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1. Introduction

The Productivity Commission (the Commission) has sought to investigate costs, competitiveness and the provision of road infrastructure. The Commission has stated that there is a need for a comprehensive overhaul of processes in the assessment and development of public infrastructure projects.

The ATA shares some of the Commission's sentiments:

- that without supply side reform more spending will simply increase costs for users, taxpayers, the community and sustain the provision of wasteful infrastructure,
- there is poor value for money arising from inadequate project selection and delivery; and
- that it is essential to reform governance and institutional arrangements for public infrastructure to promote better decision making in project selection, funding, financing and the delivery of infrastructure services.

However, we disagree with the Commission's assertion that in order to improve institutional reform drastic road pricing change is required¹. Funding deficiencies have been exacerbated by poor decision making, meagre accountability and unconditional grants to state level road agencies. There are many immediate 'no regrets' steps that can be taken on the activities of road agencies before any consideration of mass distance location charging is implemented.

The Australian Automobile Association, The National Roads and Motorists' Association, RACV, RACQ and Infrastructure Partners Australia released a recent report² in favour of user charges (congestion charge) for light vehicles. However, the report fails to recommend any supply side reforms. The Commission has demonstrated are needed for improved accountability, transparency and benchmarking.

Industrial relations matters and financing arrangements are outside the scope of this submission.

2. Australian Trucking Association

The ATA is the peak body that represents the trucking industry. Its members include state and sector-based trucking associations, some of the nation's largest transport companies, and businesses with leading expertise in truck technology.

3. Recommendations

Recommendation 1

The Commission should adopt the short-term (no regrets) steps from the PricewaterhouseCoopers report: *A future Strategy for Road Supply and Charging*.

Recommendation 2

The ATA supports the Commission's recommendations to improve governance arrangements and for conditional funding for infrastructure projects.

Recommendation 3

The ATA supports the Commission's draft recommendation 8.2, with the substitution of *significant* infrastructure projects in Australia being benchmarked, not just *major* projects.

¹ Page 235 - The Productivity Commission: Public Infrastructure Draft Report - March 2014

² Road Pricing and Transport Infrastructure Funding: Reform pathways for Australia: Discussion Paper March 2014

Recommendation 4

The Commission should describe and recommend better governance processes, including benchmarking and asset quality management, to be mandated for all road agencies.

Recommendation 5

The Commission should promote draft recommendations 11.1, 11.2 and 11.3, which will improve the productivity of procurement practices.

Recommendation 6

The Commission should advise ministers to insist upon cost benefit analyses, following the publication of Commonwealth guidelines, to improve the quality and transparency of proposals.

Recommendations 7

The Commission should ensure that state and local government entities are made aware that community service obligation funding for roads must continue to exist, as many roads will never be fully funded by users.

Recommendation 8

The Commission should reconsider the concept of a road fund given concerns over giving unelected officials ministerial-like funding powers.

Recommendation 9

The Commission should recommend basic public accountability processes for road agencies before a potentially costly regulator is created.

Recommendation 10

The Commission should not support the heavy vehicle charging and investment (HVCI) reform as its user charges are not cost effective and will not produce any positive change in the industry's road usage.

Recommendation 11

The Commission should encourage road agencies to address congestion abatement in the other ways it has suggested before considering a congestion charge.

Recommendation 12

The Commission should only support the implementation of variable charging if the government can demonstrate the detailed data collected through variable charging can, and will, be used to improve road investment decision-making and outcomes, in such a way that the added cost, time and complexity of the new process is warranted.

4. PricewaterhouseCoopers (PwC) report: A future strategy for road supply and charging in Australia

The PwC work: *A future Strategy for Road Supply and Charging in Australia*, sets out clear priorities for reforming road supply and charging.

PwC provided a transition pathway to improve heavy vehicle charges and supply side provision.

Short-term recommendations included:

- Defining a three-tier road freight network, which would target investment, reporting and funding on the basis of the level of service provided.
- Reporting, benchmarking and reviewing road costs reported by states, territories and local government road owners on each tier of the network. Comparing these costs to established benchmarks and the associated level of access with the investment would improve the accountability of road agency spending.
- A transparent formula for allocating funding to infrastructure suppliers. Allocating recovered funds should reflect the heavy vehicle share of road costs, heavy vehicle use and access upgrades required for the three tiers. Existing and emerging data can support this allocation. The formula would also include a mechanism to fund low-volume roads through community service obligations.
- Improving cost reflectivity of road charges, such as increasing the data accuracy of inputs and auditing road agency heavy vehicle expenditure inputs.

PwC also provided medium and long-term recommendations that should only be implemented, if and when, the short-term recommendations are delivered and operating:

- Reporting, benchmarking and review of efficient costs. Independent benchmarking of efficient road investment and maintenance costs should be tied to funding allocations for road agencies.
- Potentially establishing a national road fund. This would assess available freight demand data and submissions from government and the freight industry to develop forward looking investment and maintenance plans for each tier of the network.
- Further improving the cost reflectivity of road charges in the medium term, a majority fuel based charge should be adopted, reducing the role of registration charges.
- Continuing with a fuel and registration-based charge until a strong business case for variable charging emerges. A move to variable charging will be costly and carries high risks of inefficiency in revenue collection.

PwC recommends variable charging be implemented only if the government can demonstrate the detailed data collected through variable charging can, and will, be used to improve road investment decision-making, in such a way that the added cost, time and complexity of the new process is warranted.

The ATA supports the short-term PwC recommendations and once the short-term recommendations are established it will consider the medium to long-term recommendations.

Recommendation 1

The Commission should adopt the short-term (no regrets) steps from the PricewaterhouseCoopers report: *A future Strategy for Road Supply and Charging*.

