Green Paper

AusLink
Towards the National Land Transport Plan

Submission
by the
Australian Automobile Association
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1. INTRODUCTION

Australian Automobile Association (AAA) represents the interests of around six million motorists through the State and Territory motoring Clubs and Associations. Thus this submission represents the collective view of the Constituent Clubs around Australia and their membership.

In Section 2 of our submission, we identify the “outcomes” for motorists which AAA would like to see emerge from a revised National Transport Policy. The outcomes have been identified against a background of what we consider is a significant backlog of road, rail and public transport projects across Australia.

In Section 3, we provide some general comments on AusLink. This is in the form of our overall impression of AusLink and how a White Paper should address the future transport outcomes, including the benefits to motorists. The benefits include a shift to greater transparency, better long-term planning and a national advisory board.

We are concerned that the Green Paper can be seen to be putting goods before people and should acknowledge that a transport system involves moving people more efficiently, not just goods. It is essential that the White Paper recognise that solving congestion in urban areas is more than addressing the freight task. Equally, the White Paper must acknowledge the backlog of projects in all transport infrastructure modes in the process of setting out long-term solutions.

The White Paper must consider precisely targeted road use pricing to deal with various externalities and the benefits that could accrue from replacing Commonwealth fuel excise with some form of road pricing.

The remaining Sections of this submission comment on the individual Chapters of AusLink and contain our responses to many of the questions which are put. Not all questions have been answered, but we have addressed those which we believe are of direct interest to our membership.

Two attachments are included in our submission. Attachment 1 lists investment priorities for the National Highway System across all jurisdictions.

Attachment 2 updates research which was conducted in 1993 on the national benefits of public investment in land transport infrastructure. It has been prepared by the Allen Consulting Group for AAA. Various case studies are presented on the benefits of road investment. Some issues associated with private sector investment in roads are also covered.
2. NATIONAL TRANSPORT POLICY: OUTCOMES FOR MOTORISTS

The transport system in Australia is currently inadequate and there is a significant backlog of already identified areas necessary for improvement in road, rail, and public transport in urban, regional and rural areas.

Roads provide over 95 per cent of the transport task for private motoring, carry most of the freight tonnage, and accommodate the great majority of public transport (taxis, buses, trams) - a dominance that is likely to continue, even with a significant freight shift to rail. Doubling of the freight task in 10 years may be a forecast, but the rail system could not possibly absorb such an increase across the nation, and where absorption may occur it will be limited to a handful of corridors. Adequate and transparent pricing of all transport is essential.

National transport policy must focus on actual needs not modes. For roads this includes:

- completion of the National Highway System to ensure that national economic and security needs are met;
- improvements in road and traffic safety features to contribute to the national target of a 40 per cent reduction in road fatalities;
- addressing the backlog of link roads in both urban and regional areas (including outer metropolitan roads) to underpin a competitive economic framework; and
- providing up-to-date information systems to all users from motorists to service providers.

The Australian automobile clubs believe that in developing such a National transport policy the following key points must be recognised:

1. That the role of the three levels of Government in relation to transport investment and operations be specified, as a basis for decision-making and establishment of inter-governmental agreements and arrangements.

2. Arising from (1), that an agreed nationally-strategic transport network be established, for which the Commonwealth has a clear role in pursuit of national objectives.¹

3. That existing and on-going road needs be recognised, as the basis of road investment. In particular, the Commonwealth must commit to completion of the National Highway System (particularly those nationally-strategic links which would be unlikely to receive priority if left to State and Territory Governments) and to ongoing maintenance of the NHS.

¹ For roads, we propose a network based on our ARNED (Australian Road Network for Economic Development) proposal of 1997 set out in AAAs submission to the Neville Inquiry.
4. That governments consider transport investments not as simply a cost, but as an investment that can return significant benefits to the community. This requires that proposals be evaluated against explicit economic, social, environmental, safety and national security objectives, and that there be a commitment by all levels of government to continue to invest in and maintain road and other publicly-owned transport assets.

5. That the current system of road user pricing/charging/funding be reformed, to ensure not only availability of funds to build and maintain assets, but also to ensure that prices reflect costs and that there is a “level playing field” between modes.²

6. That transport planning and policy proceed on the basis that transport is an integrated system (with integration of infrastructure, services and information across modes), which is integrated across regions (urban, rural, remote, international). However, it must also be recognised that each component (e.g. mode) has specific and unique needs which require appropriate funding, regulatory and institutional responses.

7. That transport decision-making is transparent, and that decisions are consistent across modes and regions.

² Our proposals in this regard have been formulated and proposed several times in recent years, e.g. the Tax Reform Inquiry (1999) and the Fuel Taxation Inquiry (2002). In essence this is based on a “user pays” system whereby road users pay for road construction and maintenance, as well as meeting the cost of negative externalities. Similar principles should apply to other modes and systems.
3. GENERAL COMMENTS

There are many positive features of AusLink which we address below. However, overall, we believe that the AusLink Green Paper is disappointing and fails to live up to the promise of the original AusLink announcement last year. It is deficient in that very few options are considered – whereas we would expect a Green Paper to advance a number of options for discussion. In addition, there are many assertions about how freight might be shifted from road to rail, and the benefits of private sector investment, but there is limited analysis presented to support the claims.

AAA supports the concept of a more integrated and strategic approach to land transport funding, but unfortunately the Green Paper does not indicate how existing deficiencies in the road network will be met. There is a significant backlog of road projects around Australia. The total value of economically viable unfunded road projects in Australia is estimated to be over $10 billion. It is estimated (roughly) that current required road works (including upgrades and new construction) in New South Wales total around $4.4 billion, in Victoria total around $3.8 billion, and in Western Australia total around $2.2 billion. Further details are provided in Attachment 2 to this submission.

AAA recognises that in terms of the total transport task, other modes may in some instances be more cost beneficial than roads, but without an understanding of this backlog, where it occurs, and how it impacts on the transport task, any assessment of modal options is seriously deficient.

The substandard nature of many links in the network, including parts of the National Highway System (NHS) are such that motorists are often travelling on unsafe roads that will continue to deteriorate as traffic volumes grow over the next decade in line with economic growth.

AAA accepts the regional focus, but unfortunately, the Green Paper does not acknowledge that urban areas, and the capital cities in particular, are regions of economic and social growth, where congestion will worsen if there is not a sensible approach to planning and investment and more efficient use of road infrastructure. The linkage of this urban growth to regional growth is important.

It is noted that the Government has not considered the introduction of precisely targeted road pricing and charging. It also appears that it has no intention of applying any more of the significant revenue from fuel excise, largely collected from motorists, to fund transport infrastructure. The onus is being put squarely on the private sector to fund infrastructure – with a consequent impact on motorists to bear the burden of road tolls - whereas the Government should have this role, particularly since there are national benefits from such investment. There seems to be little recognition of the benefits of investment in worthwhile projects; investment seems to be recognised as a cost.
The concept of establishing a national advisory body is welcome and this will be useful in helping to establish a national infrastructure network. Such a body should also ensure that advice will lead to greater consistency, transparency and accountability in decision making. Clearly, any shift towards more transparent evaluation process and better data is supported.

Finally, we consider that the Green Paper places an undue emphasis on freight - it has “elevated goods above people”. There is an expectation in the Green Paper that increased rail investment will automatically attract freight from road to rail. While this may be true in some circumstances, the ubiquitous nature of roads and road freight mean that it would have little general effect on roads or the need for road investment. And there is the additional threat that such investment will be at the expense of road investment. This is a major concern for AAA.

Furthermore, there is no evidence provided in the Green Paper that increased rail investment will shift freight from road to rail. And even if this were to occur, a necessary (but not sufficient) condition will be proper pricing of both modes and a rebalancing of the way cars are taxed compared to trucks. But neither of these options has been singled out as priority actions. Currently, cars are overcharged compared to trucks.

And although the Government has stated that it “has not yet resolved the range of issues that could effectively be included in a National Transport Policy” the Green Paper is presented more or less as a fait accompli – that is, no additional public road investment, more rail investment and a greater reliance on the private sector for funding infrastructure for which motorists will have to pay.

We hope that the White Paper will retain the many positive features of the Green Paper but also clearly address the issue of funding and the role which motorists, not just the freight industry, play in the transport sector.
4. CHAPTER ONE – CURRENT DEMANDS AND FUTURE CHALLENGES

We make the following comments in relation to various statements in the Chapter:

- **AUSTROADS’** estimate of the asset value of the entire network in 2000 is reported at more than $100 billion (page 1). This must have implications for maintenance needs, particularly if the life of the asset is generally accepted as being around 20 years. Yet the Green Paper provides no indication of the expected cost of maintenance, nor of how much is being spent on maintenance (other than noting that approximate spending on the NHS has been $300 million per annum). In our view it is important to provide an indication of minimum spending needs for the entire network into the future.

- It is good to see the Green Paper reporting some of the “significant benefits of infrastructure spending for the wholesale and retail trade sector, as well as for manufacturing, construction, mining and agriculture industries” (page 2). Yet these benefits of public investment are subsequently ignored, as the focus of the Green Paper is on investment by the private sector. For example, in the following Chapter it is stated that “as greater funding will be needed to meet Australia’s future land transport infrastructure requirements, governments will need to consider how to encourage increased funding from the private sector” (page 29).

- We note the statement that “improvements in transport efficiency can also boost economic performance, with the BTRE estimating that a one per cent improvement in the efficiency of delivery of national transport services will increase annual GDP by around $500 million (in 2002 prices).” This fact only serves to reinforce the AAA argument that the issue of transport efficiency cannot be considered almost exclusively from a rail/freight perspective and that roads and motor vehicles must be taken into consideration in order to achieve the gains in efficiency ultimately sought.

- The Green Paper also provides some rather damning criticism about rail. For example, the statement that “funding for rail infrastructure has also been severely limited in part due to the poor operation and financial performance of all systems.” (page 7) and “the mechanisms used to provide rail infrastructure investments have been largely ad hoc. This has led to investment levels below those needed for the development of a network that provides a sound commercial option for many users.” (page 8). These two statements lead us to question a funding shift from road to rail, only to see the network that carries the bulk of the transport task end up in a similarly unviable state.
• We accept the view that “the challenge facing the transport network is to manage the increases and changes to the transport task efficiently to enable future economic growth” (page 12).

