



AUSTRALIAN LOGISTICS COUNCIL

DECEMBER 2013

ALC SUBMISSION TO THE PRODUCTIVITY COMMISSION REVIEW INTO PUBLIC INFRASTRUCTURE



THIS SUBMISSION HAS BEEN PREPARED WITH THE
ASSISTANCE OF KM CORKE AND ASSOCIATES, CANBERRA.

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RECOMMENDATIONS

Recommendation 1

The Heavy Vehicle Charging and Investment Reform secretariat should complete its current research work being undertaken on road access pricing for heavy vehicles for its next report to the Standing Council on Transport and Infrastructure.

Recommendation 2

Infrastructure Australia or some other suitable entity should then:

- a. assume the responsibility to co-ordinate and where possible, take responsibility for trials and case studies being undertaken relating to price; and then
- b. subsequently develop recommendations on road pricing for the consideration of governments.

Recommendation 3

The terms of reference of either the taxation reform white paper or the federalism white paper should be sufficiently wide to consider how a National Road Transport Agreement along the lines proposed in Recommendation 68 of the Henry Review of Taxation could be implemented.

Recommendation 4

States and territories should:

- a. vigorously consider the 'recycling' of capital assets;
- b. establish a statutory fund, similar to the Restart NSW Fund Act 2011, into which receipts from asset disposals should be lodged; and
- c. restrict expenditures from such a fund to investments in new infrastructure

Recommendation 5

High level planning instruments should detail how the preservation of transport corridors identified in freight and logistics plans or as part of the exercise of mapping key freight routes under activity 1.1 of the National Land Freight Strategy will be funded.

Recommendation 6

Primary planning legislation empowering decision makers to make subordinate planning instruments for particular regions or locations must place a positive legal duty on decision makers to give effect to freight and logistics plans made by government when making either planning instruments or decisions governing land use.

Introduction

The Australian Logistics Council is pleased to make a submission to the Productivity Commission's inquiry into public infrastructure.

A question posed by the Commission is what constitutes 'public infrastructure'.

ALC considers 'public infrastructure' to be infrastructure traditionally built, owned and operated by government (including corporate entities owned or controlled by government) and used by the public.

There is increasing private provision or ownership of those 'traditional' assets. However, given the relatively finite class of assets that would fall within this definition (roads, ports, railways, airports and water, gas and electricity utilities) that should be sufficient for this inquiry.

Of the issues being considered by the Commission, ALC wishes to concentrate on two general areas:

- » road funding; and
- » the way planning documents made by government protect the land corridors necessary to allow new infrastructure to be developed.

Road Funding

As the Commission has noted in its draft report on the National Access Regime

Some inquiry participants suggested that the inability of heavy vehicle operators to access parts of the road network could be addressed through the Regime. The Commission does not consider that the particular issue of heavy vehicle access to road infrastructure should be addressed under the Regime. There is insufficient evidence to conclude that road operators have an incentive to deny access to heavy vehicle operators in order to limit competition in a dependent market. Restrictions as to which roads can be accessed by heavy vehicles are generally based on technical, safety or engineering reasons. These are not issues that the Regime is designed to address. Issues relating to heavy vehicle access and investment in road infrastructure are being considered under the COAG Heavy Vehicle Charging and Investment Reform project.¹

Whilst, on balance, that was a correct analysis, it remains the case that as Infrastructure Australia's submissions to that inquiry illustrate there is certainly a case (at least on major routes) for the utilisation of the standard access pricing principles inherent in the *Competition and Consumer Act 2010*.

The current ALC view is that there should be improvement in the road cost attribution and allocation mechanisms to those existing today.

ALC therefore supports the introduction of some form of mass distance location charging of vehicles, with prices set to generate expected revenue for the provision of services at the level that recovers:

- a. the efficient cost of providing access to the regulated service;
- b. a return on investment commensurate with the regulatory and commercial risks involved; and
- c. depreciation

so long as such funds that are collected are actually invested in the infrastructure used by the vehicle (that is, the revenue ‘follows the freight’) and not diverted into consolidated revenue for use for other purposes and that any payments made to a road owner in the form of a CSO payment is transparent.

As the Commission observes the Heavy Vehicle Charging and Investment Reform Initiative (**HVCI**) has been established by COAG to deal with road pricing.

Whilst ALC supports the general direction that the HVCI is going, it is somewhat concerned at the speed at which it is proceeding.

At this stage, the HVCI secretariat is to commence ‘no regrets’ research designed to resolve government policy issues and to allow better understanding of the relative impacts of the reform, with a view of presenting a directions paper for the consideration of the Standing Council on Transport and Infrastructure (SCOTI) in May 2014.

ALC understands this work includes determining:

- a. how demand forecasting could be undertaken so as to permit the development of a forward-looking cost base that incorporates forecast cost and demand data; and
- b. the capacity local government (in particular) has to prepare funding cases using the traditional ‘building block’ model to calculate a regulated asset base.

This should continue, as should work designed towards better determining how to define the service levels heavy vehicle operators expect from road owners is central to this reform.

