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INFRASTRUCTURE FUNDING REPORT CARD

Funding Australia's Future

AUSTRALIAN AUTOMOBILE ASSOCIATION
ELECTION 2016



FOREWORD FROM MICHAEL BRADLEY CHIEF EXECUTIVE OFFICER AAA



The Australian Automobile Association (AAA) is the peak organisation for Australia's motoring clubs and their eight million members. The AAA advances the interests of all road users across Australia to ensure that land transport networks are safe, sustainable and affordable and meet the needs of Australian families, commuters, and businesses.

The AAA has long recognised that efficient land transport networks, including roads, public transport and active transport infrastructure, are critical to the national economy, as well as local communities.

To facilitate Australia's transition away from an economy that relies heavily on the mining industry, future governments need to adapt their policies to changing economic circumstances.

The AAA and its member motoring clubs hold the view that no future Australian Government can achieve the nation's economic goals unless investment in land transport infrastructure is recognised as being an important enabler of future prosperity.

The AAA's *Infrastructure Funding Report Card: Funding Australia's Future* is based on research that the AAA commissioned to inform its policy positions around the Australian Government's investment in land transport infrastructure. We asked leading national economic consultancy ACIL Allen to consider a range of questions, including:

- What are the wider benefits associated with the Australian Government investing in land transport infrastructure?
- Has there been an underinvestment by the Australian Government in land transport over recent decades and will a 'shortfall' in funding continue into the future?
- Does the current funding model meet the needs of the 21st century?
- How might we transition to a more suitable funding model?

ACIL Allen's report *Land Transport Funding: Transitioning to a Better Model* (ACIL Allen's report) found that land transport infrastructure provision and maintenance in Australia have fallen behind growth in demand for services, and the gap is widening. In some instances, we are merely trading water, with congestion costs expected to exceed the value of road-related expenditure as early as 2018–19. Further, the ACIL Allen report has predicted that the shortfall of Australian Government road funding relative to road-related revenues in 2019–20 will be between 0.6 per cent and 0.8 per cent of GDP.

The ACIL Allen report also highlighted a significant funding gap when comparing ten key projects from the Infrastructure Australia Priority List, with available road-related revenue. Whilst the full extent of the Priority List's funding shortfall cannot be determined at this time, analysis of just ten unfunded projects out of 82 finds a gap up to \$43.9 billion, which almost fully depletes available road-related revenue of \$45 billion over the 2014–15 to 2019–20 period at both levels of government. When other unfunded projects that are not on the Infrastructure Australia's Priority list are included the shortfall is obviously much higher. **In fact, motoring clubs across Australia have identified almost \$100 billion in priority projects.**

I am pleased to present the AAA's policies in these areas, informed by the ACIL Allen report's findings. The full ACIL Allen report: *Land Transport Funding: Transitioning to a Better Model* is available at www.aaa.asn.au.

FOREWORD

FROM KEN WILLETT PRINCIPAL ACIL ALLEN



ACIL Allen was commissioned by the Australian Automobile Association to investigate the adequacy of funding of land transport, particularly roads, by the Australian Government. *Land Transport Funding: Transitioning to a Better Model* presents ACIL Allen's key findings.

Australia's land transport infrastructure is not coping well with demands placed upon it at many locations and peak times. State/territory, local, and federal governments have allocated considerable resources to address this problem, yet land transport problems have worsened. Governments simply have not done enough to address the important underlying economic problem that demand for land transport infrastructure services at peak times and in many locations exceeds supply of suitable infrastructure services, and the gap is widening.

An important funding anomaly is that the Australian Government returns only part of its revenue from road-related taxes (dominated by fuel tax) for state/territory and local governments to spend on roads. In 2015–16, only 44 per cent was returned. In 2003–04, it was under 14 per cent. Over the next five years this 'shortfall' or 'gap' is projected to be around \$45 billion. Importantly, the increase in funding returned in recent years is more the result of declining Australian Government revenue as a percentage of GDP, than higher allocations for roads.

The gap in Australian Government funding in the next five years of \$45 billion would only be approximately enough to supply the currently unsecured funding for ten land transport projects, among 82, on Infrastructure Australia's Priority List. **Consequently, hypothecated allocations by the Australian Government for roads would need to rise to at least the full amount of road-related revenue.**

Severe stress on arterial land transport infrastructure in Australia would also be relieved by reform of pricing of road and public transport services, but complementary increases in public transport and bypass road capacity would also be required to prevent unduly high prices and to provide an efficient balance between prices and investment. **Indeed, land transport pricing reform should be preceded by substantial improvements to public transport services in major cities and to highly trafficked parts of the road network within and between those cities. This is necessary to improve the efficiency of allocation of resources and to gain public acceptance of land transport market reform.**

The reform process will require considerable time, because of the long gestation period of major land transport investments. It will need to be supported by substantial transitional institutional reform. This would include revenue from existing road-related taxation being hypothecated to land transport funds to secure borrowing to finance substantial infrastructure improvements prior to implementation of pricing reform.