5. Supply side reform

5.1 Governance arrangements and conditional funding for states

The Commission report acknowledges the ATA's comments that there are limited conditions currently for states and territories who receive government grants earmarked for road expenditure. Therefore, the ATA supports draft recommendation 7.1 which refers to good governance arrangements being incorporated into Institutional arrangements for the provision and delivery of public infrastructure. We also support recommendation 7.3 that Australian Government funding or other forms of assistance (such as loans and governments guarantees) for public infrastructure that is provided to local, state and territory Governments should be conditional.

The good governance arrangements should include:

- The principal objective of ensuring that decisions are undertaken in the public interest.
- Clear and transparent public infrastructure service standards.
- Effective processes, procedures and policy guidelines for planning and selecting public infrastructure projects, including rigorous application of cost benefit analysis and transparency in cost benefit assessments, public consultation and public reporting of the decision (including transparent review of the decision by an independent body, for example, an Auditor General or Infrastructure Australia).
- Efficient allocation and monitoring of project risks between government and the private sector.
- Use of transparent and competitive processes for the selection of private sector partners for the design, financing, construction maintenance and/or operation of public infrastructure.
- Sufficiently skilled public sector employees who are responsible and accountable for performing their functions.
- Principles and processes for selecting efficient financing mechanisms and transparency of financing arrangements.
- Performance reporting and independent evaluation of public infrastructure project performance.³

As noted in the report, grants currently given by the Commonwealth to states and local governments are not made on a conditional basis. This means that there are loose guidelines governing where monies originally earmarked for roads are spent.

We also strongly support the request for Commonwealth funding as conditional on compliance with a set of good practice governance principles and policy processes.

The Commission suggests a sensible set of conditions for funding:

- Use of effective cost benefit analysis and transparency assessments including the methodology and assumptions.
- Evidence of demonstrable net public benefits from the project which is not obtainable without Australian Government support.
- Evidence that competitive processes will be used for the selection of financing, design, construction, maintenance and operation of public infrastructure services where these tasks have been outsourced to the private sector.
- Ex-post evaluation and publication of public infrastructure project outcomes.
- Consultation on the criteria to be applied and any potential implementation issues associated with such an approach should be undertaken with local, state and territory governments.
- All governments should be encouraged to apply the above principles and actions to their own-funded projects.⁴

³Page 223 - The Productivity Commission: Public Infrastructure Draft Report - March 2014

⁴Page 36 - The Productivity Commission: Public Infrastructure Draft Report - March 2014

The ATA does not support user charges in one transport mode being redirected to support other modes. For example truck charges should not fund rail developments, as this is cross subsidisation between modes.

We also share the Commission’s view that the stagnation in the provision of the correct infrastructure is the reason why there should be nationwide reform that could be boosted through leverage from the Australian government’s large annual outlays of infrastructure funding for the states and territories.⁵

In order to add support for the ATA view and the Commission’s recommendations we provide the case study below.

Case Study 1: audit report on the management of the Strategic Regional Program.

The Australian National Audit Office (ANAO) carried out a performance audit on the Strategic Regional Program in the Department of Infrastructure, Transport, Regional Development and Local Government. The audit found that accountability over how Commonwealth funds were allocated and spent, and general practices of local governments’ road provision were not working as efficiently they should have been.

The Program stated projects were based on the merits of meeting a set of guidelines which were meant to promote regional Australian endeavours. However, failings in the drafting of these legislative guidelines did not enforce accountability on providers⁶. Guidelines were updated in July 2009⁷ aiming to improve the transparency and accountability of grant decision making processes. Nevertheless, the department found that by April 2010, 11 projects provided by local governments did not come under the requirements of the new grant guidelines.⁸

Flaws in judgement were discovered, with problems in decision makers rating projects correctly and being able to rank and price up projects accordingly. Ministers were given projects that were rated low in eligibility that were still approved at the time.⁹ At the ANAO’s request ministers provided the evidence of projects that were not funded in 2006, they found that 83% of all applications were not approved for funding.¹⁰

The audit found that in 2006 “65% of projects approved for funding...by the then minister had either not been assessed against the published program guidelines; had been assessed as being ineligible under the guidelines; or had not been assessed as meeting the relevant criteria to a high degree.”¹¹ Along with ministers approving projects which were rated with low eligibility, administrative best practice was not enforced with much of the paperwork not provided for projects that were approved.¹²

The ANAO suggested a number of recommendations, based on its findings. Calling for an enhanced financial management framework to improve the transparency and accountability of the decision making processes.¹³

Improving cost benefit analysis for ministers, so that better judgement calls can be made. Approving projects based on how well they fit legislative guidelines¹⁴ and to promote value for money for the Commonwealth and constituents.¹⁵

⁵ Page 30 - The Productivity Commission: Public Infrastructure Draft Report - March 2014

⁶ Page 22 paragraph 29 - ANAO Audit Report No.30 2009–10 Management of the Strategic Regional Program/Off-Network Program

⁷ Commonwealth Grant Guidelines: Policies and Principles for Grants Administration July 2009

⁸ Page 23 – paragraph 35 - ANAO Audit Report No.30 2009–10 Management of the Strategic Regional Program/Off-Network Program

⁹ Page 29 – paragraph 47 - ANAO Audit Report No.30 2009–10 Management of the Strategic Regional Program/Off-Network Program

¹⁰ Page 31 - paragraph 52- ANAO Audit Report No.30 2009–10 Management of the Strategic Regional Program/Off-Network Program

¹¹ Page 22 – paragraph 32 - ANAO Audit Report No.30 2009–10 Management of the Strategic Regional Program/Off-Network Program

¹² Page 22- paragraph 33 ANAO Audit Report No.30 2009–10 Management of the Strategic Regional Program/Off-Network Program

¹³ Page 40 - ANAO Audit Report No.30 2009–10 Management of the Strategic Regional Program/Off-Network Program

¹⁴ Page 41 - ANAO Audit Report No.30 2009–10 Management of the Strategic Regional Program/Off-Network Program

¹⁵ Page 43 - ANAO Audit Report No.30 2009–10 Management of the Strategic Regional Program/Off-Network Program

Recommendation 2

The ATA supports the Commission's recommendations to improve governance arrangements and for conditional funding for infrastructure projects.

