

**RESPONSE OF THE FEDERAL GOVERNMENT TO**

**REPORTS OF THE HOUSE OF REPRESENTATIVES STANDING  
COMMITTEE ON COMMUNICATIONS, TRANSPORT AND  
MICROECONOMIC REFORM**

*'PLANNING NOT PATCHING' AND 'TRACKING AUSTRALIA'*

**REPORT OF THE RAIL PROJECTS TASKFORCE**

*'REVITALISING RAIL'*

**REPORT OF THE PRODUCTIVITY COMMISSION**

*'PROGRESS IN RAIL REFORM'*

THE HON JOHN ANDERSON MP, DEPUTY PRIME MINISTER,  
MINISTER FOR TRANSPORT AND REGIONAL SERVICES

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Australia's land transport system is a product of the nation's geography, population distribution, federal political system and the historical role of government in the provision of roads and railway infrastructure.

The most powerful forces for change are growth in demand for transport services and an increasingly commercial approach in rail transport. Privatisation and market developments reflecting the changes in our economy and business (including competition) law have facilitated and encouraged a more commercial approach throughout the land transport sector, including those elements that remain in public ownership. Developments in domestic and international finance markets have made possible private ownership of, and investment in, basic infrastructure.

Improvements in providing and managing land transport are occurring, to meet the growing requirements of our economy. Investment levels and practices are improving, to cope with increasing road and rail freight demand and the desire for personal mobility. Australia, for the first time, is also starting to consider the development of rail infrastructure from a truly national approach.

The two Neville Committee reports, *Tracking Australia* (rail) and *Planning not Patching* (road); the Smorgon Report *Revitalising Rail*, commissioned by the Prime Minister; and the Productivity Commission report *Progress in Rail Reform*, commissioned by the Treasurer, together contain 95 recommendations to improve institutional arrangements and regulatory frameworks, and increase Commonwealth and private sector investment. Together with work by the Bureau of Transport Economics, these reports highlight that demand for land transport services is increasing rapidly. The reports also show that reform of the supply of infrastructure, the regulatory frameworks and institutional arrangements will be necessary to meet that demand adequately.

The Neville reports recommend that the Commonwealth develop and publish an integrated strategic plan for the national transport network. The current structure of asset ownership and division of transport responsibilities does not permit the Commonwealth – on its own – to produce a 'national plan' that would commit other government and industry parties to deliver desired performance outcomes to users and the travelling public. Commercial operation, asset investment, management and regulation responsibilities for the land transport system reside with many parties, not just the Federal Government.

The Commonwealth can best respond to the recommendations of the various reports, and calls for a 'national transport plan' by implementing a comprehensive and broadly based transport policy framework. This must enhance Australia's international competitiveness. The Commonwealth will work with the Australian Transport Council (ATC) – the consultative forum of Australian transport ministers – to develop a coherent national planning process for strategic land transport infrastructure.

The key Commonwealth policy objectives for land transport, recognising roles of other levels of government, are:

- **Competitiveness:** Increasing Australia's competitiveness through efficient, reliable land transport services to individuals and business at reasonable cost;
- **Industry and community development:** Providing adequate road and rail infrastructure, and effective national institutional arrangements which facilitate an increasing private sector role;
- **Community and personal accessibility:** Addressing the needs of all Australians, while recognising that levels of service will vary according to location and level of demand;
- **Safety:** Achieving appropriate levels of safety for passengers, transport workers, the general public and freight, and reducing the community costs of accidents; and
- **Environmental sustainability:** Achieving responsible outcomes which reduce the impact of land transport on public health, community resources and the natural environment.

The Commonwealth can work with States and Territories to achieve reform through:

- transport operations that are commercial (and ideally, privately owned and managed); and
- effective regulation, accreditation and operational standards for interstate operators.

The Commonwealth role is that of:

- providing a strategic policy framework;
- providing leadership in working with the States and Territories to develop nationally uniform operating and safety regulations and practices; and
- making strategic direct investments to achieve national objectives.

The Commonwealth is divesting itself of direct ownership of transport operations. States and Territories and Local governments own and manage most of the national transport infrastructure. The States and Territories also set the legislative frameworks in which transport services are provided and, in some cases, own and manage transport operations.

The Commonwealth pursues its policy objectives in land transport by investing directly in infrastructure and by providing untied financial assistance to States, Territories and Local governments for their own investment programs in those components of the network for which they are responsible. By providing funding

for these purposes, the Commonwealth does not assume responsibility for them, nor does it seek to direct where its money is spent. However, the Commonwealth is prepared to use its legislative power to address matters affecting international trade and interstate commerce, including rail reform.

Through its investment in road and rail infrastructure, the Commonwealth will continue to make a significant contribution to an efficient and commercial land transport system that offers world standards of performance and has a positive impact on Australia's economic growth and sustainable social and environmental outcomes. It will explore ways to involve private funding and achieve greater efficiencies in the provision and upkeep of the road network. The Commonwealth is also promoting private sector investment in rail operations and infrastructure.

The Commonwealth will continue to pursue a nationally uniform framework for road transport and establishment of national track access, regulatory and safety regimes for interstate rail transport.

The Commonwealth will proceed to sell its interest in National Rail consistent with its policy objective that the Government will no longer own and operate rail services.

The Australian Rail Track Corporation (ARTC) will be requested to commence an audit of the interstate rail track during 2000. This would involve assessing network track performance, upgrading options that might increase rail's efficiency, and the business case for investment in ARTC and non-ARTC owned segments of the interstate track. Findings would be presented in a form accessible to potential private investors.

The Commonwealth's principal role in rail has been to promote interstate transport through infrastructure investment, underwriting interstate rail losses, and promoting operating and regulatory reforms. Significant progress has been made during the past decade. Private operators have entered the rail industry and more commercial track management has been implemented. However, the industry remains tied to its past. Governments have the capacity to encourage a healthy rail industry. Infrastructure investment is only part of the action required to achieve this. Governments can provide confidence that the basic rail infrastructure will be developed to a reasonable standard over time in order to encourage the private sector to commit to serious investment. Governments can also provide a modern, national regulatory and access regime.

To achieve a more competitive and commercial national rail network, the Commonwealth will encourage the States to deliver on their commitments to network investment, harmonisation and access arrangements, made under the Intergovernmental Agreement (IGA) for establishment of the ARTC. This will include the establishment of access arrangements acceptable to either the NCC or

the ACCC, for all track used by general purpose carriers of freight and passengers. The Commonwealth intends establishing a national rail access regime through the ARTC under Part IIIA of the *Trade Practices Act (1974)* during 2000.

If a national rail access regime is not working effectively by mid-2001, the Government will consider further options, including using Commonwealth legislation if necessary and practicable. Furthermore, the ARTC will be reviewed in 2002 in line with the provisions of the IGA that established it. At that time, the commercial viability of private rail services and the ability of the ARTC to generate additional funds from rail pricing, in order to fund track improvements should be assessed.

By its first meeting in 2001, the Australian Transport Council (ATC) should commission an assessment of the degree of progress in achieving national uniformity and consistency in rail in terms of:

- achievement of harmonised regulations and operations standards for interstate rail operators; for interstate rail safety regulation; and independent no-blame and systemic rail safety investigations;
- effective interstate mutual recognition of safety accreditation;
- achievement of an effective national (interstate) track access and pricing regime (based on binding agreements between ARTC and State Rail Agencies to be struck where no agreement is yet in place); and
- State government action to complete and give effect to commercialisation or privatisation of rail operations.

Progress towards reducing inconsistent rail operating procedures and standards will be consolidated further by the Australian Rail Operations Unit established within the Commonwealth Department of Transport and regional Services from 1 January 2000. The Commonwealth will establish a national accident inquiry function under the Australian Transport Safety Bureau.

If the current process of rail industry co-regulation under State/Territory accreditation and operational codes are not working effectively by mid-2001 the Commonwealth will seek agreement of jurisdictions to establish a new institutional framework, similar to the National Road Transport Commission, using Commonwealth legislation. Before the National Road Transport Commission sunset date of 15 January 2004, the Commonwealth will consult with other jurisdictions and examine the benefits of bringing interstate rail and road regulation under one umbrella structure.

The tax treatment of infrastructure investment will be clarified during 2000 as the business tax reform program draws to conclusion. The Commonwealth will build on the implementation of the new tax system and business tax reform to

ensure appropriate policy arrangements for Australia's taxation system in relation to private investment in land transport infrastructure.

The Commonwealth will continue working with the States and Territories to pursue improved safety on the national land transport network. The Commonwealth will also work with other levels of government and industry to ensure the benefits of the Intelligent Transport Systems (ITS) national strategy delivers results for individuals, land transport operators and infrastructure providers. The strategy aims to harness the potential of ITS to improve the safety and efficiency of Australia's transport systems and to reduce congestion and traffic emissions.

Transport is a major factor in the air quality of our cities and is one of the fastest growing sectors in greenhouse gas emissions. Fuel taxation reform associated with introduction of the GST will see major reductions in rail and road transport costs to business. To offset the effect of lower diesel costs on the incentive to use alternative fuels, the Government has introduced the Alternative Fuels Conversion Program and the Diesel and Alternative Fuels Grants Scheme. An Energy Credit Scheme will be in place by mid-2002 to further promote the use of cleaner fuels, while maintaining the benefits to business of taxation reform. The Government is also improving performance in transport through better emissions standards for new petrol and diesel vehicles, and cleaner fuel standards. Despite these measures, the environmental impacts of urban transport will continue to be significant. The Commonwealth will work with the States on approaches to manage urban transport demand as part of shared commitments on air quality and under the National Greenhouse Strategy.

The priorities to reduce vehicle emissions are:

- to make sure the emission and fuel efficiency standards of vehicles, and the quality of transport fuels, available in Australia are comparable to international standards;
- following introduction of improved standards through to 2006, to seek the continuing harmonisation of vehicle standards;
- supporting States to develop new ways to combat increased congestion of Australia's major urban road networks; and
- to investigate the emission profiles of conventional and alternative fuels and encourage the use of fuels which have a lesser impact on urban air quality and which have lower greenhouse gas emissions.

The Commonwealth's responses to the four reports provide further impetus to implement change based on affordable investment, national institutions and regulations for national industries – and the application of national and generally applicable laws to all elements of the industry (not just the private elements).

The Government has a strong preference to pursue cooperative change with State and Territory governments. In some key areas, such as rail regulation and access, there are good prospects for success over the next two years. To ensure that success is achieved, timeframes are specified. If they are not met, the full range of options available to the Commonwealth will be considered.