• There is quite a reasonable amount of information presented on past and expected increases in road freight, but the key point from our perspective is the statement that “freight traffic is the major cause of road wear” and that “an increase in road freight traffic of the magnitude forecast has significant implications for the costs of road construction and maintenance”. Precisely. This is all the more reason to introduce appropriate pricing of road use for trucks (and cars) – and sooner rather than later.

The research findings that AAA presented to the recently conducted Federal Fuel Taxation Inquiry, showed that charges for light vehicles are excessive. Charges levied by the NRTC on heavy vehicles (including 20 cents/litre fuel excise net of rebates paid by these vehicles) recover $1283 million of the $4570 million of annual expenditure on roads. A fuel charge of only 7 cents/litre on light vehicles (18 per cent of fuel excise) would be needed to recover the remaining expenditure. This is considerably lower than the current tax of 38.1 cents/litre.

This finding is consistent with the BTRE’s own assessment. The BTRE has reported that under the current road user charging regime, trucks overall are undercharged for their use of the road system.3

• We note the forecasts of the mode share of non-bulk freight (page 13 and 14) and the statement that “the forecasts effectively assume no significant change in rail’s competitive position and do not attempt to quantify the commercial impacts of infrastructure investments, regulatory reform and recently changed ownership arrangements”. This is an extraordinary assumption. AusLink is largely based on the projected growth in the freight task, yet no attempt has been made to analyse the implications of various pricing regimes for road (including cars and trucks) and rail.

• We note the estimates of congestion that have been presented (page 18) and that they are very different from earlier estimates prepared by the BTCE.4 What is lacking though, is acknowledgement that the congestion is not a result of demand side factors alone – as is suggested by the Green Paper – but also the fact that the supply of infrastructure has been inadequate. The common response of infrastructure service providers (eg water, gas, electricity and telecommunications providers) to congestion (or excess demand) is two-fold; increase capacity and introduce pricing mechanisms to ration

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supply or reduce quantity demanded (eg peak period pricing). This should also be the approach to road services, and is the reason AAA has continued to argue for a more commercial approach to road provision, including reform of taxing and charging motorists.\textsuperscript{5}

Besides, motorists have paid enough in past taxes and charges to provide a decent road system. That this revenue has not been spent on roads is hardly the fault of motorists, yet the Green Paper does not acknowledge the backlog of road investment projects.

- Although road transport is a major contributor to air pollution in major cities, we take issue with the statement that “pollution from road transport seriously affects air quality in our major cities” (page 18). This statement conflicts with the views contained in a recent AUSTROADS report – which is surprisingly not referenced in the Green Paper - where it is stated that “two studies indicate that Australian air quality is presently not a major problem”.\textsuperscript{6} The fact is that cars are getting ‘cleaner’ as a result of new vehicle technology and the progressive introduction – although still well behind Europe – of more stringent vehicle emission standards. The fact is, emissions from Australia’s car fleet will never be worse than they are today – every year in the future, emissions will reduce as newer, cleaner cars come on the road.

Notwithstanding this fact, any increase in urban emissions would be expected to come largely from light commercial vehicles (LCVs), given the estimates highlighted in Figure 9 (page 17).

- The statement that “The National Road Safety Strategy has estimated that improvements in the safety of roads could reduce the number of fatalities by around 19 per cent” is noted. This is equivalent to over 300 lives per annum and is all the more reason to consider increased public investment in roads, as the benefits, at least in terms of road safety, can be significant and they will accrue to the entire community. It is estimated that about 40 per cent of the reduction in road crashes is due to road and traffic improvements.

In this context, we note the statement in the latest National Road Safety Action Plan 2003 and 2004 that the estimates for the total reduction in population fatality rate assumed that black spot spending and total investment in road improvements would be maintained at the then-current levels (in real terms). At least at the Commonwealth level, this has not been the case.

- The segment entitled \textit{Future infrastructure investment needs} (page 20) is disappointing in a number of respects, with less than one page dedicated to discussion of the NHS. No argument is presented for why

\textsuperscript{5} AAA argues for the replacement of fuel excise with a road user charge to cover the costs of road use, while retaining the application of 10% GST to petrol, so that it is treated no differently from other goods and services.

\textsuperscript{6} AUSTROADS, ‘Roads in the Community’ by John Cox, 1997, page 231.
the private sector has to play a part in infrastructure provision, other than a single line stating that the Commonwealth will find it increasingly difficult to satisfy funding needs from Budget sources. The significant benefits from public investment in road infrastructure have been ignored, including the fact that the returns from investment will more than pay for the initial outlay. This point was clearly evident in the research conducted by AAA and Allen Consulting some years ago.\(^7\)

The research showed that the estimated benefit-cost ratio for each $1 billion investment in urban arterials was 6.0 and that additional taxation and government revenue generated from flow-on economic activity was substantially higher than the annual financing charge. That is, the investment is self funding in a revenue sense, as well as providing positive economic benefits.

Year on year, the level of Commonwealth funding for the NHS falls short of what the Department of Transport & Regional Services consider is the annual funding needs for the NHS. In a submission to the Inquiry into Federal Road Funding\(^8\) 6 years ago, the Department considered that total annual funding needs for the NHS was $950 million. Yet spending on the NHS has fallen well short of this and over the past five years, the total spending shortfall has been almost $1.3 billion (see Chart 1). The backlog continues to increase and needs to be urgently addressed.

\[\text{Chart 1: NHS funding (actual, required and shortfall): 1997-2002}\]

Part of the problem has been the ‘siphoning off’ of NHS money for Roads of National Importance (RONIs), but given the extent of the Commonwealth’s taxing powers, and in the absence of any reform of fuel taxation, the Commonwealth should have responsibility for providing funds for the NHS and RONIs.

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\(^8\) Department of Transport and Regional Development, Submission to the Inquiry into Federal Road Funding, February 1997.
QUESTION: Do you agree that these are the major transport infrastructure challenges facing governments? What, if any, other challenges should governments consider?

- In our view, what is missing from the list presented is the critical issue of funding and charging (including transport pricing, budget priorities, debt financing and addressing the backlog of road projects) and the challenge of needing to define responsibilities for funding between the various levels of Government. The vertical fiscal imbalance and the replacement of fuel excise with road pricing are important issues which need to be addressed in the White Paper.
5. CHAPTER TWO – FOUNDATIONS FOR REFORM

We make the following comments in relation to various statements in the Chapter:

- We agree with the view that there is a need for an integrated national strategic transport plan. A number of recent reports are referenced within the Green Paper on this need. Certainly at least within the road sector, AAA has for some time called for the Government to commit to developing at least a ten-year strategic road plan and a five-year rolling works program which not only supports the existing road infrastructure development needs, but also supports the road development needs of the fastest growing areas in Australia.

  QUESTION: The Government invites your views on how land use planning could be improved? How could planning for transport infrastructure and land use be better integrated?

- It is our view that land use planning is not really a Federal issue. However, in putting projects forward for Federal funding, the States should be required to indicate how land use planning and the use of other modes has been incorporated in the bid for funding.

  Another option is to improve the interaction of the transport community and land use planners. For example, the Planning Institute of Australia (PIA) has recently established a Transport Planning Chapter within its divisional structure. Such a structure should allow planners and associated professions to work together more closely.

- We agree with the statement that State, Territory and local governments need to have clear-cut roles in the planning and development of the national network (page 28). We make further comment on this later in our submission.

- Information is presented on the contribution of the private sector to total infrastructure construction activity (page 28) and the fact that private investment in the land transport sector is much lower (page 28). There is the implication that private investment in land transport should be higher. If this is the case, we do not accept this view, at least in terms of road infrastructure. It needs to be acknowledged that most infrastructure services are now privately owned and operated, whereas the road sector is largely Government owned, and for good reason as it is a natural monopoly and has substantial elements of a public good. What is needed however, is a more commercial approach to road provision and pricing. Our views on this were set out in a detailed submission to the Vaile Road Funding Inquiry where we put forward the notion of a Federal Roads Corporation with responsibility for a discrete, designated network which we denoted the Australian Road Network for Economic Development (ARNED).
While there is a role for the private sector in the design and construction of roads, it may not be desirable for it to finance and own the road. We discussed this issue in our input to the development of the Green Paper, and we are disappointed that that the issues we raised have not been canvassed.

In fact, we disagree strongly with the statement that “as greater funding will be needed to meet Australia’s future land transport infrastructure requirements, governments will need to consider how to encourage increased funding from the private sector” (page 29). In Attachment 2, we present evidence to confirm that there are significant benefits from public sector investment and that private equity investments (funded by tolls) are problematic given the largely public character of the network and high pre-existing road user charges.

One particular concern we have is the suggestion that the private sector can be allocated the ‘high return’ projects and the Commonwealth will fund the ‘low return’ projects. We can see this as simply leading to more toll roads in the urban areas yet, as we stated earlier, the Commonwealth itself (and thus the community) can realise the benefits of public investment in ‘high return’ projects in urban areas.

Furthermore, such an approach of allocating urban projects to the private sector is hardly a partnership between the Federal Government and the private sector.

We have explored this issue of private provision of infrastructure in more detail, and our views are reported in Attachment 2.

**QUESTIONS:** What are your views on how an increase in land transport infrastructure spending should be paid for? For example, what would be the advantages and disadvantages of a levy on road users?

What are your views on tolls to pay for costly urban roads by the private sector?

What are your views on the option of congestion pricing, ie charging road users more for using roads during peak periods?

- Our response to these questions is that there is an underlying assumption that road investment is simply a cost to the Budget. This is wrong. The fact is, there is a significant backlog of road projects that need to be funded, and public funding will generate benefits which more than exceed the costs. This is particularly true of urban projects. We largely reject the notion of tolls, since motorists are already paying to use roads via fuel excise and a range of State Government taxes. Equity issues are also a relevant consideration. In addition, member
surveys conducted by our motoring Clubs have shown that motorists generally oppose toll roads.

