WESTERN AUSTRALIAN
LOCAL GOVERNMENT ASSOCIATION

SUBMISSION

PRODUCTIVITY COMMISSION DISCUSSION DRAFT ON ROAD & RAIL FREIGHT INFRASTRUCTURE PRICING

NOVEMBER 2006

SUBMISSION TO PRODUCTIVITY COMMISSION'S DISCUSSION DRAFT ON ROAD & RAIL FREIGHT INFRASTRUCTURE PRICING

1. INTRODUCTION

The WA Local Government Association is the peak body for the 142 Councils in Western Australia as well as the Shires of Cocos Keeling Islands and Christmas Island. One of the key roles of the Association is to represent the interests of all Councils in WA and it is on this basis that the Association makes a further submission to the Productivity Commission's Inquiry into Road and Rail Freight Infrastructure Pricing.

While the Discussion Draft produced by the Productivity Commission focuses on a broad range of issues related to the pricing of road and rail freight infrastructure, the Association's submission predominately focuses on the issues of cost attributions, road freight externalities, road pricing and the Road Fund which are of greatest interest to Local Government.

According to the Main Roads WA Regional Road Digest for 2003/04 there are approximately 148,000 of public roads in Western Australia broken into the following categories:

National Highways	4,860 kms
State Roads	13,060 kms
Local Government Roads	130,614 kms

From this table it can be established that Local Government in Western Australia is responsible for managing 88% of the public road network in this State.

2. COST ATTRIBUTIONS

The general thrust of the Productivity Commission's Discussion Draft in relation to road freight pricing draws a strong link between road user charges and road funding. It is therefore of considerable concern to the Association that the Commission has accepted the National Transport Commission's methodology of excluding road expenditure for local road access estimated to total $2.9bn annually when this expenditure demonstrates considerable usage of the local road network by all traffic, including heavy vehicles.

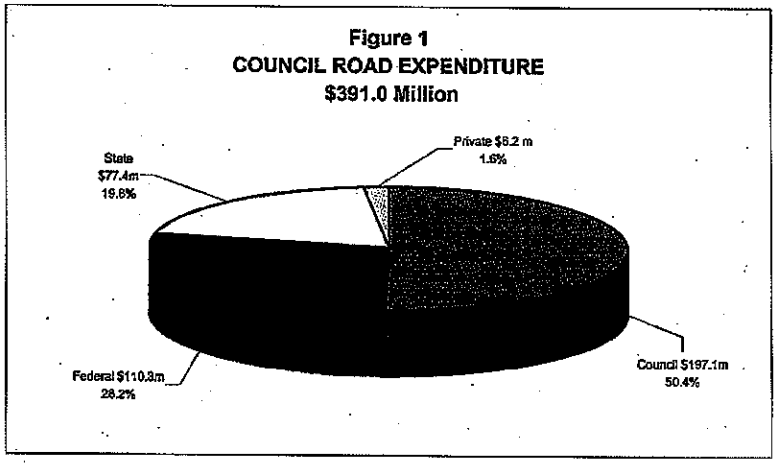
In July 2006, Main Roads WA moved to a system of establishing a network for Class 2/3 vehicles (including b-doubles, pocket road trains and double road trains) for which 3 year permits can be issued for these classes of vehicles using a series of defined road networks. The following table, sourced from Main Roads WA indicates that on average across the State at least 31.5% of the roads managed by Local Governments have to be at a standard that can accommodate heavy vehicles.

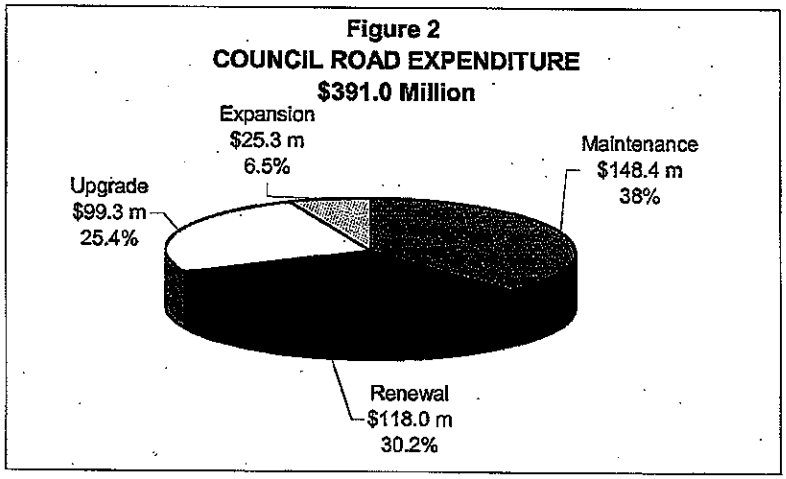
Table 1: **Extent of Access for Restricted Access Vehicles on Local Government Roads at October 2006**