### **Next steps**

The major initiatives flowing from the Government's response are as follows:

- The Commonwealth will proceed to sell its interest in National Rail consistent with its policy objective that the Government will no longer own and operate rail services.
- The Australian Rail Track Corporation to undertake, starting in 2000, a network performance and investment audit of the interstate track to assess upgrading options.
- Foster, over time, more commercial investment, maintenance and charging arrangements for the provision of land transport infrastructure.
- To establish a national rail accident investigation function under the Australian Transport Safety Bureau.
- In support of national rail uniformity and its associated cost savings and improved service, the Commonwealth to examine, before 2001-02, the need and options for providing further Commonwealth assistance with the transition to the national specification of operational protocols. Any assistance would be subject to the rail industry demonstrating significant progress towards achieving harmonised operations.
- Should industry co-regulation and implementation of the national rail operational codes not be working effectively by mid-2001, the Commonwealth to seek agreement of jurisdictions to establish a new institutional framework for the rail industry, similar to the National Road Transport Commission, using Commonwealth legislation.
- If nationally consistent track access arrangements for the interstate track, as pursued through the Intergovernmental-Agreement and the ARTC, are not working effectively by mid-2001, a new institutional framework is to be considered. This may involve Commonwealth legislation if necessary and practicable.
- Work with the Australian Transport Council to develop a coherent national planning process for strategic land transport infrastructure to support Commonwealth objectives.



## COMMONWEALTH RESPONSE TO ROAD AND RAIL REPORTS

This following provides the Commonwealth's response to recommendations made in four reports to the Government on various aspects of the road and rail industries in Australia. The reports that are responded to are:

- *Planning not Patching*, by the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform (the Neville Report – Roads);
- *Tracking Australia*, by the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform (the Neville Report – Rail);
- *Revitalising Rail*, by the Rail Projects Taskforce (the Smorgon Report); and
- *Progress in Rail Reform*, by the Productivity Commission (the Productivity Commission Report).

*Planning not Patching* made recommendations relating to the road industry while *Tracking Australia*, *Revitalising Rail*, and *Progress in Rail Reform* made recommendations relating to the rail industry.

For the three rail reports, there is considerable overlap in the recommendations made by each. Recommendations have been grouped under headings. Where appropriate, a single Government response has been provided for recommendations that deal with similar issues.

To assist with navigation of the response to the four reports the following table of contents is provided.

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# TRACKING AUSTRALIA; REVITALISING RAIL; PROGRESS IN RAIL REFORM

## Recommendation 1 – National Transport Policy

Tracking Australia (Neville Report)	Revitalising Rail (Smorgon Report)	Progress in Rail Reform (Productivity Commission Report)
<p>The Commonwealth assume the leadership role and consult widely in developing an integrated national transport strategic plan to be published by 1 July 1999. (1)</p> <p>The Commonwealth establish a National Land Transport Commission to provide:</p> <ul style="list-style-type: none"> <li>• Advice to the Government on a national transport plan; (part of 13)</li> </ul>	<p><i>National Transport Strategy</i> The Commonwealth Government takes the lead in developing an economically-driven National Transport Strategy that will secure a seamless domestic transport system embracing road, rail, sea and air transport, and provide for the entry and exit of people and goods by sea and air at world competitive standards. (1)</p> <p><i>A national rail authority</i> The Commonwealth, after appropriate negotiations with other Governments, establishes and funds a national authority to:</p> <ul style="list-style-type: none"> <li>• administer the rail elements of the National Transport Strategy</li> <li>• acquire all national rail corridors and associated infrastructure</li> <li>• ensure the efficient use of the existing system and its safety of operation, and recommend proposals for enhancement</li> <li>• ensure that the infrastructure is used to the fullest advantage. (3)</li> </ul>	<p>Governments should adopt a more commercial approach to railways and road provision. This will involve:</p> <ul style="list-style-type: none"> <li>• the Commonwealth Government introducing an overarching policy framework for national transport; (part of 10.2)</li> </ul>

The recommendations seek to ensure that infrastructure planning and investment take account of impacts across transport modes, and that decisions at all levels of government are coordinated and provide certainty of government policy directions. The reports do not canvass what a national strategic transport plan might comprise.

### *National Transport Strategic Plan – Response*

The Commonwealth can best respond to the recommendations of the reports by implementing a comprehensive, and broadly based transport policy framework. This must enhance Australia's international competitiveness and focus on interstate transport of freight.

The Commonwealth has been at the forefront of efforts to reform and improve the Australian transport system. The Commonwealth reform efforts have resulted in the commercialisation of many aspects of infrastructure provision – particularly in the aviation and maritime sectors – with increasing private sector involvement in infrastructure funding and provision. While governments continue to fund certain rail improvements, there is an increasing trend towards providing services on a commercial basis. In the roads sector, governments have retained responsibility for roads funding and provision. The Commonwealth has specific responsibility for funding the National Highway (wholly) and Roads of National Importance (partially).

The Commonwealth provides the overall economic, competitive and fiscal framework for transport infrastructure provision through the tax system, management of the economy and the national competition policy.

The Australian Transport Council (ATC) meets regularly to discuss transport issues of national concern. In cooperation with the States, the Commonwealth is working through the ATC to foster strategic thinking across all jurisdictions. This is the most appropriate forum to develop a coherent planning process for strategic transport infrastructure, as recommended in the road and rail reports. On 12 November 1999, the ATC agreed to set up a National Transport Secretariat (NTS) to advise Transport Ministers on how to best address cross-modal, cross-jurisdictional and strategic issues of national significance. The expert group should enhance the ATC's ability to progress national planning and reform. The Commonwealth will use the co-operative ATC processes to develop a coherent national planning process for strategic land transport infrastructure.

The approach will create an environment for land transport operations and infrastructure development, which enables all levels of government and the private sector to plan with greater policy certainty and to make long term commitments.

#### *Land Transport Commission and New Institutional Arrangements – Response*

The Government agrees that there is a need for improved coordinated and cross-modal consideration of transport regulatory and infrastructure provision issues. However, the effectiveness of any structure established to achieve this objective will be determined by the willingness of all jurisdictions to agree on ways of pursuing consistent reforms.

The Commonwealth is prepared to consider the merits, legislative basis for and scope of a 'Land Transport Commission' type body to provide a basis for coordinated and cross-modal consideration of regulatory issues for land transport. However, the Government does not envisage that such an organisation would have an investment or asset ownership role.

*Comment:* National regulatory structures for road transport already exist through the National Road Transport Commission. The Commonwealth would consider national regulatory structures for rail freight transport. However, the majority of the rail system is controlled by the States, which are reluctant to cede control to national bodies.

Establishment of a body to consider road and rail regulatory matters would seek to ensure that cross modal impacts are considered and would provide the basis for coordinated advice to governments. However, the extent of progress in reform is different in each mode. Road transport already has achieved significant uniformity, while the rail sector is just commencing its process. Institutional arrangements need to take this into account to ensure that rail uniformity efforts are given appropriate priority.

The Commonwealth worked with the rail industry and State/Territory governments to establish, on 1 January 2000, an Australian Rail Operations Unit to pursue rail uniformity (refer *Operational Uniformity* section). At the November 1999 meeting of ATC, Transport Ministers also agreed to establish the National Transport Secretariat to advise on transport issues that are of cross modal, cross-jurisdictional, strategic and national significance.

In the longer term, the Commonwealth will consult with other jurisdictions and examine the benefits of bringing interstate rail and road regulation under one umbrella structure. The appropriate time for this would be prior to the sunset provision of 15 January 2004 in the NRTC legislation. By early 2002, rail uniformity reform should be well advanced and the effectiveness of the ARTC in promoting an efficient interstate rail system could also be assessed.

## **Recommendation 2 – National Transport Policy**

<b>Tracking Australia (Neville Report)</b>
<p>The Commonwealth, in consultation with States and Territories, enhance the role of rail in the national transport network by:</p> <ul style="list-style-type: none"><li>• declaring a national track for interstate rail services on the standard gauge network from Brisbane to Perth</li><li>• addressing chronic deficiencies in the interstate national track</li><li>• adopting agreed national standards for the condition of the national track. (2).</li></ul>



The Neville Committee considered that the existing interstate rail infrastructure was in poor condition and that it would need to be upgraded in order to attract investment by the rail industry and for rail to play a significant role in the transport network.

## *Response*

The Commonwealth supports the need to address interstate track quality and the adoption of harmonised track performance across jurisdictions. However, the Commonwealth does not consider it necessary to *declare* the national track in legislation (as is the case with the National Highway System) in order to achieve these objectives. Should it become necessary to consider national rail legislation in order to advance rail reform (refer *Access Arrangements/ARTC* and *Operational Uniformity* below), the Commonwealth will reconsider its position on declaring a national track.

*Comment:* At the 1997 National Rail Summit, Commonwealth and State Transport Ministers identified a national track for interstate rail services – the standard gauge network from Brisbane to Perth with links to the major ports.

National track performance targets were also agreed by Ministers at the Summit. The Australian Transport Council (ATC) targets to be achieved by 2002 are:

- Less than 2 per cent of track subject to temporary speed restrictions;
- At axle loads up to 21 tonnes, a maximum speed of 115 kph and average speed of 80 kph;
- At axle loads between 21 and 25 tonnes a maximum speed of 80 kph and average speed of 60 kph; and
- Train lengths of 1800m on the east-west corridor and 1500m on the north-south corridor

Agreed targets for the longer term are:

- At axle loads up to 21 tonnes, a maximum speed of 125 kph and an average speed of 100 kph;
- At axle loads between 21 and 25 tonnes a maximum speed of 100 kph and an average speed of 80 kph; and
- Increased clearances to allow double stacking.

These targets are being pursued through upgrading works conducted under the \$250 million Commonwealth rail capital upgrade program. The Commonwealth has also established the Australian Rail Track Corporation (ARTC) to manage Commonwealth owned portions of the network and those of any State prepared to utilise them. The ARTC's charter includes an objective to improve the infrastructure performance through better asset management and co-ordination of investment. The ARTC has already managed to generate improved track performance from investment of access charge revenues, through maintenance efficiencies and new

asset management practices. For example, the ARTC track management procedures have reduced temporary speed restrictions substantially in South Australia (from 4 per cent to 1 per cent) and Victoria (from 27.4 per cent to 1.5 per cent). The performance improvements arising from ARTC investment and track management procedures should enable private investors to gain commercial returns from more extensive track upgrade projects. Evidence of performance improvements, such as that provided by ARTC track management procedures, would also assist the industry to secure future Commonwealth grants for rail infrastructure should funds be available.

The average performance of the interstate track managed by the ARTC should be consistent with ATC five-year targets within two years. For example, the section of track between Pura Pura and Maroona in western Victoria, which the Neville Committee considered to be one of the worst sections of track on the interstate network, has been upgraded to comply with ATC standards as a result of investment by the Commonwealth and Victorian Governments.

