ROAD SAFETY COMMITTEE

Inquiry into federal-state road funding arrangements

Melbourne — 12 April 2010

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Mr B. Lyon, executive director, and

Mr L. McGrath, manager, transport policy, Infrastructure Partnerships Australia

The CHAIR — Good morning, Brendan and Larry. We are recording the proceedings this morning and will provide you with a copy of the Hansard transcript as quickly as possible so that you can make changes as appropriate. Could you start by introducing yourselves, and we will ask questions as we go along.

Mr LYON — Brendan Lyon, executive director, Infrastructure Partnerships Australia. I am joined at this end by Mr Larry McGrath, manager, transport policy, Infrastructure Partnerships Australia.

With the leave of the committee, I will make my opening statement, and as you suggested, committee members should feel free to interject with any questions. Are there any members of the media present at that end?

The CHAIR — No.

Mr LYON — I thank you, Chair and members of the committee, for the opportunity to be with you in these very important hearings about the efficacy of the current funding paradigms for road transport in Australia and, by implication, the current taxation measures which affect road and other transport broadly.

Obviously your review is extremely timely, given that we are all eagerly awaiting the release of the Henry tax review, which, according to media speculation, is likely to focus on many of the issues that have been raised by your committee thus far in some depth.

Your review is also very timely because of the level of required investment in Australia's road estate and broader transport infrastructure that is going to be required if Australia is going to meet its transport challenges over the coming decades.

Just by way of background, my organisation is the peak infrastructure body in Australia. We represent a membership made up of about 60 per cent private sector designers, graders, financiers and independent builders and about 40 per cent public sector chief executives.

Obviously the challenges facing all levels of Australian governments is in sustaining passenger and freight mobility that is sound. Estimates of the levels of infrastructure investment required over the coming 10 years range up to $770 billion. Urban congestion costs, as the committee would know, are already estimated by the commonwealth at over $9.4 billion per annum, and the Business Council of Australia in separate research estimated the cost to be more than $16 million per annum.

Most of the commonwealth and the Business Council of Australia agree that the cost of urban congestion will double between the present and 2020. Whichever figure you accept about the social and economic cost of congestion, it is clear that sustaining and enhancing mobility is one of the most significant and profound challenges that is facing Australia's governments at all levels.

The key consideration in dealing with these urban congestion pressures is the growth of Australia's population. The recent intergenerational report pointed to Australia's populations burgeoning to 35.9 billion people by 2050. Modelling undertaken by Infrastructure Partnerships Australia, which we released last year, pointed to a higher growth figure. Our modelling found that Australia's population will reach 37.8 million by that period.

Our modelling found that 90 per cent of this growth will need to be accommodated in Australia's existing urban footprint so that means getting our roads, and indeed our public transport networks, optimised as a key national objective and consideration. In funding arrangements, to bring it back to the focus of the committee under key underpinnings of this outcome, of course freight transport is also a very critical consideration, but my organisation also undertook some extensive modelling of the national freight task between now and 2050.

Our figures which were undertaken by IBISWorld show that the volume of and distance that freight moves across Australia will double by 2020 and triple by 2050 to a staggering 1540 billion tonne/kilometres by that time.

Roads will continue, according to our model, and indeed increase in importance and proportion for the freight task between now and 2020. After 2020 this modelling of modal share shows that rail and coastal shipping will begin to increase their shares of the extensive roads in a proportional sense, but efficient interstate and metropolitan road corridors will be critical considerations, particularly in terms of last-mile freight distribution. That particular element of the freight task is unlikely ever to be undertaken by anything other than road transport.

These levels of growth in terms of economic and population growth are sustainable and indeed offer very significant social and economic dividends to Australia provided that we can get our infrastructure funding arrangements and infrastructure rearrangements right.

With that context let me return to the purpose of today's hearing, which is about funding arrangements. Our modelling shows that in light of these and other growth pressures Australia needs to radically step up its transport infrastructure funding. This modelling shows that by 2050 Australian governments will need to finance a recurrent transport investment of $62.5 billion per annum. Under the status quo Australian states have responsibility for providing most public services and assets including roads and indeed rail, and it would hardly come as a surprise to the committee to learn that this leads to a potential problem, because most revenue-raising powers currently rest with the commonwealth.

The advent of the GST has gone a long way to address the potential impacts of fiscal imbalance; however, challenges remain. Current commonwealth funding for roads and infrastructure more broadly relies on a mix of general purpose and specific purpose payments from the commonwealth to the states. To better transport challenges Australia needs to consider how it can move to a system that provides a more certain and sustainable source of revenue to fund its road and other transport projects. Most of Australia's governments have detailed long-term plans for transport infrastructure, and I particularly note the Victorian public sector's delivery of a range of extensive and well-thought-through public transport and road transport delivery plans, but the committee's focus on funding is indeed the correct one.