In the immediate term, and in the absence of pricing, there are significant gaps between demand and supply at prevailing prices for infrastructure services. ACIL Allen's analysis has indicated that shortfalls will persist and worsen to the degree that the cost of congestion will soon outpace total funding invested in land transport. Consequently, ACIL Allen strongly recommends that governments in Australia embark on a long-term plan to implement transport market reform. Ultimately, reform will involve pricing, but in the medium term, investment in land transport will need to be increased, and other transitional arrangements will be required.

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INTRODUCTION

The AAA commissioned ACIL Allen to undertake analysis of Australia's ability to fund the land transport infrastructure needed in Australia in the 21st century in the context of current policy arrangements.

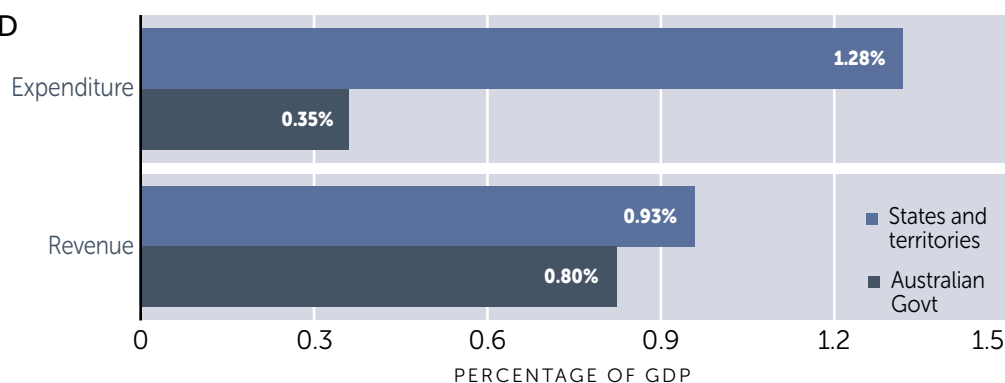
ACIL Allen's *Land Transport Funding: Transitioning to a Better Model* (the ACIL Allen report) has demonstrated that land transport infrastructure investments can deliver important economic gains, with studies conducted in Australia and overseas finding that an increase in the stock of public infrastructure of one per cent is associated with increases in economic activity between 0.1 and 0.4 percentage points. However, despite potential economic gains, there continues to be an underinvestment in Australian land transport infrastructure, most notably from the Australian Government.

The ACIL Allen report found that land transport infrastructure provision and maintenance in Australia have fallen behind growth in demand for services, and the gap is widening. In some instances, we are merely treading water. In other cases, we are sinking, with congestion costs continuing to rise strongly and expected to exceed the value of road-related expenditure as early as 2018–19. ACIL Allen also predicted that the shortfall of Australian Government road funding relative to road-related revenues is in excess of \$45 billion during the period 2014–15 to 2019–20. When ACIL Allen examined only ten unfunded projects of 82 from Infrastructure Australia's Infrastructure Priority List, there is a funding shortfall of up to \$43.9 billion, which almost entirely depletes the \$45 billion in excess revenue available at both levels of governments. The ACIL Allen report also states that greater recycling of Australian Government road-use-related revenues to roads would have contributed to alleviation of congestion, road damage, and crash costs in the context of rising road use with GDP growth.

While overall government expenditure on land transport infrastructure has increased as a share of GDP, most of the increase has come at the state and territory level. The states and territories have generally offset fluctuations in Australian Government expenditure.

Moreover, states and territories have spent more on land transport than they have received from road users. For example, in 2015–16, it is estimated that state and territory land transport outlays are equivalent to 1.28 per cent of Australian GDP, but their road-related revenues represent 0.93 per cent of GDP (see figure below).

AUSTRALIAN LAND TRANSPORT 2015–16



INTRODUCTION

This is compared to the Australian Government outlays, which are equivalent to 0.35 per cent of GDP, while their revenues represent 0.8 per cent of GDP.

The ACIL Allen report found that although Australian Government funding shortfalls appear to have decreased over time, this has been due more to the decline in revenue, than any consistent increase in allocations to road funding. As shares of GDP, all Australian Government sources except the luxury car tax have shown trend declines over recent years. The decline in fuel taxation reflects inflation eroding the value of fuel excise over the years, as well as technological advances in fuel efficiency that have been directed to lower fuel consumption.