### Recommendation 3 – Balance Road/Rail Funding

Tracking Australia (Neville Report)	Revitalising Rail (Smorgon Report)	Progress in Rail Reform (Productivity Commission Report)
<p>The Commonwealth establish a National Land Transport Commission to provide:</p> <ul style="list-style-type: none"> <li>• recommendations to the Government on the allocation of funds for rail and road projects on the strict basis of highest benefit cost ratios, which address all relevant externalities, such as accidents, congestion, pollution, greenhouse gas emissions and noise.</li> </ul> <p>Further, the Commonwealth give higher priority to land transport infrastructure investment within total budget outlays than is currently the case. (part of 13)</p>	<p><i>Balance road/rail funding</i> The Commonwealth Government develops a framework for assessing the allocation of its funding of road and rail projects on the basis of their relative efficiencies, using agreed published ‘level playing field’ criteria. (2)</p> <p><i>External benefits and costs</i> External benefits and costs of transport options be evaluated from a national perspective and in a transparent and consistent manner. These external benefits and costs to include those associated with accidents, congestion, pollution, greenhouse gas emissions, noise, reductions in the need for other infrastructure, and impacts on industrial development, employment and regional development. (5)</p>	<p>Governments should adopt a more commercial approach to railways and road provision. This will involve:</p> <ul style="list-style-type: none"> <li>• evaluating major road and rail projects using cost-benefit analysis where the projects are expected to have significant external effects. (part of 10.2)</li> </ul>

All three reports referred to the need for increased reliance on a benefit cost framework in the assessment of rail and road projects, particularly where projects generate external costs or benefits. The Neville and Smorgon reports were critical of what they perceived to be segmented and inconsistent approaches by governments in major infrastructure investment decisions.

#### *Response*

The Commonwealth practice in considering proposals for funding for road and rail projects is to assess them under a commonly-based benefit cost analysis framework which addresses relevant externalities and Government policies. The Commonwealth does not, however, accept the proposition that the allocation of funds for road and rail projects should be made solely on the strict basis of such analysis across both modes.

The Commonwealth does not support establishment of a body to recommend on the national allocation of funds for rail and road projects (refer *National Transport Policy* above). Instead, the Commonwealth agrees that governments should adopt a more commercial approach to rail infrastructure development and management.



Road investment proposals will continue to be assessed on a number of criteria including economic cost/benefit, access, network, regional and environmental considerations. Within this approach, funds for transport infrastructure will be considered in the budget context, taking account of competing demands from other sectors.

*Comment:* While there is a common element of commercial usage of road and rail infrastructure, investment programs serve different purposes. Interstate rail infrastructure provides a commercial function dominated by freight. Commonwealth funded roads provide multiple functions, catering for the needs of freight and for the business, access and social needs of private motorists. Comparisons of benefit-cost ratios across modes is potentially misleading because of difficulties in valuing these needs, as well as environmental externalities.

The Commonwealth considers that benefits can be achieved through more commercial investment, maintenance and charging arrangements for the provision of land transport infrastructure. The move, over time to more commercial provision of infrastructure and, if appropriate, Public-Private Partnerships for land transport infrastructure projects should result in proponents assessing investment requirements, finance sources and priorities on an economic basis. The private sector would look to clearly identify non-financial benefits, in order to seek government contributions to fund these aspects of projects. Public contributions would be sought in this context on the basis of delivering community benefits which are unable to be captured within the commercial sector (refer *Project development processes* below).

The Commonwealth recognises the importance of infrastructure investment to national competitiveness. Responsible economic management and economic growth to generate budget surpluses creates the opportunity for greater Commonwealth transport infrastructure investment. It is also important to maximise the impact of existing allocations. The Commonwealth established the Australian Rail Track Corporation (ARTC) in 1998 to, *inter alia*, commercially manage Commonwealth rail track assets and co-ordinate investment across the network.

## Recommendation 4 – Project Development Processes

### Revitalising Rail (Smorgon Report)

#### *Government support for major projects*

The extent and nature of Commonwealth Government support for private sector proposals to develop major new interstate rail links be assessed against their economic, financial and social merit and conformity with the National Transport Strategy.

If the proposal is of strategic or national significance and warrants Commonwealth Government support, there should be greater flexibility to provide that support in the form best suited to project requirements, including direct financial support tailored to cash flow. (6)

#### *Inland Rail Bridge*

If the feasibility studies being undertaken for the two ‘inland rail bridge’ proposals establish that this concept has commercial merit, the Commonwealth should undertake an assessment of the case for government support in line with Recommendation 6. (7)

#### *Darwin to Alice Springs rail link*

If the current level of government support offered to the private sector is found to be not sufficient for the Darwin to Alice Springs rail link to proceed, the Commonwealth should not commit any significant additional support without first undertaking an assessment in line with Recommendation 6. (8)

### *Response*

The Commonwealth supports the need for a consistent evaluation framework for major infrastructure projects. However it is not convinced that a prescriptive National Transport Strategy provides the best basis to achieve this result. The Commonwealth will continue to work with other governments and the private sector on a case by case basis to facilitate the development of private sector infrastructure proposals such as the Darwin to Alice Springs rail link and the Inland Rail Bridge (refer *Investment* below).

*Comment:* The Smorgon Taskforce recognised that governments inevitably are involved in facilitating private sector proposals to construct major new interstate rail links. Agreement between jurisdictions on processes to facilitate major national projects will provide greater certainty for private sector project proponents. The Government agrees that, where Federal support for major new rail infrastructure developments is warranted, such support should be flexible to meet project requirements. The Government also supports the use of a broadly based assessment process.

## Recommendation 5 – Project Development Processes

### Revitalising Rail (Smorgon Report)

#### *Potential VHST monopoly*

While the Canberra-Sydney Very High Speed Train (VHST) project may represent a significant first step towards meeting Australia's future transport needs, Governments must recognise that it is likely to provide its developer with a technological or developmental monopoly. Governments must equip themselves with the highly specialised expertise required to negotiate appropriate framework agreements for such projects, which involve very long-term issues – particularly concerning technology transfer and intellectual property rights. (9)

#### *Canberra-Sydney VHST project not to restrict future options*

The Governments involved in the current Canberra-Sydney VHST proposal assess the cost effectiveness of ensuring that the outcome does not restrict future VHST options, particularly possible extension of a service to Melbourne and Brisbane. Specifically, that:

- the design of the route, earthworks and associated infrastructure is consistent with future expansion to a dual track
- the design of the route and associated infrastructure is consistent with the needs of a Sydney-Melbourne VHST service, for example, with regard to signalling, power requirements and passing loops
- any agreement for Canberra-Sydney provides for access to track and associated infrastructure for a Sydney-Melbourne VHST service and does not otherwise restrict entry to and exit from Sydney for other VHST services
- property rights granted to a Canberra-Sydney operator allow for other VHST operators on the corridor
- the technology used will not preclude other operators
- transparent technology licence arrangements are included in any concession agreement and permit future use of the technology on reasonable terms
- the concession agreement does not restrict the use of the VHST corridor for other infrastructure uses or functions
- the agreement is otherwise in conformity with the National Transport Strategy (10)

#### *Further Government involvement in Canberra-Sydney VHST project to cease if it fails to 'prove up'.*

If the Canberra – Sydney VHST proposal fails to meet criteria established by the respective Governments for the current 'proving up' process, including the 'no net cost to government' requirement, further Commonwealth Government involvement in the project should cease pending the outcome of a broader VHST assessment – see Recommendation 12. (11)

...continued

## **Revitalising Rail (Smorgon Report) - Recommendation 5 continued...**

### *A VHST network assessment*

If the National Transport Strategy finds a VHST network to be appropriate, the Commonwealth Government, in conjunction with the other Governments concerned, fund a preliminary assessment of the likely costs and benefits of VHST rail links between Melbourne, Canberra, Sydney and Brisbane, and their respective principal airports.

This study to include an assessment of:

- patronage and other components of market demand
- development and operating costs
- external benefits and costs
- access points to Sydney, Melbourne, Canberra and Brisbane
- appropriate concept routes between those cities
- the benefits of multi-purpose infrastructure corridors as part of these concept routes, for information technology/communications, energy, water, emergency services access and additional tracks for heavy rail services
- the impact on development of a second Sydney Airport (12)

### *Commonwealth to take the lead role in a possible VHST network*

Subject to preliminary conclusion that further government support is warranted, the Commonwealth should take the lead to:

- define the project's key parameters
- determine the nature and extent of support each Government is prepared to provide
- determine whether the project should proceed to an expression of interest, tender or other stage in the development process
- enter into detailed agreements with the relevant State and Territory Governments covering all facets of the development and operation of the project, including the bidding process and the possibility of establishing an independent authority to manage the corridor (13)

### *Response*

The outcome of the Sydney – Canberra VHST process has not been determined. The Commonwealth expects to respond to the proponents' proving-up process in the first half of 2000. Should it succeed, the Commonwealth will endeavour to ensure proprietary standards and technologies are open and accessible for extensions to the network. Any proposals for the extension of the system should be considered by the private sector in a commercial context.

*Comment:* The Commonwealth, NSW and the ACT have contracted specialised expertise when required during the project development and project assessment processes. Should they agree to pursue the project, this will also happen during the contracting phase.

Consideration of development of a broader VHST network and associated issues would be undertaken in light of decisions on the Sydney – Canberra VHST project.

## Recommendation 6 – Project Development Processes

### Revitalising Rail (Smorgon Report)

#### *Preliminary government assessment*

All Governments involved in a prospective project should jointly undertake a preliminary assessment to:

- define key parameters
- determine the nature and extent of support each Government is prepared to provide – in line with recommendation 6
- determine whether the project should proceed to an expression of interest, tender or other stage in the development process. (24)

#### *Agreement between Governments*

Project definition, including the roles of Government and the private sector, be signed off in reasonable detail at Cabinet level before moving to an expression of interest, tender or other stage in the development process.

For interstate projects, the Commonwealth and any relevant State and Territory Governments enter into a detailed agreement covering all facets of the development and operation of a project, including the bidding process. (25)

#### *Response*

The Commonwealth supports the concept of inter-governmental guidelines covering assessment of projects to provide more transparent government project assessment processes and to ensure consistency between jurisdictions.

*Comment:* Transport Ministers at the ATC have indicated a desire to better address strategic transport issues, particularly those requiring an inter-governmental response. The development of guidelines that outline the process for, and matters to be considered by, governments in a cross-jurisdictional project development process could contribute to achieving this objective. The Commonwealth has indicated already its support for such an approach, as evidenced by its participation in the joint government process that is underway for the Sydney – Canberra VHST project.

