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## A tiresome introduction

This article deals with retardation of road reform. It attempts to clear up some misconceptions that plague national roads policy and stop desirable changes.

The main points are:

* there is **very substantial road fiscal deficit** – notwithstanding contrary claims;
* the principal cause is **uncontrolled spending**;
* **spending has far outstripped growth** in population and road use;
* meanwhile, the indications are of **lower quality of spending**;
* since 2000 road average ‘prices’ and **revenues are tracking much as would be appropriate**.

In summary there are chronic problems with road spending and a further problem of poor advice. These kill prospects for road reform.

These points explain two apparent paradoxes:

* those who point to falling revenue as the problem propose spending-support answers;
* advocates of the official version of reform are strange bedfellows - those who normally argue for less spending and those who lobby for more spending.

Road reform has failed and will continue to fail because of analytical deficiencies and gross over-reach by bureaucracies.

Similar factors are seen in other failing transport reforms including truck access, rail and freight.

Road reform is desirable. However, to succeed it needs to:

* **focus on problems affecting the community** rather than opportunities for bureaucratic power;
* have an indicative agenda of **highways that compete with rail lines;** capacity **pricing in** **a very few of the worst congested places**; proper **regulation of tolls**;
* **be led by the Prime Minister and Parliament** informed by appropriate presentation of facts, proper analysis and assessment of reasonable options.

We should know there is more than just a technical or ‘bring the community along’ problem when – fairly or not - a thinktank / industry / lobby group says an ‘honest’ process is needed for road reform.

As ever, the beagle would be happy to be corrected on these points.

## 1. A chore

*To everything there is a season, and a time to every purpose under the heaven.*

A new year is a season of statistics from the Bureau of Infrastructure Transport and Regional Economics. It is a time for the purpose of telling their story.[[1]](#endnote-1)

The same old story of a large roads fiscal deficit.[[2]](#endnote-2)

It must be a tiresome for the Bureau to produce its statistics yearbook. Especially when tiresome people, like those under the beagle’s direction, use it to refute the party line.

Be assured beta members of the beagle’s pack also find the exercise tiresome. Especially re-presenting published information into a meaningful and not misleading form. And keeping watch during the rest of the year for misrepresentations by those who should know better.

Here is a deal. If relevant information is better presented, if road spending is brought under control and if people stop spruiking infrastructure spending propaganda the beagle is prepared to relent.

For this year’s edition, the beagle asked for headings nodding to familiar click-bait headlines along the lines of: humongous infrastructure needs; roads over-run by out-of-control population growth; choking congestion; infrastructure spending pays for itself in two years. Off we go!

## 2. Shock horror!

### 2.1 Jaw dropping roads fiscal deficit!!

The latest Bureau figures again confirm Australian road spending exceeded road revenues by – a roads fiscal deficit of - billions of dollars for years. As said every year, Dr Michael Keating AC and roads expert Mr Luke Fraser are almost the only voices drawing attention to this.

Here are some ready-made headlines:

* for tabloids: the roads fiscal deficit surged to $7.5billion last year, spending exceeded revenue by 41%. The further $3.1billion blow-out was due entirely to increased spending.
* for journals of record: the cumulative road deficit in the 5 years to 2014-15 was $32.5billion with excess spending of 35%.
* for advisers: these figures understate the level of road subsidies and the true road deficit. Further there should be a large roads fiscal surplus.

### 2.2 You won’t believe the fiscal deficit hidden in the figures!!!

The beagle asked for the headlines as it is difficult to discern the facts from the Bureau’s publication.

Three points about the Bureau’s spending table (Figure 1 below):

* it is in ‘real’ terms, actual spending for years other than 2015-16 is lower than presented – when the presented figures are decreased by changes in the Consumer Price Index;
* totals are shown. The 2015-16 total is a record, around 14% higher than the previous year;
* it omits private sector road spending.

**Figure 1: BITRE: road spending**



Figure 2 is the Bureau’s road related revenues (below).

**Figure 2: BITRE: road related revenues**



Three points about Figure 2:

* the data are in ‘real’ terms, actual revenue for years other than 2015-16 is lower than presented – when the presented figures are decreased by changes in the Consumer Price Index;
* totals are not shown (unlike the case for road spending);
* it includes many items (columns) which should not be considered road related revenues. This might explain why totals are not shown.

This last point merits attention. A reader who added all the figures in a row is likely to conclude road revenues exceed road spending. For 2015-16 that reader would estimate revenue at $30.3bn, compare this with spending of $26.1bn and conclude there was a road fiscal surplus of $4.2bn. Such a reader – like the Productivity Commission - would be badly wrong. [[3]](#endnote-3)

Only a few of the tabulated items should be counted as road revenue: excise; registration; driver licence fees. Other items should not be counted e.g.:

* tolls, paid to private road operators, should not be counted because private spending on (toll) roads is not included in the expenditure total;
* Goods and Services Tax revenue should not be counted because it is a general rather than road related tax. This tax is levied on other user charges including for power and public transport;
* the Fringe Benefits Tax in fact offers favourable tax treatment to road users.

This is not some ‘he said-she said’ argument about boffin-grade trivia. It has real consequences. To avoid double charging road users, ‘official road reform’ - introduction of direct road charges - needs to be accompanied by abolition of road related revenues. The classification of revenues as road related is a serious matter. Will the Commonwealth make dispensations for the Goods and Services Tax and personal income taxes (fringe benefits) for motoring and trucking? To call such items road related revenue, without such a commitment, misleads Governments and the community.

