moreover, public transport involves complex urban planning, land use and development decisions that are best carried out by the states since they are the closest constitutional level of government to the community. The Committee does not propose to recommend that this should change.

Recommendation 4

5.44 Commonwealth funding for public transport should only occur in the context of overall funding for infrastructure projects that meet a strict merit-base criteria. These include an objective assessment of the broader community and economic benefits and the degree to which the sponsoring state government has adopted an integrated, inter-modal, best-practice approach to transport planning and management. The Commonwealth can only make such decisions in

34 Submission 88, Dr. G. Glazebrook, p.2. Similarly submission 33, Bus Industry Confederation, p.16. M. Lockwood (Council of Capital City Lord Mayors, *Committee Hansard* 19 March 2009, p.9

35 S. Lennon (Pricewaterhouse Coopers), *Committee Hansard* 6 March 2009, p.53

36 Submission 33, Bus Industry Confederation, p.11

37 Infrastructure Australia 2008:45

the context of broader judgements regarding all competing infrastructure projects that have national significance.

Other matters: suggested tax incentives for public transport

5.45 Many submissions suggested that there should be tax incentives to use public transport. Tax-exempt fringe benefits, concessionary fringe benefits taxation, tax deductions or tax rebates were mentioned or noted in international examples.³⁸

5.46 Submissions referred to international examples of tax incentives to encourage public transport use. For example:

- In the USA, tax-exempt benefits for transit/public transport were introduced 25 years ago. 'By 2002 in San Francisco, 27% of employers participated and over one-quarter of weekday commuter rail riders were transit benefit recipients.
- In Canada since 2006, riders can claim a tax rebate of 15.5 per cent of the cost of a monthly or weekly public transport pass.³⁹

5.47 COAG in 2006 noted that 'some governments (particularly at the local and regional government level) have also provided direct financial support to employers to introduce public transport initiatives for their employees.'⁴⁰

5.48 A 2006 report for the NSW government recommended fringe benefits tax exemption for public transport benefits, on the grounds that this would encourage 'buy-in' by employers:

The findings of most studies seem to indicate that countries that have sought to provide some form of employer sponsored incentive (which is one of the advantages of an FBT exemption) have been more successful in achieving a modal shift from private to public transport than those that have sought to provide broad based tax incentives alone.⁴¹

5.49 On the other hand, Treasury has previously argued that a tax benefit for public transport use would seem to be contrary to the fundamental principle of distinguishing work-related and private expenditure in the tax system:

38 For example submission 2, Blue Mountains Sustainable Transport Alliance, p.4. Submission 33, Bus Industry Confederation, p.37. Submission 87, Australasian Railway Association, p.58ff.

39 Submission 87, Australasian Railway Association, p.59

40 Council of Australian Governments 2006:59. For other examples see Bureau of Transport and Regional Economics 2002:22-3; Ernst & Young 2006:22ff

41 Ernst & Young 2006:1

If you were to start using the fringe benefits tax regime to provide an incentive for people to use public transport, you would run into an issue about effectively providing a tax deduction for private expenditure.⁴²

Committee comment on tax incentives for public transport

5.50 In forming a view on this question, some considerations are:

- An incentive for public transport fares would be contrary to the fundamental logic of distinguishing work-related and private expenditure in the tax system. For the sake of a rational tax system this should be given some weight.
- In current conditions the quality of public transport service is much more important than the cost in forming people's travel choices. To attract new ridership it is more important to make services better than to make them cheaper. A policy that focuses political attention on making public transport cheaper, if it takes attention away from the primary need to make it better, may be counter-productive.⁴³
- On the other hand, measures that show the Government's commitment to sustainable transport, and encourage 'buy-in' by employers to promote this, are desirable.

5.51 On balance the committee is not inclined to recommend tax concessions for public transport at present. However the committee agrees that the likely benefits should be further investigated.

Recommendation 5

5.52 The Government should investigate options for tax incentives for public transport including estimating their likely effects on people's travel behaviour.

5.53 Measures that encourage 'buy-in' by employers to promoting sustainable transport in their workforces should be encouraged.

Recommendation 6

5.54 Government support for behavioural change programs ('Travelsmart') should include measures to encourage 'buy-in' by employers in promoting sustainable transport in their workforces.

42 M. Jacobs (Department of the Treasury), *Committee Hansard*, 18 August 2006, p.30 (inquiry into Australia's future oil supply and alternative transport fuels).