The Green Paper has neglected the fact that only 16 per cent of Commonwealth Government revenue from excise and customs duty is allocated to road works. The remainder of the Commonwealth Government’s fuel tax revenue is an obvious source of funds for improved road infrastructure. An increased proportion of that revenue could be reallocated to transport infrastructure or the rate of excise and customs duty could be reduced to “make room” for charges directed at correcting serious externalities. The latter option is the most sensible.

The existing fuel excise/customs duty regime is an economically inefficient tax. It taxes intermediate inputs to production of goods and services, thereby interfering with production efficiency and reducing the value of goods and services the economy provides. Therefore, the fuel taxation regime imposes an economic cost on Australian society in excess of the amount of the tax. Economists refer to this additional burden as “deadweight loss” or “excess burden”.

The fuel excise/customs duty regime has very limited redeeming features as an instrument to correct externalities because it is linked only very vaguely and indirectly with the causes of social costs of road use.

Shadow tolls, where revenue from fuel tax could be paid to the operator based on actual traffic flow, might be considered for funding roads, but only after consideration has been given to which party (the Government or the private sector) is best able to manage the risks. The Green Paper should have explored this option.

On the question of congestion charging, we accept the principle of charging to cover costs and the desirability of smoothing traffic flow to obtain more efficient use of existing infrastructure. However, congestion charging should not be an instrument applied on top of other existing taxes and charges – it needs to be part of comprehensive reform of current fuel excise arrangements leading towards more efficient taxation and charging of road users. Also, congestion charges should not be introduced until alternative roads or public transport are in place so that drivers have an alternative to paying the charge.

The Green Paper seems to recognise that precisely targeted congestion pricing is a key to resolving the problem of traffic congestion (see pp. 32, 35, 37). Also, the document argues that a road user charging system for heavy vehicles, based on variable weight and distance – a mass-distance regime – could provide a much better fit than the existing regime between the incidence of road damage costs and the charge (page 36). However, the paper claims AusLink is not the forum to solve the issue of pricing. It envisages that the proposed
National Transport Advisory Council would address the issue, but provision of advice on priorities for national infrastructure investment is given a higher priority (page 49).

However, it must be acknowledged that there are large social costs of externalities associated with road use. To be consistent with an efficient allocation of resources (economic efficiency), investment decisions should be made in the context of pricing of road use to deal with congestion, environmental effects and other social costs of road use. In the absence of pricing linked directly to actions that generate social costs of road use, there will be excessive use of roads from a social perspective. In contrast, in the presence of such pricing, road use will be rationed because operators of road vehicles will economise on road use. As a result, less investment will be required to alleviate congestion, negative environmental effects and other social costs.

There is also the question of why the NTAC should determine pricing recommendations rather than, say, the BTRE or AUSTROADS. In fact we recall that a significant amount of work has already been done through Commonwealth/State Working Groups which were set up years ago after the report of the Vaile Road Funding Inquiry.

In our view, investigation of efficient road use pricing should precede investigation of investment priorities. This must be recognised when preparing the AusLink White Paper.

With an efficient road-user pricing regime in place, subsequent investment decisions regarding roads are more likely to be consistent with economic efficiency. However, better decision making tools are also needed to improve resource allocation.

Equity issues will also need to be appropriately addressed. In our input to the Green Paper, we noted that toll roads also raise equity issues. For example, a person living in the north west of Sydney who works at the city’s airport will soon face six tolls on each work day (the M2 twice, the unconstructed Lane Cove tunnel twice, the Sydney Harbour crossing and the Eastern Distributor) with total charges amounting to about $18 per day. These charges are additional to other taxes and charges such as fuel excise, registration, stamp duty etc that face every motorist. Moreover, the current excise arrangements are very inequitable; the lowest income quintile pays 4.2 per cent of their income in excise, while the top quintile pays only 1.2 per cent.

**QUESTION:** What are your views about means of achieving more efficient and effective pricing of rail and road transport services?

- In the section on **Better land transport infrastructure pricing** (page 35), we note the statement that “Better pricing is an important component of a strategy to develop sustainable transport systems”. A statement along these lines is found many times in the Green Paper,
but we are concerned that the Government is not prepared to address this issue as a matter of urgency.

We also agree with the statement that a “more efficient pricing for both road and rail would also contribute to the improvement of different modes competing on a more even basis”. However, it should also be recognised that travel times and reliability are also key considerations for choice of mode when moving freight. For example, travel time between Melbourne and Sydney is around 10 hours for road, but 14 hours for rail, which it has been for decades.

- On the topic of **Strategic use of technologies** (page 37), we agree with the point that “better infrastructure is not only about the construction of roads, railways and bridges” and that “infrastructure improvement also involves garnering the technologies available to make better use of new and existing infrastructure”. This point does not seem to be recognised in the forecasts of freight and passenger movements identified in Chapter One.

Given that roads are largely publicly owned, the Commonwealth has a role to implement new technology to obtain more efficient use of existing infrastructure and to provide incentives for motorists to adopt new technology where there is market failure and where the technology is likely to reduce the social costs of road use.

Such technology need not simply be applied to infrastructure, but also to vehicles and individuals.

**QUESTION:** What are your views on how the strategic use of technology might be fully integrated into the future transport planning system?

- Various technologies are available to provide information to motorists, such as collision avoidance, navigation assistance, adaptive speed control and parking availability. Technologies are readily available to improve public transport services as well, such as contactless smart cards for fare payment, and scheduling and real-time travel information. The Commonwealth has a role in funding such technology as a means of reducing the social costs of road use in the major cities. It could do this through the existing provisions of the ALTD Act where there is provision for allocating funds to urban public transport.

AAA would suggest that AUSTROADS might be a useful forum to generate ideas on the appropriate “smarts” which should be incorporated in particular roads based on their traffic volume.

**QUESTION:** Do you agree with the proposed possible responses to the challenges in transport infrastructure?
The concluding section of the Chapter (page 39) mentions that the national land transport network faces an array of major challenges. What is missing, in our view, is the key issue of security. What contingencies are in place, for example, for a major terrorism strike on the Sydney Harbour Bridge or Tunnel. The application of appropriate technology needs to be considered in this context. The focus of the Government has been on airline security, but we believe that land transport infrastructure should be an equally important consideration.
6. CHAPTER THREE – A NEW FRAMEWORK AUSLINK

We make the following comments in relation to various statements in the Chapter:

- In this Chapter, passenger issues are ‘relegated to the back seat’. This is surprising given the emphasis which the Green Paper has given to congestion in Chapter One. In fact, less than one page is dedicated to AusLink’s passenger focus which is described as a “backbone of national and interregional connectivity” (page 43). In describing it this way, the Commonwealth has simply washed its hands of the urban congestion problem and the outer metropolitan road backlog crisis.

Figures for the Melbourne metropolitan area reveal that cars account for 82 per cent of total travel, light commercial vehicles account for 13 per cent, rigid trucks 4 per cent, articulated trucks almost 1 per cent and buses less than 1 per cent.9

The whole notion that if freight is moved off road onto rail, passengers will be better off is terribly simplistic. There is very little analysis in the Green Paper to confirm this view, other than reference to an ARTC Audit identifying the impact on interstate modal share of increased investment.

However, to suggest that rail can play a greater role in freight transport ignores the fact that, in the words of the Green Paper, approximately 80 per cent of road freight is transported over distances of less than 100 kilometres (see page 3), where the potential for mode shift is negligible.

What is required before a significant policy shift is some analysis of the extent to which freight might be shifted from road to rail, the conditions required for this to occur (including pricing arrangements, particularly since no excise is applied to the use of diesel in rail), and the likely impact on transport corridors and individual cities.

Investment in rail per se, is unlikely to have a major impact on passenger travel. And to suggest that land based passenger transport systems are more the province of state and local governments, ignores the fact that roads account for by far the largest movement of passengers. Roads account for around 95 per cent of the total urban passenger travel, with rail accounting for the remainder. For non-urban travel, roads account for 79 per cent of total travel, air accounts for 19 per cent and rail 2 per cent.10

While rail could play a greater role in the movement of freight in certain long distance corridors, as it has done in the east-west corridor across

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9 AUSTROADS, Roads in the Community, op.cit., page 82.
10 AUSTROADS, Roads in the Community, op.cit., page 30.
the Nullabor, clearly there are limits on the extent to which freight can be shifted from road to rail. And while additional investment could enable rail to play a greater role, the question has to be asked as to why the Government should invest in rail now that rail operations have been privatised. Rail freight is just another private sector business. If an investment is worthwhile, the owner will do it. If they would not, then why should the Commonwealth step in?

**QUESTION:** What are the elements you would see as comprising such a national network?

- In relation to the first point of AusLink’s nine-point approach, *Integrating and improving the National Land Transport Network*, we consider that in the first instance, it is important to determine what the role of the Commonwealth is in providing a National Land Transport Network. The second step would be to determine the funding responsibility - especially in relation to roads - given its large impost (excise) on motorists/road users.

Much of the role of the Commonwealth was examined in the AAA submission to the Federal Road Funding Inquiry11, where the AAA stated that:

‘the prime focus of the Commonwealth should be on road investment which maximises specific national economic and other objectives. National interests are greater than the sum of State interests, and the best national outcomes will not occur unless the Commonwealth is involved in the identification and funding of roads which contribute to national objectives.

Hence, we submit that the Commonwealth should take responsibility for the enhancement and maintenance of a connected, continuous national network of roads defined on the basis of their role in contributing to national economic and other objectives. For discussion purposes we refer to this network as ARNED (Australian Road Network for Economic Development). We further submit that projects undertaken on ARNED be prioritised according to explicit economic and other criteria.

In relation to road investment, the AAA submission stated:

We submit that there is clear evidence of under-investment in road infrastructure. There is an urgent need to assess the adequacy of Australia’s road and transport infrastructure from economic, environmental and social perspectives, and hence determine the appropriate level and direction of investment which is needed to maintain the international competitiveness of our industries. In recent years, political imperatives related to road investment decisions have meant that the nation has not got the best return from its road investments; we must

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develop a system which ensures that investment flows to projects which maximise returns to the community.

We also consider that there should be no cross-subsidisation between modes given the significant cost currently placed on motorists and that road funding be maintained at least at current budgeted levels until the backlog of under-investment has been addressed and the new AusLink funding allocation system is operating effectively.