Using the data properly considered as road related, total revenues are much lower than Figure 2 might imply. For 2015-16 they were $18.6bn, $11.7bn less than some might infer.

Calculations for the fiscal deficit are provided on a spreadsheet at the jadebeagle.com. Deficits since 2009-10 are depicted in Figure 3 below.

**Figure 3: Road fiscal balance**

### 2.3 Yes Minister?

Despite the facts coming from a bureau in his own Department, the Commonwealth Minister for Urban Infrastructure, the Hon. Paul Fletcher MP, seemed to be in denial when recently interviewed by ABC radio. Not only about revenues being far less than spending but also for 2015-16 data being available.[[4]](#endnote-4)

In fairness, this is not the story he wanted to tell. He wanted to talk about the importance of ‘road pricing’, that an eminent Australian would be appointed to help and the Government would kick start some process.

Much as he did in November 2015, 15 months ago.[[5]](#endnote-5)

The ABC interviewer apparently wanted to talk about problems with Sydney trains. This might have distracted the Minister. Perhaps distraction explains that the best the Minister could come up with on that topic was: his Government is not responsible and had given NSW lots of money for Metro. As if dealing with public monies does not engage responsibility and as if there are no public warnings to his Government about supporting projects like Metro. More on that soon.[[6]](#endnote-6)

## 3. More for you!

### 3.1 Misdirected spending!!

The ongoing deficit is not the only concern. Whether the spending we are seeing is worthwhile even without a deficit is another big one. There is a concern about the quality of spending.

Many commentators suggest better cost-benefit analyses for roads would deal with spending quality issues. These might be useful but certainly would not be sufficient. There are two reasons.

First, all spending proposals would need to be assessed and ranked. As this is infeasible, practicality requires some rules of thumb.

One rule is: ‘maintenance’ (to retain capacity) is a higher priority than ‘projects’ (to increase capacity). Among the implications: a maintenance backlog at a time of project spending is prima facie evidence of misdirected spending. Another rule is: alternatives to road building, like public transport, need to be considered.

A second reason for cost-benefit analysis to be insufficient is any spending proposals would need to come from a plan which considered the outcomes of the group of proposals. A plan should consider interactions among projects and with important aspects of the physical world such as industrial and residential land uses. For example, a reasonable plan would ensure a new motorway doesn’t create problems for a new light rail line.

There is no indication such preconditions have been met. To the contrary, public indications are they are consistently not met. For example, it is widely reported NSW motorways are proposed and ‘assessed’ without consideration of public transport alternatives – the ‘F6’ being the latest case.[[7]](#endnote-7)

In October 2017 the Productivity Commission commented:

*‘It is not clear that funding is being applied to the most urgent areas……. grant allocations to State, Territory and Local governments are not based on any consistent framework to identify priorities …… the views of road users do not directly inform spending choices…..[[8]](#endnote-8)*

To this can be added public evidence road spending is increasingly misdirected:

* cost-benefit analyses are in question. The published cursory assessment of Westconnex by Infrastructure Australia is a case; it has not been updated to take into account changes to fundamental assumptions and costs of over $1billion;[[9]](#endnote-9)
* policy proposals about regulatory oversight – the point of which is to provide some assurance about the quality (and level) of spending - seem less than bona fide. The primary example is for a road ‘economic regulator’ unable to review spending - a proposition that seems to be unique.[[10]](#endnote-10)

The level and quality of road spending are likely related. The ‘law of diminishing returns’ suggests declining economic and social returns beyond a certain level of spending. Productivity studies are consistent with this; transport multifactor productivity reportedly declined after 2007 – when road spending accelerated.[[11]](#endnote-11)

### 3.2 False prophecies!!!

Previous articles demonstrated rhetoric about forecasts in road use to be overblown. This too hasn’t changed in the past year. Some facts:

* the rate of growth of road freight has more than halved in the last reported 5 years (to 2015-16) and is currently running at around 1% pa;
* the ‘twice the task’ forecast of freight doubling between 2000 and 2020 will not be met…… unless future freight growth averages six times the current rate;
* the increase in car use is even lower than freight averaging less than 1% pa in the past decade;
* despite claims capital cities are booming, the rate of growth in use of their roads has not changed in the last five years - it decelerated over the last two decades;
* in each of the above cases, and each city, the deceleration in road use occurred *after* the global financial crisis and has not recovered.

Perhaps most interestingly, since 2000, the real - inflation adjusted - increase in road spending at 61% was more than double the change in road use or population growth. So much for a ‘big Australia’ being the cause of our infrastructure problems.

**Figure 4: Australia, population, road use, road revenue, road spending growth**

### 3.3 Stake through the heart!!!!

Figure 4 (above) indicates the culprit for the deficit is road spending. This is supported by calculations such as for changes in unit rates of road revenue and spending – observed ‘road prices’. An example is shown in Figure 5.

**Figure 5: Australia, road revenue and spending per capita, per unit of road use**

Figure 5 again demonstrates the emergence of the road fiscal deficit to be primarily due to increases in spending rather than falls in revenue. Road spending per head and per unit of road use (vkt – vehicle kilometres travelled) increased by near 30% in real terms – after taking account of inflation -since the turn of the century.

