LOCAL GOVERNMENT ASSOCIATION OF QUEENSLAND (INC.)

SUBMISSION

TO

PRODUCTIVITY COMMISSION DISCUSSION DRAFT

REVIEW OF ECONOMIC COSTS OF FREIGHT INFRASTRUCTURE AND EFFICIENT APPROACHES TO TRANSPORT PRICING

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1. Background

This submission has been prepared by the Local Government Association of Queensland (LGAQ) in response to the Productivity Commission Discussion Draft of the above Review.

The submission comments on a number of the findings presented in the Discussion Draft, and in particular addresses the Productivity Commission request for further comments on the establishment of a Roads Fund.

Our initial submission noted that funding mechanisms should be an important element of the outcomes of this Inquiry including mechanisms that would allow Local Government to receive appropriate revenue from road transport user charges related to use of the local road network. The Road Fund proposals are a way in which this could be addressed.

2. Overview

The purpose of the Review was to assist COAG to implement efficient pricing of road and rail freight infrastructure through consistent and competitively neutral pricing regimes, in a manner that optimises efficiency and productivity in the freight transport task and maximises net benefits to the community. Following are some general comments on key issues raised by the Discussion Draft.

2.1. Cost Recovery

The Discussion Draft has found that road user charge revenues from heavy vehicles more than cover their attributable infrastructure costs and just cover their fully allocated cost. However, following rejection of the Third NTC Determination, cost recovery is unlikely to be maintained if road expenditure continues to rise with no increase in charges.

This is an interesting conclusion in that it appears to suggest that the fuel excise paid by heavy vehicles (after rebate) is fully hypothecated to road funding. This is based on estimates that heavy vehicles currently pay some $1.7 billion in road costs (of which $1.1 billion is fuel excise) towards an estimated cost (including common and attributable costs) of $1.7 billion.

This may be consistent with the way the NTC treats the fuel excise but inconsistent with the way in which the government treats overall fuel excise revenue. The government has always rejected hypothecation of fuel excise to road funding but for the heavy transport industry appears to take a different approach.

Perhaps the report needs to better highlight the fact that, if heavy vehicles are just covering their costs, then light vehicles are paying around twice their cost!

This issue further highlights the need for road related revenue to be hypothecated to some form of road fund as discussed later in this submission.

The report also notes that there is no compelling evidence to support the contention that road freight is subsidised relative to rail, on either the inter-capital corridors or in regional areas. However, the Commission has also concluded that it appears both road and rail freight transported in regional areas are subsidised to a significant degree.

While the Commission believes that heavy vehicles cover their attributable costs, significant cross-subsidies exist within truck classes by distance traveled and load. This appears to be particularly the case for B-doubles in terms of under-recovery of costs.

2.2. Locational Impacts and Charges

As noted in our initial submission to the Inquiry, there is a clear need for proposals to identify impacts at a disaggregated level, particularly from a locational perspective.

For example, there is potential for location-based charging to have adverse impacts on many rural and remote communities as a result of increases in freight costs. As the report notes, most rural and regional areas have only limited, if any, access to the rail network. Therefore the ability to mitigate the increased transport costs is limited.

A movement away from the current approach of average prices across road types and within vehicle classes is likely to result in a considerable price decreases in transport for some locations and considerable increases in others – particularly in rural and remote locations.

The Commission has addressed these issues in comments on possible reform proposals. Direct payments by governments to support access to remote and regional communities (CSO payments) are noted as one approach to overcome social and economic impacts on rural and remote communities. The report notes that explicit CSO payments for road access would be superior to the current approach which does not allow easy scrutiny of road expenditure undertaken on social rather than economic grounds.

The report discusses issues surrounding location-based charging by vehicle type. The key issue for Local Government is that the revenues obtained from any improved heavy vehicle pricing structure based on the mass-distance approach would need to find their way back to the responsible Local Governments in proportion to the impacts.

The comment by the Commission that introduction of simple mass–distance charges solely to remove one of many levels of averaging in the current system may not justify the costs (and possible distributional effects) is supported. This is particularly so given the Commission view that existing fuel taxes are administratively simple and cheap and are themselves related (although imperfectly) to distance traveled.

The fact that such systems could cost more than 10% of revenue raised is a particular concern, as is the potentially higher charges for rural and remote locations without any clear path for this revenue to go back to fund road needs in these locations.

If coupled with a Road Fund and improved institutional arrangements for funding distribution based on needs, then these systems may have merit in the longer term.