This issue will be referred to ATC to consider whether guidelines for transport proposals should be developed or whether whole of government guidelines should be pursued.

## Recommendation 7 – Project Development Processes

### Revitalising Rail (Smorgon Report)

#### *Risk allocation*

Governments and the private sector accept the risks they are best placed to manage or control and risk allocation to be clearly established and publicly stated early in the tender process

- Governments may be better placed to accept risk for such things as land ownership/resumption, security of title, native title, heritage, prior land contamination, changes in specific laws (such as tax), access to existing infrastructure and resolution of community related issues. The private sector may be better placed to accept risk for such things as construction costs, financing risk and patronage.
  - Where the private sector is required to take on risk in areas where Governments have significant prior knowledge, there should be full disclosure and full opportunity for investigation.
  - Investors should also be able to utilise the National Competition Agreement to obtain binding rulings on whether a *proposed* investment would constitute ‘essential national infrastructure’.
- (26)

#### *Response*

The Commonwealth accepts that major interstate rail links are long-term projects exposed to a range of risks. These have the potential to add significantly to project costs. The Commonwealth also accepts the need for early resolution of who will bear which risks and that, to minimise costs, these generally should be the body best placed to control the risk.

The proposal to utilise the National Competition Agreement to obtain binding rulings on whether a proposed investment would constitute ‘essential national infrastructure’ will be considered as part of a Legislation Review of Part IIIA of *the Trade Practices Act 1974*, that is to commence in 2000. The Review will take account of mechanisms that may improve third party access to essential infrastructure.

*Comment:* The Commonwealth can help reduce private sector risk in investing in major rail infrastructure. It can do this through delivering a consistent and predictable regulatory and industry policy environment within which potential investors can reliably plan. It can also contribute to this objective by ensuring inter-governmental co-operation where more than one jurisdiction is involved in a project proposal.

## Recommendation 8 – Charges/Modal Neutrality

Tracking Australia (Neville Report)	Revitalising Rail (Smorgon Report)	Progress in Rail Reform (Productivity Commission Report)
The Commonwealth develops a more consistent, equitable approach to transport infrastructure charges to ensure competitive neutrality between modes. (12)	<i>Framework for investment</i> Governments develop an appropriate framework for private and public sector investment that includes efficient taxing and charging regimes and competitive neutrality between government agencies and the private sector. (4)	The National Road Transport Commission should prepare – and recommend to the Ministerial Council for Road Transport for adoption – a revised schedule of heavy vehicle charges which ensures that each class of vehicle pays the full cost of its road use. (10.1)

### *Taxes, charges and competitive neutrality - Response*

The Commonwealth is aware of the potential for taxing and charging regimes to impact significantly on relative competitiveness and market share between modes. The Commonwealth supports a consistent, equitable approach to transport infrastructure charges.

*Comment:* The reports were concerned to ensure that rail was not disadvantaged in comparison to road through various taxing and charging regimes. The Government supports the principle of competitive neutrality between modes of transport. However, the road and rail sectors have different usage, charging and funding structures. Road sector charges include registration charges, sales taxes, tolls, local government rates, parking charges and fuel excises. Rail charges include accreditation charges, access charges and fuel excises.

Different aspects benefit different modes. For example, rail has tax advantages over road, while road has access charge benefits over rail. Road operators are subject to capital market disciplines for equity and debt, whereas many rail operators are owned by the public sector and, effectively, have access to subsidised capital via shareholder tolerance of lower rates of return. Roads tend to be budget funded while access charges are charged directly by rail track management authorities and are reinvested directly into the track. This expenditure does not show up in government budget allocations. While commercial benefits accrue from investment in both rail and road infrastructure, private motorists also benefit from road investment. Thus revenue and funding arrangements for roads are difficult to directly compare with those for rail and particular aspects of the arrangements should not be considered in isolation.

The Commonwealth and the State governments have established various commercial track access entities since 1996 in response to National Competition Policy. This structural development and the resultant levying of track access charges, has moved rail investment and charging to a more commercial basis.

Following discussion at the ATC meeting on 12 November 1999, Transport Ministers voted on a revised schedule of heavy vehicle charges prepared by the NRTC. It is proposed that the new charges be implemented by 1 July 2000.

### **Recommendation 9 – Charges/Modal Neutrality**

<b>Revitalising Rail (Smorgon Report)</b>
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<i>Fuel excise</i>
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Rail operators to be treated like other ‘off road’ diesel users for the purposes of fuel taxation. (21)
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#### *Response*

The new taxation system extends the full exemption for off-road use of diesel and like fuels to the rail sector.

### **Recommendation 10 – Charges/Modal Neutrality**

<b>Progress in Rail Reform (Productivity Commission Report)</b>
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The Commonwealth Government should establish a public inquiry into road provision in Australia. This inquiry should examine:
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| <ul style="list-style-type: none"><li>• road transport planning processes;</li><li>• methods of investment appraisal (including the evaluation and allocation of costs and benefits);</li><li>• funding arrangements (including taxation, charges and grants);</li><li>• the scope to improve road pricing; and</li><li>• current institutional arrangements and alternatives. (10.4)</li></ul> |
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#### *Response*

The Commonwealth does not accept this recommendation. The Commonwealth is not convinced that there is a need for another public inquiry into road provision at this time. Governments already have adequate institutional arrangements in place to ensure that essential community roads infrastructure is provided and properly maintained. The community now expects that governments will get on with it.

Current methods of investment appraisal using well accepted cost-benefit analysis and other considerations including access, network effects, regional and environmental impacts allow the Commonwealth to meet its responsibilities to ensure that the National Highway System keeps pace with demand and that it is maintained in appropriate condition.



The 1999 IGA between the Commonwealth, States and Territories on the reform of Commonwealth – State financial relations, will provide the States and Territories with a growing and secure revenue base, providing a sound financial foundation from which they can meet their road responsibilities.

### Recommendation 11 – Privatisation and Private Sector Involvement

<b>Revitalising Rail (Smorgon Report)</b>	<b>Progress in Rail Reform (Productivity Commission Report)</b>
<p><i>Privatisation</i> All Commonwealth and State Government rail freight operators should be privatised.</p> <p>Bidders for government rail freight operators should have no government ownership or control.</p> <p>Until privatisation is achieved, rail operators in public ownership must be subject to competition from private operators on a level playing field including equal access to government-assisted transport services (27)</p>	<p>Governments which own railways should pursue further private sector involvement (through contracting out, BOOT - type arrangements, franchising or privatisation) as an integral part of their approach to rail reform. (7.1)</p> <p>All remaining government-owned freight operations should be privatised, with special arrangements for the rollingstock used on the main coal lines. (7.2)</p> <p>Governments should adopt a more commercial approach to railways and road provision. This will involve:</p> <ul style="list-style-type: none"> <li>• applying competitive contracting out, franchising or full privatisation to railways;</li> <li>• applying the purchaser-provider model rigorously where non-commercial objectives are being pursued; (part of 10.2)</li> </ul> <p>Governments need to address the deficiencies in the application of the purchaser-provider framework to rail and should enter into transparent contractual arrangements with clearly specified non-commercial objectives. (11.1)</p>

#### *Response*

The Commonwealth agrees that rail reform would be best served by the sale of government owned above-rail freight operations to private sector bidders. To this end, the Commonwealth reaffirms its intention to sell the Commonwealth interest in National Rail.

*Comment:* The Commonwealth notes the benefits from private sector involvement in rail freight including the business growth following the sale of Australian National and Freight Victoria. Accordingly, the Commonwealth is committed to the earliest possible sale of National Rail, consistent with its policy objective that the Government will no longer own and operate rail services.

To the extent that the public sector maintains its involvement in rail freight operations, rail operators in private ownership should be subject to competition from public operators on a level playing field.

## Recommendation 12 – Access Arrangements / ARTC

Tracking Australia (Neville Report)	Progress in Rail Reform (Productivity Commission Report)
<p>The Commonwealth ensures that the Australian Rail Track Corporation secures control and management of the national track, including those sections of the interstate network currently controlled by State authorities. (11)</p>	<p>Governments should adopt a more commercial approach to railways and road provision. This will involve:</p> <ul style="list-style-type: none"> <li>• establishing a network manager for the interstate track to manage competitive access and facilitate planning; (part of 10.2)</li> </ul>
<p><b>Revitalising Rail (Smorgon Report)</b></p>	
<p><i>Strengthen ARTC</i> Commonwealth, State and Territory Governments confirm their commitment to the Australian Rail Track Corporation as a ‘one-stop shop’ to control the national track. The corporation’s main features being:</p> <ul style="list-style-type: none"> <li>• Commonwealth Government ownership, with Ministers as shareholders and an independent board</li> <li>• to control, manage and maintain the national track and associated corridors, taking account of the characteristics of the metropolitan systems with which the national network must interface</li> <li>• a charter to make commercial decisions within a market environment influenced by government policies and support</li> <li>• prohibited, by its charter, from owning or providing ‘above’ rail operations</li> <li>• an access regime conforming with Competition Policy guidelines</li> <li>• a long term outlook and expectation of continued operation, particularly the ability to negotiate long term agreements</li> <li>• required to provide a 3-year business plan to the Commonwealth Government outlining the major features of its operations including its investment plans and resultant commercial implications. (16)</li> </ul> <p><i>The integrity of the national network</i> To maintain a genuine national network consisting initially of the track joining the mainland State capital cities and their ports, with connecting lines to Whyalla, Port Kembla, Newcastle, Alice Springs, Westernport and Kwinana:</p> <ul style="list-style-type: none"> <li>• the NSW, Qld &amp; WA Governments immediately transfer control of their components of the national track to the ARTC</li> <li>• the Commonwealth should not transfer control of the Tarcoola-Alice Springs component of the national track from the ARTC to a successful bidder for the development of the Alice Springs to Darwin rail link but rather permit access on commercial terms</li> <li>• the WA Government should not transfer control of the Kalgoorlie-Perth component of the national track to a successful bidder for Westrail</li> <li>• the ARTC should be consulted if any Government proposes to sell track or land corridors, which may be suitable as components of the national track, particularly in urban areas (17)</li> </ul> <p><i>Track Access</i> Rail access arrangements acceptable to the NCC should be established within 12 months for all government owned track. (23)</p>	

## *Response*

The Commonwealth is committed to establishing an effective national track access regime and has sought to do so through an IGA which established the ARTC. If track access arrangements, as pursued through the ARTC, are not working effectively by mid-2001 the review of the ARTC required under the IGA will need to develop a new institutional framework. This may involve a network manager based on Commonwealth legislation, if necessary and practicable.

