ROAD SAFETY COMMITTEE

Inquiry into federal-state road funding arrangements

Canberra — 17 March 2010

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Mr C. Vardon, chief executive officer, South East Australian Transport Strategy.

The CHAIR — Chris, thank you very much for being here to assist the Road Safety Committee's inquiry into federal-state road funding arrangements. Hansard is recording the evidence today and you will be provided with a copy of the transcript to correct as appropriate. Can you start by introducing yourself, and we will ask questions as we go?

Mr VARDON — My name is Chris Vardon, I am the chief executive officer of the South East Australian Transport Strategy, commonly known as SEATS. If I take a couple of minutes to tell you what SEATS does, that may help you.

The South East Australian Transport Strategy was set up first of all in Victoria about 18 years ago by some of the councils in Victoria, such as Bass Coast shire, Cardinia, Casey et cetera — and it has now moved into New South Wales as well. The aim of SEATS is to stimulate and facilitate investment in transport infrastructure in south-eastern Australia, in New South Wales, in eastern Victoria and in the ACT region. We currently have 21 member councils, from Wollongong in the north through to the City of Casey in the Melbourne area; we have 3 regional development organisations; we have 3 government agencies, which include VicRoads, the New South Wales RTA and Roads ACT; and we have 16 industry and academic organisations. South-east Australia, as you are aware, is rich in primary resources, has a skilled labour force and a wealth of natural assets. Inadequate transport infrastructure is impeding orderly development, with hundreds of millions of dollars identified in investment being withheld from the region. Limited access is reducing the returns for existing businesses, and independent consultants report that key transport improvements could generate many millions of dollars worth of new investment.

In the time that I have worked with SEATS we have developed a strategic network strategy. That has been an entirely non-parochial, non-selfish look at the needs of the region in south-east Australia, as I have just described. That has looked at a number of key projects which we believe are absolutely essential to stimulating economic development, thus creating jobs, and part of it can be done through improving the transport network. We finalised the strategic network strategy only in November of last year, and that is on the SEATS website, and I have sent through to Ms Douglas a copy of what I am saying now, which undoubtedly will be given to you.

I have looked at a number of things. I would like to make some general comments first of all. There is, in the opinion of SEATS, a vast disparity in the ability of regional local government to fund road improvements compared to metropolitan councils. Some councils inform me that they have something like eight times less to raise funds per kilometre of road than metropolitan councils. Asset renewal funding to regional local government is an essential component of the funding mix, and the current administratively simple Roads to Recovery program funding, or a similar approach, should be continued. Funding arrangements such as financial assistance grants, which are based on road length and the consideration of local disability factors, provide an equitable means of distributing funds to local government provided, in our opinion, that those grants are tied to roads.

The funding of freight routes should consider a network approach with an emphasis on underpinning local economic development rather than being based on population criteria. The recent development of the Infrastructure Australian nation building program and the work done by Sir Rod Eddington in trying to get people to focus on regional approaches to things is, in our opinion, a very necessary perspective which is exactly what SEATS has advocated for some years. If we were to determine the three most important issues as we see them, we would recommend that funding be provided on the basis of long-term planning, a network approach and the fact it would underpin regional economic development.

One of the questions that were posed to me was: what do you see as the main advantages and disadvantages of the current federal and state road funding arrangements? We believe there are insufficient funds flowing back to the transport infrastructure upgrade and maintenance bucket from revenues raised. Funding packages are not ongoing on a sufficient scale to fix the problem. SEATS is primarily concerned with economic performance and prosperity. Industries that feed the nation, derive significant export income for the nation and provide thousands of employment opportunities, not only within the SEATS region but in Melbourne and Sydney as well as any other areas, are being underfunded in the regional areas. The asset is deteriorating.

I am sure you have heard from the Municipal Association of Victoria about the lack of funding for assets and the fact there is an infrastructure gap estimated, in 2002, at about $1.4 billion or, if you like, $280 million per annum. Local government will never catch up on this unless something is done.

The CHAIR — But having said that, there are some councils, for example, where councillors have a discretionary fund. I think the City of Greater Geelong has a discretionary fund of $500 000, times 12, to spend as it will basically. Clearly there is a large pool of money that has been used for whatever. It may be for political purposes, but there are large sums of money — that is, discretionary funds. I see that as an issue particularly when funding is provided to councils in terms of specific spend on road infrastructure and to upkeep the roads. That is then put into general revenue where it could be spent in other areas depending on the political situation that may arise in that area of Victoria. There is that issue of basically prioritising that funding that should be dedicated to roads. I am sure other tiers of government are just as guilty as local governments. But I am speaking in general about the money that is given to local governments to spend on their roads but are not followed up by the grants commission as to whether they are actually spent on the roads. That is a problem when you have large amounts of money in the local council's discretionary fund — that is, $500 000 each to spend at will. Then you have obviously the municipal association saying we need more money. It does not correlate.

