AUSTRALIAN LOCAL GOVERNMENT ASSOCIATION

Submission to the Productivity Commission on the Discussion Draft of Road and Freight Infrastructure Pricing

October 2006

Introduction

ALGA welcomes the opportunity to comment on the Productivity Commission's Discussion Draft on Road and Rail Freight Infrastructure Pricing.

As ALGA indicated in its original submission the debate from a local government perspective about pricing road and rail and their market shares is somewhat academic. Freight that moves interstate or for long interregional distances will travel largely on roads or rail tracks that are not the responsibility of local government. Local government's interest in this part of the journey is limited to the general one of achieving the greatest possible efficiency for the economy as a whole.

What is of specific interest to local government is the access to and from the final destination - so called "final mile" - which in the vast majority of cases would be on a local road irrespective of the mode used for the interstate or interregional portion of the journey.

Cost Attributions

ALGA is disappointed to see that the Productivity Commission (PC) in its Discussion Draft, has accepted the National Transport Commission (NTC) methodology of excluding road expenditure for local access estimated to total $2.9 billion annually. Although ALGA has not agreed with the NTC logic that local access is not for motorised use and is therefore excluded from the calculation of road charges, it has been tolerated, because it is only applied in the limited context of the calculation of Heavy Vehicle charges. Under the current model there is no nexus between the road use charge and funding of the road system

The model that, the PC has proposed in the Discussion Draft, establishes a direct nexus between charges for road usage and road funding. The dismissal by the PC of expenditure on the local road system effectively excludes over 600,000 kilometres of road, or about 80% of the road system and an estimated 19 % of the kilometres travelled by vehicles over 4.5 tonnes gross vehicle mass and 28% of travel by all commercial vehicles.

The PC gives no reason why such a significant part of the road freight task and road system is "appropriately recovered through local rates and developer charges" in its model for directly linking road usage to road funding.

The Discussion Draft recognises a number of very significant policy and technical difficulties in establishing a road user charge system and, in ALGA's view, appropriately urges caution in the development of such a system. One issue however, that is not recognised by the PC and which stems from the suggestion that local access be funded from rates and developer charges is how to exclude the collection of road user charges for those roads that provide local access. Alternatively, if road user charges for these roads are not excluded there would effectively be a cross subsidization from local roads to the arterial roads unless funding was made available to councils from road access revenue.

ALGA is very concerned at the implication's for local government and the local road system of the direction PC seems to be taking this debate on road charging and road funding i.e. freight vehicles would be charged for the use of the local road system but none of the revenue would be returned to local government, the owners and managers, of the local road asset.

ALGA notes that the New Zealand example of a Road Fund model, that appears to have influenced the Commission's thinking, covers the full road system, including the local roads system, and not just a subset of roads as appears to be the case for the proposal being put forward by the Commission.

The model being proposed is unfair and would require significant complexity in implementation and administration to exclude the local road system from the application of road user charges.

The example of the impact of the closure of grain lines was raised in ALGA's original submission. The closure of these rail lines is leading to increased volumes of grain being moved on road over longer distances to silos. Under the model in the Discussion Draft councils would have to rely on rate revenue to recover these additional costs imposed on the local road system.

In ALGA's view the Commission's approach is not consistent with its own principle of more closely linking road usage to charges and to road funding. ALGA also notes that in states with rate capping councils would not be able to raise rates to cover these costs even if it was politically feasible.

ALGA repeats the position set out in its original submission that it is reasonable for local government to receive revenues that bear a direct relationship to road costs, usage and revenues associated with the local road system.

Externalities

ALGA is concerned at the approach the PC has taken in relation to externalities.

The Commission appears to be saying that some externalities e.g. accident cost can be internalized through insurance but that it is too difficult to estimate the cost of other externalities and dismisses them by recommending further work to more accurately determine these costs.

The PC seems to accept that the impact of externalities such as safety, noise, vibrations and emissions falls predominantly on local communities. As ALGA noted in its original submission local communities become disillusioned with economic efficiency if this is at the expense of the amenity of their lives and that of their children.

ALGA recognises the difficulty of putting dollar values on externalities however it considers that it is the central role of Governments to make those judgments even where accurate costing are not available. All three spheres of government are making these types of judgments on daily basis. For the Commission to dismiss this issue in the way it has is inadequate.

ALGA urges the PC to reconsider its position on externalities and explicitly take them into account when making its final recommendations.

Road Pricing

ALGA broadly supports an approach that more closely links cost of transport infrastructure provision with economic charges. However ALGA also is strongly of the view that there must be recognition of the need for moderation of full cost recovery policies for remote and regional communities and industries.

Full cost recovery has the potential to lead to perverse results of adversely impacting on regional economies because the higher road access charges that result from lower traffic volumes to pay for the infrastructure. There is also the potential that investment would be skewed to those areas with the densest traffic i.e. capital city regions at the expense of the regions.

The Discussion Draft recognises this and suggests direct payments by government as community service obligations (CSO) is a method to offset the strong skewing that would result from a purely economic distribution of investment funds. The Discussion Draft however remains silent on how the CSO's might operate. Consideration should be given in the final report to the size of a CSO and importantly how it might operate.

Road Fund

The concept of the Road Fund appears to stem from the assertion that the current process for the allocating of road funds is highly politicized and not transparent resulting in inappropriate investment decisions. The Discussion Draft quotes from various submissions that generally assert a misallocation of funding although it does not give any examples. A few examples of the inappropriate allocation of funding would bolster the argument significantly when Governments consider the report.

The PC then goes onto develop models for the allocation funding based on a more commercial approach that links road usage to investment.

ALGA is strongly of the view that investment in transport infrastructure must be based on sound economic analysis but also needs to take into account non economic considerations or there is a strong risk that investment would be skewed to the most densely populated areas of the nation at the expense regional Australia.

The Productivity Commission has recognised in the Discussion Draft that there is a need for a mechanism to redistribute funding from the most heavily trafficked sections of the road system to less trafficked routes. ALGA would like the argument to be developed and to be clearer in its final report on how this might be implemented.

Conclusion

ALGA recognises that road/rail pricing has been a vexed issue for a long time.

The Discussion Draft comes to a number of logical conclusions and recommendations that make road charges more like a price, and link revenue from access charges to investment. It also recognises the very considerable technical, institutional and constitutional issues that need to be addressed for a system to directly link payment for road usage to investment.

The Discussion Draft urges caution in implementing a number of technical initiatives on road charging as these have the potential to be extremely costly to develop on an Australia wide basis even if technically feasible. ALGA agrees with this caution.

In summary, ALGA while supportive in principle of the paradigm that the Productivity Commission has developed that directly links road usage to road funding and the allocation of funds has number of concerns with the implementation that stem from:

- the inadequate recognition of importance of local roads in the overall transport task which has the effect of excluding local government from the proposed road pricing/investment paradigm;
- the treatment of externalities;
- the potential impact on regional Australia if non economic factors are not taken into account in making funding decisions.