# Road reform – how to fund roads

*Many claim to be in favour of ‘road reform’ as a new system of road funding assuming it means more Commonwealth funding for states. Fewer support what it should involve including less and better spending and above all a shift of power away from road agencies. The Commonwealth has an important role in this: direct responsibility for some roads rather than more spending.*

A recent post outlined road pricing issues. This article looks at reform of road funding.[[1]](#endnote-1)

## Current system

Like many government activities, road funding currently draws on consolidated revenues gathered through all taxes and charges. Only some of these taxes and charges relate to road use; road related revenues are far short of, billions of dollars less than, road spending. More use of fuel efficient or electric vehicles will increase the gap.

***Table: Road spending and revenues 2013-14, $m, current prices***

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Road revenue\*** | **Road spending** | **Net** |
| Commonwealth | 10908.9 | 5667.4 | 5214.5 |
| Other \*\* | 10254.9 | 20679.0 | (10329.1) |
| **Total** | **21163.8** | **26251.4** | **(5087.6)** |

From*: http://johnmenadue.com/blog/?p=6943*

There is a special system for heavy vehicles as they: cause most of the wear and tear on roads giving rise to maintenance (and funding) ‘needs’; often operate across state borders giving rise to concerns about financial shifts. Charges, comprising Commonwealth fuel excise and uniform state registration fees, are based on previous spending on roads averaged across Australia and over several years.

Contrary to some beliefs, the current systems:

* Do not recover costs;
* Do not finance current or future spending.

Apart from causing a fiscal deficit, spending is probably misdirected: too much on grand projects; too much where railways are a better alternative; too little on maintenance. Reform is needed.

## Road reform

Road reform should aim at:

1. The right level of overall spending and revenue;
2. Meeting road needs.

One approach is to link revenues and spending. This can be done via ‘direct’ user charges levied by road owners, so-called ‘road reform’. Such charges would relate to how vehicle use causes funding needs and might be based on vehicle weight (mass), distance travelled and road location.

The above table shows two obstacles to reform of ‘all roads all at once’:

1. The overall fiscal deficit; road reform will see cuts in road spending and / or users paying higher charges;
2. The different net positions of governments; road reform needs a national deal including involvement of the Commonwealth Parliament.

Over the last two decades national bureaucratic processes sought to advance road reform; none made substantive public progress. There was confusion, peculiar ideas and misunderstandings largely due to an assumption that all roads need to be reformed all at once.[[2]](#endnote-2)

The processes pursued a bureaucratic objective rather than public benefits; an untouchable source of funds for transport departments, ‘hypothecation’. It was assumed the necessary national deal would involve only money transfers; an increase in state road revenues would equal a decline in Commonwealth revenues.

The more cynical might view the attempts as destined to fail due to: credibility concerns; a focus on vehicles rather than roads; designs to exclude political input; an unattractive proposition for the Commonwealth; ignoring calls to seek reform on only some roads and to conduct trials.

However, recently a ray of light emerged; the Minister for Urban Infrastructure spoke about some real issues in road reform including inadequacy of current charging and whether the community might benefit from various schemes. While a welcome improvement over past officialise, it is only a ray; it included a few inaccuracies, did not identify the central question and was unambitious.[[3]](#endnote-3)

## What to do

The simple question for reform is: who controls spending? Until road *users* control spending, eg. through regulatory processes, there will be no road reform.

The right level of spending and revenue, the first aim of road reform, needs to be determined independently of owners and beneficiaries. In other infrastructure industries an economic regulator is established; governments are not bound to the regulator’s recommendations but decisions are open to public scrutiny.

The other aim of road reform, ensuring road needs are met, requires performance of roads and road owners to be transparent. Lack or inaccessibility of data will sabotage any reform effort, yet there is virtually no national information on these matters.

A nettle must be grasped: *road reform is about reducing the power of road owners and bureaucracies*. There is a long way to go.

This is among the good reasons to reconsider ownership of some roads; keeping the status quo entrenches institutional opposition to road reform.

It should not be assumed that a national road reform deal only involves (implicit) transfers of money from the Commonwealth to the states. A better deal would involve transfer of some roads to the Commonwealth or to other parties under national regulatory supervision.

All of this means the best approach to road reform is to limit initiatives to where reform is most important and feasible; heavily trafficked nationally significant highways that compete with railways rather than every road. Possibly it might initially be limited to heavy vehicles.

Trials, rather than proposals for more spending, are needed.

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1. Road pricing at: <http://johnmenadue.com/blog/?p=7193> This article: considers local government to be a subsidiary of states; does not deal with toll roads. [↑](#endnote-ref-1)
2. For example the heavy vehicle charging initiative. The reason proposed for ‘all roads all at once’ was prevalence of cross subsidies between roads which would cause variations between mass-distance-location road use charges. However this was later ignored by a unique definition of ‘location’; road type. The latest update on road reform provides no indication of progress other than on routine matters: see <http://transportinfrastructurecouncil.gov.au/publications/heavy_vehicle_road_reform.aspx> [↑](#endnote-ref-2)
3. <http://paulfletcher.com.au/speeches/portfolio-speeches/item/1775-speech-how-we-fund-australia-s-roads-sydney-institute.html>. While refreshingly accurate in many respects including about roads being funded from consolidated revenues and the heavy vehicle scheme recovering (a proportion of) spending rather than costs it also included some inaccuracies such as conflating pricing with charging ad citing views of the Henry Review that are now out of date (the view that current charges raise sufficient revenue is wrong). Also, unlike some studies, while it did not pretend road charges are adequate it also did not acknowledge the present fiscal gap. More significantly it did not raise implications for reform of this gap nor did it identify that road reform should and would reduce the power of road authorities. [↑](#endnote-ref-3)