Revenue per head of population and per unit of road use – which might be taken as proxies for average prices – fell by around 7% in real terms over this period. Such a decline is not exceptional; a ‘CPI-x formula’, sometimes used in price regulation, would have achieved such a result with a modest efficiency (x) factor.[[12]](#endnote-12)

### 3.4 Reform murdered!!!!

Despite the burning problems of gross overspending and bad spending, idle talk about some nirvana of road ‘pricing reform’ continues apace.[[13]](#endnote-13)

Readers might recall this being a ‘priority’ for the Council of Australian Governments for more than 10 years.

Little, if anything, has been achieved – except for a few number plates using the colours of football teams, the cardinal and myrtle of the South Sydney Rabbitohs being a stand-out.

Also standing out is an unrelenting consistency of Governments and their advisers avoiding the key issue. For those who came in late, the central issue – which led to the Productivity Commission reference initiating ‘the process’ – was whether road charges and spending disadvantaged the rail freight industry.[[14]](#endnote-14)

Unfortunately, the Commission’s 600-page report (2007) on the matter failed to make clear the issue can only arise where there is a rail line. The issue cannot arise on every – or even most – roads. Less still for every truck.

This oversight befuddled the report and almost all public advice since.

The every-road-every-truck focus initiated in the report obscured a critical question: even if trucks on average pay their way, is there a cross-subsidy from local roads to highways? That there is no such cross-subsidy is now an article of faith; indeed, road reform apostles are sure any cross subsidy would go the other way - from highways to local roads - notwithstanding evidence from the real world.[[15]](#endnote-15)

Despite Infrastructure Australia under Sir Rod Eddington redirecting attention to the real issue on several occasions, others insisted the scope of ‘reform’ must be every road and every truck. This is echoed in a similar approach to the ‘last mile’ which, unsurprisingly, remains unresolved many years later while much more important first mile issues seem to have been ignored.[[16]](#endnote-16)

In recent years the purpose of ‘road reform’ also fundamentally changed. It is now largely seen, including by the ‘new’ Infrastructure Australia, as ensuring road departments have enough money to build the roads they want. This is a far cry from seeking a road-rail balance appropriate to Australia’s economic, social and environmental circumstances.[[17]](#endnote-17)

The reason for the failure to initiate road reform is that the road lobby and road/transport departments are indulging in fantasies such as: there is no road fiscal deficit; (therefore) universal road ‘pricing’/’reform’ – charges for every road user, every road, every time, to support their uninhibited spending desires - is a simple technical matter.

Such ideas are manifestly infeasible and uneconomic. Moreover, if the official version of road reform started today road users would pay much, much more. This is because road revenues are much, much less than what road authorities currently – and want to – spend. There are admissions this – a road fiscal deficit - is now the motive for ‘reform’, softened by claims a deficit may arise in the future. Interestingly this future keeps getting deferred – there will be a deficit, not just yet![[18]](#endnote-18)

Perhaps road charges should rise. However, it is delusional to expect anybody other than infrastructure lobbyists, insulated bureaucrats and road authorities to agree with the world-view of ‘surprises’ like:

* enormous road user charge increases to (at least) cover the enormous deficit[[19]](#endnote-19);
* demands for Governments to permanently forego revenue, further distort tax systems and create grounds for even more special pleading.

It doesn’t matter what any Minister says, what eminence gets on board, how loudly lobbyists bleat, how earnest are the pleas for ‘reform’, what amazing technology has made road pricing possible or how often the insiders initiate ‘processes’. The roads deficit kills any chance of the vision of road bliss they offer.

The roads deficit, which should be dealt with as a matter of prudent economic management in any event, must be addressed before universal road charges could be considered. Spending must be brought under control. The arithmetic shows cuts of 30% are in order.

Also necessary are published proper assessments of spending programs and major projects - to prevent the otherwise inevitable perception of ‘reform’ being just a cover for a gigantic rip-off by the infrastructure club.

A further problem is: avoidance of issues and attempts to solve the insoluble in roads policy is echoed in other parts of transport policy. For example, fear of raising the critical truck v. train competition issue has been accompanied with a strange view about railways. The agenda of the Ministerial Council supposes the fundamental problems for Australia’s railways arise from arcane matters of safety administration. The agenda ignores the social and environmental issues of relative externalities, legacies of distorted government spending, and even the transport issue that Federation aimed to address – breaks of rail gauge.[[20]](#endnote-20)

The current approach to road ‘pricing’ reform – like rail reform - is a corpse. It should be buried and forgotten – except as a warning of what not to do.

## 4. And now for something completely different?

Last January’s post on the issues had the Minister presaging yet another review into road reform. Nothing happened. Now the Minister yet again – this year - says he wants to kick-start some process without facing the critical facts.

His comments are a green light for lesser parts of the bureaucracy and lobbyists to mill around for years, talk a big game, confuse themselves, disappoint our leaders, do nothing useful and lead the country down more dead ends. Worse, the comments will be used to try and stop the few people trying to make some real progress, for example via sensible limited trials in some States.

It is well over a year since the Minister first announced he would appoint an eminent person to lead road reform. It is over six months since the beagle suggested the Commonwealth start the ready-made trial on Australia’s most important highway, the Hume. It is over four years since Infrastructure Australia suggested projects be assessed ‘as if’ there was road reform, not least to gain an understanding of what road reform might mean in practice.[[21]](#endnote-21)

How much waste of time, money and congestion can Australia afford while Ministers chase grandiose mirages spun by bureaucracies that shun reality? Australia urgently needs Governments to do something completely different.