Notwithstanding the deficiencies of the current revenue instruments, there is a strong case for hypothecating them to the funding of land transport infrastructure. **Hypothecation of Australian Government revenues would result in a much-needed increase in funding, but also provide planners with more long-term certainty of funding levels.** Road users would also understand that revenues raised would be used to improve the network and would support the replacement of existing taxes and charges with more efficient alternatives. The ACIL Allen report recommended the establishment of independent land transport funds that operate at arm's length from government. ACIL Allen concluded that these funds should have borrowing capacity in order to allow them to separate the timing of investment from the timing of revenue. Indeed, there is a strong case to avoid substantial accumulation of balances in the funds, since this would make the funds attractive targets for raiding by governments.

While hypothecation of current road-related revenues to the funding of land transport infrastructure would be a substantial improvement over current arrangements, the longer term aim should comprise other reforms, including pricing. However, **ACIL Allen stressed that, from the perspective of an efficient allocation of resources and to achieve public acceptance of pricing, investment to bring roads and public transport infrastructure up to an acceptable standard prior to the implementation of road user pricing is essential.** It is also an essential complement to pricing reforms in the medium- to long-term, to ensure that additional traffic can be accommodated as population and economic activity grow.

The AAA strongly supports the transition process from the current model towards a long-run efficiently-managed system. The transition process contained in the ACIL Allen report provides an indication of the potential timing associated with each phase during the transport market reform process.

INVESTING IN INFRASTRUCTURE HAS A STRONG ECONOMIC RETURN

AAA POLICY POSITION

The AAA and its member clubs argue that continued land transport infrastructure investment is central to building and sustaining economic growth.

Some benefits are well documented and obvious to most Australians, such as improved travel times and trip reliability as well as better road safety outcomes. There can also be positive social and environmental benefits through reduced travel stress and emissions.

However, there are also less obvious benefits. Effective transportation networks, much like the rise of the digital economy, deepen markets. Smart networks, either digital or physical, bring consumers closer to businesses, and they bring workers in contact with more opportunities.¹

Efficient networks promote innovation and a more dynamic economy. These benefits are hard to quantify but are an undeniable component of economic growth and productivity.

The ACIL Allen report supports the AAA position that investment in land transport infrastructure stimulates economic growth.

ACIL ALLEN FINDINGS

FINDING 1

The economic literature indicates that there is a strong link between economic growth and investing in land transport.

- Land transport infrastructure investments that are targeted towards relieving acute bottlenecks in the network, and operate under an efficient demand management scheme, can make important long-term economic contributions.
- Studies conducted in Australia and overseas found that a **1 per cent increase in the stock of public infrastructure results in an increase in economic activity lying between 0.1 and 0.4 percentage points.** This is in addition to the underlying rate of economic growth, which, for Australia, tends to be between 1 and 3 per cent annually.

FINDING 2

The economic return from investing in land transport infrastructure is greater during periods of low economic growth.

- In the direct impact assessment approach, the positive impact on growth arises from construction activity, particularly during periods of recession or slow economic growth, characterised by slack labour and capital markets.
- There is a rationale for making the timing of public investment in infrastructure contrary to the business cycle (i.e. 'counter cyclical'), since this would tend to minimise construction costs and thereby maximise creation of value added.

INVESTING IN INFRASTRUCTURE HAS A STRONG ECONOMIC RETURN

FINDING 3

The benefits generated from investing in land transport are much broader than 'direct benefits' such as lower fuel costs and travel time savings and in some cases have been estimated to double these benefits.

- Land transport infrastructure may increase economic production, in ways similar to scientific knowledge.
- In particular, elasticity estimates of output with respect to public capital typically lie in the range of 0.05 to 0.3. **When broader benefits are analysed, these estimates are essentially doubled, to a range between 0.1 and 0.6, highlighting the potential strength of external benefits.**

ROAD-RELATED REVENUE HAS NOT BEEN INVESTED BACK INTO INFRASTRUCTURE

AAA POLICY POSITION

The AAA and its member clubs argue that there should be a clear link between the taxes motorists pay and the expenditure on land transport projects. Motorists make a significant contribution to the government's revenue base through fuel excise, but only a part of this flows back into transport infrastructure expenditure.

The majority of the fuel excise the Australian Government receives from motorists is not earmarked for expenditure on the transport network and instead flows through to consolidated revenue, where the process of directing funding to land transport is complex and lacking in transparency.