That said, however important this research is, ALC is concerned that reform could be some years away.

Many roads rely on some form of budget funding to finance construction (to start with) and then (subsequently) fund maintenance. There is a significant political risk that scarce public funds will be put to other uses.

Some ALC members believe there is advantage to conduct a form of trial to determine (amongst other things) how:

- » new methods of working out the service levels required by heavy vehicle operators on a particular road; and
- » the imposition of a charge that secures the provision of productivity-enhancing upgrades would actually operate in practice.

Information derived from this data could then perhaps be used to develop an access pricing scheme that can adopt models used by other regulated utilities rather than effectively build a model from ‘scratch’ – as the HVCI is attempting to do.

To that extent, ALC notes:

- » the New South Wales and Victorian Governments, with support from Infrastructure Australia, are progressing trialling the use of high productivity vehicles on key freight routes with incremental costs of infrastructure to be financed by industry beneficiaries, with a detailed business case is due to be developed by the end of this year²; and
- » Austroads has a project on foot with a purpose of:
 - (u)ndertak(ing) ‘real world’ case studies to determine the actual costs of upgrading HPV routes, identifying the benefits achievable by doing so, and determining the ability of potential future charging regimes to provide the required funding outcomes to justify or expedite investment.³

There are thus a number of different entities undertaking work on road pricing.

There is some scope for focusing this work so that funding reform can proceed as quickly as possible.

This is particularly the case now that COAG has commissioned the provision of urgent advice on progress of the HVCI.⁴

² See Transport for NSW *Freight and Port Strategy* (2013): 72

³ www.jr.net.au/Austroads/Project/Details.aspx?ProjectID=1366 accessed 11 December 2013

⁴ Council of Australian Governments *Communique* (2013):1

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- b. subsequently develop recommendations on road pricing for the consideration of governments.**

Finally, it is noted that the HVCI concept is only designed to recover 'incremental user costs' generated by heavy vehicles and not 'total costs' – that is, the short term marginal costs incurred by heavy vehicle road use.

Light vehicle use is acknowledged as being the demand driver for new roads.

Given this, there is some concern that many road owners will be loath to invest where there is a chance that insufficient demand will mean that there is a risk the service provider will not be compensated for the cost of supplying the access.

It follows that now may be the time to consider commencing the paradigm shift from the concept of road infrastructure being a public good funded by budgets and towards a concept where there is a direct charging of all uses.

This will be necessary, given the pressure on state and federal budgets to provide services and transfer payments in many different areas of public policy.

Recommendation 68 of the Henry Review suggested COAG develop a National Road Transport Agreement to establish the objectives, outcomes, outputs and incentives to guide governments in the use and supply of road infrastructure, with a single institution nominated to lead road tax reform.⁵

Moreover, as the *Australian Financial Review* reported:

An inquiry into the tax system will be linked to a review of state and federal relations, a move that gives the Abbott government more latitude to propose changing the goods and services tax after its first term in office.

Arthur Sinodinos, the Assistant Treasurer, said a tax reform white paper and a federalism white paper would be "linked" and could be written at the same time.⁶

This process could be the opportunity for a discussion as to how to develop a general charging regime for access to road infrastructure that can lead to sustainable investment in road infrastructure and thus Australian productivity.

This will of course also include consideration as to the level of excise levied by the Commonwealth, should a direct charging regime be established.

It may also be the opportunity to consider which level of government should be responsible for planning, funding and delivering infrastructure of national significance, so as to remove some coordination problems inherent in different levels of government having different policy priorities, yet one level of government (the Commonwealth) having the 'power of the purse' to ultimately direct outcomes as a result of vertical fiscal imbalance.

Recommendation 3

The terms of reference of either the taxation reform white paper or the federalism white paper should be sufficiently wide to consider how a National Road Transport Agreement along the lines proposed in Recommendation 68 of the Henry Review of Taxation could be implemented.

⁵ Recommendation 68 and pages 407 and 408 of the Henry Review

⁶ Australian Financial Review *Taxation White Paper Could Lay Groundwork for GST Charges* 27 September 2013 www.afr.com/p/national/taxation_white_paper_could_lay_ground_q1prgsJUhUfoUjO7qRpNfl accessed 13 December 2013

Funding

The Commission asks what alternative funding mechanisms should be put in place to attract private sector finance.

As the Commission is aware, the Infrastructure Finance Working Group (**the IFWG**) have made a number of recommendations on this issue.

And as the issues paper for this reference indicates, one of the models particularly discussed by the IFWG is 'capital recycling' of assets.

ALC has strongly supported this concept, with the CEO of ALC indicating in a recent speech that the Council supports the concept of leasing the Port of Melbourne, with funds raised hypothecated into a fund to be used for investment in other important elements of freight infrastructure.⁷

NSW is currently doing this through the deposit of the funds from (amongst other things) the long term lease of port assets into the Restart NSW fund.

The fund is established by the *Restart NSW Fund Act 2011*.

ALC believes the NSW model should be replicated by other states and territories.