Total Length of Local Government Roads	129 000 kms	100.0%
Network 2 - B-Doubles (27.5m)	48 400 kms	37.6%
Network 3 - Pocket Road Trains (27.5m)	40 600 kms	31.5%
Network 5 - Double Road Trains (36.5m)	32 700 kms	25.4%

While this table represents the percentage of Local Government roads that form part of the Class 2/3 permit network for heavy vehicles as at October 2006, this percentage is estimated to increase over the coming months as additional roads are assessed and added to the network.

The 2004/05 Local Government Road Assets and Expenditure Report indicates that a total of $391m was expended on local roads in this year. The following two figures provide an indication of the sources of the expenditure and how the investment in the local road network was made.





While the expenditure on local roads is substantial, the amount that is currently being spent by Councils is estimated in 2004/05 to be $86m short of the funding needed just to retain the local road network in its current condition. This does not take account of the widespread predictions of the doubling of the freight task and the impacts of the standard required for the local road network nor does it take account of investment decisions (or lack thereof) by infrastructure providers for alternatives forms of transport such as rail.

In WA a study is currently being undertaken through the Grains Infrastructure Group to determine a strategic grain freight network. This study may recommend rationalisation of the narrow gauge rail network if the multi-millions of dollars of investment required for maintaining the current rail network cannot be found. Any closure of rail infrastructure for bulk commodities such as grain will have a significant on both the State and local road network in WA.

Of greater concern to the Association than the exclusion of local road expenditure from the heavy vehicle pricing regime (with the potential flow on exclusion of local roads to the funding generated by the charging regime) is the assertion by the Productivity Commission that *"local access costs, in most cases, are more appropriately recovered through local council rates and developer charges than through the heavy vehicle charging system"*.

This assertion by the Commission appears to be completely without reason and the following comparisons highlight the inaccuracies of this assertion by showing:

- The relatively large portion of the maintenance costs borne by Local Government;
- The maintenance costs per person in a region;
- The maintenance burden on individual ratepayers for a selection of Councils; and
- The relative usage and relative maintenance burden between the different spheres of Government.

The relative burden of maintaining the road system is displayed in Table 2 which compares the relative maintenance costs for the Federal, State and Local Governments in WA's regions. This comparison is provided only for the sealed road network.

Table 2: Cost of Maintaining the Road Network

	Costs			
Region	Federal	State	Local	LG % Burden
Gascoyne Region	$ -	$ 3,667,570	$ 1,227,438	25.1%
Goldfields-Esperance Region	$ 2,384,220	$ 2,699,430	$ 3,372,510	39.9%
Great Southern Region	$ -	$ 3,812,426	$ 6,193,357	61.9%
Kimberley Region	$ 4,988,907	$ 2,730,299	$ 1,421,959	15.6%
Metropolitan Region	$ 940,836	$ 8,887,086	$ 141,087,258	93.5%
Mid-West Region	$ 2,765,592	$ 15,217,248	$ 7,582,656	29.7%
Pilbara Region	$ 2,300,064	$ 7,534,184	$ 2,178,426	18.1%
South West Region	$ -	$ 5,385,760	$ 16,839,520	75.8%
Wheatbelt North Region	$ 2,122,884	$ 4,067,238	$ 18,800,832	75.2%
Wheatbelt South Region	$ -	$ 3,800,191	$ 8,402,998	68.9%

This is a substantive amount when considered on a per/head of population for each of the areas as described in Table 3 (it is important to note the large difference between population and ratepayers with the latter being used in Table 3).

Table 3: Maintenance Cost per Person[1]

Region	Cost per person
Gascoyne Region	$ 76.66
Goldfields-Esperance Region	$ 59.95
Great Southern Region	$ 119.38
Kimberley Region	$ 33.88
Metropolitan Region	$ 105.29
Mid-West Region	$ 152.51
Pilbara Region	$ 50.96
South West Region	$ 92.56
Wheatbelt North Region	$ 401.98
Wheatbelt South Region	$ 376.04

The circumstances and situations of Local Governments are very diverse and when these are taken into account results change considerably. Table 4 describes the per ratepayer cost of maintaining the sealed road network in a number of Local Governments.