Research conducted by the AAA in 2015 found that 38 per cent of Australian motorists believe 100 per cent of fuel excise revenue should be spent on major land transport projects. A further 47 per cent of motorists believe that more than 50 per cent of fuel excise revenue should be spent on major land transport projects.

In line with these expectations, **the AAA is strongly of the view that a guaranteed minimum of at least 50 per cent of nett fuel excise revenue be earmarked transparently for land transport in a dedicated fund.** This would remove some of the uncertainty and ad hoc nature of Australian Government funding and pave the way to transport market reform.

The ACIL Allen report supports the AAA's policy position confirming that the Australian Government has underfunded land transport and ACIL Allen has suggested that there needs to be a transparent fund established for at least the full amount of road-related revenue.



ROAD-RELATED REVENUE HAS NOT BEEN INVESTED BACK INTO INFRASTRUCTURE

ACIL ALLEN FINDINGS

FINDING 4

In order to meet the land transport shortfall in the coming decade, at least the full amount of Australian Government road-related revenue needs to be transparently earmarked to a dedicated land transport fund, resulting in a much needed increase in Australian Government funding, while providing road users with more certainty about future funding levels.

- Australian Government allocations to road-related expenditure will need to rise to at least the full amount of Commonwealth road-related revenue. In fact, over the next five years, this will barely be enough to cover the subset of ten projects from Infrastructure Australia's Priority List.
- Earmarking or hypothecation of funds into newly established road funds would be a complementary step forward from the current land transport policy regime. The current regime relies on government departments, and annual allocations from consolidated revenue to fund infrastructure investment and maintenance, and public transport deficits. Road-use-related taxes are not linked or are only vaguely linked to expenditures.
- Hypothecation would provide the planners and deliverers of investment in the land transport network with more certainty of funding than they have under the current system of ad hoc allocations driven by factors such as the electoral cycle. This would facilitate an increase in the efficiency of the investment program.

FINDING 5

The introduction of the road funding special account in June 2015 was a notable step towards hypothecating road-related charges for land transport funding. However, the fund has several shortcomings.

- In June 2015, the government also established the Fuel Indexation Road Funding Special Account from which road grants would be made to states and territories. It is not verifiable whether or not these allocations and future payments into the Fuel Indexation Fund will result in Australian Government grants for roads that will be higher, lower or unchanged from what otherwise would have been the case. Nevertheless, the Fund's establishment is notable because it involves hypothecation of part of fuel taxation for roads for the first time since 2000.