5.2 Benchmarking

The ATA supports the Commission's recommendations that the Australian Government should include a detailed benchmarking framework for major construction projects throughout Australia, with the collection of data being a requirement when funding is approved¹⁶. We would also extend the data collection to significant road infrastructure projects, as the Commission noted in the report, large projects can suffer from not being 'like for like' and benchmarking usefulness could be limited.

The ATA therefore supports draft Recommendation 8.2 with the addition of significant, not just major, projects. Therefore the Commission's recommendation should read:

The Australian Government should fund the development and ongoing implementation of a detailed benchmarking framework for ~~major~~ significant infrastructure projects in Australia. This would substantially assist in the future planning an evaluation of projects, and is an essential factor in the much cited pipelines of projects.

The ATA supports the Commission's view that the provision of data to support the benchmarking framework should be a requirement attached to all Australian Government funding for major infrastructure projects. Ongoing benchmarking must be seen to be independent of both government and industry influence and also be seen as technically robust and credible¹⁷.

The move towards benchmarking is in line with the PwC's short-term recommendation to improve accountability and transparency in road provision.

Institutions suitable for benchmarking

There is a wide range of suitable entities that would be able to provide useful benchmarking data and reports, including:

- The Australian Bureau of Statistics.
- National Transport Commission.
- Bureau of Infrastructure, Transport and Regional Economics.
- Reputable consultants, like PricewaterhouseCoopers, and
- private sector collectors of disaggregated transport data.

Recommendation 3

The ATA supports the Commission's draft recommendation 8.2, with the substitution of *significant* infrastructure projects in Australia being benchmarked, not just *major* projects.

5.3 Project selection

*'Governments are sometimes weak at determining what, where and when infrastructure projects should be scoped and constructed. This stems from deficiencies in using coherent decision making frameworks – especially scoping and developing transparent cost benefit analysis, rigorous demand forecasting, investigating project risks fully (including latent risks borne by governments) and efficiently allocating risks between public and private partners.'*¹⁸

¹⁶ Page 20 - The Productivity Commission: Public Infrastructure Draft Report - March 2014

¹⁷ Page 303 - The Productivity Commission: Public Infrastructure Draft Report - March 2014

¹⁸ Page 8 The Productivity Commission: Public Infrastructure Draft Report - March 2014

We fully agree with the Commission's statements that many major projects and ribbon cutting exercises come at the expense of periodic maintenance (to extend and exploit the asset lifecycle) and of small scale de-bottlenecking options that could postpone or even avoid the need for costly asset expansions.¹⁹

Evidence from the Newell Highway shows strategic investment can improve safety significantly, at lower cost than an exorbitantly priced grand dual carriageway.

The issue of periodic maintenance cannot be ignored if the road quality and stock of Australia is to improve. As highlighted in the ATA's previous submission to the Commission on this issue, budgets for maintenance are reducing over time and there is a need to address the issue of poor maintenance programs.

Poor road maintenance and quality decisions will be worn by the industry again and again. Having a consistent and accurate maintenance program is crucial to providing roads that do not cause industry undue cost. While it is not feasible to upgrade every road in Australia to bitumen quality, poorly maintained roads cost users higher than necessary vehicle operating costs.

We hold the Commission's view that correct project selection or provision is the most important aspect of achieving good outcomes for the community from public infrastructure irrespective of the financing approach ultimately chosen.²⁰

Along with good governance arrangements there should be a set of guidelines, developed by engineers, to give road agencies a clear set of directives for maintenance of road infrastructure. While there is considerable discussion about road user charges to indicate usage figures for roads, a telematic device cannot tell a road agency where a pothole exists or where the road layer has subsided over time. Telematics will not solve the maintenance problems that persist and any subsequent safety issues.

Extending the national policy focus from institutions such as Infrastructure Australia and the National Transport Commission to national maintenance programs will be one way to address the issue.

Recommendation 4

The Commission should describe and recommend better governance processes, including benchmarking and asset quality management, to be mandated for all road agencies.

5.4 Procurement

The ATA supports the Commission's recommendations to improve the productivity of procurement practices, tender process improvements and pursuing 'value for money' under project selections and procurement process'.

The ATA supports:

Draft recommendation 11.1 Governments should invest more in the initial concept design specifications to help reduce bid costs, but in doing so; provide opportunities for tenderers to contest the specifications of the design.

Draft recommendation 11.2 when tendering for major infrastructure work under design and construct arrangements, governments should consider contributing to the design costs of tenders on the condition that governments own the design, where a thorough prior assessment has demonstrated that design innovation is both worth seeking and likely to be received.

¹⁹ Page 70 The Productivity Commission: Public Infrastructure Draft Report - March 2014

²⁰ Page 9 The Productivity Commission: Public Infrastructure Draft Report - March 2014

Draft recommendation 11.3 Government clients should alter the timing of information provision in the tendering process for infrastructure projects so that non-design management plans are only required of the preferred tenderers. The obligation to produce documents upon becoming a preferred tender should remain a condition of the initial request for tender.

Recommendation 5

The Commission should promote draft recommendations 11.1, 11.2 and 11.3, which will improve the productivity of procurement practices.

5.5 Cost benefit analysis

The ATA fully supports the extension of appropriate cost benefit analyses (CBA) to make sure that benefits and costs are accurately assessed for significant projects. However, recent experience with CBA work has indicated that there has to be sufficient time for stakeholders to interrogate the findings.

The Commission identified that a properly conducted CBA is an important starting point for guiding project selection and improving the transparency of decision making. This should be augmented with real options analysis where appropriate.

Making sure that political outcomes inform the option selection is also crucial to having supportable conclusions.