In addition, there needs to be a clear allocation of responsibilities, between the Commonwealth, States and local government, for different parts of the network.

- In relation to the second point of AusLink's nine-point approach, Developing a National Land Transport Plan, we note that the suggestion is broadly consistent with what AAA has been recommending. As noted earlier, AAA has for some time called for the Government to commit to developing at least a ten-year strategic road plan and a five-year rolling works program which not only supports the existing road infrastructure development needs, but also supports the road development needs of the fastest growing areas in Australia.

- In relation to the third point of AusLink's nine-point approach, Establishing a national advisory body, our preference is for the establishment of a Federal Roads Corporation which would operate under a 'statement of intent' with the Commonwealth and be managed by a Board accountable to Parliament.

However, since the ATC has agreed to support establishing a National Transport Advisory Council (NTAC), we consider that there would be benefits of having consumer representation on this Council.

We note the view that the NTAC’s most important initial work will be on infrastructure priorities and that it should start addressing the issue of land transport pricing at a subsequent stage. We disagree with this assignment of priorities, as we believe the issue of pricing is of critical importance.

So too did the National Transport Planning Taskforce when it reported in 1994. The report stated that “The Taskforce believes that a more efficient funds allocation within Government for transport infrastructure will only be partially effective, unless accompanied by more efficient road and rail infrastructure pricing”. 12

QUESTIONS: The Government invites your views on whether an element of AusLink funding should be separately earmarked to foster research and development for future technological solutions. If so, how should private sector contributions be facilitated?

Transport safety remains a very high priority for the Commonwealth Government. How do you think new technology could be applied to the infrastructure network to enhance land transport safety, including for specific groups, eg children, the ageing, women, pedestrians, cyclists, motorcyclists, public transport users, people with disabilities, motorists and truck drivers?

- In relation to the fourth point of AusLink’s nine-point approach, **Generating the best ideas**, we consider that the States and local Government are in the best position to advance project ideas. However, as the Green Paper points out, what is needed is a consistent and transparent methodology for assessing the costs and benefits of individual projects, otherwise funding will be misallocated.

- In relation to the fifth point of AusLink’s nine-point approach, **Funding the best solutions**, we note that technological solutions, such as ITS, can produce significant benefits in transport, such as ITS. However, any funding that is earmarked for research and development must be allocated through an appropriately transparent and efficient framework, with each funded project having clearly identified outcomes and objectives.

Since there are national benefits from the application of ITS, the Commonwealth should have a role in making funds available to foster research and development for future technological solutions. In the United States, for example, the Government makes available GPS services technology at no cost to the consumer which helps to improve national productivity.

In France, the French Ministry of Transport has launched a project that will test and evaluate a speed limiter that adapts the car to the authorised speed for a given road segment. The project is focusing on developing the device as well as analysing its acceptance by drivers and its effects on their behaviour. This is similar to the TAC (Victoria) SafeCar project funded by a range of stakeholders.

On the safety front, technology is clearly making a contribution - airbags are a good example of this. A range of other possible measures for using technology to reduce human error are set out in the National Road Safety Action Plan 2001 and 2002. This document should have been referenced in the Green Paper.

The White Paper should also respond to the recommendations of a recent report from a House of Representatives Committee on ITS. In its report it recommended, *inter alia*, that in addition to the National Highway System, Roads to Recovery, Roads of National Importance

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and the Black Spot programs, the Commonwealth establish a fifth category, a regional ITS program, to provide for the allocation of seeding funds for the implementation of integrated ITS and that as part of this program funds should be made available for selected arterial roads on the basis of certain criteria.

The Committee also recommended that the government designate as a ‘National ITS Corridor’ certain roads of national significance, such as the Hume Highway, the Federal Highway and the F3 (in NSW) and that such corridors have installed on them appropriate and cost effective ITS technology and they be used to test integrated ITS infrastructure. AAA supports this recommendation.

- In relation to the sixth point of AusLink’s nine-point approach, **Employing a consistent approach to funding**, we are particularly concerned that the proposed amalgamation of land transport funding programs into a single AusLink program will result in a further breakdown of the link between road user charges (as the price for the use of a road) and the investment signals which clear pricing provides.

We should be moving towards ‘user pays’ (as every other infrastructure service has done) not away from it. Moreover, we are alarmed that this proposal may result in a reduction in overall funding for roads. While it may be desirable to consolidate the NHS and RONI program into one program which also covers selected intra-State and intra-urban routes to connect the network and provide access to ports, airports and major freight terminals, funding levels will need to be increased accordingly. There is a clear and demonstrable national interest in increasing Commonwealth road funding (paid many times over in fuel excise).

The Black Spot Program is valuable in its own right and should be retained, as it explicitly targets road safety and it identifies the extent of Government commitment to this important area. In fact, the benefit-cost ratios for this program are so high, that further funding in this area is justified as a means of reducing the significant cost of road trauma. Such funding should not be seen as a cost, but as an investment, with returns far outweighing the cost over the medium-to-long term. The Black Spot Program also helps to reduce the longer term call on the health and social security budget and is consistent with a whole-of-government approach to road safety.

The Commonwealth Black Spot Program also helps to complement the Black Spot Programs in the States.

If indeed there is a case for Commonwealth funding of rail, it should be listed as a separate program (as it is at the moment under the ALTD Act where there is provision for allocating funds to mainline rail). That is not to say that there should not be an attempt to try and compare cost-benefit analyses of rail and road in order to make some assessment of relative funding priorities. However, rail is more complicated in that rail
operations are in private hands but the infrastructure assets are largely government owned. Leasing arrangements complicate the issue further. Unfortunately, the Green Paper does not indicate how competitive evaluation of road and rail projects can take place given the differences in institutional structure.

- In relation to the seventh point of AusLink’s nine-point approach, **Encouraging reciprocal responsibility**, AAA is not attracted to the idea of giving priority to that party which is in the best position to leverage a project. Project priorities should be based on transparent BCR criteria and if there is a significantly positive BCR, the project should be funded by the relevant government jurisdiction, either outright, or in partnership. It should not be conditional on which party, including the private sector, is able to leverage the proposal.

This is not to say that reciprocal funding is not a good idea. In fact, Commonwealth and State Governments share funding under the RONI program and this is obviously of mutual benefit. The same should be true of shared State and local Government funding.

**QUESTION:** What would be a reasonable minimum threshold value for a project proposal, above which it should be assessed to determine its potential internal rate of return as a private project?

- We consider that this is not a generic question that should be answered. If a project is recognised as worthwhile, it should be funded.

- In relation to the eighth point of AusLink’s nine-point approach, **Embedding continuous improvement**, we agree that there is a need for better understanding and advice on the national land transport network. It is surprising that such information is not available. For example, information about such basic parameters as road use (ADT) is not available for many important road links.

**QUESTION:** Do you think AusLink should benchmark best practice planning, project development and evaluation and monitoring techniques?

- It is our understanding that this would have already been done at State level. And while it may not be occurring at the Commonwealth level, this would also be surprising given the criticisms levelled at the Commonwealth by the Australian National Audit Office in its report on management of the NHS program.\(^\text{14}\) We note with alarm, that this report, which is a valuable performance audit, has not been referenced in the Green Paper.

Given the complexities of a non-modal specific project evaluation methodology that will need to be developed for *AusLink*, ‘best practice’ techniques will need to be employed or developed. The techniques and methodology which is used must also be constantly updated and kept relevant.

- In relation to the ninth point of *AusLink*’s nine-point approach, *Negotiating a new inter-governmental agreement*, clearly it will have to reflect the decisions which will ultimately be made, although the agreement will also have to reflect the need for equity, transparency and investment prioritisation. A new inter-governmental agreement should also assign charging responsibilities to different levels of Government as well as spending responsibilities.
7. CHAPTER FOUR – AUSLINK: A NEW APPROACH

We make the following comments in relation to various statements and specific questions in the Green Paper:

The focus of the Chapter is on regional Australia and local government funding. We note the government’s intention to promote the link between investment in transport and regional growth and development. This is entirely appropriate, but it is also an approach which should be adopted for investment nationally.

Furthermore, where investment in made in Australia’s regions, there must be transparency in the decision making process in terms of choosing between projects in urban areas rather than regional areas. While strict economic cost benefit criteria may direct money more towards urban projects, there needs to be clear, transparent criteria established for investment in regional areas if investment based on strict cost-benefit alone would not allow the investment to proceed. Such criteria may need to include social and environmental considerations.

This becomes even more important when we consider the fact of fiscal imbalance between the Commonwealth and local government in revenue rising powers and the fact that the local roads constitute 80 per cent of the total road network.

**QUESTION: Do you think the Queensland Local Roads Alliance definition of a local road of regional significance could also be used to define local links of regional significance?**

- The key to answering this question and others relating to the funding responsibility for different road classifications, is to ensure that there is a proper classification system established in the first place. Having established this, we need to ensure that the Commonwealth is responsible for the highest level classification. A national classification system needs to be developed where roads are classified by function (eg ‘A’ type and ‘B’ type roads).

The Green Paper states that a local road of regional significance is one that will:

- provide primarily a connecting function within the regional road network - across more than one local government area;
- form an important part of the economic development strategies within local government area;
- play a critical role for regional industry, including access to attractions of regional significance and access to major natural resources (for example, mines, quarries, forests);
• connect shires, towns, regions and provide travel time and distance savings;

• offer commuter routes (that is, urban roads providing travel and distance savings);

• provide access to rail heads, freight depots, ports and major airfields from a higher order regional road;

• provide access to major regionally significant institutions like community health, education, recreation, youth, aged care and entertainment facilities; and

• form the only access to a remote community.

We presume that this means that a local link of regional significance has to include all these criteria. If this is the case, clarification is sought as to whether these links of regional significance are going to be the only projects eligible for funding under *AusLink*. Further to this, how will the Government ensure that other regional roads, which may be equally important, receive adequate attention?

*QUESTION:* Do you have any views on the Commonwealth providing Financial Assistance Grants directly to local government?

• In our view, if Commonwealth funds are to be provided direct to local government, the Commonwealth should have a role in ensuring that it is spent according to national and regional priorities and in such a way that cost shifting is minimized. State Governments should also be involved in decision making, even though the funding is provided direct to local government.