Table 4: Maintenance Cost per Ratepayer[2]

Region	Council	Maintenance Cost Per Ratepayer
Gascoyne Region	Exmouth (S)	$ 98.8
Goldfields-Esperance Region	Kalgoorlie/Boulder (C)	$ 17.1
Great Southern Region	Denmark (S)	$ 368.7
Kimberley Region	Derby-West Kimberley (S)	$ 304.5
Metropolitan Region	Swan (C)	$ 607.5
Mid-West Region	Greenough (S)	$ 878.2
Pilbara Region	Port Hedland (T)	$ 23.5
South West Region	Busselton (S)	$ 293.5
Wheatbelt North Region	Toodyay (S)	$ 412.4
Wheatbelt South Region	Lake Grace (S)	$ 583.3

Table 4 highlights the incredible disparity that exists for ratepayers in maintaining the road network. It is unreasonable to presume that local ratepayers bear an equal portion of the cost for maintaining the road network across a State as vast as Western Australia.

The following table compares the funding burden for the various road networks borne by each sphere of Government with the amount of heavy haulage that occurs on each network. It needs to be borne in mind that since this data was last collected 7 years ago, the freight task on local roads has increased considerably in line with the general increases to freight being experienced across all modes of land transport.

[1] The population figures are conservative estimates that use the ABS 2001 census data.

[2] The number of ratepayers is estimated using the number of electors from the Council Statistics 2004-05 as a proxy. The percentage of the regions maintenance costs attributed to an individual Council was approximated by the percentage of population the represented from the region compared with the maintenance costs for that region.

Table 5: Funding Burden Compared with Heavy Haulage Burden

	Costs			Relative Usage[3]		
Region	Federal	State	Local	Federal	State	Local
Gascoyne Region	$ -	$ 3,667,570	$ 1,227,438	0.0%	97.3%	2.7%
Goldfields-Esperance Region	$ 2,384,220	$ 2,699,430	$ 3,372,510	46.9%	38.4%	14.7%
Great Southern Region	$ -	$ 3,812,426	$ 6,193,357	0.0%	77.3%	22.7%
Kimberley Region	$ 4,988,907	$ 2,730,299	$ 1,421,959	59.5%	19.9%	20.6%
Metropolitan Region	$ 940,836	$ 8,887,086	$ 141,087,258	6.0%	64.1%	29.9%
Mid-West Region	$ 2,765,592	$ 15,217,248	$ 7,582,656	18.7%	68.3%	13.1%
Pilbara Region	$ 2,300,064	$ 7,534,184	$ 2,178,426	26.5%	57.5%	15.9%
South West Region	$ -	$ 5,385,760	$ 16,839,520	0.0%	73.7%	26.3%
Wheatbelt North Region	$ 2,122,884	$ 4,067,238	$ 18,800,832	47.3%	34.0%	18.7%
Wheatbelt South Region	$ -	$ 3,800,191	$ 8,402,998	0.0%	62.8%	37.2%

The fact remains that in WA, based on the extent of the period permit network and the tonnages per kilometre data, at least 30% of the local road network is required to be at a standard to accommodate heavy vehicles. It is simply not feasible (nor indeed equitable) for all of the funding for this usage to be drawn from the contributions of local ratepayers particularly given that it is highly likely that studies into traffic flows will demonstrate a large proportion of this usage will be through traffic that provides not direct economic return to the local community.

If heavy vehicles are being charged for usage of this network (and it is possible that this is in fact occurring given that the current heavy vehicle charging regime does not distinguish on which road managers network trucks are operating), then the Association strongly maintains that the revenue generated from the use of the local road network should be accessible by Local Government.

As a starting point, the Productivity Commission should recommend that a body of work be undertaken to ascertain the level of heavy vehicle usage of the local road network so that this can be considered when determining road costs, usage and the return of revenue to the appropriate road infrastructure manager.

[3] The relative usage is approximated with a comparison of the million tonnage kilometres travelled that was last reported in 1998/99 by Main Roads WA.