Mr VARDON — Just as in a parliamentary situation you have many competing ends for your dollar, so too does local government. The local community is in fact calling for more and more services to be provided by local government. Local government in actual fact has taken up many of those things with there being, what I would term, unfunded mandates. They have had to dip into funds which perhaps ought to have been put into road networks.

Mr KOCH — But I think we have to look at some of this stuff in reality. If you are talking about a percentage of actual revenue for a municipality, in this case it is worth peanuts. You are talking about under 3 per cent. I take your points on board about the pressure on local government representatives from their own communities. I think we would want to know where these funds are being drawn from before we actually question what was done.

Mr VARDON — Sure. I will just continue with a bit on this. The asset is deteriorating. We believe essential improvements are necessary to keep industries in regional areas. We see the pressure that has been put upon large metropolitan areas of Melbourne and Sydney et cetera. We believe in fact we must improve transport infrastructure, particularly road funding, because, as Stuart St Clair probably would have said to you, the vast majority of freight is moved around this country by road and local government is very often called upon to pick up the cost of the first and last mile. Where goods and services come into something like the proposed Gippsland logistics precinct, then local government will be required to pick up the infrastructure on the first and last mile. Communities find it difficult to accept that that should be happening. I do not deny that perhaps there should be private partnerships as well. I can give you a good example of that in New South Wales where the Visy organisation has a huge plant in Tumut. In order to get its goods transported onto the Hume Highway it has to go off a road called the Gocup Road which was built in the wheat and sheep days for that. There are now 358 additional track transfers per week on that road for a road which cannot handle it. Yet both state government and federal government refuse to recognise it as a need for the community. It is a very difficult question.

How effective are the current federal and state funding arrangements? We believe the planning for asset improvement should be done on a network approach basis. We do not believe for one moment that it is now good enough for local government to believe its borders are the be-all and end-all. We should be looking beyond that. It is interesting that the SEATS approach was described recently by a journalist who writes for transport infrastructure magazines as the most unselfish and non-parochial approach which should be adopted throughout Australia.

It looks at problems from a networking perspective. We believe that needs to be done. We believe there is simply at this moment not enough data to support any detail of the efficiency of the funding arrangements. What is needed is better data so that a more informed debate can occur. If X dollars, for example, is spent on transport infrastructure, who benefits and by how much? Surely construction companies will benefit, transport companies will benefit, travel time may be reduced and there may be reduced road accidents. But it is difficult for organisations such as SEATS, which does not have the resources, to ascertain these benefits. It is my understanding that the Australian Bureau of Statistics has some data, but I suspect — and it would say the same — that there is insufficient detail to provide a useful analysis.

As I indicated, the MAV has stated that councils have increasingly trimmed their road budget spending so other community services will not be cut. It goes on to say that the biggest impact is felt by small rural councils with extensive road networks. That certainly is so. The MAV has stated that the infrastructure renewal gap is at least $1.4 billion over five years. That is equivalent to an annual average gap of 280 million. Research would tell you in regard to the local government in New South Wales that the problem is of a slightly greater magnitude. Motorists, especially freight operators, contribute substantially to the revenue stream. The percentage of this revenue returning to roads and transport issues at a state and local level is felt by SEATS to be inequitable. The ratio of transport-related revenue streams to the federal government should be raised to go back to state and local governments such as through black spot funding and the Roads to Recovery process, which we believe should be an ongoing process. Any funding arrangements should put all forms of transport on a similar user-pay basis to avoid market distortions.

As to the question of how equitable the road funding arrangements are between federal, state and local governments, state governments should maintain their level of road transport funding to regional and local projects, unlike Western Australia which reduced its contribution after the Roads to Recovery program was introduced. Road and transport infrastructure is an asset. Funding revenue streams equivalent to depreciation would be utopia. In fact local government will never close the gap. That has come to be a fact of life. There is a significant difference in the ability to raise revenue between metropolitan councils and regional councils. Currently regional councils need to raise more revenue per head of population than metropolitan councils. Regional councils spend a greater percentage of their budgets on roads, or at least in the local government areas that SEATS represents. In addition they often need to raise funds from a socioeconomic ratepayer base in order to fund some of these projects. I understand that there is some data on this issue that can be found in a local government report in Victoria which was written in 2008.

The institute of professional engineers association of Australia believes resources must be made available for the development of a comprehensive local and regional transport plan, and that is exactly what SEATS has done; all of those councils have cooperated to do exactly that.

What changes could be made to improve economic efficiency and equity of the current funding arrangements? We believe developers should be made to pay for asset upgrades beyond their specific development, for example, Visy and Gocup Road. Major residential developments around Casey-Cardinia place pressure on transport networks trying to satisfy an essential freight task and provide economic prosperity and jobs to regional areas. Contributions towards railway car parking, intersection upgrades, not to mention other utility upgrades, should be sheeted home to land subdivision developers who derive the profits. We believe there should be longer term planning and funding arrangements in the 10, 15 and 20-year time horizon. It is also essential, in our opinion, that the agencies responsible for planning, funding and supervision of projects endeavour to program works concurrently so that roads do not have to be dug up within a short time frame to provide for other work. One of the things that drives us crazy is to see something put down on a road network which is dug up four or five months later simply because Optus or somebody wants to put things through.