*QUESTION:* What are your views on earmarking of identified local roads grants for strategic regional priorities?

• We welcome the fact that the Commonwealth will continue to provide identified road grants.

• We note that the Commonwealth would like to work towards a ‘more strategic spend’ of these roads grants, but clarification is required regarding whether this funding will continue to be provided as a ‘pool’ or on a project by project basis and whether allocation of all this money is to be contingent on specific projects?

• Should this be the case, the earmarking of all funds raises questions of equity across different councils and accessibility to project funds, particularly for smaller or remote councils.

• While it is acknowledged that this ‘untied’ funding is generally spent on roads by local government, some greater assurance of this could be sought by tying these funds specifically to road projects and by making the local government
accountable for their spend, in a similar way to that required under the Roads to Recovery program.

- Given the amount of fuel excise collected at a federal level, it is considered that it is crucial that these funds are clearly directed towards local government and identified for road projects and are not simply provided to the States as part of a larger pool of money that could be used for any purpose.

- We are aware that currently some Local Government Associations ‘hold back’ a proportion of untied road grants (15-20%) to be used for specific strategic projects. We consider that this has merit in enabling funding of strategic cross-council projects, and may assist in providing funding for the development or maintenance of strategic links.

- However, current levels of funding should at least be maintained with grants not held back by the Federal Government and only allocated on specific projects.

- The best solution is one which involves a cost effective, transparent and accountable method of allocation and expenditure.

- There is considerable merit in a program based approach which ensures regular funding, because State and local governments have an interest in efficient outcomes – that is to make the dollars go further. By contrast, a project basis funding arrangement gives an incentive to recommend higher cost solutions, since there may not be a second chance.

**QUESTION:** Interstate and intrastate distributions of identified road grants are provided through the Local Government (Financial Assistance) Act 1995. Is it still appropriate to maintain the existing allocation methodologies for road grants under the Act if we are seeking to move to a more strategic regional approach to infrastructure provision?

- The Act allows for the distribution of FAGS on a full horizontal equalisation basis, taking into account the council’s ability to function, to raise revenue and to ensure it can function at a level not lower than other councils. It also uses a formula that takes population into account and, in recent years, these and the identified road grants have been simply increased in line with the CPI.

- Although ALGA policy is to support horizontal equalization, we do not believe population is an appropriate benchmark for equitable funding allocation. AAA considers the principles should include:

  - an equitable system, with each council provided funding based on similar principles, not wholly based on financial return of specific projects; and
  - a system that takes into account accessibility both in terms of kilometres of road and traffic volumes.
These grants should continue to be provided in conjunction with other specific purpose programmes, such as Roads to Recovery.

**QUESTION:** What are your views on a strategic infrastructure arrangement that supports locally identified priorities and would enable regions to create links between national and regional priorities in order to foster sustainable regional economic and social benefits?

- There are undoubtedly benefits from having priorities identified at a regional level so that efficiencies can be achieved across councils. However, there is a need to set criteria for investment in order to achieve the best outcome in terms of safety, economic and social terms.

- As noted earlier, there are likely to be greater benefits if investment is treated on the basis of a program, rather than a project.

**QUESTION:** How do you think the Commonwealth Government could work with local governments to achieve a more strategic spend of identified local roads funding?

- The Green Paper cites the regional road infrastructure planning mechanisms for South Australia, Western Australia and Queensland. However, AAA is not in a position to comment on the effectiveness of these schemes as there is insufficient detail provided to comment on their relative strengths and weaknesses.

- AAA believes that while there should not necessarily be criteria before funding, that a reporting/evaluation system should be in place in order that councils remain accountable for where these ‘identified road grants’ are spent.

- The second national rural roads congress in Mildura identified a number of issues relating to local roads that need to be addressed, such as the need for good data and benchmarking against best practice. What is clearly required is for local government to develop a clear picture of the state of all local roads in the network. This would provide information on what some strategic priorities may be.

**QUESTION:** Do you have any views on what proportion of earmarked regional funding under AusLink should be distributed for local routes (links) of regional significance?

- AAA does not have a firm view on what proportion of funding should be allocated, rather our view is that the key requirement is to ensure adequate funding, and to identify clear priorities, responsibilities and accountabilities. How funding should be allocated is largely a matter for Government – our concern is to ensure that where there is a need, the infrastructure is provided.

- Clarification is sought as to (1) what is meant by ‘earmarked’ regional funding and (2) the proportion of total funding to local government which this represents.
• We understand that some local councils currently work on 15 per cent of ‘identified road grants’ and Roads to Recovery under similar projects.

• At present local roads account for 80% of the total road network, yet no information is provided on what proportion of the total local road network is anticipated to be ‘local routes of regional significance’ as defined within the Green Paper.

**QUESTION:** Do you have any views on the best way to allocate funding for strategic regional transport infrastructure? For example, through general bilateral agreements between the Commonwealth and regional groupings of councils, on a state-by-state basis or according to specific project-based approvals?

• It is difficult to comment on this issue if the broad policy outlines are still being developed. There is some concern as to whether a competition based approach will disadvantage less resourced councils particularly if they have a smaller rates base, and possibly a greater need for federal funding.

• The Green Paper advances three options: (page 72)

1. The Commonwealth to enter into bilateral agreements with regional groups of councils, similar to the funding and approval model that currently applies to the Black Spot Programme;

2. The Commonwealth could enter into bilateral agreements with the States to administer funding, in accordance with the AusLink framework on the Commonwealth’s behalf.

3. The Commonwealth to enter into contractual arrangements directly with project proponents on a specific case by case.

We do not have a firm view as to which of these options is preferable. AAA’s concern is that investment takes place.

**QUESTION:** While there needs to be an overall framework for the strategic regional infrastructure element of AusLink’s regional approach, there needs to be flexibility to meet different arrangements in each state and territory. Can you suggest a model to accommodate this flexibility?

• There needs to be flexibility, provided there is a reasonable ‘level playing field’, but flexible enough to take into account the different circumstances and needs of those dependent on a transport network.
8. CHAPTER FIVE – IMPLEMENTATION AND FUTURE DEVELOPMENT

At the outset, we would like to once again stress that a National Transport Policy must address the issues of vertical fiscal imbalance and road pricing. Having said that, we make the following comments in relation to various statements and specific questions in the Chapter:

**QUESTION:** How should the AusLink project evaluation methodology ensure equal treatment of alternative projects and alternative types of projects, eg construction and technological solutions?

- It was our understanding that AUSTROADS would have already done this and that the NTS would set the standards. However, perhaps we need to await the outcome of the ATC Working Group which has been established to progress AusLink’s project evaluation methodology. The experience of various overseas countries should also be reviewed.

- The experience of various overseas countries should also be reviewed.

**QUESTION:** The Government seeks your views on how the strategic approach to maintenance funding can be improved?

- Before this is answered, the term ‘maintenance’ needs to be clearly defined so that it is consistent between States.

**QUESTION:** Please comment on the proposed national principles. Are there other principles that you consider should be included?

- In our view, “continuous improvement” as defined by AusLink is not a principle.

- The equity principle is silent on equity between the States and how this is defined. Unless there is a clear definition, some smaller States may be disadvantaged.

- “Reciprocal responsibility” fails to address the issue of funding responsibility and the fact that the Commonwealth has access to a larger taxation base.

**QUESTION:** The Government invites your views on whether state and local government responsibilities for arterial and local roads, set out in the 1991 Roads Agreement, need modification? If so, what changes need to be considered? Should the task of reviewing these arrangements and providing advice to ministers be undertaken by the proposed national advisory body?

- It is appropriate to build on the existing agreement so as to incorporate RONIs and Roads to Recovery. Urban public transport should be retained.

- Any discussion on road responsibilities must begin with a discussion on road classification and should start by establishing a clear functional classification.
of roads based on factors such as traffic volume, traffic mix, design standard etc. In particular, a clear distinction between main roads (or arterial roads, traffic routes etc) and local roads (or access streets) is required.

The community and motorists’ expectations, and consequently their behaviour and acceptance of design and maintenance standards, vary significantly between these two fundamental classes of road, and we believe that this is an absolutely fundamental starting point.

**QUESTION:** Which are the most important national and regional ports and airports that AusLink should provide access to in terms of promoting Australia’s future economic and social development?

- The answer to this question depends on safety, costs and benefits, regional growth and so on. The Government should be in a position to answer this question or, at the very least, provide a prioritized listing for comment and/or validation.

**QUESTION:** The Government invites your views on priority national needs on the corridors and links that should be included in the initial draft of the national land Transport Plan. If you are suggesting other links, please explain how they would support AusLink’s national objectives, set out in Chapter three. For example, the Government has said the national network will include major Roads of national Importance (RONI) routes but apart from the pacific Highway, these have not been identified in the Green Paper.


**QUESTION:** The Government is conscious of the inherent differences between the transport networks in individual states and territories and the proposed AusLink network may not incorporate important unique circumstances that have national importance. Input is welcome in this regard.

- This statement provides an opportunity to fund projects which may not be economically, or even socially justified. While some flexibility is important, the best way to overcome the problem is to ensure transparency in the way “unique circumstances” are incorporated into the AusLink network.

**QUESTION:** The Government has not yet resolved the range of issues that could effectively be included in a National Transport Policy. The Government invites your view on what it might usefully encompass.