2.3. Externalities

The LGAQ initial submission noted that consideration of external costs is also important. These externalities include environmental impacts (noise, dust, fumes, greenhouse gases), safety and health issues and congestion costs. These are key concerns in major urban areas (eg in the Brisbane Urban Corridor) where significant freight movement take place.

The report notes that externality costs of road and rail freight and passenger transport are both significant and diverse and, in many cases, are highly time and location specific.

However, the Commission argues that a general externalities charge for freight transport would be a costly policy because it would not recognise the diverse nature of transport externalities, nor provide incentives for achieving efficient levels of abatement of externalities.

The report suggests that further research into transport externalities in Australia is required to assist the introduction of the most cost-effective policies for attaining efficient abatement of external costs. It has been recommended that BTRE undertake this research.

LGAQ supports further research but believes that more than just regulatory measures are required to adequately compensate for externalities in some corridors. It is noted that some of the research work noted above is currently being undertaken by BTRE as part of the COAG agenda.

3. A Road Fund

The report puts considerable emphasis on the need for institutional reform particularly in relation to funding.

The report discusses a number of options. These include:-

1. *A Departmental model,* (similar to what currently exists) with hypothecation of road revenue*;*
2. *A Dedicated Road Fund* with devolution of responsibility for management and funding of roads to an autonomous road fund manager/agency;
3. *A Public Utility model* which involves the commercial operation of publicly owned roads;
4. *A Privatised model* with full private ownership and management of at least parts of the road.

LGAQ fully supports the need for institutional reform and considers that a model along the lines of a dedicated Road Fund (as exists in NZ) would be an appropriate direction.

Maintaining the current departmental approach even with hypothecation is not favoured. LGAQ considers that the current allocation of AusLink funds, for example, is not based on needs, and Queensland with its rapid population growth (and consequent rapid growth in the freight task) is not being adequately funded.

The key elements of the Road Fund model identified in the report include:-

- Revenues from road related taxes and charges dedicated to road expenditure;
- Funds deposited in a separate stand-alone fund, rather than consolidated revenue;
- Road expenditure largely or fully funded by road users;
- Governance according to a corporate structure, at arms-length from Government,
- Allocation of road funds by the board according to pre-specified assessment criteria;
- Road works undertaken by separate road agencies and Local Governments;
- Oversight to ensure effective delivery of road projects and accountability of road agencies.

The hypothecation of road related revenue (fuel excise and registration charges) to roads is an essential component of the proposed Road Fund model. LGAQ supports hypothecation of fuel excise to such a fund (either in whole or in part).

It is unlikely that State Governments would agree to registration charges being placed in such a national fund and then distributed based on overall national priorities. However, a condition of hypothecation of fuel excise into a national Road Fund could be that similar Road Funds are established at State level with road related revenue hypothecated to these funds.

There would also need to be agreement on what aspects of the road network would be addressed by the national fund relative to what would be addressed through State funds.

As the report notes, because roads are provided jointly for heavy and light vehicles, the Road Fund would need to receive revenue from fuel excise on both heavy and light vehicles, to ensure adequate road funds were available in total.

The report poses the question - *What proportion of fuel tax would go to the Road Fund*?

At present, the Commonwealth Government allocates only around $2.5 billion annually to road projects across Australia (see Table 3.1). Compared with this, excise from fuel used by on-road motor vehicles raises around $11 billion each year.

Table 3.1: Commonwealth Funding for Roads

Funding	2004-05 $m	2005-06 $m	2006-07 $m	2007-08 $m	2008-09 $m
Auslink	$1,265	$1,225	$1,562	$1,732	$1,635
Roads to Recovery	$259	$341	$343	$330	$330
Black Spots	$45	$45	$45	$45	$0
Other	$113	$59	$65	$56	$56
Identified Roads Grant	$473	$500	$520	$535	$555
Total	**$2,155**	**$2,170**	**$2,535**	**$2,698**	**$2,576**

Source ALGA Fact Sheet 3, Road Funding

It is probably unrealistic to expect that the Commonwealth would allocate 100% of fuel excise to a Road Fund, but it is very difficult to quantify what lower proportion would be appropriate apart from noting that it should result in more significant funding than is currently provided. .

Local Government and motoring groups have been arguing for many years that the Commonwealth should substantially increase its funding to roads given the amount of revenue received from motorists, and in recognition of the significant unmet needs in terms of quality road infrastructure across Australia.

It is hoped that the outcomes from this Inquiry can lead to changes in the way fuel excise is collected and redistributed.