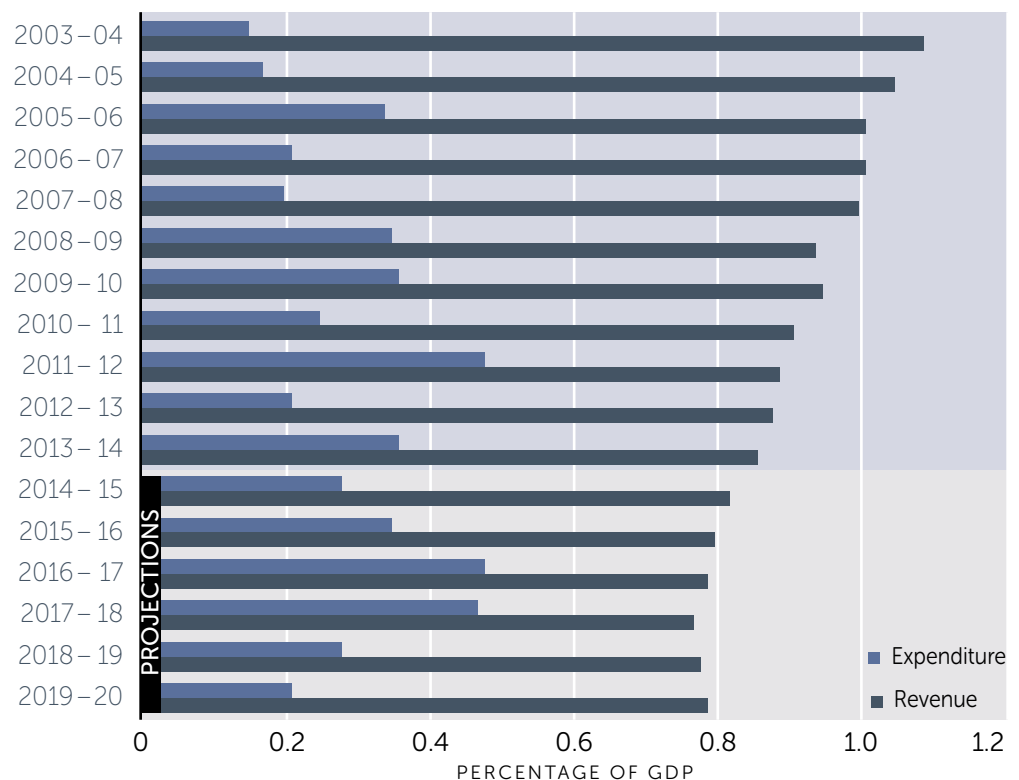
ROAD-RELATED REVENUE HAS NOT BEEN INVESTED BACK INTO INFRASTRUCTURE

FINDING 6

The states and territories are carrying the burden of land transport funding in the face of underfunding by the Australian Government; falling road-use-related revenues and fluctuations in funding due to the federal election cycle, with this trend expected to continue into the future.

- The data presented show that over the past decade there has been a persistent, although shrinking, shortfall of Australian Government expenditure on road infrastructure relative to revenue raised from taxes and charges on road users (see figure below). **The Australian Government has generally allocated substantially less than half of its road-related revenues to land transport funding.** Even though the shortfall has decreased, at the Australian Government level, the current ratio of expenditure to revenue is still only 0.44.
- Although the shortfall has decreased, this has been due more to the decline in revenue than any consistent increase in allocations to road funding.
- Australian Government allocations to road funding exhibit a marked cyclical pattern, with spikes in allocations typically following federal elections. Fluctuations at the Australian Government level have been largely offset by changes in state and territory and local government expenditures.
- The 2016–17 Australian Government budget proposes to increase road grants to almost 0.5 per cent of GDP by 2017–18, but then to drop them back to 0.2 per cent of GDP by 2019–20. The resulting funding trajectory is inconsistent with efficient road planning and investment programming to meet Australia’s rising demand for road services.

REVENUE, EXPENDITURE AUSTRALIAN GOVERNMENT



SOURCE
BITRE, ABS, ACIL Allen

ROAD-RELATED REVENUE HAS NOT BEEN INVESTED BACK INTO INFRASTRUCTURE

FINDING 7

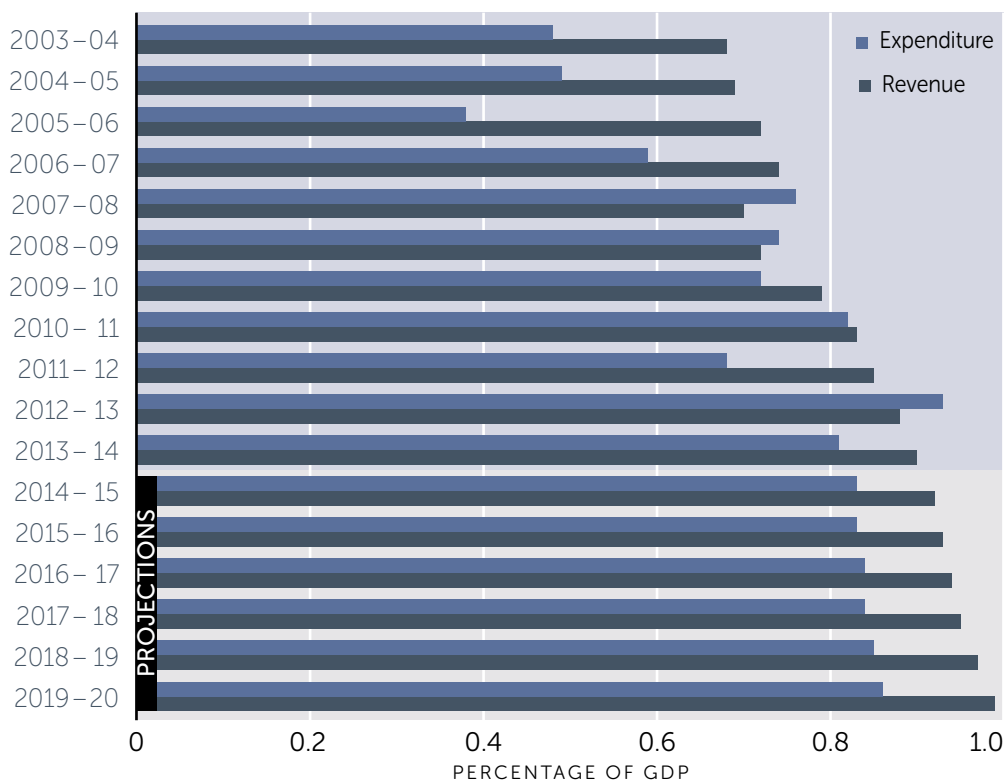
The states and territories have on average, returned what they have collected in road-related taxes and charges.