- The outcomes which AAA would like to see emerge from AusLink are set out in Section 2 of this submission ‘National transport policy: outcomes for motorists'.
ATTACHMENT 1

Australia’s National Highway System - Key Priorities

**New South Wales**

Western Sydney Orbital
- New route bypassing existing Cumberland Highway

F3 Freeway
- Upgrading of F3 from Sydney to Ourimbah to an appropriate standard
- F3 Freeway - New England Highway
- F3 Freeway – New England Highway connector including outer bypass of Maitland

Hume Highway
- Bypass of Albury/Wodonga
- Continue progression of dual carriageways for entire route

Barton Highway
- Bypass of Murrumbateman

**Sydney**

Western Sydney Orbital
- Western Sydney Orbital between M2 and M5/Hume Highway
- Planning for, and construction of, connector between Western Sydney Orbital and F3 Freeway

**Victoria**

Hume Highway
- Bypass of Craigieburn
- Bypass of Albury/Wodonga

Western Highway
- Deer Park Bypass
- Road safety improvements west of Ballarat
- Anthony’s Cutting Deviation
- Duplication of highway between Ballarat and Stawell

Goulburn Valley Highway
- Duplication of highway between the Hume Highway and Shepparton
- Overtaking lanes and safety improvements north of Shepparton
- Construction of Shepparton bypass
- Tocumwal deviation
Sturt Highway
- Traffic management works in Mildura
- Road safety improvements west of Mildura

Melbourne

Western Ring Road (NHS Section)
- Provision of additional capacity in both directions
- Road Safety improvements
- Provision of a traveller information system

Queensland

Barkly Highway
- High standard 2 lane highway
- Provision of occasional overtaking lanes
- Improved flood immunity from Cloncurry to NT border

Bruce Highway
- 6 lanes from Pine River to Caboolture
- 4 lanes from Cooroy to Gympie
- High standard 2 lane highway with regular overtaking lanes from Gympie to Innisfail
- 4 lane bypass sections at major provincial centres, Gympie, Maryborough, Rockhampton, Mackay, Townsville and Innisfail
- 4 lanes from Innisfail to Cairns
- Improved flood immunity, especially north of Townsville to Cairns
- Improved intersections over entire length
- Regular rest areas

Warrego Highway
- Complete 4 lanes from Ipswich to Toowoomba, including the bypass of Gatton
- New range crossing with Toowoomba bypass
- 4 lane highway from Toowoomba to Oakey
- Provision of occasional overtaking lanes

Landsborough Highway
- High standard 2 lane highway
- Provision of occasional overtaking lanes
- Improved flood immunity

Leichhardt Highway
- High standard 2 lane highway
- Improved flood immunity
- 4 lane bypass of Goondiwindi
Gore Highway
- High standard 2 lane highway with road train access
- Improved flood immunity

Cunningham Highway
- 4 lanes from Ipswich to Amberley
- Provision of regular overtaking lanes from Amberley to Aratula
- 4 lanes over Cunningham’s Gap
- Grade separation intersection at junction with New England Highway

New England Highway
- 4 lane bypass of Warwick
- Additional overtaking lanes from Warwick to Wallangarra

Brisbane

Ipswich Motorway
- 6 lanes over entire length with sealed shoulders and installation of full safety barrier system
- Improve and rebuild junctions with the Cunningham Highway and Logan Motorway to include elimination of right-hand lane entry and exit configurations
- Introduce system of service roads to reduce use by local traffic Granard, Riawena, Kessels and Mt Gravatt-Capalaba Roads
- Rebuild entire route to separate local traffic from NHS traffic which should be on a 4 lane grade separated highway, OR
- Create new route using Logan Motorway from junction with Ipswich Motorway (at Gailes) onto Gateway Motorway (at Drewvale) through to the junction with Mt Gravatt-Capabala Road
- Sealed shoulders and installation of full safety barrier system

Gateway Motorway (not including Gateway Motorway Bridge)
- 6 lane section between Wynnum Road junction and East-West Arterial/Airport Drive junction
- Sealed shoulders and installation of full safety barrier system

South Australia

Dukes Highway
- Sealed shoulders
- Upgrade rest areas
- Protect or remove hazardous trees

Sturt Highway
- 17 additional overtaking lanes (2 for 2001/2002)
- Bypass Renmark
- Protect or remove hazardous trees
- Upgrade rest areas

**Adelaide - Port Augusta Road**
- 13 overtaking lanes
- Sealed shoulders
- Upgrade rest areas

**Stuart Highway**
- Pavement rehabilitation
- Widen lanes to 3.5 metres (51% is less than 3.5 metres)
- Upgrade rest areas
- Protect or remove hazardous trees

**Eyre Highway**
- Widen lanes to 3.5 metres west of Ceduna (477 kilometres)
- Improved rest areas
- Sealed shoulders
- Improved alignment to eliminate barrier lines

**Adelaide**

**Adelaide Cross-City Connector**
- Complete Portrush road upgrade
- Provision of grade separation at the Gepps Cross Interchange

**Western Australia**

**Eyre Highway**
- Norseman - Cocklebiddy, widen

**Great Eastern Highway**
- Southern Cross - Coolgardie, reconstruct and widen
- Southern Cross - Ghooli, reconstruct and seal
- Bulla - Bulling Section, reconstruct and seal
- Coolgardie West, reconstruct and seal
- Roe Highway intersection interchange, construct
- Darlington - Mundaring, seal shoulders
- Wooroloo - Northam, upgrade intersections and provide overtaking lanes
- Clackline Bypass, construct and seal
- Walgoolan - Southern Cross, widen
- Southern Cross - Coolgardie, widen

**Coolgardie – Esperance Highway**
- Kambalda turn off - Widgiemooltha, widen

**Great Northern Highway**
• Muchea - Wubin, construct passing lanes
• Bindoon Hill - New Norcia, widen and construct passing lanes
• Miling - Pithara, wide, realign and construct passing lanes
• Toodyay - Bindi Bindi, realign and improve Toodyay-Bindi Bindi Road intersection
• Pithara - Wubin, Widen and intersection improvements
• Meekatharra - Newman, fence road reserve
• Meekatharra North, improve flood crossings
• Erskine - Blina Section, reconstruct flood crossing
• Fitzroy to Gogo Bridges, replace single lane, low level bridges
• Fitzroy Crossing to Gogo, reconstruct
• Bow River section, reconstruct
• Upper Panton, Rosers Yard and Wilson Creeks, construct bridges

**Tasmania**

Midland Highway
- Improvement to road alignment through St Peters Pass north of Oatlands
- Additional overtaking lanes between Oatlands and Perth
- Bypass of Pontville, Mangalore and Bagdad
- Replacement of Bridgewater Bridge

**Northern Territory**

Stuart Highway
- Pavement rehabilitation and widening of selected sections
- New bridge over Palmer and Finke Rivers
- Duplication from Noonamah to Cox Peninsular Road
- Upgrade strength deficient bridges
- Upgrade rest areas
- Upgrade truck parking facilities
- Flood immunity improvements
- Improve overtaking opportunities, Darwin to Katherine

Victoria Highway
- Flood immunity improvements across Victoria River Flood Plain
- Pavement rehabilitation and widening
- Upgrade deficient bridges
- Upgrade rest areas
- Upgrade truck parking facilities

Barkly Highway
- Pavement rehabilitation and widening
- Upgrade deficient bridges
- Upgrade rest areas
- Upgrade truck parking facilities
- Flood immunity improvements

**Australian Capital Territory**

Barton Highway
- Upgrade Barton Highway to 4 lanes
ATTACHMENT 2

Allen Consulting report
Benefits of Public Investment in the Nation’s Road Infrastructure

An Update of an Earlier AAA report on the Benefits of Infrastructure Investment and a Tour of the Issues in Response to the Commonwealth Government’s Green Paper AusLink

1. Executive Summary

This paper broadly updates some key findings of a major earlier report published by the Australian Automobile Association (AAA) on maximising the contribution of land transport infrastructure to economic growth. That report pointed to very considerable benefits from catch-up and ongoing road infrastructure investment. The paper is also partly a response to the Commonwealth Government’s recently released AusLink Green Paper *Towards the National Land Transport Plan.*

Given its interconnected character, and the wide spreading of its benefits and costs, there is an inherent public role in the planning and provision of infrastructure. The primary criterion for investment in infrastructure should be a positive *social* net benefit/cost ratio. That is, the overall equation between net benefits and costs for the community as a whole – subject to there being budgetary scope to fund the servicing costs of the public component of the investment. There is a substantial menu or backlog of land transport infrastructure, primarily road, projects currently available that meet this criterion – i.e. significant unmet needs for road investments that would benefit the community.

A proper pricing framework is also fundamental to the success of any overall transport plan. Without it, an appropriate balance of usage among transport modes – one that maximises community benefit – will not come about. The relevant pricing framework comprehends all use-related fees and charges.

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2 DoTaRS 2002.
The policy emphasis in the AusLink Green Paper (e.g. pp 54-55) on proposals with a greater private component of investment appears to imply that public capacity to invest is very tightly constrained — whereas at present there is no particularly severe constraint on public borrowing *per se*; rather, the operative constraint is an ongoing budgetary one on funding the accruing public costs over the life of the investment. Private involvement in design, construction, operation and maintenance can deliver significant net benefits, as the Green Paper notes (e.g. p 30), but private equity investments (funded by tolls) are more problematic given the largely public character of the network and high pre-existing road user charges. Such investments require very careful consideration rather than necessarily having a special priority.

2. **Australia’s Road Network and the Benefits of Investing in It**

*The Importance of the Road Network*

It is difficult to overstate the importance of the road network to the lives of all Australians. It plays a much bigger role than the other transport modes, and connects them all. It permeates all aspects of our society and (notwithstanding the emergence of e-commerce) still represents the major arteries of modern economic activity, playing a crucial role in our local, regional and national economies. Public and private use of it underpins our ability to participate in employment, shopping, recreation and social activities, making access to it not just of economic importance, but an important equity issue.

Road transport is by a wide margin the dominant transport mode in Australia. As Figure 1 indicates, the resources consumed in using the road transport system are in the order of $135 billion p.a. or roughly 19 per cent of GDP. By contrast, use of sea, air and rail transport combined account for a little over one-third of that level of resource consumption (considerably less again if international air and sea transport are excluded).

![Figure 1](image_url)

**Figure 1**

**BROAD INDICATORS OF RESOURCE USAGE BY TRANSPORT MODE**

<table>
<thead>
<tr>
<th>ROAD – AROUND $135 BILLION</th>
<th>AIR, SEA, RAIL – AROUND $50 BILLION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private road user costs (incl. time)</td>
<td>(28%)</td>
</tr>
<tr>
<td>Accident costs (15%)</td>
<td></td>
</tr>
<tr>
<td>Externalities (2%)</td>
<td>Air (46%)</td>
</tr>
<tr>
<td>Sea (37%)</td>
<td></td>
</tr>
</tbody>
</table>

The dominance of the road network in economic usage is not difficult to understand. Roads are ubiquitous, providing virtually total connectivity of countless origins and destinations and offering wide and flexible choices for many users. The road system also acts as distributor of feeder roads and access streets providing access to all other modes. Roads are open access and multipurpose. Business and commercial travel, social activity, freight transport and passenger travel and private transport or common carrier transport services all use the same network.