Funding should be provided on the basis of programs that work towards a network approach which ultimately contributes to efficient freight movement. It is also important, as I have said before, for funding bodies to remember that in most cases the first and last mile of planning, construction and maintenance is done by local government and comes from a general rate pool.

One of the other questions that was posed to me was: what alternatives are there and are these preferable to the current system? I am sure that Mr St Clair earlier talked to you about the fuel-based charging system and so on, and, quite frankly, SEATS does not have the resources to look at those kinds of problems so I cannot answer that. In our view the benefit of road user charging should be tied to a charge on the road user; however, the source of the money should be a percentage of the existing excise raised from fuel levies and not a new impost.

Governments talk about congestion tax, which we in regional areas believe is a metropolitan issue and that if this is required it requires a different situation. The implications of the impost of congestion tax on freight and passenger transport would need to be considered carefully or it could be, in our opinion, counterproductive. Road user charging is likely to be administratively expensive and it needs to be introduced as simply as possible, if that is the way to go. The concept of a congestion tax is really to address congestion and should not be used as a means for funding basic infrastructure which gets freight to market. Any congestion tax should be applied to addressing congestion issues or supplementing facilities that address reducing congestion such as car parks, lowering peak hour train and tram problems et cetera. Any funds raised should be leveraged with federal and local government to address local solutions to metropolitan congestion.

As I said, there are vast disparities in the ability of local governments. SEATS has developed a regional transport approach which can be found on the home page of our website. It should be read in conjunction with our priority projects which have all been worked out using a template based on Infrastructure Australia's requirements. We believe it would be extremely beneficial for parliamentarians and the like who make the laws to look at this template and determine that it should be a model to be followed in other regions of Australia.

Mr KOCH — I think you made some good points about the funding. I note that you are suggesting that local government is not in a position, be it in Victoria, New South Wales or Queensland for that matter, to raise further income alone in relation to improving our road network which obviously we as the Road Safety Committee see the importance of as much as you and your group.

Mr VARDON — Could I just make a comment on that? I was involved yesterday with some discussions in regard to the setting of a budget for a council beginning 1 July next. The council is in New South Wales. They have been allowed a rate pegging. You do not have that in Victoria, to your credit, I think. It is 2.6 per cent. In other words, if $100 000 is raised from rates this year, then $102 600 can be raised next year. The cost of bitumen has increased in the last five years by about 200 per cent. That is not included in any CPI calculation so immediately small regional councils are behind the eight ball. How in the heck they are ever going to be able to catch up and maintain the asset to a standard which everybody would like to see it maintained is almost impossible when you have that kind of thinking going on.

Mr KOCH — I certainly agree and you are obviously heavily associated with local government associations and groups in those various states. They obviously recognise these increased costs against — even if they are not capped increases — the capacity to grow rate revenue. What are those associations indicating to you as a group as a way through this problem from not only a road safety point of view but from a road upgrade point of view across those three states on the eastern seaboard?

Mr VARDON — I am unable to tell you about Queensland because our operation deals entirely in New South Wales, the ACT and Victoria.

Mr KOCH — My apologies.

Mr VARDON — Both the Local Government and Shires Association of NSW and the MAV in Victoria are becoming increasingly vocal, as is the Australian Local Government Association now, fortunately, at COAG level, to indicate that they believe more funding should be put to local government from state and federal government for the road network.

Local government in New South Wales and in Victoria — I would think throughout Australia — is quite keen to see local government get a direct return from the GST, which would probably need to be somewhere in the order of 3 per cent to 5 per cent if it was to do any good. Those local government organisations have been arguing that for a number of years. Indeed from 1999 to 2000 I was the president of the shires association of New South Wales and that was certainly an issue that was being raised at that particular time without success.

Local government is clearly seen to have a big role to play in the road transport network and unfortunately — I do not know if I am allowed to say this — roads are not a sexy topic to talk about even at election time. But they definitely need to be at the forefront of communities because often, particularly in the council areas that SEATS represents, the road network is the only means of transportation of freight and tourist traffic; there is no other. From, say, Bomaderry in New South Wales through to Bairnsdale in Victoria there is no rail system. People say quite interestingly, 'Let us put all of the fuel freight onto the rail network'. That is a bit difficult in parts of the south-east region of Australia. Even when you do put it on the freight network that last and first mile issue becomes extremely significant.

Mr TILLEY — Thank you.

The CHAIR — Thank you for your time, Chris.

Mr VARDON — Thank you very much and thank you for allowing me to present.

Committee adjourned.