The case study below of the heavy vehicle charging and investment reform (HVCI) CBA work has exposed issues the Commission highlighted in the report and which emphasise the limitations of HVCI analysis generally. These issues have been raised with HVCI.

Case study 2 : HVCI Deloitte Access Economics (DAE) cost benefit analysis

The CBA work produced by DAE for HVCI is the basis for recommendations made to ministers and informs other elements of the HVCI. The conclusions of the CBA require scrutiny given assumptions made and access to foundation documents used in the CBA work. If the CBA is based upon flawed premises the outcomes will be useless.

The CBA work is testing options for reform including a fuel based charge (A), a semi MDL charge (B) and full MDL charge (C).

The potential benefits of HVCI DAE identified are:

- a shift in the composition of the heavy vehicle fleet to more efficient vehicles, reducing the combined maintenance and vehicle operating costs,
- where alternative routes are available, a change in route patterns towards roads better able to carry heavy vehicles at lower costs,
- improved access to roads for larger vehicles, either through direct access to existing roads or to roads that have been upgraded to allow for increased access,
- better management of lifecycle costs, potentially decreasing the lifetime cost of road maintenance,
- potential for improved road quality and subsequent changes in vehicle operating cost where regulated pricing allows the road owner to recover maintenance costs at an appropriate rate of return; and
- in the case of private service providers, the potential for increased efficiency of contracting.

These should be balanced by the uncertainties over the sensitivity testing of some key parameters and doubts about inputs:

1) The extent of substitution between different vehicle types and routes in response to price signals.

The CBA work uses the CRRP demand elasticities which showed there were minor opportunities for the industry to switch routes. The paper fails to describe the CRRP findings.

Previous CRRP work has shown that even with a more cost reflective charging system:

- Operators will not change their behaviour dramatically because of current operational limits (by road agencies) and the incentives operators already have to use the most efficient route and the most productive vehicle combination
- Only 25% of current freight trips have realistic alternative routes
- Only 11% of operators agreed they would have an alternative to the local roads on which they travel²¹.

Therefore, indicating that there needs to be an improvement in route choice and fleet mix is fanciful there would not be a marginal change even with fully variable charges. Only new infrastructure can satisfy this vision.

The industry is making the best decisions it can given current access restrictions and fixed origin and destination.

If HVCI is looking for a charges system that changes route choice it will struggle. HVCI also needs to consider that industry is constrained by noise curfews, time curfews, access curfews, depot operating hours and peak hour congestion. Any variable pricing mechanism needs to consider these constraints and the prices should reflect the barriers on operations and that industry encounters.

Until these and other restrictions are addressed there is limited action industry can undertake to change delivery routes and times. Many of these actions require broader social change like changing to longer hours of service in core business.

2) The source for the access calculations

Using the Performance Based Standards (PBS) RIS as the basis for calculating the benefits of access should be balanced by an appraisal of the outcomes of that scheme.

The PBS system was created to allow innovative vehicles to meet select standards to prove their safety so they can operate as normal heavy vehicles. The rationale for the scheme is to make it easier for businesses to use innovative or specialised heavy vehicles. While businesses have complied with the strict criteria set, local governments and state agencies have made the scheme ineffectual, as PBS maps were supposed to have been produced in order to identify important information such as bridge capacity and rest stops for drivers. Local governments are either not able to identify the routes for PBS maps because of lack of resources, or are not sufficiently organised administratively to do so.

PBS shows governments are not providing services that businesses have already paid for. The scheme has been operational since 2007 and 80 trucks and buses have registered as PBS as of January 2010²²; and PBS mapping is still not complete.

The real outcomes of PBS to date should be included in any analysis. PBS has not been widely used due to its failure to open up access.

²¹ Page 48- PwC report to the Australian Trucking Association: A Future Strategy for Road Supply and Charging in Australia, March 2013.

²² <http://www.ntc.gov.au/filemedia/Groups/PBSmapsportalFAQ.pdf>

Additionally, access benefits should be calculated from real world case studies, not simply from the 'model law' theory of PBS.

3) Change in road quality over the modelling period to assessment in the baseline of status quo and range of maintenance benefits that could be expected

The CBA work states that in reference to lifecycle maintenance costs there is not a lot of practical data available on the effect that a long term approach to funding would have on road expenditure. The literature used for lifecycle costs is based on pavement management systems. The saving stated for options A-C range from 8.6%-13.5% is this really a massive saving?

We also question the worth of the HVCI reforms if road quality can only be improved by 0.4% a year. This indicates that the reforms will not ultimately improve the quality of road industry operates on. If this is supposed to be a service provider relationship, industry would expect more service.

4) Supply chain changes

There is only a small amount of empirical evidence to support the concept of supply chain benefits and it is based on a US case with a different fleet composition to the Australian fleet.

Hard conclusions made on these findings should be balanced with the probability of it then translating to the Australian fleet.

5) DAE also noted it was not possible to estimate any efficiencies flowing from a more commercial focus of road agencies

Feedback from WA indicated that the complete outsourcing of road maintenance did not result in significant long term gains in terms of maintenance expenditure. Given the massive maintenance backlog that exists nationally, the CBA work indicates that corporatisation will not solve the maintenance issues.

6) Vehicle operating costs (VOC)

Deloitte has used the NTC vehicle operating cost model, which is not public and was derided by industry at the last viewing due to its unrealistic costs and share of costs of business components. Using a non-public document that has failed under scrutiny is not acceptable.

The CBA work also assumes that vehicle operating costs are constant over time which does not seem correct.

Therefore the gains projected for VOC savings need to be re-evaluated with industry input.

Comparing the list of uncertainties to the claims DAE say can be quantified puts significant doubt about the accuracy of the claims made by DAE and HVCI. Further, as the DAE work provides the inputs into the Monash CGE model the outcomes of that testing will be skewed by the assumptions.

7) Industry cost estimates

A separate consultation is the basis for the costs stated in the strategic directions report. However, the estimates come from CRRP/SKM *Compliance Cost Model* work which is out of date and not public. This situation has to be remedied.