We are hopeful that Dr Henry's review will open the way for a reasoned debate about how Australia can fund its next generation of road and transport projects. If the Henry review does indeed make far-reaching recommendations on road pricing, as has been foreshadowed, then there is a generational opportunity to begin a real discussion about real reports. The current shape of transport user charges sends a conflicting array of taxes, charges and imposts to the transport market. Australia is failing to present a visible collation of the actual costs of road use to business and private motorists alike.

A realistic review of road user charging would need to be coupled with a full hypothecation to transport projects, not just roads but freight and public transport as well. This is important, because overseas experience has shown that public acceptance of road access charging has a direct linkage to the way that resulting revenues are applied. Of course a continued and diligent focus on the use of the best-value-for-money delivery and operational models, including public-private partnerships but otherwise besides, must continue to be a focus of the public sector to stretch the limited taxpayer dollars further to address our transport challenges.

That brings me to the end of my opening statement, Mr Chairman, and thank you for the opportunity. I look forward to any questions the committee may have.

Mr WELLER — What is your view on public-private partnerships in the transport area as part of the mix going forward?

Mr LYON — Public-private partnerships will continue to be a very important delivery model for Australia's governments. We undertook some research at arms length from us with Melbourne University in 2007, and we looked at the time and cost outcomes of PPPs versus traditional public delivery. What that study found was that on average public-private partnerships offer savings of up to 31 per cent over traditional government procurement models. When you are talking about projects worth many billions of dollars, that is a very important consideration.

The other consideration is one that I alluded to in my opening statement, which is that broadly speaking public sector balance sheets do not have the capacity to fund the large motorway projects and meet other requirements given the size of the challenges we face, though PPPs have been a very successful model for the delivery of motorway projects in Victoria, New South Wales and Queensland, and indeed the model that was developed here has been used with success across the world, so we expect that it will continue to be a very key consideration in funding and delivering these roads over the decades ahead.

Mr WELLER — You have mentioned Brisbane, New South Wales and Victoria. In Perth last week they were not so keen on it because they do not have the volumes of traffic flow over there.

Mr LYON — Obviously traffic flow is an important consideration. That is why you have seen in large part the delivery of PPP motorway projects in the eastern capitals — because of the population base — but that relies on the use of economic model PPPs. There is no reason, as with the Peninsula Link project which is being delivered in Victoria, that a social infrastructure model cannot be delivered. You are delivering the same innovation gains, you are delivering the same value-for-money propositions, but you are also delivering it using private finance.

Of course that continues to have a balance sheet impact, where an economic model does not, but it is likely over the coming 10 years that you are going to need to have a degree of market risk share back to the public sector given the reset of risk appetites following the global financial crisis and indeed the challenges of some highlighted motorway projects like the Cross City and Lane Cove tunnels in Sydney.

Mr WELLER — Another one is user charges, and you mentioned the Henry review. It will be interesting to see what comes out of that, but what is your view on user charges?

Mr LYON — Our view on road user charging is it makes profoundly good sense, but at the same time it is obviously a very significant change in the way that transport is priced, so it will require a very seasoned public debate. Every indication is that the Henry review will recommend at least a consideration of infrastructure access pricing and road user pricing. Under the status quo there is a range of conflicting tax signals and price signals that are sent to motorists at a time when we are facing a very profound congestion challenge. So the merits of using infrastructure access pricing to increase capacity and to streamline the efficiency of revenue collection is obviously important, but it also provides an unrivalled opportunity, in our view, to look at it as much more than just a more efficient tax collection method. A road access charge would allow Australia to move away from its current hands-off approach to demand management. It offers the opportunity to be used as a transport management tool as well as a more efficient method of tax collection. So we think it is a very important public discussion, a very important public debate, and we think that ultimately, provided it can reach public consensus, it will be an important way of Australia streamlining its revenue collection, augmenting its transport network and also shaping peak demand where appropriate.

The CHAIR — In relation to freight, did you say before that you would prefer that most of the freight be on road rather than rail?

Mr LYON — No, what I alluded to was modelling we undertook for a major research paper which we released last year called *Meeting the 2050 Freight Challenge*, and what we looked at was the modal share between road, rail and coastal shipping between now and 2020 and indeed out to 2050. Because of the doubling of the freight task between now and 2020 what we found is that the proportion of freight carried by road will continue to increase between now and that period, but as we start to get the rail networks right and as we start to deal with issues like correct infrastructure pricing and transport pricing, we will see rail return increase as a proportion of the overall freight task after 2020.

Of course there are greater efficiency and indeed safety dividends in terms of moving an increased amount of freight by rail, but under the status quo, because of the levels of growth, it is unlikely to increase as a proportion, though it will increase in terms of volume until we start to get rail infrastructure in place that is efficient for purpose.

The CHAIR — Do you have a rough time line of some of those changes taking place?