## 5. What to do?

### 5.1 The problems

It is easy to be critical. In the case of the ersatz road reform we have witnessed, it is necessary too. Road charging reform is important, but for 10 years Ministers and bureaucrats have pulled the wrong rein.[[22]](#endnote-22)

They have failed because of ludicrous over-reach. The failure and reason are identical to what has happened for railways, freight and even data. It reflects profound misunderstandings including about democratic governance. It raises serious issues extending beyond roads.[[23]](#endnote-23)

The Commonwealth – both major parties - deserves most blame. It has transgressed jurisdiction while ignoring responsibilities. It failed to ensure that the need this creates – for well co-ordinated Commonwealth-State policy – occurred.[[24]](#endnote-24)

There are two inter-related sets of problems:

* problems regarding technical aspects of road reform;
* problems concerning transport policy making.

### 5.2 Technical aspects of road reform

There are three different technical reform paths:

* a grand experiment;
* money first, change later;
* a problem-solving approach.

#### A grand experiment

The first path is the official version, known kindly by insiders as ‘splitting the transport atom’. This involves a big bang of universal road pricing – all roads, all road users, all times, all at once.

Even ignoring problems such as it being uneconomic, the enormous road fiscal deficit, the need for unprecedented Commonwealth-State cooperation and the likely creation of an enormous new bureaucracy nobody seems to have any idea how such a scheme might work in practice. Even if it was just for trucks.

There is not even a conceptual outline of accounts or organisations for it. Moreover, real-world trials of such a universal scheme are impossible – the scheme would be a grand experiment.

Starting such a scheme would be an act of faith; unlikely to be rewarded. This path is to a dead end.

#### Money first, change later

A second path towards technical reform became visible when more perspicacious roads advisers realised decision makers would avoid the grand experiment - lest splitting the transport atom initiate a chain reaction.

However, ceasing talk about reform would remove the opportunity to secure more money for road bureaucracies without normal budgetary oversight. Is this why the talk continued, and shifted from charges – pricing – to funding? Ergo ‘partial market’ or ‘supply side’ reform?

This is the preference of some who view the (potential) loss of road funding as the main issue for road reform. The fear is governments will wake up to the fact that they spend much more than they collect from roads.

Supply side reform involves: securing sources of revenue for road agencies, including via Community Service Obligations if charges are not enough; changes to ‘investment’; changes to truck ‘access’ practices. It has the pleasing – to bureaucracies – motif of ‘reducing political interference in infrastructure’ which allows it to be all things to all departments.[[25]](#endnote-25)

Proposals for supply side reform so far have been lopsided. There is no consideration of the most important supply side issue; which organisation should control which roads – structural reform of public monopolies.

There seems no understanding that highways and suburban backstreets differ in physical, use and economic characteristics. Rather reform is to be ‘jurisdiction’ based, implicitly keeping State government agencies intact.

The idea appears to treat every public road the same, despite citation of evidence from other parts of the world where this approach has been rejected. And despite this idea being rejected in other Australian industries, utilities, transport sectors and by the National Competition Policy.[[26]](#endnote-26)

The structure of road use, the fact that roads differ, Australia’s Constitution and ongoing commentary about local governments not providing adequate (access to) roads create a compelling case to change the organisational structure of road provision. Some road organisations should have less responsibilities, some organisations should have more. Some roads should get new owners.

In this context ‘surety of funding’ proposals have a major flaw: they tend to reinforce the organisational status quo. Hence prior to ‘funding reform’, there should be changes in the control and ownership of some roads.

Once such changes start the obvious will be undeniable; what is appropriate for some roads is inappropriate for other roads. This will lead to the conclusion ‘partial market reform’ is unworkable and irrelevant. Already State Government approaches to toll roads – where long term arrangements for very important roads are negotiated between private parties and Treasuries – are making partial market reform so much harder. A different approach will need to be adopted; one more in line with Australian law and general public policies.

#### Problem solving approach

Road reform should not wait until there are even more repeated failures to initiate the ‘grand experiment’ and ‘partial market’. A decade should be enough for anyone!

Reform can start now via a less ambitious targeting of specific real problems. Just like in other transport and utility industries and as envisaged in the national access regime.

Such targeting could include direct charges for trucks on highways that compete with railways, congestion pricing in a few city locations, and economic regulation for existing and new tollways.

Each of these elements addresses a real economic and social problem, each could be implemented independently, none generate interminable Commonwealth-State buck passing and each can be practically tested beforehand.

This is the only option with any chance of working, and given the existing fiscal deficit, the only option which could gain community support.

### 5.3 Transport policy making

Despite the problem-solving approach being well known it is assiduously ignored; there is even a pretence it does not exist.

Such denial is not unique to road reform. Other cases of eschewing relevant reform in favour of grandiose schemes that fail to deliver include: heavy vehicle road access; railways; freight.[[27]](#endnote-27)

The repetition of this error indicates deeper problems in advice at least on Commonwealth-State transport matters.

For road reform – or reform of truck access or railways or freight – to be timely and acceptable to the community, changes in attitudes are needed.

A start is to carefully scrutinise against known facts - better still ignore - official presentations on roads policy. Everybody should know there is a problem when a ‘thinktank’ / peak industry association / lobby group – fairly or not - says a deep, detailed and honest process is needed for reform.[[28]](#endnote-28)

There is a strong case to ignore or abolish the bureaucracies that have led to the current situation - such as those supporting the Transport and Infrastructure Ministerial Council.[[29]](#endnote-29)

The Productivity Commission and others propose elements for roads ‘governance’ drawing on ideas put by the Commission in 2007. However, many of these ideas, such as Governments (rather than Parliament) controlling public monies, or Commonwealth Government (conditions on) road grants to local governments are now outdated; they have been invalidated by the High Court. Again, this raises questions about the quality of roads policy advice.[[30]](#endnote-30)

Nonetheless, most independent commentators and advisers – including the beagle - agree much greater transparency in policy and decision making is needed.