- In 2015–16, it is estimated that state and territory road-related outlays are equivalent to 0.8 per cent of Australian GDP, and revenues represent 0.9 per cent of GDP (see figure below).
- However, state and territory governments have outlaid substantial amounts to cover public transport deficits in capital cities, reflecting policies of holding down fares and expanding services, mainly in an attempt to reduce traffic congestion. When these outlays are included, expenditures on land transport rise to 1.3 per cent of GDP, substantially exceeding revenues.

REVENUE, EXPENDITURE STATE AND TERRITORY



SOURCE
BITRE, ABS, ACIL Allen



AUSTRALIA'S LAND TRANSPORT INFRASTRUCTURE BACKLOG IS GROWING

AAA POLICY POSITION

The AAA position that land transport infrastructure is not being funded adequately, resulting in an infrastructure backlog that is growing.

Last year land transport congestion cost Australia \$18.2 billion.²

Broken down, this consisted of \$6.6 billion in private time costs, \$8.8 billion in business time costs, \$1.7 billion in extra vehicle operating costs and \$1.1 billion in extra air pollution costs. Breaking this down even further, drivers in the major capital cities have current per capita congestion costs of around \$1,100 per person per annum, while the smaller capitals average less than \$550 per person per annum.

Australia's population is projected to grow to between 36.8 million and 48.3 million in 2061, and reach between 42.4 million and 70.1 million in 2101.³ If the Australian Government continues along the current investment profile, congestion costs are projected to reach between \$30.6 and \$41.2 billion by 2030.⁴

Congestion can, in part, be explained by the growing infrastructure deficit in Australia. Estimates of the infrastructure backlog facing Australia vary. Infrastructure Australia estimated that the deficit was in the order of \$300 billion.⁵ However, other estimates are much higher. Previous estimates by Citigroup have estimated that infrastructure investment required in the decade to 2018 would cost more than \$770 billion.⁶

The ACIL Allen report supports the AAA position of a growing shortfall in land transport infrastructure funding.

ACIL ALLEN FINDINGS

FINDING 8

Australia will face a significant shortfall or 'backlog' in aggregate land transport funding, significantly limiting the Australian Government's ability to allocate funding to unfunded projects listed on Infrastructure Australia's Priority List.

- A substantial shortfall of Australian Government road funding relative to road-related revenues will persist through to the end of the projection period. During the period 2014–15 to 2019–20 there is a surplus of revenue over expenditure of \$45 billion across all scenarios, which can be traced to the Australian Government, since road-related revenue and expenditure for the state and territory governments are approximately balanced.
- Of the 82 land transport projects and initiatives on the Infrastructure Australia Priority List, 51 are to be completed within five years (near term), 19 are to be completed within ten years (medium term), and 12 are to be completed within 15 years (longer term). The total funding still required for just ten projects for which cost data is readily available stands at \$42.2 to \$43.9 billion, to be shared by the Australian and state and territory governments.
- If the Infrastructure Australia Priority List is to be successfully implemented, a substantial proportion, if not all, of the excess road-related revenue over expenditure, identified as around \$45 billion, will need to be directed to land transport infrastructure, just to fund only ten of 82 projects on the list.

AUSTRALIA'S LAND TRANSPORT INFRASTRUCTURE BACKLOG IS GROWING

FINDING 9

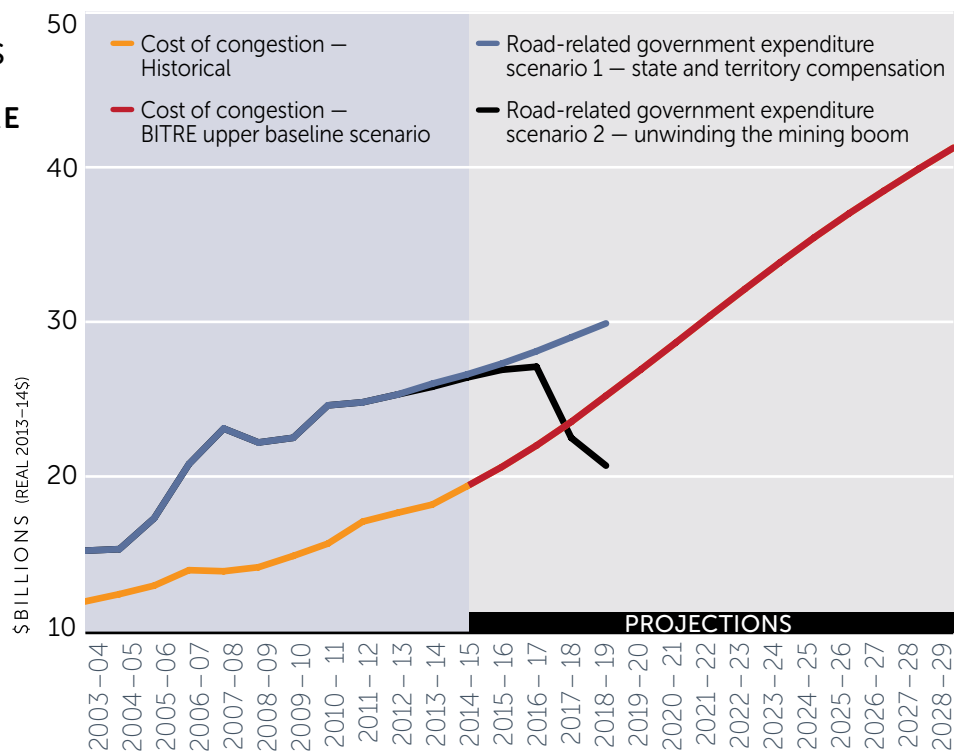
Despite a substantial increase in government expenditure, congestion continues to grow and its cost will soon outpace the total value of all land transport infrastructure investment.