We cannot find the costs estimates included in the strategic directions report. Where did the calculations come from, if not from the consultation report?

The cost to the industry has also been poorly assessed by HVCI, operators would have to pay for the installation, upkeep and have the business costs of downtime during recalibration. Indicative costs from HVCI state the annual cost of the system to individual operators will be \$108. This figure has no basis in market reality of what telematics systems actually cost to install and maintain. Industry experience with telematics shows that it costs many times larger than this.

Additionally, the general sources for material in the CBA is limited; DAE only interviewed jurisdictions and selected government agencies on an issue which is supposed to reflect the cost of industry costs. True industry costs cannot be garnered from the jurisdictions.

8) Proposed benefits

The ATA has concerns that many of the largest benefits calculated are due to externalities in option C. The document notes that it is not entirely correct to use externalities in cost and benefit calculations and that it uses NSW estimates for congestion and accidents. Given this, there should be some weighting or correction to the final benefit/cost figure. For example, for option C maintenance benefits are estimated at \$8029 million while externality benefits are \$9981 million and vehicle operating costs are \$7088 million.

While HVCI has been keen to publish net benefits of \$22 billion over 20 years, the net present value of pricing reform alone will be -\$1.4 billion over 20 years. The industry fears that the supply side reforms HVCI are discussing will not eventuate and the industry will be saddled with a new, expensive and inefficient tax collection system.

Further work is needed on the CBA work in order for industry to have faith in the figures supporting reform. We hold concerns about the industry cost inputs, as these appear to be much lower than actual costs and there needs to be consideration of vehicle downtime included.

The policy document needs to include case studies showing the impact of the reform on a range of representative trucking businesses.

The HVCI CBA work is not supported by the industry due to the assumptions used in the conclusions..

We support the Commission recommendation of making CBAs public (with clearly documented assumptions) for both projects that have been selected, and those that have been rejected, greatly improves the transparency of decision making. It also allows particular estimates to be debated and the consequences of different estimates of the projects net benefits to be calculated.²³

The ATA also shares the Commission's caution of including wider unintended economic impacts (or externalities) whether they are positive or negative. There should be prudence and consistent treatment of these calculations.

*'Conceptually, genuine wider economic benefits should be taken into account in assessing the merits of projects. The difficulty arises because their estimation is in its infancy. Accordingly, the inclusion of wider benefits in CBA has potential to show one project to be superior to another purely because of differences in the way such benefits are estimated.'*²⁴

With the HVCI CBA work, a large share of the supposed benefit of MDL charging comes from these 'flow on' impacts. While the identification of externalities such as safety reduction and congestion abatement should be mentioned, if they are not the target for change then they should be included with care and be weighted appropriately in the conclusion on the options.

²³ Page 74 The Productivity Commission: Public Infrastructure Draft Report - March 2014

²⁴ Page 78 The Productivity Commission: Public Infrastructure Draft Report - March 2014

The reports also states that improved expertise and guidelines for conducting CBA would go some way towards addressing these types of deficiencies. The Commission also stated that governance arrangements under which the project proposals are analysed are important, for ensuring transparency. Likewise, there needs to be a systematic review and analysis of finished projects both through the period of their development and post implementation.²⁵

Recommendation 6

The Commission should advise ministers to insist upon cost benefit analyses, following the publication of Commonwealth guidelines, to improve the quality and transparency of proposals.

5.6 Community Service Obligations

The Commission has recognised that ‘the extent to which user charges are able to recover the full costs of supply differ across sector and region’²⁶.

We also share the Commission’s concerns that ‘user charging is not a panacea to meet all public infrastructure needs. There will continue to be a role for government to at least partly fund some types of public infrastructure. This can be warranted when it is impractical to exclude users who do not pay direct charges, the truncations costs exceed the benefits, the wider beneficiaries are difficult to identify or very diffuse, and/or infrastructure is provided to meet equity goals.’²⁷

As highlighted in the previous submission to the Commission many of the roads in Australia come under community service obligations (CSO) or other forms of government funding due to the community service they provide. User charges will not cover the full cost of providing these roads.

In the case of heavy vehicles if marginal cost or full sunk cost via MDL charging is to happen it will mean that operators travelling on CSO roads will not pay their full cost. Therefore, cross-subsidisation between heavy vehicle types will still exist.

The pursuit of eliminating cross-subsidisation comes at a cost and when we take into account CSO roads and other utilities’ approaches to providing infrastructure we find a standard price is charged for service provision of a particular package. There is a strong argument that welfare effects of paying the full cost of provision should be taken into account. Therefore, the quest of removing cross-subsidies might work in non-CSO utilities however in this environment it will not achieve their removal and should be reconsidered in this approach.

Recommendation 7

The Commission should ensure that state and local government entities are made aware that community service obligation funding for roads must continue to exist, as many roads will never be fully funded by users.

5.7 Road funds

The Commission provides detail on road funds and potential arrangements, with full hypothecation (which would have to occur with direct user charges).

²⁵ Page 80 The Productivity Commission: Public Infrastructure Draft Report - March 2014

²⁶ Page 11 The Productivity Commission: Public Infrastructure Draft Report - March 2014

²⁷ Page 36 The Productivity Commission: Public Infrastructure Draft Report - March 2014

The ATA has concerns about removing political oversight and prerogative through a road fund overseen by non-elected-officials. Elected representatives often have visionary transport portfolios. The portfolio of the current Federal Transport Minister, which incorporates infrastructure policy, shows that some want to encourage productivity and growth in the transport sector. The issue industry comes up against is ministers are sometimes poorly advised by their bureaucrats and their decisions or policies are not appropriately carried out. Ministers are accountable to the public and have incentive to deliver change in response to community input. They are also entitled to support the necessary processes and reporting that allows them to make informed decisions.