43 As living standards increase over time it should be expected that quality becomes relatively more important than price. A survey of Sydney car commuters found that comfort and convenience factors (primarily 'vehicle faster') were very important, and cost factors were not important in forming their decision to use the car. Transport Data Centre 2008:13. See also TRL 2004:15ff

5.55 The fact that certain taxi travel is exempt from fringe benefits tax, while similar public transport travel is not exempt, is discussed below (paragraph 5.93ff).

Other matters: fringe benefits taxation of cars

5.56 Many submissions argued that the concessionary tax treatment of cars as a fringe benefit (car FBT) should be abolished. They argued that the concession encourages the use of cars, significantly contributes to urban traffic congestion and parking problems, and is contrary to widely held goals to promote public transport and restrain transport greenhouse emissions. They argued that there is no similar concessionary treatment of public transport fares, which biases employers to offer car fringe benefits and not public transport fringe benefits.⁴⁴

5.57 Two issues which should be distinguished, although they are often confused in comment on car FBT, are:

- the construction of the statutory formula used to calculate the tax encourages excess driving in order to reach a threshold distance which earns a reduction in tax (the 'March rally');
- the tax is generally concessionary, which distorts economic behaviour in favour of more car use.

Description of car fringe benefits tax

5.58 Private use of employer-provided cars is taxed under the *Fringe Benefits Tax Assessment Act 1986*. The taxable value is calculated, at the taxpayer's choice, by recording actual business and private use (the operating costs method), or by deeming certain proportions of business and private use using a statutory formula. About 90 per cent of car fringe benefits tax is calculated by the statutory method.⁴⁵

5.59 The statutory formula deems that the taxable fringe benefit is the base value of the car times a percentage which varies according to how far the car is driven in total (work-related and privately) during the year. The taxable fringe benefit is less if the car is driven further. The rationale for this seems to be an assumption that if the car travels further, it is likely that it has a smaller amount of private use.

5.60 Tax calculated by the statutory formula is concessionary because the formula underestimates the amount of private use; thus less tax is paid than would be the case if the cost of the benefit was paid by the employee out of after tax cash remuneration.

44 For example submission 58, RACQ; submission 77, National Transport Commission, attachment, *National Transport Policy Framework - A new beginning*, 2008, p.45; submission 33, Bus Industry Confederation; submission 87, Australasian Railway Association. M. Paterson (Veolia Transport Australasia), *Committee Hansard* 30 March 2009, p.45. K. Petersen (Tourism and Transport Forum), *Committee Hansard* 31 March 2009, p.24, H. Webster (Fleurieu Regional Development) *Committee Hansard* 23 July 2009, p.7.

45 See Appendix 4, Treasury's answers to questions.

The Treasury estimates that the concession (value of revenue forgone, compared with a benchmark non-concessionary situation) was worth \$1.7 billion in 2008-09, projected to rise to \$2.09 billion in 2011-12.⁴⁶

5.61 The number of cars taxed by the statutory formula method officially appears to be around one million, however this figure, advised by Treasury, is very unreliable. The Federal Chamber of Automotive Industries (FCAI) estimates that about 500,000 vehicles incur FBT.⁴⁷

5.62 The car FBT concession is one of the largest tax expenditures outside superannuation and capital gains tax. It is almost equal to GST exemption of health supplies (\$2.3 billion in 2008-09) or GST exemption of education supplies (\$2.25 billion in 2008-09). It is noteworthy for the unusual combination of the large tax expenditure with the low reliability of the estimate.⁴⁸

Car FBT concession considered as assistance to the Australian car industry

5.63 It appears that concessionary fringe benefits taxation of cars was adopted to support the Australian car industry, which at the time (1986) attracted significant government support and provided nearly 85 per cent of car sales.⁴⁹ Australian-made cars are now only 25 per cent of all car sales, however they are still a high proportion of fleet (business) sales; and fleet sales are more likely to be fringe benefits cars.⁵⁰ The 1999 Ralph Review of Business Taxation said, 'The domestic car industry has argued that any tightening of the formula would damage its sales and encourage employers to

46 Treasury, *Tax Expenditure Statement 2008*, p.163

47 See Appendix 4, Treasury's answers to questions. FCAI, submission to the review of Australia's tax system, March 2009, p.3. In Treasury's figures, the time series of cars involved contains enormous fluctuations which, compared with the time series of employers involved, are not believable. The committee understands that this may be because of taxpayers' mistakes in filling in FBT returns: a few big mistakes (for example, putting the taxable value in the 'number of cars' cell) could completely corrupt the total. The 'number of cars' field, being for information only, is not checked for accuracy except in the case of an individual audit.