- Congestion costs have risen between 1989–90 and 2014–15 at a compound annual growth rate of 4.9 per cent, essentially tripling over this historical period from \$5.5 billion to \$18.2 billion (real 2013–14\$). **Measured as a percentage of GDP, congestion costs have also tripled, rising from 0.39 to 1.14 per cent of GDP between 1989–90 and 2014–15 (a compound annual growth rate of 4.4 per cent).**
- By 2029–30, avoidable congestion costs are expected to grow to levels ranging from 2.3 to 1.19 per cent of GDP. The ratio of avoidable congestion costs in 2029–30 relative to the 2014–15 value ranges from 2 to 1.05 times.
- According to ACIL Allen's projections, in all but the two lowest of BITRE's cost scenarios, congestion costs will exceed the value of road-related expenditure by the early 2020's, and in scenario 2 (which assumes that state/territory expenditure falls as part of the process of unwinding the mining boom) congestion exceeds expenditure as early as 2018–19 (see figure below).
- The data show that the combination of the magnitude and allocation of land transport road spending by governments in Australia, and the growth of that spending over the past 12 years have been ineffective in dealing with growing congestion costs.

AVOIDABLE CONGESTION COSTS AND ROAD-RELATED PUBLIC EXPENDITURE



SOURCE
BITRE, ABS, ACIL Allen



AUSTRALIA'S LAND TRANSPORT INFRASTRUCTURE BACKLOG IS GROWING

FINDING 10

The state of Australian roads is impacting safety.

- In the latest AusRAP report, only 8 per cent of national highways achieved a 4-star rating. Only Victoria had a national highway with a 5-star rating, but only 2 per cent of its highways achieved this rating. At the national level, 53 per cent of highways achieved a 3-star rating and 39 per cent achieved 2 stars or worse. This indicates that, from a safety perspective, Australia's road network falls substantially below what could be considered adequate.

FINDING 11

Continuing with the current funding levels and policy settings will result in higher congestion. The way we fund and manage infrastructure must change in order to alleviate congestion.

- BITRE's forecasts indicate that a 'business-as-usual' approach to funding and pricing will perpetuate the worsening congestion that has been experienced under the approach taken in the past.
- The existence of significant congestion costs is a clear indicator of infrastructure shortfalls under a given pricing regime. With most roads currently unpriced, congestion costs are the highest they could be in the context of existing infrastructure and demand for services. Hence, the extent of shortfalls currently apparent are at the highest end of the price-shortfall schedule.
- Introducing road pricing would reduce congestion costs in the context of current infrastructure. However, there would still be a need for public transport and road infrastructure improvements to facilitate transport and route switching, keep prices to levels just sufficient to cover costs, and cater for growth of demand with population and economic activity.

IMPROVING AUSTRALIA'S LAND TRANSPORT SYSTEM TO DELIVER BETTER OUTCOMES

AAA POLICY POSITION

The AAA strongly supports a public inquiry into transport market reform and the benefits of road user pricing in the context of the fragmented, underfunded road network.

The inquiry would be a companion to the report released earlier this year by Infrastructure Australia into Australia's priority infrastructure requirements for the next 15 years.

This inquiry should build on previous work undertaken by the Productivity Commission, the Harper Review and Infrastructure Australia and identify a transitional pathway to a more transparent transport market, supported by appropriate regulatory controls and funding.