Yet the Commonwealth Government by involving itself in extra-jurisdictional matters has created an environment in which activities can become more opaque. Much stronger and more active Parliamentary oversight of inter-governmental transport matters is needed.

If the Commonwealth wishes to provide funds to roads, there should be greater preparedness to use legislation, including laws that discourage misleading claims from those seeking public monies.[[31]](#endnote-31)

In any event, transport and treasury portfolios have had their chance. After 10 years of confusion and inaction national transport reform should now be matter for the Prime Minister to bring to Parliament prior to consulting Premiers.

Anything else is worse than fiddling while big money – your money – burns as you sit in traffic jams caused by stupid road spending and other failed policies.

J Austen

26 January 2018

1. <https://bitre.gov.au/publications/2017/files/yearbook_2017.pdf> [↑](#endnote-ref-1)
2. Previous articles on the subject matter include:

<https://www.thejadebeagle.com/roads-1-tar-baby.html> (for 2014)

<https://www.thejadebeagle.com/zombie-road-apocalypse.html> (for 2015)

<https://www.thejadebeagle.com/if-only-governments-spent-what-they-collected-from-roads.html> (for 2016)

<https://www.thejadebeagle.com/roads---another-deficit-year.html> (for 2017).

Perhaps the best summary is in <https://www.thejadebeagle.com/yawn-reports-about-another-champion-for-road-reform.html> [↑](#endnote-ref-2)
3. A 2017 report by the Productivity Commission in 2017 included:

**Figure 6: Productivity Commission interpretation of road revenue and spending**



Before considering the Commission’s view on a deficit/surplus it is worth noting inaccuracies in Figure 6 such as:

the inaccurate use of the terms ‘investment’ and ‘funding’ (e.g. in the sense of expenditure leading to greater revenues or economic welfare). A better heading for this Figure would be: Australia’s current road spending architecture;

the is careful wording to differentiate the consolidated revenues (actually Funds) of the Commonwealth and States. It is a Constitutional requirement for Commonwealth taxes to be placed into the Consolidated fund;

as the Commonwealth lacks a general head of power for roads, its road spending needs to be supported by legislation and specific purpose payments to the States. Its power to collect excise etc. revenue does not give it power to spend on roads.

The Commission claims there is a roads fiscal surplus (Figure 7 below). To come to this conclusion, it appears the Commission has included all the items in Figure 2 (text above) and Figure 6 (notes above) as revenue. It concluded:

*‘CONCLUSION 9.1 There is a need to reform arrangements for road funding. If left unaddressed, the existing funding approach for road infrastructure will put increasing pressure on governments to choose between roads and other services, shift further into debt or increase taxes further.’*

It is difficult to understand this conclusion from the chart and data presented by the Commission:

the problem pointed to by the Commission is revenue, not funding;

the chart – which relates to GDP not actual revenue levels – does not provide evidence of a structural decline in revenue;

the main structural issue shown by the chart is an increase in spending as a proportion of GDP;

the Commission’s view of a surplus in each year shows its perception that a ‘problem’ of revenues being less than spending has not yet occurred; indeed, the significant increase in the depicted surplus in 2014-15 suggests the likelihood of the problem is receding.

**Figure 7: Productivity Commission view of road fiscal balance**

<https://www.pc.gov.au/inquiries/completed/productivity-review/report/productivity-review-supporting9.pdf> [↑](#endnote-ref-3)
4. <http://minister.infrastructure.gov.au/pf/interviews/2018/pfi001_2018.aspx> [↑](#endnote-ref-4)
5. <https://www.thejadebeagle.com/roads---another-deficit-year.html>

<https://www.thejadebeagle.com/rock-and-road-reform.html> [↑](#endnote-ref-5)
6. In <https://www.thejadebeagle.com/sydney-impediimenta-deo-contraria.html> The beagle asked to wait until a report into the Sydney rail meltdowns was available before further comment. In the interim, respected expert Dr Dick Day tied the meltdown to the NSW Government policies for Metro see: <http://www.smh.com.au/comment/sydney-transport-planners-off-the-rails-with-metro-plans-20180119-h0l2k1.html> [↑](#endnote-ref-6)
7. <http://www.smh.com.au/nsw/f6-planners-told-to-ignore-public-transport-build-roads-documents-show-20170407-gvgbon.html> [↑](#endnote-ref-7)
8. <https://www.pc.gov.au/inquiries/completed/productivity-review/report/productivity-review-supporting9.pdf> [↑](#endnote-ref-8)
9. <https://johnmenadue.com/john-austen-doubts-about-infrastructure-go-beyond-sydney-metro/>; <https://www.thejadebeagle.com/wonderland-glory-and-evaluation.html> [↑](#endnote-ref-9)
10. <https://www.thejadebeagle.com/heavy-vehicle-price-regulator.html>

<https://www.thejadebeagle.com/a-job-for-hollywood-harold.html> [↑](#endnote-ref-10)
11. Real public road spending in the nine-year period 2007-08 to 2015-16 was 50% higher than for the preceding nine-year period - Figure 8 (below). In the nine-year period 2007-08 to 2015-16 transport labour productivity increased by 0.3% compared to long term growth of 1.8%; transport multifactor productivity declined by 0.8% compared with long run average growth of 1.0%: <https://www.pc.gov.au/inquiries/completed/productivity-review/report/productivity-review-supporting1.pdf>