The Commonwealth supports early development of nationally consistent rail access arrangements acceptable to the NCC or ACCC for all Government owned track, and will encourage the ARTC to lodge a National Rail Access Regime for the interstate network with the ACCC as soon as possible after finalising access agreements with the relevant States and Territories.

*Comment:* The Commonwealth expectation in establishing the ARTC was that it would provide efficient seamless access to the interstate rail network. This should involve full management of the track by the ARTC on a network basis to allow maintenance efficiencies and support seamless operations. However, some States have sought to establish wholesale access agreements through which the ARTC acts as the single access provider for interstate operations. The Commonwealth is not convinced that this arrangement will deliver seamless interstate access.

The Commonwealth expects the ARTC to seek opportunities to further improve its management of the interstate track in order to optimise harmonisation, infrastructure development and train path planning across jurisdictions. This will promote improved asset utilisation and enhance operational safety and efficiency. The Commonwealth will work with the ARTC and the States to achieve further reforms in these areas. Integrated train path management, consistent pricing and harmonised track performance between jurisdictions, in particular, will be pursued. If this approach is not successful, other options will be considered, including a national regulatory regime.

### Recommendation 13 – Access Arrangements / ARTC

Tracking Australia (Neville Report)	Progress in Rail Reform (Productivity Commission Report)
<p>The Commonwealth ensures the Australian Rail Track Corporation adopts an access regime providing for transparent and accountable pricing. Such a regime should include:</p> <ul style="list-style-type: none"> <li>• access pricing based on a two part tariff, comprising a flagfall and a variable component which allocates costs on a user pays basis; and</li> <li>• posted access pricing by track segment. (10)</li> </ul>	<p>The pricing and allocation of train schedules should reflect the value that users place on the track. To encourage this, the Commonwealth Government should establish a process to investigate the feasibility of developing a market approach for allocating schedules or transferring capacity on the interstate network. (8.1)</p>

#### *Response*

The Commonwealth will encourage the ARTC to lodge with the ACCC a National Rail Access Regime for the interstate network as soon as possible after signing access agreements with the relevant States and Territories (anticipated to be during 2000). The structure of the ARTC's access pricing is a commercial matter for the ARTC. The Commonwealth supports transparent and accountable pricing and encourages ARTC to adopt best practice in this regard.

*Comment:* Different approaches are recommended for efficient pricing structures for gaining access to the national rail network. The ARTC Statement of Corporate Intent undertakes to provide a pricing framework that is, inter alia, transparent, yet flexible enough to meet the differing demands of a range of users. The ARTC pricing schedule is structured on the basis of a two-part tariff according to track segment. The schedule also encourages optimal use of train technology and optimal train construction by operators, resulting in more efficient utilisation of limited track capacity. The IGA establishing the ARTC requires the company to lodge an access undertaking with the ACCC. The ARTC expects an undertaking to be lodged within six months of finalising access agreements with all the mainland States and Territories.

## Recommendation 14 – Investment

Tracking Australia (Neville Report)	Revitalising Rail (Smorgon Report)	Progress in Rail Reform (Productivity Commission Report)
<p>The Commonwealth:</p> <ul style="list-style-type: none"> <li>• undertake responsibility for investment in the declared national track;</li> <li>• allocate, in addition to the \$250m committed to the ARTC in 1997-98, a further \$750m over 3 years for investment in the national track to be expended according to priorities developed by the Commonwealth and States/Territories; and</li> <li>• allocate, on an agreed basis, an additional \$2b over 10 years from 2001 for investment in rail infrastructure of national strategic importance, to be directed primarily to the national track, and with provision for designated tracks of national importance (TONIs). (14)</li> </ul>	<p><i>Accelerate existing capital program</i> The \$250m already committed by the Commonwealth Government to upgrade the national track be brought forward for completion by December 2000 rather than by June 2002. (14)</p> <p><i>A major additional capital injection</i> The Commonwealth commits to spending an additional \$470m by June 2002 to bring the national track to a standard where it can provide a competitive and sustainable alternative to road transport.</p> <ul style="list-style-type: none"> <li>• funding should be conditional on State Governments cooperating to achieve a number of other vital reforms – see Recommendations 16, 17, 27-30. (15)</li> </ul>	<p>The Commonwealth Government should – as a matter of national priority – allocate additional funds to projects which would alleviate route congestion in the Sydney metropolitan area, subject to the adoption of a network manager for the interstate track. (10.3)</p>

### Response

The Commonwealth accepts there is an argument for investment in rail infrastructure to enable rail to provide interstate freight service levels comparable to road transport between the major urban centres. However, the Government is not convinced that responsibility for that investment should rest solely with the Commonwealth. Nevertheless, the Commonwealth recognises that additional work is required to quantify track investment needs and will commit funds towards achieving this objective. The Commonwealth will consider the allocation of further funds for rail infrastructure in the Budget context, taking account of progress in rail reform processes already under way and the feasibility of attracting further private sector investment and/or contributions from State and Territory governments.

*Comment:* The Commonwealth has committed \$250 million over four years to upgrading interstate rail infrastructure. These funds are conditional on the achievement of a single point for access to the interstate infrastructure and will make

a significant contribution towards attaining the infrastructure performance targets agreed by Transport Ministers at the 1997 rail summit.

Investing government money in rail infrastructure without other reforms is not sufficient to ensure rail sustainability and service competitiveness. Operational improvements are also required to improve service quality and reliability. The infrastructure in most States is owned by the State and is managed by State owned authorities or companies on a commercial basis. The Commonwealth has no control over that infrastructure and no assurance that reform of the sector will be pursued consistently. As such, the Commonwealth needs to be convinced that reforms are being achieved before considering investing additional funds in the rail track. Preferably, track owners should make investments from internal or debt finance, because track upgrades for inter-State rail freight should be commercially justifiable and track owners are best placed to make such decisions.

In particular before finalising its position on additional investment, the Government will consider the extent that existing funds achieve target track performance characteristics and the extent to which State governments:

- co-operate to achieve seamless interstate access;
- remove impediments to private sector rail operations; and
- improve track performance.

The readiness of the private sector to invest in the sector will also be considered.

The three rail reports identify vastly different additional investment needs for the interstate track ranging from \$470 million to \$2.75 billion. This is an indication of inconsistent performance definition for the track and the different management practices across jurisdictions.

The ARTC will undertake a network performance and investment audit of the interstate track, starting 2000, to better quantify investment needs and to get a better understanding of the business case for investment. This will involve assessing network track performance, upgrading options that might increase rail's efficiency and the business case for investment in the interstate track. Presentation of audit findings will be in a form accessible to potential private sector investors and track owners. A study of this nature is likely to cost in the order of \$2-3 million.

The expectation that this work would need to be undertaken was recognised in the Charter for the establishment of the ARTC. One of the main objectives of the IGA for establishing the ARTC was that the company 'improve interstate rail infrastructure through better asset management and co-ordination of capital investment'. The Commonwealth will seek to fund this study from within existing resources, from States and from track managers, and to complete the assessment by late 2000. Further Commonwealth investment in the track could be considered in the

budget context, taking account of funds available commercially and the commitment by the States to rail reform.

### **Recommendation 15 – Investment**

<b>Tracking Australia (Neville Report)</b>
The Commonwealth, in consultation with the States/Territories and relevant parties, develop a rolling maintenance program, to be funded by the Commonwealth, for the declared national track to agreed national standards. (15)

#### *Response*

The Commonwealth does not agree with this proposition.

*Comment:* Government reforms have focussed on providing incentives for efficient provision of infrastructure and a key strategy has been to ensure infrastructure pricing messages are passed from infrastructure managers to users. This places disciplines on providers to employ efficient provision and maintenance practices.

### **Recommendation 16 – Operational Uniformity**

<b>Tracking Australia (Neville Report)</b>	<b>Revitalising Rail (Smorgon Report)</b>	<b>Progress in Rail Reform (Productivity Commission Report)</b>
<p>The Commonwealth provides a specific one-off grant to standardise signalling, radio and telecommunications, and safety operations for the national track. (4)</p> <p>The Commonwealth, in consultation with States/Territories and appropriate parties, immediately develop a national regulatory framework that promotes operational consistency in:</p> <ul style="list-style-type: none"> <li>• accreditation practices</li> <li>• operating procedures and standards</li> </ul> <p>across the national track system and associated jurisdictions to ensure effectiveness and efficiency. (7)</p>	<p><i>National approach to regulation and standards</i></p> <p>Intervention by governments in the rail industry in pursuit of more efficient operations should be assessed on a case-by-case basis. Where a case can be clearly made, a national approach should be adopted in line with the objectives of the National Transport Strategy.</p> <p>To avoid unnecessary differences and inconsistencies between jurisdictions, there must be a national mechanism for creating and maintaining regulations and standards. (28)</p>	<p>The Commonwealth Government should establish a permanent mechanism to ensure the ongoing harmonisation or uniformity of railway operating procedures and standards. (9.3)</p> <p>The principles of best practice regulation, as endorsed by the Council of Australian Governments, should be applied to the development and implementation of railway codes of practice.(9.2)</p>

#### *Response*

The Commonwealth strongly supports action to harmonise rail operations across jurisdictions. It has been working with the rail industry and State/Territory governments to standardise interstate rail operations.

If the current process of rail industry co-regulation under State/Territory accreditation and operational codes are not working effectively by mid-2001, the Commonwealth will seek agreement of jurisdictions to establish a new institutional framework for the rail industry, similar to the National Road Transport Commission, using Commonwealth legislation.

*Comment:* National Codes of Practice for rail operations on the interstate track have been drafted by industry on a joint funding basis with Commonwealth, State/Territory governments and the Australian Railway Association. The Codes of Practice cover interface management issues, operations and safeworking, rollingstock and track, and civil and electrical infrastructure. The codes should be finalised for implementation in the second half of 2000 following industry consultation. In the short term the mechanism to publish, administer and update the codes will be the Australian Rail Operations Unit. Consistent with the principles of best practice regulation, the Commonwealth is undertaking preparation of a Regulatory Impact Statement for the codes.

The national codes are a significant advance towards harmonisation of operations. However, the Commonwealth would like to see full harmonisation of operational protocols across the interstate network. Should national operational standards be agreed and the rail industry be able to demonstrate significant progress towards achieving uniformity, the Commonwealth will consider further assisting with the transition to the national specification. Transition to the national specification would, for example, mean signals and signage will provide consistent interpretations on the interstate track.



