

Contributed Articles

For Whom Does the Budget Funding Toll?

Article contributed by



The 2006/07 Budget was a watershed for infrastructure – and particularly for roads funding. The \$2.3 billion of extra funds for roads in 2005/06 provides all governments with a unique opportunity to bring forward major road infrastructure projects that have languished for many years.

The extra funds will go to major works on the Pacific and Hume Highways in NSW, the Bruce Highway in Queensland, as well as projects in other States.

The challenge is for State and Territory Governments to respond to the Budget fillip – either by matching the road funds or more importantly by expediting infrastructure projects on the drawing board, on the back burner or even off the radar screen. The challenge is more difficult due to the long lead times required to undertake preliminary scoping, environmental impact assessments, tender processes and approvals - moving to the actual construction phase takes years.

It will be interesting to see how the States and Territories respond to this challenge. One way is through the development of public/private partnerships (PPPs). PPPs can take many forms and can involve various combinations of designing, constructing, maintaining, operating, transferring and financing a range of infrastructure assets for, or on behalf of, the public sector. Some examples of recent PPPs include the Commonwealth's Defence Headquarters, the NSW Government's upgrade of train carriages for RailCorp's existing fleet, the Victorian Government's Royal Women's Hospital and the Royal Melbourne Showgrounds' redevelopment, the Queensland Government's TAFE redevelopment, the Western Australian government's Perth CBD Courts Project, and the South Australian project for a series of court houses and police stations.

Many governments around the world, including in Australia, have come to rely more heavily on the private sector to fund road infrastructure through the provision of toll roads, not just in major cities, but also on inter-regional highways. Privately financed toll roads can now be found in many countries.

PPPs have become fashionable, driven principally by the Federal and State Governments aversion to debt. As a result, PPPs for road construction and management have been used in three Australian states, with the private sector owning the road for a concession period of around 20-30 years and charging a toll. In

Australia, the principal focus to date has been the urban network, although consideration is now turning to regional roads such as the Pacific Highway.

The Australian Government's policy on private sector involvement in roads was set out in the White Paper, AusLink (2004), where it was made clear that the Federal Government would like to see the private sector take on greater responsibility for funding Australia's road infrastructure. There is a common belief that this means introducing tolls to finance these roads. It will be interesting to see if the increased Budget funding represents a change in the Federal Government's view about PPPs and road tolls. Certainly, the NSW and Victorian Governments seem to be moving away from PPPs with their Budget announcements that they will increase borrowings to finance infrastructure projects.

The Australian Automobile Association and its Constituent motoring clubs – the NRMA, RACV, RACQ, RAA, RAC, RACT and AANT – have the following position concerning the use of PPPs and use of road tolls:

1. There should be no ad-hoc developments on road user pricing and tax reform; and
2. The Commonwealth needs to increase the proportion of fuel excise spent on roads, from 6 cents per litre to 12 cents per litre – an interim measure to address vertical fiscal imbalance and meet the existing infrastructure backlog.

The Budget funding announcements bring the level of Commonwealth funding to about 9 cents per litre.

The general position which motoring clubs have adopted on PPPs to date is that private sector involvement is supported as a last resort for dealing with the backlog of road projects, provided that where a toll is included as part of the project, the benefits must exceed the cost. Clubs have also taken the view that an alternative route should also be provided or available.

However, there can be some difficulties with these arguments. First, toll roads can become a first resort for Governments with an increasing reliance on the private sector to fund roads. Second, requiring the existence of an alternative route can make the toll road less economically viable. Third, to what extent do Australian motorists already pay their way for road usage and infrastructure?

Motorists already pay a significant amount for the use of roads. They pay fuel excise, registration charges, stamp duty on registration of vehicles and, of course GST.

There are a number of social costs associated with motor vehicle use which motorists should pay for; these are costs imposed on road users and the broader community, which economists refer to as negative externalities and include:

- pavement wear or damage;
- pollution;
- crash costs not covered by insurance; and
- congestion.

Calculating the value of these social costs is not always easy and can depend on various assumptions which are often contentious – (eg: crash costs will depend on how the value of human life is determined; congestion costs will depend on how we value travel time; pollution costs will depend on their effect on human health).

Motorists pay a range of taxes (fuel tax, GST) and charges (eg: registration, driver's licence fees, fines, tolls). The question is to what extent should they cover the costs of road use? The answer will depend, in part, on whether fuel excise should be regarded as an efficient way of raising general revenue, or whether it should be regarded as a charge for road use.

The view the Australian Automobile Association has taken is that excise should be replaced by a charge to cover the social costs referred to above, and a tax at the GST rate of 10% should apply to all fuels.

Whether road users 'pay their way' is usually analysed in terms of city and country road users, and also in terms of vehicle type (heavy vehicles and passenger vehicles).

In Australia, a number of research studies have been undertaken on the assessment of social costs (eg: the Bureau of Transport Economics reported in 2000 that road trauma costs the community \$15 billion a year in 1996 dollars; BTE (1999) estimated congestion costs of \$13 billion per annum in 1995).

Austroroads report that 99.9 per cent of pavement wear is caused by trucks. It is only fair then that trucks pay for this. An attempt has been made by the National Transport Commission (NTC) and its predecessor, NRTC, to develop a system of charging for trucks.

The so-called 3rd heavy vehicle charging determination is currently before Government. In brief, the charges are determined by assessing separable and non-separable costs, allocating them to the number of heavy vehicles in each class, and using average distance and average mass for each class to determine charges. The charges are further disaggregated into a registration charge and a fuel charge (current proposal is that this be 22 cents per litre).

Although there are many disadvantages arising from private ownership of parts of an urban network, there are some advantages. These emanate from the economies that can be obtained by linking decisions on finance with those relating to design, construction time and maintenance costs.

Because there are several trade-offs involved in road development, there is some evidence that combining all relevant elements of road development allows developers to optimise decisions.

The increased costs of rapid construction can be compared to the benefits allowed from an early commencement of positive cash flows. The costs of maintenance can be optimised with the costs of construction quality. Finance and hedging costs can be better controlled when decisions are integrated. While these benefits are real, available research does not indicate that these are sufficient to offset the costs of private ownership. And benefits can still be obtained by the use of sophisticated contracts between owners and construction companies.

In any event, even the private sector does not unify all activities in the one company. When privately owned roads are developed, it is common practice to use specialist companies to undertake different parts of the road development activity.

Whatever the view on PPPs, it appears clear that State and Territory Governments will need to enter into such agreements if they wish to take advantage of the available Budget funds.

But State and Territory Governments face an increasingly demanding public and media. Greater scrutiny and criticism of governments and their delivery of public services in infrastructure, transport, health, education, law, etc mean there is a consequent probity requirement in the planning, implementation and delivery of these services.

The challenge is for government to ensure the PPPs meet this criteria.

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