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The road to funding reform

Submission by Roads Australia to the Productivity Commission Inquiry

into Public Infrastructure

About Roads Australia

Roads Australia (RA) is a not for profit, non-political industry association in the Australian road transport sector.

Our organisation draws attention to the importance of our road network to the economic and social fabric of our nation. Roads Australia seeks to ensure that information and decision-making in relation to our road transport is well informed and reflects an appropriate level of priorities.

To that end, Roads Australia provides a forum for policy development and communication, working in a cooperative relationship with decision-makers (including local, state and federal governments).

We have more than 100 member organisations including road and transport authorities across the country. (Please refer to a list of members attached)

Roads Australia's membership embraces a very broad spectrum; the views expressed in this paper represent the general views of members, but are not necessarily representative of the views of all individual members.

Roads Australia would be pleased to provide further information or discuss any of the areas raised in this submission. Furthermore, Roads Australia President, David Stuart-Watt, would be pleased to appear at Inquiry hearings to discuss any aspects of this submission.

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Introduction

Roads Australia welcomes the Productivity Commission's Inquiry into Public Infrastructure, and in particular its focus on **funding** and **financing** and the **cost of delivery** of public infrastructure.

In our own sphere of interest – Australia's $280 billion-plus national road asset - we see these issues as being of paramount concern. The national infrastructure backlog, much of it in the land transport space, has been variously estimated at between $455 billion and $770 billion dollars.[1]

The road network is a fundamental driver of the national economy. Yet its efficiency is compromised by under-spending on maintenance and renewal, and a lag in the delivery of key new road projects.

This statement is not a criticism of current or previous governments, state or Federal; rather, a recognition that there is a limited pool of public sector funding available and, more to the point, insufficient revenue generated from road and transport users to adequately maintain and, where necessary, expand the network.

Funding and financing: where to?

There are two key challenges in delivering Australia's essential transport infrastructure – how we unlock the capital to build it in the first place, and how we subsequently pay for it.

The reality is that there are really only two funding sources for public infrastructure – government investment or direct user charges.

In a major report released in April 2012[2], Infrastructure Australia's Infrastructure Finance Working Group (IFWG) described the current funding capacity of Australian governments as a 'major constraint' on the delivery of social and economic infrastructure.

In the current fiscal climate, with governments unwilling to risk AAA credit ratings by going into debt and taxation increases off the political radar, we are running out of options.

Certainly, the recycling of assets represents an opportunity for governments to increase the funding pool. The NSW Government's sale of Port Botany to partially fund the WestConnex project is a good example.

Yet even that, alone, is not enough. Projects like WestConnex and Melbourne's East West Link cannot be delivered without the significant injection of private capital, be it from superannuation funds or specialist infrastructure developer/operators, or a mix of both.

And that brings us to the reality of user-charging.

The question for policy makers, therefore, is not *should* we encourage and allow greater private investment in infrastructure underpinned by direct user charging, but rather *how, when* and *where*.

[1] Speech to National Press Club by Infrastructure Partnerships Australia Executive Director, Brendan Lyon, Oct 2010.

[2] *Infrastructure Finance and Funding Reform*, Infrastructure Finance Working Group, April 2012.

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Roads Australia recognises that there are many different models for charging users to pay for transport infrastructure and services, which can be loosely grouped into:

- 'value capture' mechanisms (benefitted area levies, parking levies, developer charges and rights fees, etc.)
- Tolling and charging (distance-based, time of day and so-called congestion charging)

We believe all user-charging options should be put on the table for discussion. Their suitability in an Australian context needs to be examined and tested – not as 'add-ons' to the current system, but as part of a more fundamental review that looks at all aspects of how we finance and fund our transport infrastructure in the years ahead.

Current pricing signals

In the case of roads, the current 'price' levied on users is too low.

By its own calculations[3], the NSW Government estimates that it recovers less than 70 per cent of its expenditure on roads and related services from users (via road user charges, motor vehicle taxation and tolls on state-owned motorways).