Ministerial oversight is not therefore a power that needs to be rolled back; instead both bureaucrats and party advisors need to be accountable for their input and actions. The ATA is still unconvinced that allowing unelected bureaucrats the powers to make (ministerial) decisions over funding should happen, and believe there needs to be further consideration about the pros and cons of a road fund.

Recommendation 8

The Commission should further examine road funds given concerns over giving unelected officials ministerial-like funding powers.

5.8 A regulator

Only this year states have (informally) agreed to undergo a one off audit process of inputs into the heavy vehicle expenditure template, which is used in the heavy vehicle charges model.

There is much that can be done on the supply side to improve road provision outcomes; however implementing a national regulator does not guarantee an automatic improvement in provision. The Commission state that concerns about market power can lead to charges being determined or monitored by a regulator.²⁸ However, the issue isn't market power it is making the right decisions and making sure all maintenance programs exist. Industry does not need more bridges built under general height restrictions or main roads built with no rest areas or de-coupling bays. Basic accountability and benchmarking should be established before any discussion of a regulator.

Recommendation 9

The Commission should recommend basic public accountability processes for road agencies before a potentially costly regulator is created.

6. User charges

*'user charges should be used to the fullest extent that they can be justified. Efficient user charges are an effective means to reveal willingness to pay for new infrastructure and pay and improve the use of existing infrastructure.'*²⁹

*A shift to direct charging on a wider basis would only be justified if the additional cost of monitoring how individual vehicles use a road network is clearly outweighed by the benefits of more efficient charging. It cannot be assumed that this will be the case, given there is a cost associated with telematics, and motorists already face a de facto form of distance based charging through fuel excise. Moreover, it would be unrealistic to expect direct user charges to ever fully fund the road network. There is a significant community service element to roads, especially in sparsely populated areas, which will have to continue to be funded by governments.*³⁰

²⁸ Page 11 The Productivity Commission: Public Infrastructure Draft Report - March 2014

²⁹ Page 11 The Productivity Commission: Public Infrastructure Draft Report - March 2014

³⁰ Page 134 The Productivity Commission: Public Infrastructure Draft Report - March 2014

In conclusion, more widespread direct charging of light vehicles has the potential to provide a better road system for motorists, if combined with reforms that hypothecate the revenue to efficient road provision. However, this requires many difficult issues to be addressed and effective planning – a constant theme for all infrastructures – will be required. Moreover, as noted above, it cannot be assumed that the benefits from wider direct charging will outweigh the additional cost of monitoring how individual vehicles use a road network.³¹

The Commission's report states that user charges are already usual for most types of economic infrastructure, such as electricity, telecommunications, gas and water. However, roads are not a typical utility. Specific work in user charges has separated light and heavy vehicles. The effect of this has meant that for either of these vehicle types the government will be dealing with a partial market and will continue to do so given the different demands those vehicles types require.

The two main parameters of road investment are *durability* and *capacity*. Generally, durability specifications will be based on anticipated heavy vehicle usage while capacity will be based on demand by light vehicles. Heavy vehicles also require off road requirements such as rest areas, pull over lanes and de-coupling bays. These different demands automatically mean a one size fits all direct user charging system will not work or achieve the same outcomes.

The current system is a 'one size fits all' registration and excise charge for light and heavy vehicles. There are relatively few ways for users to avoid paying a fair share of costs.

6.1 The Heavy Vehicle Charging and Investment (HVCI) reform

HVCI are currently discussing a direct user charge via mass distance location charge (MDL), which would see multiple charging systems implemented across the heavy vehicle fleet.

The mass component would be the maximum declarable mass, meaning that heavy vehicles are assumed to be carrying full mass all the time, which is not accurate. The current PayGo model uses the average gross mass of a vehicle which is taken from weigh-in-motion stations. Actual mass of a vehicle is recorded. Moving to fixed full declarable mass is less precise, in fact it is a step backward in terms of reflecting what mass trucks actually are and the costs associated with that mass.

Distinct sections of the industry 'mass out' differently, truck and dogs carrying bulk freight are likely to be close to gross vehicle mass (GVM). However, semi trailers or high productivity vehicles (HPV) are likely to 'volume out' due to freighting lighter consumer goods.

The distance and location based component of the charge depends upon the availability of mobile stations for transmitting data and this coverage is patchy across parts of regional, rural and remote Australia.

Also HVCI has indicated that it is not cost effective for all trucks in Australia to have telematic devices in their vehicles. HVCI also recommended that specific sections of the industry and different sized operators would need alternative charging systems. This would result in varied compliance and enforcement burdens. Large operators with telematic capabilities could use a fully automated system, however, an operator with a few trucks (which makes up 89% of the industry³²) would be expected to complete extra self declaration through additional paperwork and would undergo further compliance and enforcement burdens.

³¹ Page 136 The Productivity Commission: Public Infrastructure Draft Report - March 2014

³² Page 18 PwC report to the Australian Trucking Association: A Future Strategy for Road Supply and Charging in Australia, March 2013

HVCI MDL favours large operators and seeks to overburden smaller operators and small business. Compare this to the current system where the Australian Tax Office (ATO) affords small businesses additional assistance. Moving to a fee for service as HVCI intends with MDL charges risks leaving small business exposed to a greater extent financially. One currently cheats the ATO at one's own peril and benchmarks set by the ATO to identify at risk businesses are a better way to assess risk of default than simply arbitrarily dividing up the industry as HVCI seek to do.

It must also be remembered that if MDL pricing is implemented, operators will still have to purchase fuel and claim a full fuel tax credit. This will have a significant effect on cash flows for operators. Operators will have two charges systems, two sets of administrative burdens and two sets of compliance processes.

HVCI's proposal would greatly increase the cost of transporting freight in rural and regional areas, because roads in these locations are built to a lighter standard than major highways. To meet the cost of road wear, charges for local roads in rural areas would need to be 25 times higher than the charges for freeways (see previous ATA submission to the Productivity Commission: public infrastructure for more information).