Mr LYON — Beyond 2020 our modelling shows there will be a fairly significant ramp up in terms of modal shift to rail. If the committee has deliberations, we can send that modelling care of the secretariat.

The CHAIR — That would be great.

Mr LYON— I think everyone, including the road haulage industry, has an interest in seeing the more efficient movement of goods. That in large part means a shift of the increasing volumes across to rail.

Mr KOCH — Just back to your statement in relation to PPPs, could you give us some indication as to what you see as the current obstacles to the greater use of the PPPs in delivering these major road projects? Obviously some have been very successful and some not successful. I think Allen Consulting Group did some work for you earlier. In your investigations what were some of those outcomes in relation to the ongoing obstacles that may occur for PPPs?

Mr LYON — In terms of the major obstacles, the work you alluded to was an analysis of cost and timetables, which I referenced earlier, which was done at the University of Melbourne. We did a study in March of last year through our policy team here which looked at the current funding situation for public-private partnerships more broadly. Many of the findings of that research still hold currently.

The largest and most significant impediment to the delivery of motorway projects currently is the risk appetite of investors toward patronage risk. Government needs to take a project-by-project approach to how market risk is apportioned. By market risk I mean tolling risk on motorway projects. There are options that have been used in the past to make sure we can deal with particularly the risk during ramp up, which is where we have seen challenges in projects like the Cross City Tunnel and the Lane Cove Tunnel.

If you look at Sydney Harbour tunnel project in Sydney and the way it was structured, the toll on the harbour bridge was used to place a floor under the risk of the private sector in delivering the tunnel option. It may be that putting a floor on risk is a suitable option that needs further consideration by Treasury and the public sector across Australia if we are going to attract competitive interests in delivering some of the multibillion-dollar road projects that are needed, particularly in our eastern state capitals.

Mr KOCH — In that are you saying private investors may see the opportunity to move more of the risk of cost to the public sector away from the private sector?

Mr LYON — Over the last 10 or 15 years there has been an increased movement of project risks across to the private sector. That has delivered very significant value for money outcomes to the public sector, but the challenge facing governments now, given the size of funding challenge that exists in terms of road projects in particular, is for governments to be able to attract superannuation and other private investment into that next generation of road projects.

At the moment it is unlikely, given the current risk and the types of current capital market advertised. It is unlikely that a full market risk project on the traditional model would be able to attract sufficient competition for investment. That means governments need to have an open mind about how market risk — and I am not talking about other project risks, simply market and refinancing risk — can be appropriately shared so that private capital can be attracted into these projects.

In the past you had a lot of capital chasing a few projects. Now, since the global financial crisis, we have got a lot of projects chasing more limited and wary capital.

Mr KOCH — I think one of the other issues is the rerouting of traffic so they have virtually got to use some of this preferable infrastructure versus dodging tolls and what have you, which can congest many other local roads.

Mr LYON — That was attempted in Sydney as you may be aware with funnelling particularly in reference to the Cross City Tunnel. That was very unpopular in the public mind. It led in large part to a lot of the focus on the Cross City Tunnel because major urban thoroughfare was reduced by one lane either way. There was a strong public reaction. The guidelines in New South Wales for privately funded motorway projects now preclude the funnelling of traffic.

Our view as an organisation is that it is a value proposition. It is there in terms of the cost relative to time savings. Then over time people will naturally flow on to toll motorways.

Mr KOCH — I think funnelling came back to risk management. For instance, in Melbourne we saw with CityLink that in the eastern suburbs there was some funnelling and calming going on, which was rejected publicly initially but now that seems to have become a little bit more acceptable and the usage has increased.

Mr LYON — Undoubtedly CityLink is one of the best motorway projects that has ever been done in Australia.

Mr LANGDON — Brendan, you talked about freight earlier and the doubling and tripling of it. Is there any chance of PPPs being used in freight to get it off the roads?

Mr LYON — There are a range of innovative models. Rail alignment-based projects have proved quite difficult to attract investment to in the way that you would a motorway project. Obviously things like the Alice Springs–Darwin railway pose challenges of their own, but there is no doubt that we need to attract much greater private investment into the national freight network. One of the key recommendations of the paper, which contains some of the modelling I was referring to, is the need to create a national freight regulator so that you have one body that is charged with looking at where population and economic growth is going to occur, where the gateways exist in terms of ports and how we can get the right rail, road and modal connections, so that we have got a very fits-the-purpose and efficient national freight network. By having a long-term plan — which is ultimately what this body would deliver; a long-term plan of what projects are needed — we could also have, and we have indeed recommended that there should also be, long-term pipeline investment opportunities that pool out of that, so that we can begin to build a level of expertise, skill and ready investment into those sorts of projects. It is a very good point, and certainly one that we have made some sound and strong recommendations on.

The CHAIR — Thanks very much for your time today, Brendan.

Mr LYON — No worries. I would like to thank the committee again.

Witnesses withdrew.