In reality, the gap between cost recovery and 'optimal spend' is far greater because we are clearly under-spending on road maintenance, renewal and expansion.

On a national level, the Commonwealth-levied fuel excise has returned only about half the revenue to national road projects since 2008-09.[4]

The average road user is not aware of the gap between what he/she pays to use the network and what it costs to maintain and renew it.

If the current access 'price' was increased to bridge this gap, what impact might it have on network efficiency, on individual travel patterns, on public transport usage?

How should the revenues be hypothecated? To roads? To improved public transport? To both? If so, in what proportions?

How do we deal with questions of fairness and equity, to ensure that those who are disadvantaged by geography, economic means or a lack of alternative transport options are adequately compensated?

These are all complex questions that require serious consideration in the context of any discussion on road and transport pricing reform.

And in addressing these issues, governments must be upfront with the community in terms of how revenues can be hypothecated, who are the potential winners and losers, and how issues of fairness and equity are dealt with.

[3] NSW Transport Master Plan, 2012, Chapter 10, p. 366.

[4] NRMA

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The importance of community buy-in

The greatest impediment to transport pricing reform is the attitude of the community, and in particular transport users.

Most users believe they already pay enough to use our roads, buses and trains; public transport users through fares and road users through tolls, fuel excise and registration charges.

Any attempt to have a sensible debate on pricing reform is, somewhat understandably, howled down. And yet, recent studies show that the public will accept charging for infrastructure and services if they know where their money is being spent.[5]

If we are to effect any change we need to raise the level of public discourse. As a 2012 founding member of the Transport Reform Network (TRN), Roads Australia believes it is critical that the community be provided with information, options and a platform for debate. I attach the TRN Position Paper which outlines its mission, goals and the case for transport reform.

At the same time, governments – and oppositions – have to show leadership in this debate. We may not all agree on the solutions up front, but we should all support a transparent debate about those solutions.

Reform will not happen overnight, but it will happen over time if governments are prepared to be honest with the community about the problems and the potential solutions.

Road-blocks to cost-effective infrastructure delivery

Roads Australia, through its partnership of public and private sector members, has done a great deal of work to identify and facilitate improvements in the delivery chain, particularly around the area of procurement.

Over the past three years our Capacity Policy Chapter has run an annual survey of industry members to capture areas for improvement in:

- pre and post-tender briefings,
- contract documentation and addenda, and
- the adequacy of tender periods in each jurisdiction.

Although at first glance these might seem like relatively insignificant issues, in many ways they go to the heart of the problem – planning and communication.

In the experience of our private sector members, a far more rigorous approach by government to the preparation, communication and transparency of procurement processes can deliver real and significant cost efficiencies.

[5] Department of Transport, UK. British Social Attitudes survey 2011: public attitudes towards transport, Feb 2012. (p 72. Travel behaviour)

Some of the key findings of our surveying:

- The quality and level of information provided in pre and post tender briefing is very inconsistent (both within and across state jurisdictions), and often generic rather than projec specific. This limits the opportunity for tenderers to learn from the process and apply those lessons in future tenders.
- In debriefs, greater transparency of the evaluation scoring against each criteria and indication of the range of the bidders would be valuable in terms of continuous improvement.
- The quality of tender documentation is inconsistent, sometimes resulting in numerous addenda. Our members believe a greater focus on managing tender/client risk allocation expectations would assist with this.
- With respect to the D&C model in particular, poor quality tender documentation and inadequate reference designs can increase the level of design risk/scope creep during the bid phase.
- There is a general lack of sustainability initiatives in tender documentation across some jurisdictions – although this is improving; and
- The lack of a reliable pipeline of projects is a major impediment to efficient and effective tendering and procurement.

In addition to these issues, many private sector players believe the bidding process itself (at least in some jurisdictions) discourages competition and therefore cost effective outcomes for the taxpayer. The cost of bidding, coupled with the inability of unsuccessful bidders to recoup any of those considerable costs, can be a disincentive to tender on certain contracts – as can the length of 'shortlists'.