**Figure 8: Real road public spending** [↑](#endnote-ref-11)
12. an ‘x’ factor of 0.5% would have resulted in the observed (7%) reduction in real road revenues per capita and per vkt. The idea behind CPI-x price setting is to provide incentives for efficiency in monopoly dominated industries. Some suggest CPI-x should be used for relatively short periods at the end of regulatory price determinations, with the ‘x’ to reflect productivity. A difficulty in transport is that some measures of transport productivity declined in the period 2007-08 to 2015-16 with increased capital spending possibly being one of the causes; note xi (above) <https://www.ipart.nsw.gov.au/files/sharedassets/website/trimholdingbay/information_paper_-_measuring_inflation_for_industry_price_determinations_-_change_in_calculation_method_-_july_2009.pdf>;

<https://www.ipart.nsw.gov.au/Home/Industries/Special-Reviews/Reviews/Efficiency-Incentives/Incentives-for-cost-saving-in-CPI-X-regimes/21-Jul-2011-Working-Paper/Working-Paper-Incentives-for-cost-saving-in-CPI-X-regimes-July-2011> [↑](#endnote-ref-12)
13. A discussion is in <https://www.thejadebeagle.com/grasshopper.html> [↑](#endnote-ref-13)
14. <https://www.pc.gov.au/inquiries/completed/freight> [↑](#endnote-ref-14)
15. The apostles point to lower per use-unit maintenance costs for main roads – because main roads are better built. However, this treats capital as sunk; it assumes there is no cost of capital. The issue is important for at least five reasons. A cross-subsidy to highways would:

damage the rail industry;

mean the road organisation is breaching at least the intention of the *Competition and Consumers Act* (2010);

result in insufficient funds being available for local roads, hence a local roads maintenance deficit – there are claims such a deficit currently exists;

also entail a cross-subsidy among States; States with major highway building programs – such as NSW (Pacific Highway) - would be supported by States without such programs like South Australia and Western Australia;

create opposition to an economic program of all-roads reform. As such reform would eliminate cross subsidies, current beneficiaries would resist initiation of a program. Resistance may include withholding information necessary to ascertain the fact of the matter.

Despite the issue being identified by Infrastructure Australia (2011, 2012 - note xvi below) it has not been publicly investigated. Data and/or trials which would shed light on the matter, such as use and cost statistics for the Hume Highway, remain unavailable. [↑](#endnote-ref-15)
16. See:

<http://infrastructureaustralia.gov.au/policy-publications/publications/National-land-freight-strategy-discussion-paper-February-2011.aspx>;

<http://infrastructureaustralia.gov.au/policy-publications/publications/National-Land-Freight-Strategy-Update-June-2012.aspx>

<http://infrastructureaustralia.gov.au/policy-publications/publications/Infrastructure-Australias-Urban-Transport-Strategy-December-2013.aspx>

The ‘last mile’ relates to a current inability of a truck to use – ‘access’ - small, or short, local roads even though it is allowed on a highway or main road. There are two potential reasons for access to be curtailed via a regulatory power of the road owner (the absence of contracts between truck and road operators mean access decisions are regulatory in nature):

the local road is not adequately engineered, the truck may damage it, and the road owner is unable to recover relevant costs from the truck operator; or

the local community does not want trucks on the local road because of concerns about amenity or safety.

There is a critical difference between these two reasons. Reason (a) may be addressed by financial mechanisms and without involving political considerations. Reason (b) is of its nature political, government elections being influenced by expectations of communities for politicians to prevent degradation of amenity.

Truck operators and industrial small land owners have long cited many cases of the ‘last mile’. Commonwealth and State Governments have claimed the issue mainly arises from the actions of local governments – councils.

A mythology has arisen that ‘last mile’ cases are principally type (a), resolvable by ‘better’ decisions by local governments or by compensating local governments for relevant wear and damage. A result is estimates of multi-billion dollars available from changes to ‘last mile’ decisions. An example is an estimate of $26.5bn, net present value, net benefits cited by the National Transport Commission [https://www.ntc.gov.au/Media/Reports/(93553E07-FCA8-7238-D6B9-4D1CEF88ECE3).pdf](https://www.ntc.gov.au/Media/Reports/%2893553E07-FCA8-7238-D6B9-4D1CEF88ECE3%29.pdf). This author is unaware that relevant estimates exclude type (b) or amenity issues which are not resolvable by road funding, for this reason the estimates should be discounted.

The above (ntc) reference relates to a regulatory impact statement; the claimed effects of changing decisions that restrict truck access. It led to debate about a national heavy vehicle regulator. The debate – over several years - was primarily concerned with whether a regulator would have power to change access decisions. To put it more plainly: whether someone other than the road owner or government that people expect to make road amenity decision could determine the use of any road. It is almost self-evident such a proposition would be rejected, even were compensation for road damage offered, because of the potential for type (b) – amenity – issues and basic principles of democratic governance. The national heavy vehicle regulator, established after years of this ‘debate’, is duly unable to make such decisions.

The debate is an example of ludicrous over-reach in national transport policy development – a proposal with negligible chance of acceptance. It also is consistent with other examples of over-reach in that it failed to even consider the most plausible alternative model - a regulator making decisions limited to certain classes of roads or road locations e.g. where amenity is not in issue.