We do not support the Commission's view that the HVCI project should continue³³. The ATA has recommended to the Commonwealth Treasury and other government organisations that HVCI should be disbanded since the outcomes of its recommendations will increase the cost of transporting freight, increase costs in rural Australia, add extra administration costs to trucking businesses, and not provide improvements in road provision.

The Commission also state that user charges should have a neutral revenue effect; however, this will not be possible given the large shifts in technology requirements needed for distance and location charges for light vehicles and MDL charging devices or self declaration for heavy vehicles. The ATA does not believe the move to more direct charges will not cost road users additional monies on top of the current charges recovery method. Therefore, while recommendation 4.1 might be worth pursuing, the ATA notes that more direct charges will not be revenue neutral.

Recommendation 10

The Productivity Commission should not support the heavy vehicle charging and investment (HVCI) reform because its user charges are not cost effective and will not produce any positive change in the industry's patterns of road usage.

6.2 Congestion charges

When discussing potential congestion charges it must be remembered, as noted above, that the heavy vehicle industry has little choice as to when it can operate on roads, the industry has curfews imposed externally, and is even banned from certain areas altogether. Therefore, any broad implementation of a congestion charge is unfair on the heavy vehicle industry, since there are limited, (if any,) alternatives for delivery times. Some have suggested that night time deliveries would be a better way to manage truck movements. However, this will require someone to be working at the delivery point overnight. This is an extra cost for such businesses to bear.

Congestion is one of the biggest externalities that affect the industry. Urban congestion causes delays for deliveries, as well as forcing heavy vehicles to use other less direct routes in order to avoid the congestion. The time wasted and the fuel burnt due to congestion is a loss of productivity to the fleet and to the bottom line of every operator.

Additionally, due to the demand for goods and urbanisation of the population, it is vital road providers take heavy vehicles into consideration since they provide the majority of deliveries to urban areas.

³³ Page 130 The Productivity Commission: Public Infrastructure Draft Report - March 2014

We support the Commission's interim suggestions for governments to continue to explore alternative measures to address congestion such as:

- Advanced traffic management technologies – including ramp metering, dynamic speed limits, lane controls and traffic lights – which can significantly increase traffic throughput on a given road.
- Parking levies in city centres.
- An additional subsidy for public transport above what is justified to meet equity goals and to fund wider benefits that accrue to more than just passengers, such as improved urban amenity.
- Developments in vehicle technology – such as adaptive cruise control and navigation aids that monitor and inform drivers of traffic conditions.

We are also satisfied the Productivity Commission recognises that some externalities are already internalised through insurance.³⁴

Recommendation 11

The Commission should encourage road agencies to address congestion abatement in the other ways it has suggested before considering a congestion charge.

6.3 The way forward for user charges

The ATA rejects direct user charges at this stage, given that this is cost prohibitive and that there is much to be done on the supply side before any drastic changes are made to road user charges.

Provision of infrastructure is underlined by the available finances and ongoing funding to keep the infrastructure maintained to a suitable level. The National Land Transport Network only covers 2.8% of the network. Local governments own and manage around 80% of Australia's total road network. Therefore, when considering what part of the network user charges and private partnership investments can economically and fairly recover the cost of providing capital and maintenance it should be considered under the reality of roads in Australia. The majority of regional, rural and remote roads in Australia will always need to be partly funded by consumer service obligations regardless of any direct charging system, as the Commission has indicated.

Hence, there should be a rethink of the in vehicle focus of direct charges and look towards where it can have some positive impact on driver behaviour and recover the costs of provision fully.

The current model for securing private sector investment towards road construction involves direct tolling. Superannuation funds and other private sector investors are interested in these assets, but only if they provide a secure income stream. There are issues surrounding the viability of these types of investment. A direct tolling system is far superior in targeting issues such as congestion instead of enforcing an expensive system on all of Australia that will only have a small impact on the behaviour of most drivers and penalise regional, rural and remote communities.

One justification for more direct user charges such as mass distance location charges is that road agencies have insufficient data to inform decision making. However, we question this assertion as after continued questioning states are yet to inform the industry of what data they use now and what they need in addition to this.

There is presently considerable data available for this purpose. Simply increasing the amount of data that road agencies receive does not equate to better delivery outcomes.

Collecting data is also not a costless process. Hence, tradeoffs have to be made between cost, volume and accuracy of data when formulating policy.

³⁴ Page 140 The Productivity Commission: Public Infrastructure Draft Report - March 2014

It is obvious to both road users and road asset holders where there are transport issues. Sir Rod Eddington's report on UK infrastructure noted that³⁵:

In most cases, the best signals to identify where transport is acting to hold back growth will be the presence of clear signs of economic success (economic growth and very high wages and land prices), and that transport demand is starting to outstrip supply (signs of congestion and unreliability). In areas without such clear signs, it is unlikely that transport is holding back productivity and growth.

There is a great deal of data available for heavy vehicle usage. The main sources are:

- 1) State and territory CULWAY/WIM (weigh-in-motion) data;
- 2) FDF FreightInfo inter-regional freight movements database;
- 3) ABS Survey of Motor Vehicle Use (SMVU); and
- 4) State and territory commercial vehicle traffic counts.³⁶

Where a particular data source has shortcomings, these can often be overcome by using observed patterns from other data sources or via 'informed estimates'. For instance, BITRE notes that:

...some data (SA and NT) include estimates of the net freight task, others (NSW) the net freight task needs to be estimated by multiplying the difference between the average gross vehicle weight and the estimated average tare weight, for each Austroads vehicle class, by the total number of vehicles in each class, and summing over all vehicles classes.

Overall, the Weigh-in-Motion (WIM) data provided by various state authorities provides an accurate real-world picture of road freight flows between capital cities, with the exception of the Sydney-Canberra route.