A decade ago, after a period of under-investment, Australia’s road network stood in need of significant investment – particularly to bridge gaps and lift the capacity of urban arterial road systems. Analysis presented in The Allen Consulting Group 1993 indicated very high net returns from investments in urban arterials and moderate to high returns from investments in other road categories, particularly rural national roads and rural arterials.

The reason for the existence of many projects with high returns was essentially that the capacity of the road stock had not kept pace with economic growth – reflected in rising congestion and other costs, these costs acting as a brake on growth rather than facilitating it.

**Spending on Roads by Governments is still Inadequate**

Notwithstanding that there has been considerable road investment over the intervening decade, there is still a range of evidence that investment is not keeping up fully with need. It is still the case that there is a backlog of potentially high-yielding projects.

As Figure 2 sets out, investment in the nation’s overall net road stock has increased since 1960 in absolute terms, but declined as a proportion of GDP from about 22 per cent then to a little over 10 per cent in 2002. The decline has broadly continued over the past decade, indicating rising pressure of demand on road capacity.
The benefits of public investment in the nation’s road infrastructure

The Allen Consulting Group

Figure 2

NET ROAD STOCK IN AUSTRALIA

[Graph showing net road stock in Australia from 1960 to 2000, with values in $ million on the y-axis and years on the x-axis.]

Note: This Figure reproduces and updates a similar chart from The Allen Consulting Group 1993. The net road stock values in this Figure are higher than those in the 1993 report, which reflects the new chain volume measure of GDP now being used by the ABS.

Source: ABS 5204.0 (unpublished supporting estimates).

While a decline in the net road stock relative to GDP is not a precise indicator of a need for greater investment, there is a range of other evidence pointing in the same direction – e.g. rising congestion costs as presented in the Green Paper (Table 2, p 18).

Annual spending on roads by the Commonwealth and Local Government has not changed substantially over most of the past decade (Figure 3). State spending on roads, however, has risen appreciably, mostly as a result of increased public spending on roads in New South Wales, Queensland and the ACT.

Figure 3

AUSTRALIAN GOVERNMENTS’ SPENDING ON ROADS

[Graph showing spending on roads by Commonwealth, State and Local Governments from 1991–92 to 1999–00, with values in $ million on the y-axis and years on the x-axis.]

Data for State expenditure on roads were only available up to 1998-99. Updated estimates are expected to be available from the Bureau of Transport and Resource Economics (BTE) early in 2003.

Source: BTE 1999.

Of particular note is the fact that Commonwealth expenditure on roads has remained flat over the last decade, while road related revenue raised by the Commonwealth – the bulk of road user charges – has continued to climb (Figure 4). This revenue is dominated by fuel excise and also includes GST. State expenditure on roads, on the other hand, has grown at a faster rate than State revenue from road users (Figure 5).

Estimates of absolute congestion costs are made relative to some "uncongested" benchmark – the choice of which is somewhat arbitrary. However in most cities the trends over time are strongly upwards.

3
Figure 4
COMMONWEALTH REVENUE FROM MOTORISTS AND SPENDING ON ROADS

$ million

Note: Data for Commonwealth expenditure on roads were not available for 2000-01.
Source: BTE 1999.

Figure 5
STATE REVENUE FROM MOTORISTS AND SPENDING ON ROADS

$ million

Note: Data for State expenditure on roads were available only up to 1998-99.
Source: BTE 1999.
**Investment in Road Infrastructure Can Deliver Substantial Benefits – and Has Done So**

A number of recent and forthcoming projects illustrate how tackling the backlog of investments brings substantial reductions in travel times and congestion costs, vehicle operating costs and crashes. Reductions in these are *benefits* of land transport investment, not *costs* as seemingly indicated in the Green Paper (p 42)! A key to the benefits delivered by some of the major recent or forthcoming investments is that they have markedly improved the general ‘connectedness’ of Australia’s urban arterial road systems, or will do so.

Melbourne’s CityLink tollway, opened in stages by end-2000, provided a significant lift in connectedness for the Melbourne urban arterial system; previously the major arterials terminated around the edges of a highly congested CBD (Figure 5). A recent stocktake of benefits of CityLink estimated direct benefits in excess of $380 million.\(^4\) (Direct benefits include time saving benefits, vehicle operating cost savings, accident benefits, fleet-mix benefits and off road benefits.) This figure implies an *ex post* (gross) benefit cost ratio of around 2:1, or $4 billion of benefits for a cost of around $2 billion – somewhat higher than the *ex ante* estimate made for the project.

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A particularly positive (expected) outcome has been significantly reduced trip times. Table 1 shows that, for example, trip times between Malvern or Strathmore and Southbank are now on average around 10-15 minutes shorter than they were prior to the opening of CityLink – a substantial fraction of those previous trip times.

### Table 1

<table>
<thead>
<tr>
<th>Western Link Strathmore to Southbank</th>
<th>AM Peak (mins)</th>
<th>PM Peak (mins)</th>
<th>Off Peak (mins)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southbound</td>
<td>9.7</td>
<td>16.3</td>
<td>9.7</td>
</tr>
<tr>
<td>Northbound</td>
<td>13.0</td>
<td>16.8</td>
<td>12.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Southern Link Malvern to Southbank</th>
<th>AM Peak (mins)</th>
<th>PM Peak (mins)</th>
<th>Off Peak (mins)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Westbound</td>
<td>8.1</td>
<td>9.0</td>
<td>14.2</td>
</tr>
<tr>
<td>Eastbound</td>
<td>11.5</td>
<td>10.3</td>
<td>9.8</td>
</tr>
</tbody>
</table>


CityLink is now in full operation, a delivered project. In other cities there are similar investments in connectedness which deliver similar net benefits or will do so. The 40 km Western Sydney Orbital (WSO), for example, forms the largest remaining link in Sydney’s orbital road network (Figure 7). The $1.5 billion project is a 40km motorway with dual carriageways to be constructed between the M5 / Hume Highway at Prestons and the M2 at West Baulkham Hills. It is being partly funded by the Commonwealth Government, with the remainder of the project being financed under a build, own, operate, transfer (BOOT) scheme. As is the case with other BOOT projects such as the Eastern Distributor and M2 Motorway, this involves motorists paying a toll to use the WSO. The project was approved by the NSW Minister for Planning in March 2002 and in October 2002 WestLink Motorway Limited was announced as the preferred consortium to design, construct and maintain the motorway. Work is expected to start in mid 2003, with the motorway open to traffic in 2007.5
The road user benefit cost ratio for building the WSO is estimated to be 2.2 using the RTA (and NSW Treasury) recommended discount rate of seven per cent. This road user benefit cost ratio implies that the present value of the flow of annual benefits is greater than twice the present value of the flow of costs. This indicates that the Western Sydney Orbital would offer benefits substantially in excess of costs and would also do so for a higher discount rate of 10 per cent. As with the CityLink example above, it is expected that trip times, and hence congestion, will be reduced greatly between relevant destination points (Table 2).

<table>
<thead>
<tr>
<th>Destination</th>
<th>Wetherill Park (mins)</th>
<th>Glendenning (mins)</th>
<th>Norwest (mins)</th>
<th>Hornsby</th>
<th>Richmond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Campbelltown to</td>
<td>32</td>
<td>26</td>
<td>65</td>
<td>58</td>
<td>27</td>
</tr>
<tr>
<td>Liverpool to</td>
<td>9</td>
<td>27</td>
<td>42</td>
<td>35</td>
<td>31</td>
</tr>
</tbody>
</table>

Both of the above projects also illustrate issues associated with private equity investment, fully funded by tolls, however. In both cases, it is likely that funding arrangements involving lower (if any) tolls would deliver somewhat higher net benefits, as drivers who are currently avoiding tolls (or would avoid them in the case of the WSO), and imposing costs on themselves and others by taking other routes, would use the roads. It is important that planning for future projects recognises both the inherent major public role in road investment, and the existing large flow of road user revenues that are its natural source of funding; and that planning is open to concepts of mixed public and private funding (rather than, say, considering only 100 per cent public or 100 per cent private alternatives) – subject to addressing the risk transfer, transparency and accountability issues flagged in the Green Paper (e.g. p 31).

*Improved Connectedness of Our Road Networks*

A quite vivid illustration that significant benefits are still available from investing in the Australian road network is presented in Figure 8 below. It reproduces and updates material presented by The Allen Consulting Group 1993 graphically identifying major gaps in the metropolitan road networks in and around Melbourne, Sydney and Brisbane.

Figure 8 shows considerable improvement in these urban networks, but also demonstrate that some key gaps remain, particularly in Sydney and in Brisbane. It should be noted, of course, that filling such gaps alone will not ‘finish the job’, but needs to be combined with ongoing improvements and repairs to existing roads, such as road widening, repairs to soft shoulders, town bypasses, bridge replacements and division of roads from single to dual carriageways – so that road capacity keeps pace with the community’s economic and other growing needs.
‘CONNECTEDNESS’ – SELECTED CITIES’ PRIMARY ROAD NETWORKS

Brisbane 1993

Brisbane 2002

25km

25km

Melbourne 1993

Melbourne 2002

25km

25km

Sydney 1993

Sydney 2002

25km

25km

Source: The Allen Consulting Group
The needs are of course not only in Australia’s metropolitan regions, but throughout the national road system. There continue to be many ‘black spots’ and other local needs offering high payoffs (see for example RACV 2002). Apart from the more obvious benefits, road investments facilitate the opening up of new areas, and allowing a range of areas to participate in the amenity and economic activity offered by other areas that come within the range of easy travel. For instance, shortening trip times improves access by those living in the country to city locations, and opens up employment and other opportunities to them.