The need for a project pipeline

The importance of creating a reliable, funded pipeline of infrastructure projects cannot be underestimated.

In August 2009, Roads Australia's Capacity Chapter produced an Issues Paper on the *Benefits of a Rolling Four-Year Program of Work*, estimating that the good planning, resource allocation and focus on outcomes generated through a high level of predictability could conservatively generate a saving of five per cent to the RTA in the $4.4 billion NSW Roads Budget over 2009/10.

At that time, Roads Australia estimated this saving could have funded another major piece of infrastructure, such as 10km of Pacific Highway.

Governments – both Commonwealth and state - should have a clear view on the future pipeline of projects and identify when investment is likely to occur, particularly for larger infrastructure projects.

The advantages of providing such a predictable pipeline of projects include:

- allows for the timely and cost-efficient progress of project investigations, environmental assessment, design, property acquisition and procurement,
- ensures tenderers can allocate the best people, in terms of experience and capability, to deliver competitive, value-for-money outcomes,

- allows governments to optimise their expenditure, and
- allows for a concentrated capacity development and investment strategy.

The stand-out reason for introducing longer term forward programming is the value for money it will afford the taxpayer, as highlighted in our 2009 Issues Paper.

By giving industry greater lead-time to plan and prepare bids, the cost of the bids will be reduced and the quality of the bids will increase. This will lead to higher quality road infrastructure being constructed, at lower cost.

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RA members

AECOM	**Lend Lease**
Acciona	LGAQ
AGIC	**Linking Melbourne Authority**
Altus Traffic	MacConnell Dowell
Aquenta Consulting	Main Roads WA
ARRB Group	Mouchel
Arup	MWH Global
Ashurst Australia	National Road Freighters Association
Australian Trucking Association NSW	Norman Disney and Young
Aurecon	NRMA
Australian Asphalt Pavement Association	OHL
Australian Automobile Association	Opus International Consultants
Australian Construction Products	**Parsons Brinckerhoff**
Australian Constructors Association	**Pitt & Sherry**
Austroads	PricewaterhouseCoopers
Beca	Project Support
BIS Shrapnel	Professionals Australia
Boral	Queensland Transport & Main Roads
BMD Group	Queensland Motorways
Bouygues Travaux Publics	RAA
BrisConnections	RACA
Cardno	RACNT
Cement, Concrete & Aggregates Australia	RACT
CCF (Vic)	RACQ
CCF (National)	RACV
City North Infrastructure	RACWA
Clayton Utz	Road Management Solutions
Coffey	Roadmarking Industry Association of Aust
Community Training Initiatives	Roads & Maritime Services NSW
ConnectEast	Rocla Pty Ltd
Department of Infrastructure, NT	Shell
Department of Transport, NT	SICE
DIER Tasmania	**Sinclair Knight Merz**
Downer	SMEC Australia
DPTI South Australia	SLR Consulting
Engineers Australia	The Boylan Group
Ernst & Young	The Civic Group
Evans & Peck	Thiess
Evolution Traffic	Tracey Brunstrom & Hammond
Fulton Hogan	Transfield Services
GHD	Transport Certification Australia (TCA)
Global Road Technology	Transurban
Golder Associates	Transport for NSW
GTA Consultants	Transport Workers Union of Australia
Hill and Smith	Urban Circus
Hitachi Construction Machinery	URS
Hyder Consulting	**Victorian Transport Association**
IQ Concrete Solutions	**VicRoads**
John Holland	Weddin Shire Council
KBR	Westrac
Komatsu	Whittlesea City Council
Leighton Contractors	Wyndham City Council

Bold = RA Board Member

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Neil Scales
Director General, Queensland Transport and Main Roads

Dennis Cliche
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Peter Walton
General Manager, Major Projects and Technical Services, Lend Lease Engineering

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