The Transport and Infrastructure Senior Officials' Committee (TISOC) approved an expansion of the ABS SMVU to double the number of heavy vehicles surveyed and to have an additional focus on freight movements. In addition, industry now has the capacity to gather statistics on demand from the national heavy vehicle regulator (NHVR) records of failed access requests and attendant statements of reasons.

There is little evidence to suggest that more data being provided to road agencies and local government will lead to better delivery outcomes. Hence, data sought from direct user charges is already being provided through less costly methods than direct monitoring of road users.

This data could also feed into the distribution of funds to states and local governments based on tier one to three spending and access expectations.

The Commission stated that a direct user charges system would have to be 'revenue neutral' for it to be acceptable. A better test would be 'cost neutrality' for industry. However, it is unlikely that mass distance and location charging which has such specific monitoring technology, extra compliance and enforcement costs, and government and operator administration costs, would be cost neutral. Someone in that chain will wear the excessive costs of a bloated data collection and charging system and it is likely to be the industry and the community. This will affect the competitive provision of infrastructure due to funding being spent on a complex charging system instead of on roads.

Comparing this to a direct tolling system where all the appropriate costs are recovered from the users of the toll road is far more efficient than a whole system charging approach. If direct tolling is implemented with the PwC three tiered approach Australia would have a targeted, accountable and efficient system of providing and monitoring road infrastructure across Australia.

³⁵The Department of Transport The Eddington Transport Study December 2006

³⁶ Page 195 - Bureau of Infrastructure, Transport and Regional Economics 2009, National road network intercity traffic projections to 2030, Working Paper 75, BITRE, Canberra

We would urge the Commission to ignore the HVCI recommendations as they will negatively affect the productivity of the trucking industry and instead focus on implementing the PwC three tier approach and investigate ways to implement direct tolls where appropriate.

Additionally, the current system for truck charges can be enhanced to reflect road use better.

The ATA supports a higher proportion of truck charges being recovered through the road user charge (RUC). Increasing the variable charge reduces the cash constraint that a large fixed registration charge presents. It also promotes paying for use, as fuel burn is a proxy for mass, distance and road condition. Fuel consumption typically increases with increased mass and distance travelled. Increasing the proportion of charges made by fuel also advances the energy efficiency agenda of the current Government, as operators gradually become more conscious of fuel usage. Operators have also stressed that a larger proportion of charges recovered through the use related RUC, (rather than through a fixed registration charge,) makes it far easier to recover their costs.

Case study 3: The current charges model, over-recovery and opportunities for reform.

The National Transport Commission has been reviewing the current charges model for heavy vehicles (PayGo) given industry concern about the accuracy of the charges. The PayGo model is a 7 year averaging expenditure recovery model that recovers capital and maintenance attributable to heavy vehicles.

The deficiencies in the PayGo model, (a result of using a lagged midpoint population but the most recent expenditure year data,) has meant the industry has been overcharged since PayGo was introduced in 2007. This has meant the model underestimates the true heavy vehicle population and that heavy vehicle charges are much higher overall than they should be.

The ATA has calculated over-recovery for 2013-2014 by comparing the PayGo cost base to be recovered in 2013-2014 (\$2.9 billion) with the estimated revenue taken in the 2013-2014 period using actual heavy vehicle registration figures provided by states and territories from December 2011. Estimated revenue is calculated using 2013-2014 heavy vehicle charges and the RUC for 2013-2014. In this calculation industry is projected to pay \$3.7 billion, meaning an over-recovery of over \$800 million.³⁷

The NTC draft heavy vehicle charges determination RIS presents 3 options:

- **A:** Updates all the technical changes the NTC are recommending, including up to date expenditure and heavy vehicle population figures. The RUC and registration charge will keep the current split of 64% RUC and 36% registration.
- **B:** Updates all the technical changes the NTC are recommending, including up to date expenditure and heavy vehicle population figures. The RUC and registration charge component shares change, with 70% RUC and 30% registration.
- **C:** Updates all the technical changes the NTC are recommending, including up to date expenditure and heavy vehicle population figures. The RUC and registration charge component shares change, with 77% RUC and 23% registration.

However, the NTC has provided a proposal for a three year transition to option A due to concerns some states and territories have over the need to revise revenue predictions. The NTC has estimated there will be \$232 million over-recovered from the trucking industry in 2014-2015 if option A is not adopted in 2014, due to not updating the technical inputs to the model. The ATA finds the three year staged implementation unacceptable because there are no technical reasons to not move to A, inputs simply need to be updated and while \$232 million shared between all states and the Commonwealth is a relatively small dip in revenue it would be a comparatively large inefficient tax that the industry should not be paying for.

³⁷ See the ATA submission to the NTC 2014 Heavy Vehicle Charges Determination, January 2014 for more detail.

While the effect of removing the \$232 million over-recovery from industry will have an effect on government revenue, it needs to be balanced against the fact that it will result in lower freight movement costs and this will have flow on effects to the rest of the economy. Moreover, the industry has been paying billions of dollars of extra tax since 2007. Adopting option A in 2014 will also increase the flow and competitiveness of Australia's exports.

The ATA provided three recommendations to the NTC:

- The ATA recommends all the NTC proposed technical updates to the PayGo model, (except the NHVR funding allocation methodology,) be implemented by 1 July 2014, given industry feedback on the assumptions behind the proposed weightings of the allocation.
- The ATA rejects the NTC proposal for a three year staged implementation to option A, given the \$232 million over-recovery it will cause.
- The ATA recommends option A be implemented by 1 July 2014, moving to Option B on 1 July 2015 given government timeframes for implementing the road user charge revenue redistribution necessary with option B.

Currently there is much that can be done by government on the supply side before major changes are made to the charging recovery methodology.

Recommendation 12

The Commission should only support the implementation of variable charging if the government can demonstrate the detailed data collected through variable charging can, and will, be used to improve road investment decision-making and outcomes, in such a way that the added cost, time and complexity of the new process is warranted.