Figures in the 50,000s for the number of cars involved, which are sometimes seen in comment on this issue, are a mistaken reference to the number of employers involved.

48 Treasury, *Tax Expenditures Statement 2008*, p12

49 This seems to be generally accepted (for example Kraal 2008:193; Institute of Chartered Accountants in Australia 2006:19); however the committee could not find any policy statement from the time to confirm it. See Appendix 4, Treasury's answers to questions.

50 2007 sales of passenger motor vehicles, local/ imported/ total, were: private - 35,948/ 316,089/ 352,037; fleet government - 30,721/ 13,896/ 44,617; fleet non-government - 90,593/ 149,772/ 240,365; total - 157,262/ 479,757/ 637,019. Department of Innovation, Industry, Science and Research, *Key Automotive Statistics 2007*. Federal Chamber of Automotive Industries, *VFACTS*.

choose cheaper, imported cars.⁵¹ The concern appears to be that without the concession there would be little incentive to offer cars as fringe benefits; and employees left to their own devices would be more likely to buy imported (in keeping with observed private buying behaviour). It appears that there is no knowledge of what the behavioural change might be.

5.64 If the purpose of the concession is to support the Australian car industry (no other purpose has been suggested), the government for some reason is reluctant to admit it. When the committee asked Treasury, 'At present, what is the policy purpose of making FBT of cars concessionary?' Treasury gave an uninformative answer which avoided the question.⁵²

5.65 Concessionary car FBT, considered as a form of assistance to the Australian car industry, should be seen in context of other government support for the industry.

5.66 According to the Productivity Commission, in recent years direct Australian Government assistance to the motor vehicles and parts industry has been around \$600 million per year, mostly through the Automotive Competitiveness and Investment Scheme (ACIS). Adding the net effect of tariffs increases the total to \$1.2 billion (2007-08). Motor vehicles and parts has an effective rate of assistance about three times the manufacturing sector average. This does not include the car FBT concession, which is not mentioned in the relevant Productivity Commission report.⁵³

51 Ralph 1999:224. Submissions to the current Australia's Future Tax System Review have the same implication: see Toyota Finance Australia Ltd, submission 17/10/2008:3; Federal Chamber of Automotive Industries, submission 26/03/2009:7; Motor Trades Association of Australia, submission 1/5/2009:4. Similarly Toyota, submission 80 to the Bracks Review of the Automotive Industry, 2008, p.36.

52 See Appendix 4. The answer was: 'The policy of the FBT statutory formula for valuing car benefits is set out in chapter 13 of the Australia's Tax System Review Consultation Paper of December 2008.' The only relevant comment in chapter 13 of the consultation paper is: 'The statutory formula method for valuing car fringe benefits applies a declining taxable value the further the car is driven in a year. The original purpose of this policy was to apply tax to the private use of the vehicle, not its use for work purposes, and distance travelled was used as a proxy for the proportion of business travel. The value of the car for FBT purposes is its cost multiplied by a 'statutory fraction' which depends on how far the car is driven in the relevant tax year. The statutory fraction, and hence the taxable value of the car benefit, reduces as the number of kilometres driven increases... This valuation formula has two main impacts on incentives. It reduces the overall cost of car ownership and provides employees with an incentive to drive additional kilometres to reduce the amount of FBT payable. These incentives indirectly encourage increased greenhouse gas emissions, pollution and congestion through increased car use.' (p251)

Note that whether the tax should be concessionary, and whether there should be a statutory formula for the sake of easy compliance, are different questions, since a statutory formula could be retained but the concessionary aspect removed by adjusting the rates.

53 Productivity Commission, *Trade and Assistance Review 2007-08*, 2009, p.16-19,164.

5.67 On 10 November 2008 the Government announced *A New Car Plan for a Greener Future*. This includes a new Automotive Transformation Scheme (grant assistance of \$3.4 billion from 2011 to 2020), a Green Car Innovation Fund (grant assistance of \$1.3 billion over ten years from 2009), and several other measures whose total cost is very small compared with the first two.⁵⁴ The detailed timing is unclear,⁵⁵ but the average effect will be direct assistance of about \$4.8 billion over ten years, or \$480 million per year (not including the net effect of tariffs).