The primary objective of the proposed inquiry would be to consider how transport market reform and road user pricing could be linked to land transport infrastructure investment. This is particularly important given fuel taxation, the primary funding source for land transport, is forecast to decline due to vehicles becoming more efficient and utilising alternative sources of energy.

Ideally the inquiry would include an extensive consultation process with stakeholders and the broader community with three broad objectives:

- 1 Demonstrate the problems with the current funding model
- 2 Articulate road pricing as a solution among other alternatives
- 3 Demonstrate how the community would benefit as a result of the reform.

The ACIL Allen report supports the AAA position that the Australian Government needs to embark on transport market reform so that congestion costs do not overtake investment in land transport.

ACIL ALLEN FINDINGS

FINDING 12

The provision of additional infrastructure is only part of the solution to addressing Australia's land transport problems. It will also require the efficient use of existing infrastructure through well-designed reform of road and public transport pricing.

- It is now widely accepted that the solution of Australia's transport infrastructure problems will require measures to enhance the efficiency of the usage of existing infrastructure (now and in the future), as well as to increase the nation's physical infrastructure. This reflects the recognition that what is important for the community's economic welfare is the quantity of infrastructure services enjoyed by users, not just the quantity and quality of physical infrastructure in existence (and potentially available to users).
- Efficient usage of land transport infrastructure can be achieved by well-designed reform of road and public transport pricing that targets costs of congestion, road damage, crashes, and emissions that users impose on others without compensation (external costs).

IMPROVING AUSTRALIA'S LAND TRANSPORT SYSTEM TO DELIVER BETTER OUTCOMES

FINDING 13

Hypothecating or 'earmarking' road-related charges to a land transport fund now, could provide a bridge to a new efficient pricing regime in the future, and ensure that such a change is more acceptable to the community.

- Earmarking of fuel and vehicle registration taxes could facilitate a transition to an economically efficient road pricing regime that includes elements matched to current marginal external costs of congestion, road damage and crashes. These new efficient charges could be explicitly presented as replacements for the existing hypothecated taxes. After a link between road-use taxes and expenditures has been established, the political/community acceptability of a transition to efficient road pricing from fuel taxation would be easier to achieve than in the current context of no earmarking of fuel tax and registration.

FINDING 14

Land transport funds need to be established in a way that ensures transparency, provides financing flexibility and affords the community with a level of trust.

- Most reviews of the management of transport infrastructure, including the Productivity Commission (2006, 2014), have recommended establishment of independent funds or authorities at arm's length from government. Initially, these entities would be resourced by hypothecation of road-related taxation revenue. They should have borrowing capacity, to allow them to separate the timing of investment from the timing of revenue.
- Revenue paid into a road fund must not be viewed as money that must be spent immediately. Investment requirements vary over time and large investments require considerable assessment and planning. Therefore, it may be appropriate to defer expenditures to accumulate resources for worthwhile lumpy investments, but not to the extent where the fund becomes an attractive target for raiding by opportunistic politicians.

FINDING 15

There needs to be a significant increase in infrastructure investment before the introduction of a new pricing regime, further building the case for hypothecating current road-related charges to a land transport fund.

- In the context of the severe stress on arterial land transport infrastructure in Australia's major cities and on major road links between major centres, any move to reform land transport pricing should be preceded by provision of substantial improvements to public transport services in major cities and to highly trafficked parts of the road network within and between those cities. This is necessary on efficiency and public acceptability grounds.



ENDNOTES

1. PC Productivity Update July 2015. Accessed at: <www.pc.gov.au/research/ongoing/productivity-update/pc-productivity-update-2015/3-improving-the-efficiency-of-capital-investment-in-public-infrastructure>.
2. Bureau of Transport, Infrastructure and Regional Economics (BITRE) 2015, *Information Sheet 74: Traffic and congestion cost trends for Australian capital cities*. Figures in the BITRE report are real 2009–10 dollars, these have been updated to reflect real 2013–14 dollars using the Consumer Price Index.
3. Australian Bureau of Statistics 2013, *3222.0—Population Projections, Australia*. Accessed at: <[www.abs.gov.au/ausstats/abs@.nsf/Lookup/3222.0main+features32012%20\(base\)%20to%202101](http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/3222.0main+features32012%20(base)%20to%202101)>.
4. BITRE 2015, *Information Sheet 74: Traffic and congestion cost trends for Australian capital cities*. The scenarios quoted are the Lower and Upper Baseline, respectively.
5. Infrastructure Australia 2013, *National Infrastructure Plan: June 2013 Report to COAG*, Canberra.
6. Citigroup (Citigroup Economic & Market Analysis) 2008, *Australia's Infrastructure Supercycle*.





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