## Recommendation 17 – Rail Safety

Tracking Australia (Neville Report)	Revitalising Rail (Smorgon Report)	Progress in Rail Reform (Productivity Commission Report)
<p>The Commonwealth takes a strategic approach to provide consistency in rail safety standards and practices for the national track. (3)</p> <p>The Commonwealth establish for the national track:</p> <ul style="list-style-type: none"> <li>• a rail safety regulator</li> <li>• a rail incident investigation unit</li> </ul> <p>to report directly to the appropriate Commonwealth Minister. (6)</p>	<p><i>National safety regulator</i></p> <p>As a useful first step towards a single national rail safety regulator, the Commonwealth take a leadership role in establishing a national rail safety regulator to hold appropriate regulatory control, including accreditation, over ARTC and operators on the national network by December 1999.</p> <p>Specifically, the regulator will:</p> <ul style="list-style-type: none"> <li>• enhance safety operations on the national rail network</li> <li>• investigate, by a transparent process, any rail accident or incident on the national network</li> <li>• establish effective interface safety management with relevant State safety regulators</li> <li>• be prepared to transfer its investigation function to an independent, and possibly multi-modal, agency (29)</li> </ul> <p><i>Transfer of State safety regulatory functions</i></p> <p>The State Governments immediately establish timetables and mechanisms for transferring their rail safety regulatory functions to the national regulator. (30)</p>	<p>A national approach should be developed for charging rail safety accreditation fees, with a single annual fee for accreditation and mutual recognition. (9.1)</p>

### Response

The Commonwealth supports action to provide consistency in rail safety accreditation and investigation processes. This will be achieved through:

- State-based arrangements to produce common accreditation fees and adoption of consistent safety regulation processes. The Commonwealth will monitor, through the ATC, progress on mutual recognition of accreditation and safety regulation;
- National collection, analysis and reporting on railway safety statistics through the Australian Transport Safety Bureau; and
- Development of a multi-modal independent investigation capability in the Australian Transport Safety Bureau through continuing to participate in

independent investigation of major rail incidents under the powers and protection of State law and subsequently by initiating independent investigations on the interstate track system under new Commonwealth legislation. These arrangements should be given an opportunity to operate before any consideration is given to seeking agreement from the States for the Australian Transport Safety Bureau to investigate all serious incidents (ie including those not on the interstate network).

*Comment:* The September 1999 Booz-Allen & Hamilton review of rail safety arrangements showed that substantial progress has been made on consistent accreditation arrangements and that industry accepts that mutual recognition arrangements are now working. The three rail reports recommended a move to national rail regulation for safety, operating standards and national investigation, as did the independent review by Booz-Allen & Hamilton. At this time, the Commonwealth intends to allow current reform processes to continue, aiming for industry co-regulation, and State mutual recognition.

In November 1999 the ATC agreed that two new statutory bodies for national regulation and investigation on the interstate and intrastate track not be progressed at this stage. It also agreed to fund the development of statistics and analysis and referred the remaining matters raised by the report to the Standing Committee on Transport Rail Group for consideration and advice to Ministers.

The Commonwealth considers that mutual recognition of accreditation should be given the opportunity to work. However, if the current State-based arrangements are not effective in achieving national consistency by mid-2001, it will consider establishing a Commonwealth regulatory body for accreditation, standard setting and safety regulation on the national network. The Commonwealth will establish a national rail accident investigation function under the Australian Transport Safety Bureau.

## **Recommendation 18 – Rail Safety**

<b>Tracking Australia (Neville Report)</b>
The Australian Transport Council review public liability insurance to ensure more appropriate coverage which reflects the level of risk and responsibility of the owners and operators of public rail infrastructure. (9)

### *Response*

The Standing Committee on Transport Rail Group is considering public liability insurance as part of its program to address rail safety issues.

## Recommendation 19 – Competition Policy

Tracking Australia (Neville Report)	Revitalising Rail (Smorgon Report)
<p>The Commonwealth amend Part IIIA of the <i>Trade Practices Act 1974</i> to provide that, where the designated Minister does not publish a decision on a declaration recommendation referred to him or her by the National Competition Council within 60 days of receiving the recommendation:</p> <ul style="list-style-type: none"> <li>• the designated Minister should be taken to have declared the service (rather than the deemed decision to be in the negative), and <ul style="list-style-type: none"> <li>– the expiry date of the declaration will be that as recommended by the National Competition Council. (8)</li> </ul> </li> </ul>	<p><i>Competition policy</i> The Commonwealth Government amend Part IIIA of the <i>Trade Practices Act 1974</i> or take other steps to improve the mechanisms available to third parties to gain reasonable access to essential infrastructure.</p> <p>As part of its assessment, the Commonwealth should consider the merits of requiring that where the designated Minister does not publish a decision on a declaration referred by the National Competition Council (NCC) within 60 days:</p> <ul style="list-style-type: none"> <li>• the Minister shall be taken to have declared the service (rather than the deemed decision to be in the negative)</li> <li>• the expiry date of the declaration shall be as recommended by the NCC (22)</li> </ul>

### *Response*

The Commonwealth will consider the merits of the proposal to amend Part IIIA of the *Trade Practices Act 1974* to allow for a positive (rather than negative) deeming provision in section 44H(9) of the Act. This would occur within a Legislation Review of Part IIIA, to be conducted in 2000. It is also anticipated that this Review will consider means for improving mechanisms available to third parties to gain reasonable access to essential infrastructure.

## Recommendation 20 – Structural Arrangements

### Progress in Rail Reform (Productivity Commission Report)

Urban rail networks should be vertically integrated and horizontally separated from other rail networks. (6.1)

Train operations should be vertically separated from track infrastructure on the entire interstate network. The infrastructure should be managed by a single network manager.

A process involving the Commonwealth and affected States should be established to determine the roles and functions of the network manager and develop a code of conduct. (6.2)

Regional rail networks without market power should be horizontally separated from other networks and vertically integrated. (6.3)

Regional rail networks with market power (the main coal lines) should be horizontally separated from other networks. (6.4)

### *Response*

The Commonwealth preferred model for the interstate track is that train operations be vertically separated from track infrastructure and that the network be horizontally separated from the urban systems. The ARTC is pursuing opportunities to manage the mainland interstate rail network on this basis (refer ARTC/Access above).

The Commonwealth notes the Productivity Commission recommendations on the preferred models of integration for urban and regional networks. These issues should be considered, where applicable, by the relevant State governments.

## Recommendation 21 – Tax / Financing

### Revitalising Rail (Smorgon Report)

#### *Business taxation laws*

The following legislative approaches should be adopted:

- Section 51AD and Division 16D of the *Income Tax Assessment Act* should be significantly redrafted to focus on risk acceptance by the private sector rather than control issues
- there should be a statutory time limit of 3 months on the Australian Taxation Office to provide binding rulings regarding the applicability of Section 51AD and Division 16D
- Taxation Laws Amendment Bill No. 4 1998 should not be passed or re-presented to Parliament until there has been extensive consultation with industry (19)

#### *Response*

The Government supports increased private sector investment in the rail sector in above and below rail operations and infrastructure provision. A number of strategies are in place to achieve this objective:

- The Review of Business Taxation (RBT) has recommended the abolition of Section 51AD and the replacement of Division 16D. The Government has stated it supports in principle the RBT recommendations relating to leasing and will establish a Working Group to develop the recommendations in order that the approach be ready by 1 July 2001.
- Regarding the issue of a statutory time limit on the Australian Taxation Office (ATO) to provide binding rulings regarding 51AD and Division 16D:
  - There already exists a legislative scheme, *Taxation Administration Act 1953 Part IVAA*, governing the provision by the ATO of private binding rulings (“PBRs”)
  - The PBR legislation requires the provision of all relevant facts.
  - In addition, under the Taxpayers’ Charter, the ATO undertakes to meet certain timing standards when dealing with PBRs.
  - Non-binding opinions can be obtained if insufficient information exists for a PBR in the early stages of a project (see below).
- Proposed Division 243 contained in Taxation Laws Amendment Bill No. 4 1998 and re-presented in Taxation Laws Amendment Bill (No 5) 1999, has since been reviewed by the Senate Economics Legislation Committee. The Committee noted that substantial changes to the measure had been made to address concerns raised, and recommended that the bill be passed.

## Recommendation 22 – Tax / Financing

### Revitalising Rail (Smorgon Report)

#### *Business taxation administration*

The Australian Tax Office should establish:

- a specific infrastructure facilitation unit to provide timely, non-binding advisory services to private investors in the early stages of developing projects
- an independent advisory panel to improve its understanding of the commercial issues involved in major infrastructure projects (20)

#### *Response*

The Public Infrastructure Unit (PIU) in the Australian Tax Office provides advisory services for private investors to develop projects. The PIU provides non-binding opinions on a streamlined basis when sufficient information is available to identify the tax issues in a project.

The Review of Business Taxation has recommended the establishment of a statutory Board of Taxation. The Government has announced that it will establish an ongoing non-statutory Advisory Board which would allow access to private sector expertise on a regular basis on all aspects of taxation law.

## Recommendation 23 – Tax / Financing

### Revitalising Rail (Smorgon Report)

#### *IBTOS*

The current Infrastructure Borrowing Tax Offset Scheme must be restructured or expanded:

- to assist projects that have a potential realisation of beyond 12-18 months
- so that under or over spending in any particular year can be balanced out over the life of the scheme (18)

#### *Response*

Following the Government's decisions on Business Taxation, a review of IBTOS will be conducted to assess its effectiveness in helping secure private investment in public infrastructure.

## **Recommendation 24 – Industry Training**

<b>Tracking Australia (Neville Report)</b>
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The Commonwealth, in conjunction with the States/Territories and appropriate parties, develop and accredit national qualifications based on consistent curricula and accredited training courses available to all rail employees from approved educational centres. (5)
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### *Response*

The Commonwealth supports development and accreditation for rail employees of national qualifications based on consistent curricula and accredited training courses. However this is largely an issue for industry to address. To this end, the Commonwealth is facilitating the development and implementation of nationally uniform rail operational requirements.

*Comment:* The Australian National Training Authority is established under a Commonwealth/State agreement to facilitate development of national industry based training arrangements. Once adopted by the rail industry, uniform operational requirements are intended to form the basis of nationally consistent training courses.

## **Recommendation 25 – Further Review**

<b>Tracking Australia (Neville Report)</b>
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The transport committee in the next parliament should review:
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- |   |
|---|
| <ul style="list-style-type: none"><li>• responses by government and industry to the recommendations in the report</li><li>• progress in rail performance by government and industry since the Bureau of Industry Economics reports of 1992-95. (16)</li></ul> |
|---|

### *Response*

This is a matter for the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform.