5.68 Thus it appears that the concessionary car FBT at about \$1.7 billion per year, considered as assistance to the car industry, is by far the largest element of government assistance to the industry. It is effectively a subsidy of at least \$10,000 to secure a consumer's decision to buy Australian instead of imported. 'At least' should be stressed - the true figure may be much higher, since it depends on how much the concession actually influences people's behaviour (the more people who would buy Australian anyway, the greater is the subsidy taken over each of the buyers whose behaviour is influenced). This seems to be unknown.⁵⁶

Previous comments on car FBT

5.69 Many previous reports have mentioned this issue or urged reform.⁵⁷ Most recently the Garnaut Climate Change Review (2008) said:

'The current treatment of vehicles and parking spaces distorts decisions towards private vehicle use and greater demand of transport overall. These provisions could be improved by: • ensuring the salary sacrifice

54 Hon K. Carr (Minister for Innovation, Industry, Science and Research), *A New Car Plan for a Greener Future*, media release 10 November 2008.

55 'Assistance will be progressively phased down over the period'. Ausindustry, *Automotive Transformation Scheme (ATS) - fact sheet*, n.d.

56 'At least \$10,000': 2007-08 tax expenditure \$1,700 million divided by 157,262 Australian sales of Australian-made cars, (DIISR, *Key Automotive Statistics 2007*), gives notionally \$10,810 per sale. However many of these sales would be unaffected by removing the concession. The effectiveness of a subsidy which aims to change consumer behaviour must be judged in relation to the number of consumers whose behaviour is actually changed.

The tax concession relates to all the cars in use, not just the year's sales. The comment treats the flow of subsidy to each car over its life as equivalent to a lump sum at the time of purchase. This is valid if the average life of a car, thus the ratio of stock to sales, is stable over time.

57 For example, Industry Commission 1997:131. Ralph 1999:224. Bureau of Transport and Regional Economics 2002:22. House of Representatives Standing Committee on Environment and Heritage 2005:77. Institute of Chartered Accountants in Australia 2006:20. Ernst and Young 2006:1 (NSW submitted this report to the October 2006 meeting of the Australian Transport Council where 'ministers discussed a report provided by NSW and agreed to forward to the Council of Treasurers.' Australian Transport Council, *joint communique*, 13 October 2006). Senate Standing Committee on Rural and Regional Affairs and Transport 2007:163. Victorian Government, response to VCEC's report on managing transport congestion, March 2007, pp.15. Taxpayers Australia and Taxation Institute of Australia: *Australian Financial Review*, 9 January 2008, p.7. Bracks 2008:68ff

arrangements are mode neutral; • amending the statutory fraction method to ensure it is distance neutral.⁵⁸

5.70 A consultation paper for the 'Henry' review of the tax system now in progress said: 'The concessional treatment of car fringe benefits provides a strong incentive for some employees to take a car as part of their remuneration package and to skew their consumption toward motor vehicle services...

Most submissions [to this review which mentioned this matter] oppose a tax system that encourages people to drive more and contribute to noise and air pollution, greenhouse gas emissions and urban traffic congestion."⁵⁹

5.71 The review is now considering car fringe benefits as part of a wide-ranging review of Australia's tax system.⁶⁰

Issue: the statutory formula encourages excess driving

5.72 Many submissions noted that the construction of the statutory formula encourages excess driving simply to reach one of the thresholds (15,000, 25,000 and 40,000km) that earns a lower tax (the 'March rally').

5.73 Since excess driving incurs costs the incentive exists only for drivers whose 'genuine' mileage is already within striking distance of one of the thresholds. A 2007 survey of 1,250 fringe benefits cars cars estimated that about 19 per cent of them had driven further deliberately to reach a threshold.⁶¹

5.74 The excess driving distance is probably small in proportion to the total distance travelled by fringe benefits cars. However it involves a significant proportion of the drivers.

5.75 Submissions (and many previous comments elsewhere, including in motor industry submissions to the 2008 Bracks review of the automotive industry) suggested that this perverse incentive could easily be removed in a tax neutral way, either by increasing the number of distance bands to the point where the prize for reaching the next threshold becomes too small to be worth trying for, or by reducing them to one (a flat rate).⁶²

58 Garnaut 2008:527

59 The Australia's Future Tax System Review Panel [Henry tax review], *Australia's Future Tax System Consultation Paper*, December 2008, p90

60 Department of Innovation, Industry, Science and Research 2008:21

61 Kraal 2008:202. The estimate of excess private driving was made by comparing the distribution of distances driven by the sampled cars (which showed a bunching of cars just above each threshold distance) with what would have been the result if there had been no bunching.