There still remains a Backlog of Projects with Positive Net Benefit Cost Ratios

It would be a significant research task to repeat the ‘census’ of significant economically warranted but unfunded projects at State level reported in The Allen Consulting Group 1993 (p 29). It is estimated (roughly) that current required road works (including upgrades and new construction) in New South Wales (NSW) total around $4.4 billion, in Victoria total around $3.8 billion, and in Western Australia total around $2.2 billion.

Inquiries about individual projects on a sample basis in the three largest jurisdictions suggest a similar picture to that set out in the 1993 report. For some of these BCRs were not readily available, but it is likely – given the nature of the projects identified in the sample – that they all offer gross benefit cost ratios (BCRs) significantly above the economic threshold (i.e. gross BCR of 1, or net BCR of zero). The following boxes demonstrate two examples each for NSW, Victoria and Queensland of major projects offering strong net benefits.

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NRMA 2002.

RACV 2002a.

RACWA 2002. The total is for national and state roads only, not local roads.
Box 1

NSW – STRATEGIC ROAD INVESTMENTS WITH HIGH BENEFIT COST RATIOS

Project: Pacific Highway Upgrade

The Pacific Highway Upgrade is a project that will ultimately create a dual carriageway arterial stretching from Tweed Heads in the north to Hexham in the south (just north of Newcastle). The current phase of work comprises a number of major and minor projects, 39 of which have already been opened to traffic. Construction is underway at five sites and 15 projects are being planned. Once completed, the current phase of work (BCR of around 2:3:1) is expected to deliver huge benefits in terms of reduced travel times and hence congestion costs and reduced accident numbers.

Project: Newcastle Freeway (F3) to the future Western Sydney Orbital (WSO)

This project is currently investigating options for a new National Highway connection between the F3 and the future WSO. It is expected that the project will reduce traffic on the interim National Highway corridor along Pennant Hills road and improve access for freight and other traffic from the Hunter Region and Central Coast to Sydney’s industrial centres, markets and ports. As with the Pacific Highway upgrade, the arterial is expected to deliver many benefits in terms of reduced travel times and hence congestion costs and reduced vehicle operating costs.

Box 2

VICTORIA – STRATEGIC ROAD INVESTMENTS WITH HIGH BENEFIT COST RATIOS

Project: Scoresby Corridor

The Scoresby Corridor is a 40 kilometre long corridor through Melbourne’s eastern suburbs, linking Ringwood to Frankston. It has a benefit cost ratio of 5:1, which means that at a cost of close to $1 billion, Australia will receive benefits approaching $5 billion. Heavy current congestion at peak times along Springvale Road adjacent to the corridor as well as Stud road to the east will be eased substantially when the Scoresby Corridor is developed.

Project: Deer Park Bypass

The Deer Park Bypass on Melbourne’s western outskirts will provide a link from west of Deer Park on the Western Highway to the Western Ring Road at Ardeer. The expected significantly reduced travel times and hence congestion costs, combined with reduced vehicle operating costs, contribute to the $175 million project having benefits to Australia of more than $600 million (an estimated benefit cost ratio of around 3.5:1).

Box 3

**QUEENSLAND – STRATEGIC ROAD INVESTMENTS WITH HIGH BENEFIT COST RATIOS**

**Project: Ipswich Motorway**

*(Riverview to Granard Road)*

The project involves planning and construction of a six-lane upgrade between Logan Motorway-Goonda (length 3.2km), Granard Road-Logan Motorway (length 10.5km) and Goodna-Riverview (length 5.3km). Indicative preliminary cost estimates are currently in excess of $600 million; a total cost estimate is to be finalised as part of the current planning study. ($66 million provided over four years towards the Ipswich Motorway upgrade, $64 million of which was provided from *Roads to Recovery.*). The project, which has an estimated benefit cost ratio of greater than 4:1, is expected to reduce congestion and vehicle operating costs and improve safety in the movement of hazardous goods.

**Project: Barkly Highway**

*(Mt Isa-Camooweal)*

The project involves the construction of bridges and approaches at Johnson Creek, Inca Creek, Buckley River, Nowranie Creek and Wooroona Creek and widening and strengthening of existing narrow seal pavement. The indicative cost estimate to complete the Barkly Highway upgrade is of the order of $110 million-$120 million, for which $44 million only is allocated in the current federal forward estimates in 2003-04 and 2004-05. The project, which has an estimated benefit cost ratio of greater than 1.5:1, is expected to reduce vehicle operating costs and improve safety and flood immunity/reliability.

Source: RACQ 2002 and Travelmate 2002

### 3. Road Pricing and Investment Funding Issues

**The Importance of Road Pricing**

In some countries, such as Japan, a shift in freight away from roads to rail and sea transport have been precipitated (or forced) by road congestion and a recognition of the high costs imposed by heavy vehicles. In Australia, on the other hand, there has been a trend to more intensive use of heavy vehicles on the road, encouraged by a combination upgrading of the road system and underpricing of its use by these vehicles.
An effective complement to upgrading road networks would be to adjust road prices to encourage appropriate shifts among transport modes so as to optimise overall benefit to the community. Better pricing can potentially improve the efficiency of road provision and use, and help address problems of congestion in urban areas. Indeed, an appropriate pricing framework is fundamental to the success of any transport plan – without it an optimal balance of usage among transport modes will not come about. Such a pricing framework must take into account all use-related fees and charges. As stressed in the Green Paper (p 35), pricing is an important component of a strategy to develop long-term sustainable transport solutions.

There is a pressing need for Australian governments to seriously consider re-pricing of road use. The experience of the NSW Road Traffic Authority (RTA) is typical of the uphill battle being faced by traffic authorities in some of our major cities. The NSW RTA has been fighting a mostly successful but essentially rearguard action against increasing traffic volumes over the last 10 years in metropolitan Sydney. Average trip times across a number of key routes have either improved or stayed about the same in the face of a 38 per cent overall increase in traffic volumes.

These results have largely been the result of sophisticated traffic management systems, development of motorways and arterial routes in Sydney and other measures e.g. improved protocols for traffic management at incident scenes. However, in the longer run, investments in upgrading will probably not, even with more such measures, be able to keep pace without some form of variable pricing.

The Green Paper asked the question how the strategic use of technology might be fully integrated into the future transport planning system. While demand management measures underpinned by ‘Intelligent Transport Systems’ may be important elements of reforming the road network, they are not a substitute for continuing investment in road capacity but rather, a complement to it. Other technological solutions such as differential road pricing through the use of e-Tags are also potentially helpful, although issues associated with tolling (such as access, equity and likely toll driven traffic diversion) need careful consideration.

Road Users Already Pay Substantial Usage Related Charges

It must be recognised in any discussion of road pricing that users overall pay heavily now, but that there are significant distortions among groups of users, with users of light vehicles such as passenger cars paying excessive usage related charges, which are compounded by tolls on parts of the urban and inter-urban networks, while users of heavy vehicles are substantially undercharged in relation to the costs directly associated with their road usage.
Currently, charges levied by the National Road Transport Council (NRTC) on heavy vehicles (including 20 cents per litre (CPL) fuel excise net of rebates paid by these vehicles) recover $1.3 billion of the $4.6 billion of annual expenditure on roads. A fuel charge of only 7 cpl on light vehicles (or 18 percent of the current excise) would be needed to recover the remaining expenditure. This is very much lower than the current fuel excise impost of 38.1 cpl (AAA 2001).

The Green Paper also asked for views about means of achieving more efficient and effective pricing of rail and road transport services. It is difficult to consider the question of efficient pricing except in the context that investment in the relevant transport infrastructure is approaching a socially optimal level. In such a context, however, it is indeed worth considering how prices for each transport mode to different groups of users (as well as prices for competing transport services) can better reflect the marginal costs that each group of users imposes, resulting in more efficient overall usage patterns.

4. Public vs Private Investment in the Road Network: Issues

Given the wide spreading of the benefits and costs of what is a largely public road network, it is appropriate that there continue to be a substantial public role, including substantial ongoing public investment. While there are valuable benefits available from private involvement in design, construction, operation and maintenance – as summarised in the Green Paper (e.g. p 30).

Private investors are typically guided by standard financial investment decision making criteria, which attempt to internalise as much of the returns as possible, and do not give weight to wider (external) benefits or costs. The kind of wider social benefits that a pure economic analysis would identify such as less congestion and improved trip times across a total road system are not of primary importance to private firms who would usually only be interested in sections of the system. As highlighted in the Green Paper (p 27),

“Financial analysis presents higher hurdles than economic analysis by excluding benefits for organisations or groups and only considering those for the investor. Financial analysis also has to take account of corporate taxation and does not include consumers’ surplus gains, which can make an important difference for large lumpy investments.”

For example, the costs of road maintenance have fallen by more than 15 per cent where it has been contracted out to the private sector. The evidence is less conclusive, however, regarding the benefits of private investment in roads and such investment should be examined on a case-by-case basis (BTCE 1996). Placing in private ownership and control of roads that are key links in an overwhelmingly public network is an entirely different undertaking to contracting out design, construction, operation and maintenance.
Each road is part of the overall network and does not operate in isolation – improving the connections in this network is demonstrably beneficial, aided by appropriate incentives. Adding tolled private roads to the network can introduce undesirable distortions/incentives, particularly where the benefits of the roads in question are widely shared – leading to an overall suboptimal outcome. There are, however, limited roles for private tollways where an economically warranted premium (i.e. a toll which does not exceed the value of the premium service offered by the tollway over unconstrained nearly alternatives) can fund appropriate commercial investment returns.

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

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

The grounds for such a conclusion are broadly as follows:

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

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

- A substantial component of public debt finance which can be affordably funded within these annual budget constraints is indeed an ideal way to match the flow of benefits over time with the flow of revenues over time.
The AusLink Green Paper seeks views on how an increase in land transport infrastructure spending should be paid for, e.g. what would be the advantages and disadvantages of a levy on road users. There are, as discussed above already heavy road user charges in place, albeit that their pattern is very distorted, with motorists paying too much and heavy vehicle users too little. Other than in the very congested parts of the network, where in the longer run some supplementary pricing mechanisms may be appropriate, there is not a strong case for further levies. Rather, there is a case for funding the accruing costs of increased public road investments out of general public revenues – given how widely the benefits are shared in the community.

**References**


ABS 5204.0, *Australian National Accounts*.


RACV 2002a, unpublished estimates.

