Victorian Government Submission on the Productivity Commission Discussion Draft *Road and Rail Freight Infrastructure Pricing*

The Victorian Government recognises the significant amount of work done by the Productivity Commission on road and rail pricing in such a relatively short timeframe and believes that the report has substantially addressed the issues raised in the first Victorian Government submission.

The Victorian Government notes the Productivity Commission's finding with respect to competitive neutrality between road and rail freight and cost recovery and looks forward to the final report following public consultation and hearings.

This short submission responds in particular to the Productivity Commission's request to consider a potential Roads Fund. It discusses the arguments for the Roads Fund and outlines a potential option for its operation should the Productivity Commission still recommend its introduction in its Final Report. The submission also makes comment on Community Service Obligations and possible future investigations.

The Commission found that, following the rejection of the Third Determination, cost recovery is unlikely to be maintained if road expenditure continues to rise with no increase in charges.

The Victorian Government believes that the Commission should try, to the extent possible, to seek updated data on road expenditure to illustrate the extent to which costs are not being recovered and the extent of the gap that will likely develop over the next few years should a new determination not be made.

The Roads Fund

As noted in the Discussion Draft, current heavy vehicle charges are based on reflective cost-recovery rather than forward looking access charges to the road network. The Discussion Draft recognises that the ability to recover the capital costs in the period in which it is incurred has the potential to lead to inefficient investment decisions.

The Discussion Draft does not examine whether inefficient investment decisions are actually made. In Victoria, road and rail infrastructure investment decisions by the State Government are made using a three-stage project appraisal process that is consistent with the National Guidelines for Transport System Management.[1] The first stage involves the assessment of potential projects in terms of their strategic alignment with Government objectives and performance indicators. These objectives are stated in documents such as *Growing Victoria Together*, *Linking Melbourne: Metropolitan Transport Plan*, *Meeting Our Transport Challenges*, and the Corporate Plans of the Department of Infrastructure and VicRoads. The second stage assesses project options and the third stage examines a detailed business case that includes a cost-benefit analysis.

[1] These Guidelines serve as a resource for jurisdictions in the appraisal of all significant transport projects across all modes.

The Victorian Government believes that the Productivity Commission should consider the concept of a Roads Fund in the context of AusLink. As noted in the Discussion Draft, AusLink is the Commonwealth's current approach to investing in land transport infrastructure. It seeks to provide an integrated approach to investing in land transport through considering investment in more than one mode and through a better alignment with the transport strategies of the States and Territories.

As the proposed Roads Fund would allocate revenue to road infrastructure only, it fails to recognise the interrelationships between transport modes. Any institutional arrangements should recognise both the integrated nature of transport networks and the regional strategies of the States and Territories.

The Victorian Government believes that the Productivity Commission should further examine the arguments underlying the call for a Roads Fund. It is concerned that the Discussion Draft concentrates on the institutional settings around pricing and investment rather than the objectives and principles of efficient pricing and investment. The focus on the institutional settings detracts from consideration of these core pricing and investment issues.

Roads Fund – A potential Option

At this stage, the Victorian Government agrees with the Productivity Commission that a Roads Fund should be further examined but reserves its support pending further examination of the impact on the overall level of road funding and the distribution mechanism. In the event that the Productivity Commission recommends the introduction of a Roads Fund, the Victorian Government offers the following option for allocating road funds.

One of the key advantages of AusLink is the commitment by the Commonwealth to a five-year funding stream to the States and Territories. This allows jurisdictions to undertake more comprehensive network planning and development than occurred under the previous annual funding approach. However, AusLink lacks transparency in its allocation of funds between jurisdictions. Victoria has long argued that its allocation of Commonwealth transport funding does not meet its contribution to the national economy. This is highlighted by the BTRE Working Paper *State Spending on Roads* which indicates that for the years 1996/97 to 2001/02 Victoria received approximately 18 percent of road funding available from the Commonwealth, significantly below Victoria's contribution to GDP of approximately 25 percent and Victoria's share of tonne-kilometres travelled of approximately 23 percent.

Given the respective roles of the Commonwealth and States in road revenue collection and road expenditure, the issue of how funds would be allocated by a Road Fund requires further consideration by the Commission.

In this context, the Victorian Government notes that the Commonwealth Government currently receives around two-thirds of revenue from heavy vehicle charges through diesel fuel excise, while the States receive only one-third of revenue through registration charges. Local Governments currently receive no revenue from road pricing.

As noted in the Discussion Draft, Fund allocation options include setting shares amongst jurisdictions based on a formula-based system, such as population or total tonne kilometres travelled by freight vehicles, or a cost-benefit approach whereby funds are allocated to road projects with the greatest net benefits.

The Victorian Government believes that unless jurisdictions are allocated funding, based on a simple formula-based system, there is little likelihood of jurisdictional support for a Roads Fund. Total tonne kilometres travelled by freight vehicles could provide a practical unit of measurement by which a jurisdiction's share of road funding could be set. Not only is data readily available through the Australian Bureau of Statistics[2], the measure is directly related to the amount of travel and road wear by freight vehicles within each jurisdiction.

However, once allocations have been determined, projects within jurisdictions should be chosen to maximise returns to the community. A key requirement will be ensuring that the investment process has clear objectives and operates transparently.

Community Service Obligations

The Victorian Government recognises that all jurisdictions invest in road and rail transport to meet community service obligations (CSOs), be these to address passenger network issues or to provide access to remote and regional communities. Where these CSOs occur, the Victorian Government supports CSOs being delivered in a transparent manner and consequently removed from the cost base for setting road and rail charges. This approach is consistent with the Victorian rail access regime.

Future Investigations

The timeframe for the review of road and rail infrastructure pricing provided limited opportunities to examine the costs and benefits of the introduction of alternative road pricing mechanisms. The Victorian Government notes the finding 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 …*

This finding indicates the need to undertake further work to develop business cases for alternative pricing mechanisms. The Victorian Government accepts that the Productivity Commission may be unable to undertake this analysis prior to submitting the report to COAG in December. The Victorian Government would welcome recommendations from the Productivity Commission outlining further streams of work that need to be undertaken in the areas of road and rail pricing resulting in greater efficiency in the use of, and investment in, such infrastructure.

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[2] Catalogue number 9208.0.