62 For example, SG Fleet (submission 67 to the Bracks Review) suggested 10 distance bands with a gradually declining statutory percentage. The Australian Fleet Managers Association (submission 95 to the Bracks Review) suggested a flat 15% statutory percentage.

Committee comment on excess driving

5.76 The way the statutory formula encourages excess driving is clearly absurd and contrary to planning and environmental goals to curb the growth of car traffic in cities. It sends a bad message about the sincerity of the Government's environmental policies.

5.77 The situation can easily be remedied by adjusting the statutory formula.

5.78 The committee suggests that it would be preferable to increase the number of distance bands rather than use a flat rate, since a flat rate advantages cars which are driven further, which should be seen as contrary to environmental goals to restrain car use.

Recommendation 7

5.79 The Government should amend the car FBT statutory formula to remove the incentive to drive fringe benefits cars excessively to reach the next threshold.

Issue: the general effect of concessionary car FBT

5.80 Concessionary car FBT is widely deplored because it encourages overuse of cars, which increases the environmental detriments of urban congestion and pollution and reduces the viability of public transport. However the extent of the effect appears to be unknown. The Council of Australian Governments (COAG) in its 2006 review of urban congestion said:

The lack of information on the temporal and spatial impacts of this measure makes it difficult to make an informed judgement on the extent to which the FBT concession contributes to congestion.... this is an issue requiring further consideration.⁶³

5.81 In a 2006 survey of Sydneysiders who drive to work, 10 per cent of respondents cited 'vehicle provided by business' as a reason for driving. However respondents were offered 12 answers and could give more than one answer, so the figure may omit people who were actually using a company car but, in context, did not regard that as a significant reason.⁶⁴ Data from the same survey series found that in 2001 company cars were about 21 per cent of total cars on the road during the morning peak period, but this does not show how many of them were fringe benefits cars.⁶⁵

63 Council of Australian Governments 2006:60

64 Transport Data Centre 2008:13

65 Council of Australian Governments 2006:60, referring to NSW Transport and Population Data Centre (2006), 2001 Household Travel Survey: Average Weekday Vehicle Driver Trips by Time of Day and Car Ownership, unpublished data.

5.82 A 2004 Sydney study found that 52 per cent of workers had employer assistance to travel to work, most of which related to cars, and 17 per cent reported that the employer 'provides company car'. Those whose car use was subsidised made more car trips (average 5.89 car trips per day) than those who were not subsidised (average 4.17 car trips per day).⁶⁶

5.83 Submissions stressed that regardless of the actual amount of driving involved, the tax concession is bad in principle because it encourages a 'car culture' in the workplace, and discourages employers from taking initiatives to encourage public transport use.⁶⁷

Committee comment on concessionary car FBT

5.84 The committee accepts the submissions that concessionary fringe benefits taxation of cars encourages a car culture in the workplace, contributes to traffic congestion, and hinders the take up of public transport. The extent of these effects is unknown.

5.85 If the Australian Government wishes to assist the Australian car industry it is entitled to do so (subject of course to any obligations under international trade agreements that Australia adheres to).⁶⁸ Whether that is appropriate in context of broader industry policy is beyond the scope of this inquiry.

5.86 Concerns about the environmental and traffic congestion effects of car FBT are really not about whether a consumer buys an Australian or an imported car, but about the excessive use of cars.⁶⁹

5.87 In the committee's view the Government should aim to disconnect car buying from car use as much as possible, so that assistance to buy Australian (if that is desired) does not encourage excessive car use. Australia should aim to be more like Europe: in many wealthy European cities the rate of car ownership is very similar to Australia's, but the rate of car use is much less - presumably because of better public transport, among other things.

5.88 It is admittedly uncertain how much people's travel behaviour would change if the concession was removed. The fact that a certain percentage of cars on the road in peak hours are fringe benefits cars does not mean that if the concession was ended these cars would disappear. Some of the cars would continue to be offered as fringe benefits even without a concession, and some of the people would continue to drive

66 Three per cent of employees received assistance in the form of the employer paying public transport fares. Corpuz 2006:8.