3. ROAD FREIGHT EXTERNALITIES

The Productivity Commission appears to accept that the impact of externalities such as safety, noise, vibrations and emissions fall predominately on local communities however then appears to unable to recommend a way forward for charging for these externalities. While recognising that improving the productivity of freight delivers economic benefits, local community members may not recognise these benefits if they are at the expense of their safety and amenity in their daily lives.

The Association maintains that because of the impact that these externalities have on local communities, the Productivity Commission needs to determine the most appropriate methods of properly accounting for externalities and internalising these costs.

As highlighted in our previous submission to the Inquiry, a possible mechanism is through incorporating these costs into road freight infrastructure pricing based as far as possible on actual road use in terms of the allocative efficiency principle.

Further, because the impacts of externalities such as congestion, crashes, noxious emissions, greenhouse gas emissions, noise, amenity costs and road damage are primarily felt by Local Governments and their communities, revenues derived from road freight pricing, including externalities, should be allocated to this sphere of Government where permitted.

The provision of access to this funding by Local Government will assist in putting in place the mitigation measures being demanded by local communities. In Western Australia, as with other States and Territories there is increasing pressure on designated freight networks by community members who live in proximity to the networks. In order to maintain the balance between the economic need for the freight networks and the quality of life of surrounding residents, road infrastructure managers are facing increased expectations by the community in relation to mitigation measures particularly for noise and emissions. These mitigation measures come at a significant cost and the Association maintains the revenue generated from the inclusion of externalities into road pricing should be made available to Local Governments as managers of 80% of the local road network Australia-wide.

4. ROAD PRICING

The Association broadly supports the principle of heavy vehicle charging as it relates to the cost for the provision of road infrastructure. With a State as vast as Western Australia with many rural and remote communities that require servicing by road transport, there is recognition however that there is a need for moderation of full cost recovery policies for remote and rural communities and their industries.

Full cost recovery has the potential to lead to adversely impact on rural economies because of the higher road access charges that result from lower traffic volumes to pay for the transport infrastructure. There is also the potential to price road access out of the reach of rural and remote communities which could result in a reduction in the vital goods and services required to maintain these communities. This is a situation that would be unacceptable to rural and remote Local Governments and the communities they represent.

While the Discussion Draft recognises this situation and suggests direct payments by Government as a community service obligation (CSO) as a method of offsetting the strong skewing that would result from a purely economic distribution of investment funds, it remains silent on how the CSO might operate. In order to provide assurances to rural and remote communities that these CSO's will have the necessary

effect, the Productivity Commission needs to provide further detail in the Final Report on the magnitude of the CSO's and how they will operate.

5. ROAD FUND

The Productivity Commission has flagged a range of options for allocating funding based on a more commercial approach that links road usage to infrastructure investment.

One of the concepts outlined in the Discussion Draft is the Road Fund model and while the example refers to the model used in New Zealand which provides funding for the total road system, the proposal put forward by the Productivity Commission appears to exclude local roads from the Fund. This is based on the previous assertion by the Productivity Commission that local roads can be sufficiently funded from the rate base and developer contributions.

As highlighted in section 2 of this submission, the reality is that the cost of maintaining and enhancing the local road network is beyond the capacity of the rate base of a significant number of communities and as such the Association strongly advocates that the Road Fund proposal should provide for investment in local roads, particularly those that endure significant use by heavy vehicles.

As a minimum the Association advocates that those local roads that are included on the heavy vehicle permit networks in WA (which is approximately 31.5% of local road network) should be able to receive investment through the proposed Road Fund.

While the Productivity Commission has recognised that there is a need for a mechanism to redistribute funding from the most heavily trafficked sections of the road network to less trafficked routes, further detail on this mechanism is needed to determine if it will have the desired effect.

The use of the heavy vehicle permit network in WA as a means of determining the investment in local road infrastructure from the Road Fund would ensure that rural and remote communities that rely heavily on road transport would benefit from a return of the revenues from heavy vehicle charging as well as the more densely populated areas of Australia. This is one option that the Productivity Commission could consider at least from a local road perspective for ensuring that investment in road infrastructure is available to all parts of the nation.

6. CONCLUSION

In summary, while the WA Local Government Association is supportive of the paradigm that the Productivity Commission has developed that directly links road usage to road funding there are a number of concerns that require addressing in the Final Report:

- The inadequate recognition of the 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 rural and remote communities if non-economic factors are not taken into account when making investment decisions for transport infrastructure.