It is finally noted that on 27 November 2013, the Standing Committee on Federal Financial Relations came to an in-principle agreement where, if states agree to privatise assets the corporate tax the private owner would then pay to the federal government would instead be returned to the respective state government as a tax equivalent incentive payment.

ALC hopes this incentive will encourage jurisdictions to commence recycling assets.

Recommendation 4

States and territories should:

- a. vigorously consider the 'recycling' of capital assets;**
- b. establish a statutory fund, similar to the *Restart NSW Fund Act 2011*, into which receipts from asset disposals should be lodged; and**
- c. restrict expenditures from such a fund to investments in new infrastructure**

The Commission is aware there are a number of infrastructure funding models that can be considered.

They are collected in a number of publications. One such example the Committee for Melbourne's *Moving Melbourne – A Transport Funding and Financing Discussion Paper*.⁸

However, in analysing planning documentation prepared by jurisdictions to satisfy the terms of the National Land Freight Strategy and the National Ports Strategy, ALC has found that discussion as to how to fund and finance particular pieces of infrastructure is scant.

As ALC said in a recent submission to the Victorian Government⁹:

The discussion paper acknowledges a historic under-investment in the provision and maintenance of infrastructure and services.¹⁰

The discussion paper contains a list of some ways by which infrastructure can be financed and funded. However, it is just that – a list.¹¹

No preliminary preferences are expressed as to how infrastructure of state significance (as opposed to local infrastructure) or transport corridors and buffer zones are to be funded.

7 Speech to the Victorian Major Projects Conference 20 November 2013 <http://austlogistics.com.au/wp-content/uploads/2013/11/Victorian-Major-projects-conference.pdf>

8 <http://www.melbourne.org.au/docs/moving-melbourne--a-transport-funding-and-financing-discussion-paper.pdf> accessed 13 December 2013

9 ALC ALC Submission on *Plan Melbourne – Metropolitan Planning Strategy* (2013):5 http://austlogistics.com.au/wp-content/uploads/2013/12/Sub_Plane-melbourne_02.pdf accessed 13 December 2013

10 *Melbourne Let's Talk About the Future*:74

11 Op cit: 76 and 78

ALC has noted that similar documents prepared interstate, such as the NSW Master Transport Plan place emphasis on developing mechanisms to preserve transport corridors – a vital element for planning for the future, but neither set aside funds to purchase lands for corridors nor identify mechanisms to ensure that corridors can be protected.

Recommendation 5

High level planning instruments should detail how the preservation of transport corridors identified in the freight and logistics plan or as part of the exercise of mapping key freight routes under activity 1.1 of the National Land Freight Strategy will be funded.

Land availability/cost of land

This leads to ALC's final observation.

ALC has always been concerned the interests of freight are the 'poor cousin' of planning, with the needs to move goods secondary to other interests, such as urban development.

This is a concern reflected by Infrastructure Australia and the National Transport Commission.¹² It is one of the reasons why at national level requirements imposed by:

- » the National Land Freight Strategy;
- » the COAG Capital City Strategic Planning reforms;
- » the National Ports Strategy and
- » the National Corridor Protection Strategy

have been formulated.

Whilst ALC acknowledges a renewed commitment towards integrating infrastructure interests in planning documentation generally by jurisdictions, governments do change over time and the interests of freight and infrastructure can suffer.

For example, with respect to the Planning Bill introduced into the NSW Parliament in 2013:

- » the word 'freight' was not mentioned in the legislation;
- » freight needs were not mentioned by the Planning Minister in opening or closing debate on the legislation in the Legislative Assembly; and
- » freight concerns (cf. residential amenity) failed to feature in debate in any way at all.

The Bill has now been withdrawn, following amendments made to it that (for the most part) were made to advance particular residential amenity outcomes which were considered unsatisfactory by the Government.

ALC has therefore formed the view that rather than merely have high level documents that either 'inform' or otherwise should 'be taken into account' when making planning decisions, those making decisions **must** be placed under a mandatory duty to consider **and give effect** to policies contained in documents such as the freight and logistics plan.

What ALC has in mind is a provision similar to subsection 141T(2) of the *Transport Integration Act 2010* as it prescribes the way in which the Port of Hastings Development Authority undertakes its activities, which reads:

2. In performing the functions conferred on the Port of Hastings Development Authority, the Port of Hastings Development Authority must—
 - a. carry out its functions consistently with State policies and strategies for the development of the Victorian port and freight networks; and
 - b. (.....)

This would satisfy Recommendation 7.6 of the Commission's December 2013 research report *Major Project Development Assessment Processes* which suggests legislative guidance should be provided for decision makers to follow when making approval decisions, which includes the factors that decision makers need to take into account when making decisions.

¹² Infrastructure Australia and the National Transport Commission *The Proposed National Ports Strategy*: 33

Recommendation 6

Primary planning legislation empowering decision makers to make subordinate planning instruments for particular regions or locations must place a positive legal duty on decision makers to give effect to freight and logistics plans made by government when making either planning instruments or decisions governing land use.

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