There also are ‘first mile’ issues; which involve truck access from highways to long established major industrial locations such as seaports, urban rail terminals, large distribution centres etc. They can result from encroachment of residential development onto freight routes. Planning and use approval of the relevant locations is often determined by State rather than local governments and in some cases environmental etc. approvals include conditions related to road use and capacity. Given the amounts of freight and vehicles involved, these tend to be substantially more serious issues than ‘last mile’ ones. They are also more easily defined and resolved. The issue arises because of – is evidence of - deficient planning at the State Government level, poor co-ordination between road authorities and planning departments, absence of coordination between relevant Commonwealth and State authorities. The blame is often sheeted, unfairly, to local governments. The solution is a national freight network, that aims to connect all relevant places with vehicle interoperability. The matter has been ignored in ‘road reform’. [↑](#endnote-ref-16)
17. This is also indicated by Infrastructure Australia not adopting its own suggestion of testing projects as if there was road pricing. The ‘new’ (post Eddington) Infrastructure Australia is discussed at <https://www.thejadebeagle.com/governance.html>

More direct examples include: <https://www.pc.gov.au/__data/assets/pdf_file/0006/135258/subdr129-infrastructure.pdf>

<https://www.thejadebeagle.com/audit.html> [↑](#endnote-ref-17)
18. Admissions as to motive e.g.: <https://www.pc.gov.au/__data/assets/pdf_file/0006/135258/subdr129-infrastructure.pdf> and [https://www.ntc.gov.au/Media/Reports/(05C6A3B6-7C7C-3ABE-541B-140F040457F9).pdf](https://www.ntc.gov.au/Media/Reports/%2805C6A3B6-7C7C-3ABE-541B-140F040457F9%29.pdf)

Pretence: see comments about the Productivity Commission 2014 views in <https://www.thejadebeagle.com/roads-1-tar-baby.html> (revised data show the roads deficit to be in the order of $6bn for the year the Commission claimed there was an arguable approximate balance). The Minister’s comments cited in this article are a further example.

For deferral of the future: the Productivity Commission’s views in 2014 are virtually identical with those in 2017 and note iii (above) depicts stabilisation of the (purported) difference between road spending and revenue. [↑](#endnote-ref-18)
19. Two aspects of this deserve further attention.

First, the deficit calculated in this article assumes (perhaps wrongly) adequate maintenance of all existing roads and (in economic terms certainly wrongly) there is no cost of capital. Even if externalities were ignored, efficient charges would include components for returns on capital – for example as seen on toll roads. These returns should be available to the owner for use as they see fit – there is no valid rational for them to be ‘re-invested’ in the assets that generate them. For roads, such returns might be used by Governments on other spending or deficit reduction. For this reason, the argument that the road agency should retain all efficient road revenues should be dismissed. A practical example of this is congestion pricing, where revenues are unrelated to wear and tear on roads; the excess of revenue over actual road financial costs is most logically deployed at mitigating congestion – i.e. in the long run reducing the excess revenue generated at the congested location – which may include spending on matters not associated with or even in competition with roads, for example public transport.

Second, the heavy vehicle charging system is intended to recover previous expenditures (nb. not costs) on roads averaged over a number of years. In the event, Ministers vote on charge levels hence the intention may not always be fulfilled. The spike in spending post 2007, and especially in 2015-16, might – under the intention of the scheme – lead to a spike in heavy vehicle charges. The increase in correct charges might be mitigated somewhat by a higher rate of growth in freight and heavy vehicle use than for general road use; there are more truck movements over which to average required revenues. It is no surprise that industry, and agencies involved in calculating, advising and administering such charges are looking for changes to the scheme.

 [↑](#endnote-ref-19)
20. <https://www.thejadebeagle.com/austral-obscura-2.html> [↑](#endnote-ref-20)
21. <https://johnmenadue.com/john-austen-infrastructure-misuse-and-mistakes-the-hume-highway/>; <https://www.thejadebeagle.com/hume-highway.html>.

<http://infrastructureaustralia.gov.au/policy-publications/publications/Infrastructure-Australias-Urban-Transport-Strategy-December-2013.aspx>

Infrastructure Australia subsequently ignored its own suggestion about ‘as if’ road pricing, note xvi (above). [↑](#endnote-ref-21)
22. The Productivity Commission recently put the aim of road reform as:

*‘road service provision on a more stable footing and a shift in policy focus towards consumer-oriented and directed services’*.

With respect to the Commission, this is an inadequate aim with an implicit bias towards existing institutional structures and funding. A better aim would be: *optimal road service provision and use*.

For this reform should:

bring revenue and spending into appropriate balance, with revenues exceeding spending on roads;

ensure the rates of revenue and spending do not damage other modes and are thus consistent with the intent of the *Competition and Consumer Act* (2010);

improve the quality of road spending;

allow the most appropriate use of roads given social and environmental circumstances;

allow road users and other parties to improve roads;

ensure decisions about road standards, use and spending and use;

align the governance of roads – including ownership and control – with dominant economic and Constitutional use.

The Commission then noted:

‘*Road reform should allow, over time, differences in service levels depending on user demands and preferences’.* This is virtually unarguable. However, contrary to the obvious conclusion there should be different arrangements for and different types of organisations in charge of roads with different service levels (or that are in different locations), the Commission concluded reform mainly has to deal with aggregate road revenue and funding. For example, the Commission argued for:

‘*replacement over time of the currently disparate and indirect fees and charges for roads with a singular cost-reflective direct road user charge based on usage’*.