67 For example, Submission 87, Australasian Railway Association, p.58

68 Australia is bound by the 1994 WTO Agreement on Subsidies and Countervailing Measures.

69 There are of course valid environmental concerns about the energy and resources embodied in manufacturing, but this applies equally to all consumer goods.

even without a fringe benefits car. However it is fair to say that at the margin the concession must have some effect in encouraging car trips which might otherwise be public transport trips.

5.89 It is sometimes said that concessionary car FBT is justified because the statutory formula reduces compliance costs (compared with the alternative operating costs method which requires logging actual use).⁷⁰ This is not valid. A statutory formula can be maintained for ease of compliance, but the concessionary aspect can be removed by adjusting the details.

5.90 The Committee notes the view of the Federal Chamber of Automotive Industries (FCAI) in its submission to the current review of Australia's future tax system:

The FCAI submits that the Review should undertake a detailed analysis of the impact of the current Statutory Formula on the incentive for vehicle use. The FCAI urges the Review to evaluate a range of policy options compared with the status quo of retaining the existing Statutory Formula. In determining any recommendations, the FCAI urges the Review to consider carefully the implications for the Australian car industry and to consult affected stakeholders.⁷¹

5.91 Given the large amount of revenue forgone (\$1.7 billion per year expected to rise to \$2 billion), it is surprising that the Government is unwilling or unable to say clearly what the purpose of the concession is (see paragraph 5.64). The Committee considers that the Government should state the purpose of concessionary FBT of cars more clearly, and investigate the likely effects of making it less concessionary (noting that whether the tax should be concessionary, and whether there should be a statutory formula for the sake of easy compliance, are different questions).

Recommendation 8

5.92 In relation to fringe benefits taxation of cars by the statutory formula method -

- **the Government should state the purpose of making the tax concessionary (noting that whether the tax should be concessionary, and whether there should be a statutory formula for the sake of easy compliance, are different questions);**
- **the Government should investigate and report on how well the concession is achieving its purpose; and**

70 For example, Mr M. Jacobs (Treasury), *Committee Hansard* 18 August 2006, p.29 (inquiry into Australia's future oil supply and alternative transport fuels).

71 FCAI submission to review of Australia's future tax system, 26/3/2009, p.7

- **the Government should investigate and report on what the likely effects on consumer behaviour would be if the concessionary aspect of car FBT was reduced or removed.**

Other motor vehicle related FBT issues

5.93 Other FBT car-related tax expenditures are:

- Taxi travel to and from work in certain circumstances is an exempt benefit (no FBT is paid). Estimated value of the concession is unknown but thought to be somewhere between \$10 million and \$100 million. Public transport fares to and from work are not exempt.⁷²
- Employer-provided car parking is a taxable fringe benefit if rather complicated and restrictive conditions are met. The benefit is taxed using statutory formula methods which are concessionary. Estimated value of the concession in 2007-08 is \$11 million.⁷³
- As an exception to the previous point, car parking provided by certain small business employers, if it is not in a commercial car park, is an exempt benefit. Estimated value of the concession in 2007-08 is \$5 million.⁷⁴
- Minor, infrequent and irregular private use of a company vehicle that is not a car is an exempt benefit. Estimated value of the concession is unknown but thought to be something less than \$10 million.⁷⁵

5.94 Fringe benefits which are 'vehicles other than cars' (as defined) are taxed by different rules. How many vehicles are involved and whether this tax is concessionary is unknown, as it is not reported separately from 'other fringe benefits'.⁷⁶

Committee comment on other motor vehicle related FBT issues

5.95 The exemption for taxi travel to and from work, while public transport fares are not exempt, is unjustified and inequitable. The scope of FBT exemptions should be consistent between car transport and public transport.

Recommendation 9

72 Except in the case of the employees of a transport operator: Treasury, *Tax Expenditures Statement 2008*, p57,159

73 Treasury, *Tax Expenditures Statement 2008*, p166. Australian Tax Office, *Fringe Benefits Tax - a guide for employers*. The main condition for the existence of a taxable benefit is that there is a commercial parking station within one kilometre.

74 Treasury, *Tax Expenditures Statement 2008*, p163.

75 Treasury, *Tax Expenditures Statement 2008*, p57,169.

76 See Appendix 4, Treasury's answers to questions.

5.96 The Government should change FBT rules so that the scope of exemptions is consistent between car transport and public transport.

5.97 The committee makes no comment on the other matters as the amounts are small and the concessions may well be justified by economy of compliance costs.

Senator Fiona Nash

Chair, Rural and Regional Affairs and Transport References Committee