## PLANNING NOT PATCHING

### Recommendation 1 – Commonwealth role

The Committee recommends that the Commonwealth's role in road funding should focus on achieving national objectives. (paragraph 2.24)

#### *Response*

While responsibility for road funding will remain shared between all three levels of government in Australia, the Commonwealth's role in road funding will continue to focus on national objectives. The primary focus for the Commonwealth will continue to be the National Highway Network, for which it is financially responsible. Contributions to construction of declared Roads of National Importance (RONIs) are made as budgets permit.

The involvement of the States, Territories and Local governments in the management of transport infrastructure as well as in land use planning makes it difficult for the Commonwealth to achieve national objectives through road funding alone.

### Recommendation 2 – Commonwealth role

The Committee recommends that where the Commonwealth chooses to take a direct role in funding its road programs the Commonwealth use specific purpose payments. Further, the Committee recommends that the Commonwealth retains responsibility for ensuring adequate performance outcomes are achieved for its programs. (paragraph 2.36)

#### *Response*

The Commonwealth provides road funding to the States and Territories for works on the National Highway and RONIs via specific purpose payments (ie. tied funding). The Commonwealth approves construction projects and maintenance and minor works programs within the context of its overall strategy. Funds are provided only as eligible expenditure is incurred and each project is monitored individually, ensuring that the Commonwealth maintains control over the outcomes of its programs.

### Recommendation 3 – Commonwealth role

The Committee recommends that the Commonwealth use specific purpose payments in the form of block grants to assist State/Territory and local governments with the road programs for which these governments are responsible. Further, the Committee recommends that the Commonwealth recognise that State/Territory and local governments are responsible for ensuring adequate performance outcomes are achieved for such programs. (paragraph 2.37)



### *Response*

The Commonwealth no longer provides specific purpose funding to the States and Territories for roads for which these other jurisdictions are responsible. The Commonwealth, States and Territories agreed in 1991 to absorb these grants progressively into the Commonwealth's general purpose funding to the States and Territories. However, these funds continued to be identified for roads.

New arrangements will be introduced to coincide with the introduction of the Commonwealth Goods and Services Tax (GST). In June 1999, the Commonwealth, the States and Territories signed an Intergovernmental-Agreement (IGA) on the Reform of Commonwealth-State Financial Relations under which the States and Territories will receive all the revenue from the GST. GST revenue grants may be used by the States and Territories for any purpose and will replace the current Financial Assistance Grants to the States and Territories.

Under this IGA, the Commonwealth will provide assistance to the States and Territories to ensure that the budgetary position of no State and Territory will be worse under tax reform than it is at present. The revised financial relations will mean that the States and Territories will remain fully responsible for all aspects of their roads programs, including the performance outcomes. It also means that they will have access to a growing source of revenue from which to finance roads.

The Federal Government currently provides substantial grant funding to local government. The funding comprises general purpose grants and identified local roads grants. Both components are untied in the hands of the receiving council ie it can use the money according to its own priorities.

Under the IGA, Commonwealth grants to local government will remain untied in the hands of local councils so that local government will remain responsible for the outcomes of its programs, including roads. The *Local Government (Financial Assistance) Act 1995*, under which funds are allocated to local government, is to be reviewed by 30 June 2001 and this review will take into account the recommendations contained in *Planning not Patching*.

### **Recommendation 4 – Commonwealth role**

The Committee recommends that the Commonwealth consult widely, develop and publish an integrated strategic plan for the national transport network by 1 July 1999. (paragraph 2.62)
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### *Response*

The Commonwealth can best respond to this recommendation (which is mirrored in the *Tracking Australia* report) by implementing a comprehensive, but broadly based transport strategy. The strategy must enhance Australia's international

competitiveness. The Government's responses to the road and rail reports are incremental in nature. They continue progress in implementing change based on affordable investment, national institutions and regulations and the application of national and generally applicable laws to all elements of the industry.

The Commonwealth has been at the forefront of efforts to reform and improve the Australian transport system. The Commonwealth reform efforts have resulted in the commercialisation of many aspects of infrastructure provision, particularly in the aviation and maritime sectors, with increasing involvement in infrastructure funding and provision by the private sector. While governments continue to fund certain rail improvements, the trend is towards providing services on a commercial basis. Governments have retained responsibility for roads funding and provision, with the Commonwealth responsible for funding the National Highway. Contributions to construction of declared Roads of National Importance are made as budgets permit. The Commonwealth has no other direct funding responsibility for roads.

The Commonwealth provides the overall economic, competitive and fiscal framework for transport infrastructure through the tax system, management of the economy and the national competition policy.

The Commonwealth is working cooperatively through the ATC to foster strategic thinking across all jurisdictions. This is the most appropriate forum to develop a coherent planning process for strategic transport infrastructure, as recommended in the road and rail reports. The ATC has agreed to set up a National Transport Secretariat to advise the Council on transport issues so that it can best address cross-modal, cross-jurisdictional and strategic issues of national significance. The expert group should enhance ATC's ability to progress national planning and reform. The Commonwealth will use the co-operative ATC processes to develop a coherent national planning process for strategic land transport infrastructure.

The approach will create an environment for land transport operations and infrastructure development, which enables all levels of government and the private sector to plan in greater policy certainty and to make long term commitments.

## **Recommendation 5 – Commonwealth role**

The Committee recommends that the Commonwealth demonstrate its commitment to the integrated strategic plan for the national transport network, proposed in Recommendation 4, by:

- Introducing greater certainty in road funding; and
- Providing an appropriate, guaranteed level of road funding to support the national outcomes agreed to in the integrated strategic plan. (paragraph 2.63)

### *Response*

Like all other Government funding, money for roads is provided through normal Budget processes.

The Government publishes forward estimates for three out-years in its Budget statements. The Minister for Transport and Regional Services advises the States and Territories of a forward works program covering these out-years at the time of the Budget.

Within the context of the Government's overall economic, competitive and fiscal strategy, the Government provides an appropriate level of funding in the Budget for its road program. Changes in Commonwealth/State arrangements associated with the Government's new taxation system reflect an important devolution of financial independence to the States and Territories.

## **Recommendation 6 – Adequacy and Extent of the National Highway System**

The Committee recommends that the Commonwealth, in consultation with States/Territories and appropriate parties, review the current stated objectives for the national highway system. (paragraph 3.27)

### *Response*

Agreed. This review is under way within the Department of Transport and Regional Services. The views of the States, Territories and other stakeholders have been sought and will be taken into account.

### **Recommendation 7 – Adequacy and Extent of the National Highway System**

The Committee recommends that, following the review proposed in recommendation 6, the objectives for the national highway system be formally incorporated into the *Australian Land Transport Development Act 1988* and its accompanying *Notes on Administration*. (paragraph 3.28)

#### *Response*

The objectives will be incorporated into the *Notes on Administration*, which are made under the authority of Section 37 of the *Australian Land Transport Development Act 1988*.

### **Recommendation 8 – Adequacy and Extent of the National Highway System**

The Committee recommends that the Commonwealth develop performance indicators against each national highway system objective to provide a basis for the regular evaluation of the performance of the national highway system. (paragraph 3.29)

#### *Response*

Agreed. As noted in the response to recommendation 6, the Commonwealth is reviewing the objectives for the National Highway System. The development of practical and workable performance indicators against each objective is part of this review.

### **Recommendation 9 – Adequacy and Extent of the National Highway System**

The Committee recommends that the performance of the national highway system be evaluated against its objectives and the relevance of the objectives be regularly reviewed. Further, the Committee recommends that the results of the evaluation, together with an implementation plan, be published by the Commonwealth every five years. (paragraph 3.30)

#### *Response*

The Department of Transport and Regional Services will report on the performance of the National Highway System against the objectives determined following a review of National Highway System objectives. The Government agrees to assess the performance of the National Highway System every five years. Consistent with its response to recommendations 4 and 5, the Government will address implementation issues through its forward work program.

## **Recommendation 10 – Adequacy and Extent of the National Highway System**

The Committee recommends that the Commonwealth request the Australian Transport Council in association with local government to develop a program to address deficient bridge infrastructure. (paragraph 3.107)

### *Response*

The Commonwealth played a leading role in ATC consideration of bridge upgrading issues. Local government was an active participant in ATC deliberations on this issue. The Commonwealth provided \$10 million for a survey to review bridges and identify deficiencies, including on local government bridges. In the 1999-2000 budget, the Commonwealth committed \$20 million over three years towards a bridge upgrading program to allow increased mass limits on the National Highway.

On 28 May 1999, the Commonwealth committed an additional \$30 million per annum to improve the standard of key national freight routes, including upgrading bridges to allow the use of higher mass limit vehicles. The resulting productivity increases in the road transport industry will benefit the economy generally.

To date the Commonwealth has developed a program of bridge upgrading on the National Highway in all States and Territories except NSW. This has enabled a significant network of key freight routes to be opened up to vehicles fitted with road friendly suspensions operating at higher mass limits. The States, Territories and Local government, however, are responsible for all roads apart from the National Highway and bridge upgrading on these roads is their responsibility.

To assist the States and Territories to meet their responsibilities, the Minister, on 6 March 2000, invited them to submit proposals for bridge upgrading on strategic freight routes off the National Highway. The Minister has committed \$30m for this upgrading over four years commencing in 2000-01.

## **Recommendation 11 – Adequacy and Extent of the National Highway System**

The Committee recommends that the guidelines for roads of national importance be formally incorporated into the *Notes on Administration* which accompany the *Australian Land Transport Development Act 1988*. (paragraph 3.154)

### *Response*

Agreed. The guidelines will be incorporated into the *Notes on Administration*, currently under review. However, they are already in force as part of the current administrative regime and state the objectives of the RONIs program, the criteria used for determining RONIs and specify some of the conditions under which the funding will be provided.

## **Recommendation 12 – Adequacy and Extent of the National Highway System**

The Committee recommends that projects funded under the roads of national importance category should:

- be prioritised on the basis of substantial net economic benefits using benefit cost ratios, and
- not be funded at the expense of the national highway system. (paragraph 3.155)

### *Response*

Funding of projects as RONIs is considered on a case by case basis according to the approved criteria. The criteria require funding to be focussed on those areas of network inadequacy where the largest net benefits, in terms of achieving national economic and social objectives, can be secured in the shortest timeframe.

The allocation of funding between the National Highway and RONI programs will be determined in the light of Commonwealth priorities.

### **Recommendation 13 – Adequacy and Extent of the National Highway System**

The Committee recommends that the Commonwealth work with the States/Territories to determine a suitable national road system comprising the national highway and roads of national importance, and its integration with State/Territory arterial roads. (Paragraph 3.167)

#### *Response*

Agreed. A project to define the criteria that would identify nationally significant roads is being undertaken through Austroads, the peak industry body representing Commonwealth, State and Territory road authorities. Road user groups are being consulted. The Commonwealth has given no undertaking that roads not already part of the Commonwealth funded network which are identified by this study will be accepted for RONI funding.