This argument is deficient in at least three respects:

a ‘usage’ charge would need to be location specific, or at least specific to locations where costs or traffic levels substantially differed. Failure to do so would embed large cross subsidies and possibly infringe the *Australian Competition and Consumer Act* (2010) in relation to ‘predatory pricing’;

costs should include appropriate externalities, which again vary by location;

the arrangements in other industries for users to influence infrastructure provision – such as the National Access Regime – should be applied to roads.

Each of these is an argument for organisational separation of major from minor roads; none point to roads managed on the basis of jurisdictional boundaries.

The last point may be an embarrassment for the Commission, which incorrectly claimed the Regime does not and was not intended to apply to roads – despite the relevant legislation giving roads as one of two examples of what the Regime applies to:

<https://www.pc.gov.au/inquiries/completed/productivity-review/report/productivity-review-supporting9.pdf> [↑](#endnote-ref-22)
23. Access: note xvi (above).

Railways: <https://www.thejadebeagle.com/austral-obscura-2.html>

Freight: <https://www.thejadebeagle.com/freight-1.html>,

<https://www.thejadebeagle.com/freight-and-logistics.html>

Data: <https://www.thejadebeagle.com/data.html>

Wider issues:<https://www.thejadebeagle.com/roads-2-cause-and-consequence-june-2015.html>

<https://www.thejadebeagle.com/commonwealth-urban-transport.html>

<https://www.thejadebeagle.com/governance.html>

<https://johnmenadue.com/john-austen-and-luke-fraser-urbane-transport-police-part-3-of-3/> [↑](#endnote-ref-23)
24. See for example:

<https://www.thejadebeagle.com/roads-2-cause-and-consequence-june-2015.html> [↑](#endnote-ref-24)
25. While many tout reducing political ‘interference’ as a goal, considered views are more subtle. Note xvi (above) provides an example of where ‘political’ decisions about roads are likely to be superior to commercial or financial ones – where truck access is restricted on the grounds of amenity. The better view: it is important for the reasons and community costs of major political decisions to be public, rather than for there to be no political decisions or for decision making to be abdicated. Among the reasons is ensuring there remains democratic accountability for decisions and that governments cannot use veils such as confidentiality of information, commercial criteria or delegation/abdication of responsibility to avoid public scrutiny. [↑](#endnote-ref-25)
26. An example is the Productivity Commission discussion of road ‘governance’ in its 2014 report on Public Infrastructure (chapter 8). Among the ‘options’ examined for road reform are: hypothecation; a national or jurisdictional road fund; separation of pricing from spending; departmental model; corporatized public agencies; private provision model; separation of funding from provision etc. Despite:

each of its international cases – New Zealand, the UK, Austria – principally being an example of different (types of) organisations dealing with different types of roads;

the cited cases of utilities also having their principal characteristic as being different organisations dealing with different parts of the supply chain;

the widespread knowledge of similar arrangements applying to railways, indeed reflecting previous Commission suggestions regarding structural separation based on geographic and economic factors;

the Australian Trucking Association proposing different treatments for different road classes;

the Commission did not examine such possibilities for Australian roads. Instead it reduced this pivotal issue to riders such as:

*‘This approach would involve the creation of one or more road agencies with responsibility for operating the road network (or parts of the network)’* [my emphasis]

 before reverting to discussion of a single road controlling agency.

Further, the Commission’s definition of and proposed principles for governance appear inadequate and its reasoning for jurisdictional based ‘reform’ – subsidiarity – appears mistaken (claiming relevant subsidiarity relates to responsibility for functions rather than conduct of functions where responsibilities have been allocated by the Constitution). More accurate interpretations of these matters would lead to at least some consideration of structural separation based on road types.

<https://www.pc.gov.au/__data/assets/pdf_file/0003/137280/infrastructure-volume1.pdf>

 [↑](#endnote-ref-26)
27. See note xx (above) for examples. [↑](#endnote-ref-27)
28. For ‘honesty’ see: [http://infrastructure.org.au/wp-content/uploads/2016/12/IPA0811-Road-Pricing-Paper-FA2-LR.pdf including at p.10](http://infrastructure.org.au/wp-content/uploads/2016/12/IPA0811-Road-Pricing-Paper-FA2-LR.pdf%20including%20at%20p.10). [↑](#endnote-ref-28)
29. <https://www.thejadebeagle.com/austral-obscura-2.html> [↑](#endnote-ref-29)
30. See for example: <https://www.thejadebeagle.com/transport-policy-post-williams.html>, <https://www.thejadebeagle.com/big-things.html>. The Productivity Commission’s report on public infrastructure, which contained its views on road reform was released in May 2014 prior to the Williams (2) decision. It reflected relatively common views of the Commonwealth at that time. <https://www.pc.gov.au/__data/assets/pdf_file/0003/137280/infrastructure-volume1.pdf>

However, the High Court Williams (2) rejected some of these views, particularly in relation to Commonwealth Government powers to deal with parties other than the States. The Productivity Commission’s referencing of its earlier views in its resetting the dial report (2017) did not refer to implications of the Williams (2) decision <https://www.pc.gov.au/inquiries/completed/productivity-review/report/productivity-review-supporting9.pdf>. [↑](#endnote-ref-30)
31. Such as the Commonwealth Criminal Code, covered in <https://www.thejadebeagle.com/infrastructure-priorities.html> [↑](#endnote-ref-31)