### **Recommendation 14 – Adequacy and Extent of the National Highway System**

The Committee recommends that the Commonwealth assess the standard and performance of the national road system every five years. (paragraph 3.168)

#### *Response*

Agreed. In *Planning not Patching* the Committee defines the national road system as the National Highway System and Roads of National Importance. As indicated in its response to recommendation 9, the Government agrees to assess the performance of the National Highway System every five years. The Commonwealth would need to consult with the States and Territories on arrangements to assess the performance of the national road system other than the National Highway referred to under the response to Recommendation 13.

Consistent with road responsibilities in Australia, the standard and performance of all other roads are the responsibility of the States, Territories and Local governments.

## **Recommendation 15 – Adequacy and Extent of the National Highway System**

The Committee recommends that the present scope of the national highway system be maintained and that the inclusion of additional roads within the Commonwealth's national road system should be funded as roads of national importance and accompanied with a commensurate increase in Commonwealth road funding. (paragraph 3.169)

### *Response*

The Government will maintain the present scope of the National Highway System. Roads outside this system to receive Commonwealth funding will be funded as RONIs, except of course, local roads which receive Commonwealth funding under the *Local Government (Financial Assistance) Act 1995*. Expenditure on RONIs will continue to be for construction only and will not cover maintenance. Allocation of funds for RONIs will be made according to budget priorities.

## **Recommendation 16 – Funding**

The Committee recommends that untied road funding paid to the States/Territories and local government be paid as tied block grants and maintained in real terms. (paragraph 4.40)

### *Response*

It was decided in 1991 that Commonwealth funding for roads for which the States and Territories are responsible would be absorbed into the Commonwealth's general purpose funding to the States and Territories and it is not proposed to reverse this decision. Under a June 1999 IGA, current untied road funding to the States/Territories and identified for roads will be absorbed into the GST revenue payments.

The Commonwealth will continue to provide assistance to local government under existing arrangements where the grants are untied in the hands of local councils. The *Local Government (Financial Assistance) Act 1995* is to be reviewed by 30 June 2001.



### **Recommendation 17 – Funding**

The Committee recommends that the Commonwealth ensure greater certainty in its tied road funding program by implementing a guaranteed funding approach for a rolling three year period. (paragraph 4.70)

#### *Response*

The Government publishes forward estimates for three out-years in its Budget statements. The Minister for Transport and Regional Services advises the States of a forward works program covering these out-years at the time of the Budget. This provides sufficient certainty of funding at the strategic level.

### **Recommendation 18 – Funding**

The Committee recommends that the Commonwealth, in consultation with States/Territories, establish an asset management strategy for the national highway system. (paragraph 4.82)

#### *Response*

Agreed. The Department of Transport and Regional Services has commissioned consultants to prepare advice on development of a maintenance management strategy based on asset management principles, in consultation with the States and Territories.

### **Recommendation 19 – Funding**

The Committee recommends removing the hypothecation provisions from the *Australian Land Transport Development Act 1988*. Further, the Committee recommends that the Commonwealth source future road funding directly from consolidated revenue in line with agreed outcomes in the integrated strategic plan for the national transport network proposed in Recommendation 4. (paragraph 4.113)

#### *Response*

Agreed in principle and will be addressed when amendments to the Act are next considered. See the response to recommendation 4.

## **Recommendation 20 – Funding**

The Committee recommends that, for the national highway system, the Commonwealth with the States/Territories examine the potential for alternative road user charges. (Paragraph 4.129)

### *Response*

The Commonwealth does not agree with this proposition. Heavy vehicle charges will continue to be considered by Transport Ministers on advice from the NRTC.

## **Recommendation 21 – Funding**

The Committee recommends that the Commonwealth provide resources for the Bureau of Transport and Communications Economics to enable it to develop a model to determine road funding needs for urban national highway links. (paragraph 4.164)

### *Response*

The Commonwealth recognises the importance of properly determining the funding requirements for urban National Highway links for which it is responsible. This must be linked closely to work undertaken by the States in relation to the road needs of the metropolitan areas as a whole for which they, and Local government, are responsible. The Commonwealth is responsible for a very small portion of urban road networks.

## **Recommendation 22 – Administrative arrangements**

The Committee recommends that the Commonwealth revise the *Australian Land Transport Development Act 1988*:

- to repeal hypothecation provisions,
- to remove any other superseded or inappropriate provisions, and
- to ensure its provisions adequately support the adoption of a strategic role for the Commonwealth as recommended in this report.

Further, the Committee recommends that amendments to existing legislation or new legislation be introduced into Parliament during 1998. (paragraph 5.16)

### *Response*

Agreed and will be addressed when amendments to the Act are next considered, with timing to be subject to the Government's legislative program.

### **Recommendation 23 – Administrative arrangements**

The Committee recommends that the *Notes on Administration* which accompany the *Australian Land Transport Development Act 1988* be reviewed and regularly updated to reflect current administrative requirements. (paragraph 5.23)

#### *Response*

As indicated in the response to Recommendation 11, the *Notes on Administration*, now under review, should be finalised by mid-2000. They will be reviewed regularly and updated as required.

### **Recommendation 24 – Administrative arrangements**

The Committee recommends that the revised *Notes on Administration* and subsequent updates be distributed to relevant Commonwealth and State/Territory agencies as a controlled document. (paragraph 5.24)

#### *Response*

The *Notes on Administration* are a public document and will continue to be provided to the States and Territories as a matter of course. It is also proposed to add the revised Notes to the Department's internet site.

### **Recommendation 25 – Administrative arrangements**

The Committee recommends that the Commonwealth work with the States/Territories to define the responsibilities of all parties in ensuring an efficient project approval process, including:

- the tailoring of approval procedures to match individual State/Territory needs and circumstances, and
- the setting of performance targets for the submission and processing of projects.

Further, the Committee recommends that the Minister for Transport and Regional Development report to the Parliament on the changes implemented under this recommendation by 30 September 1998. (paragraph 5.62)

#### *Response*

The Commonwealth is consulting State and Territory road authorities on revising procedures for incorporation into the *Notes on Administration*.

## **Recommendation 26 – Administrative arrangements**

The Committee recommends that the Commonwealth undertake an evaluation of the effectiveness of the maintenance performance agreements, including the effect of imposing the five per cent efficiency dividend on efficiency and on maintenance standards in each State/Territory. (paragraph 5.75)

### *Response*

Work has commenced on evaluating the effectiveness of maintenance performance agreements, including the question of the level of funding for maintenance. The Department of Transport and Regional Services has written to the States and Territories to advise them of the next stage of the work and the jurisdictions will continue to be consulted throughout this process.

## **Recommendation 27 – Administrative arrangements**

The Committee recommends that the Commonwealth work with the States/Territories to determine the scope for construction performance agreements for Commonwealth projects which retain Commonwealth project approval provisions. (paragraph 5.82)

### *Response*

The Government's approach is to provide an overall strategic direction to the National Highway program while giving the States responsibility for delivery of National Highway projects against agreed outcomes.

The Commonwealth is mindful of the need to ensure the efficient expenditure of public funds. It undertakes financial oversight and, where appropriate, engineering review of Federally funded road projects. The Department of Transport and Regional Services will examine its current arrangements with a view to achieving an outcome similar to the performance agreement approach recommended by the Committee. This may take the form of enhanced project outcome reporting requirements on the States and Territories that will be incorporated into the *Notes on Administration*.

### **Recommendation 28 – Administrative arrangements**

The Committee recommends that AUSTRROADS further develop its guidelines on benefit cost analysis to engender greater consistency between States/Territories. (paragraph 5.101)

#### *Response*

Agreed. An Austroads project aimed at ensuring greater consistency between the States and Territories in the application of benefit cost analysis has been completed and the jurisdictions have agreed on greater harmonisation of benefit cost models. All jurisdictions are considering whether to adopt a single economic benefit model.

### **Recommendation 29 – Administrative arrangements**

The Committee recommends that the Commonwealth, in conjunction with States/Territories, examine the scope for the development and maintenance of a national road database to support the Commonwealth's strategic role in road funding and determine an appropriate organisation to develop and maintain such a database. (paragraph 5.108)

#### *Response*

Agreed. The Department of Transport and Regional Services is examining the possible establishment of such a database with the assistance of ARRB Transport Research Ltd.

### **Recommendation 30 – Private sector involvement**

The Committee recommends that the Commonwealth consider the following factors in assessing proposals for private sector investment for road projects in which the Commonwealth has an interest:

- the additional net benefits to the community, and
- the distribution of benefits and costs across the community. (paragraph 6.44)

#### *Response*

Agreed.

### **Recommendation 31 – Private sector involvement**

The Committee recommends that the Commonwealth seek to achieve economies of scale and scope in the structuring of Commonwealth funded road projects by using contracts that:

- combine small related projects into a larger project;
- combine design, construction and maintenance services (where appropriate); and
- use long term maintenance periods. (paragraph 6.66)

#### *Response*

Agreed. The Commonwealth encourages the amalgamation of small-related projects. This is the practice for works in most States. Some design/construct/maintain projects have been completed already, eg. Bulahdelah to Coolongolook on the Pacific Highway, and the specifications for others, eg. Yelgun to Chinderah, also on the Pacific Highway, are being developed. Long-term maintenance contracts have been let in Tasmania and Western Australia and most other States are examining this option.

### **Recommendation 32 – Private sector involvement**

The Committee recommends that the Commonwealth identify and remove any unwarranted legal or administrative impediments to private or public sector financing for road provision and maintenance by the Commonwealth or the States/Territories. (paragraph 6.88)

#### *Response*

These are very complex issues, and there is not likely to be a unanimous view on what constitutes 'unwarranted'. Nevertheless, the Commonwealth considers that scope exists for greater use of private capital and expertise in the provision of road infrastructure.

**Recommendation 33 – Private sector involvement**  
(Planning not Patching Recommendations 33 and 34)

The Committee recommends that the Commonwealth examine methods by which industry may contribute to Commonwealth road projects and a report to Parliament be provided by 1 June 1998. (paragraph 6.114)

The Committee recommends that the Commonwealth ensures that agreements involving the private sector in Commonwealth road projects are transparent and open to public scrutiny. (paragraph 6.120)

*Response*

The Commonwealth is considering options for involving the private sector in funding and provision of road infrastructure. Any agreements involving the private sector would be negotiated following a public tender process and would necessarily involve the States and Territories. Issues of commercial confidentiality would affect the extent to which the agreements could be made public.