Chapter 4

Views on the provisions of the bills

4.1 Evidence presented to the committee can be grouped into three broad areas:

- support for the indexation but with assurances that the tax credit arrangements would be taken into account and compensate for the increase in indexation;
- support for the indexation, indeed some would like to see the rate increased further, but with the additional funds raised to be dedicated to projects that go beyond road infrastructure; and
- opposition to the package of bills because of concern over:
  - the disproportionate adverse effects that increased petrol prices could have on particular communities;
  - lack of transparency and accountability associated with the Special Account; and
  - the potential to undermine the positive results stemming from the funds credited to the Special Account by withdrawing funds from other areas of road infrastructure.

4.2 In this chapter, the committee examines the arguments in favour of the proposed legislation and those opposing it.

Maintaining a link between fuel excise indexation and fuel tax rates

4.3 Submissions representing the interests of three very different groups—National Farmers' Federation, Minerals Council of Australia and the Australian Trucking Association—supported strongly the provisions of the Fuel Indexation (Road Funding) Bill. They recognised that fuel is 'a vital business input for a range of businesses', including agriculture, the minerals industry and the trucking industry. Currently, heavy vehicles used by businesses and vehicles used off-road in industries such as agriculture, forestry, fishing, manufacturing and construction are able to access fuel tax credits (FTCs).

4.4 The bill would mean that as the excise increases, the credit will be adjusted accordingly—a rise in fuel tax due to indexation will immediately raise the industry's fuel tax credits by the same amount. Both the National Farmers' Association and the Minerals Council informed the committee that:

> The *Fuel Tax Act 2006* automatically operates to ensure FTCs are available at the excise rate to fully offset excise for off-road use of diesel and petrol by the mining, agriculture and other industries. The legislation before the committee, as currently drafted, appropriately does not propose any change to these arrangements on the basis of sound tax policy.
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> …

> Fuel Tax Credits are consistent with the tax policy principle that business inputs should not be taxed. This is the same principle that applies in the GST system which provides input tax credits for business to business transactions. FTCs simply reimburse businesses for excise tax paid on business inputs. Taxing business inputs is economically inefficient as it distorts production and consumption decisions.[1]

4.5 They noted that fuel tax credits are important in underpinning production of goods and services in regional and remote Australia and that:

> Any move to reduce FTCs would introduce a tax distortion by imposing a tax on industries that are reliant on the use of diesel fuel because they operate large equipment off-road and generate their own power off the electricity grid in remote areas.[2]

4.6 The National Farmers' Federation argued that taxing 'such a key business input' would adversely affect most farm businesses resulting in a less competitive sector.[3] Similarly, but from the exploration, mining and minerals perspective, the Minerals Council suggested that:

> Limiting fuel tax credits for diesel use would constitute a new tax on every mine in an industry where diesel can account for up to one quarter of operating costs at some mines. Taxing such a key business input would impact the most marginal and remote mines making Australian mining projects less competitive. Importantly, a number of Australia’s competitors do not levy taxes on fuels used in mining and agriculture.[4]

4.7 Both associations noted that rebates for fuel excise had been 'a long standing feature of Australia's tax system' dating back to 1957'.[5] Mr Rob Heferen, the Treasury, explained further:

> The principal rationale behind the fuel tax credit system and, prior to that, the diesel fuel rebate scheme was to ensure that a number of industries that used fuel off road were not subject to double tax, particularly any industries that will be competing in some sort of price-sensitive market either domestically or through export. So manufacturers, the agricultural industry and the mining industry are all eligible for the rebate where it is used off road, on the basis that the fuel is a clear business input and that a good tax policy outcome would make sure that the business inputs as far as possible are not subject to tax so that, when the business is then using that for its production and onselling, in that onselling there is not an embedded amount of tax. From a policy point of view, to relieve business, particularly export

1 *Submission 2*, p. 3 and *Submission 6*, pp. [1–2]

2 *Submission 2*, p. 4 and *Submission 6*, p. [2].

3 *Submission 2*, p. 4.

4 *Submission 6*, p. [2].

5 *Submission 2*, p. 4 and *Submission 6*, p. [2].

> oriented business but even domestic business, of the double tax burden is a sound policy position.[6]

4.8 The Australian Trucking Association (ATA) informed the committee that, although the proposed legislation would not change the net fuel tax on trucks, it had identified two 'potential issues for trucking operators with the introduction of fuel tax indexation'.[7] The two matters go to the days on which calculations are made for fuel tax credits and when road user charges take effect. The association raised these issues with the ATO and the Treasury, and as a result of its advocacy, the proposed legislation now addresses both matters. In the association's assessment, the amendments 'fully address the concerns' that the ATA raised with the ATO and Treasury.[8]

4.9 Mr James Sorahan, Minerals Council of Australia, described the fuel tax credit scheme that was put in place in 2006 as being 'fairly straightforward and simple' and administratively uncomplicated for the ATO and business. In his view the scheme has worked 'reasonably well'.[9] The National Farmers' Federation, the Minerals Council and the ATA wanted to see the integrity of the fuel tax credits scheme preserved and hence supported the Fuel Indexation (Road Funding) Bill 2014.

4.10 The committee believes that the proposed legislation would preserve the integrity of the tax credit system which has been in operation successfully for many years.

Dedicating funds to road infrastructure

4.11 As noted in the previous chapter, the proposed legislation makes clear that the funds raised through the new indexation arrangements were to be devoted to road infrastructure.[10] To varying degrees, a number of submitters supported the indexation of fuel excise but wanted to see the funding arrangements to the states and territories for expenditure on Australian road infrastructure investment broadened; others wanted the fuel excise to be increased further.

4.12 Professor Philip Laird, University of Wollongong, noted the revenue forgone since the abolition of the indexation to CPI in 2001 and the need for increasing excise on fuel. He stated:

> Fuel excise was frozen by the Howard government in early 2001 (an election year) at 38.183 cents per litre and has since remained at this

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6 *Proof Committee Hansard*, 2 July 2014, p. 23.

7 *Submission 8*, p. 4.

8 *Submission 8*, pp. 4–5. Also see Mr Bill McKinley, *Proof Committee Hansard*, 2 July 2014, p. 3

9 *Proof Committee Hansard*, 2 July 2014, p. 3.

10 Fuel Indexation (Road Funding) Special Account Bill 2014, item 3.

> relatively low level, by OECD standards…Had it continued to apply from 2001, would now be generating well over $2 billion per annum of additional revenue.
>
> Given Australia's record outlays on roads now exceeding $16 billion pa by three levels of government, which is now double that of a decade ago, there is now a strong economic case to increase fuel excise in Australia.[11]

4.13 He was also of the view that allocating the additional revenue raised through indexation to roads was 'poor policy'.[12] In his view, some form of compromise was appropriate and the government should be prepared to dedicate at least half the proceeds of the increase to urban public transport.[13]

4.14 Mr Ben Rose not only supported the reintroduction of the fuel excise indexation but also advocated further increases in the fuel excise beyond the CPI.[14] He argued:

> Fuel prices are already 20c/ L CHEAPER than they would have been if indexation had continued (assuming average annual CPI of 3% and 13 years since indexation ceased on introduction of the GST). That has encouraged people to continue to over-use their cars. This is a situation that needs to cease and be reversed. Increasing fuel taxes will provide a price signal for people to use alternative transport modes or buy more fuel efficient vehicles.[15]

4.15 Furthermore, he suggested that the hypothecation of fuel excise to fund the construction of roads was 'a regressive and unnecessary step'. He indicated that the funds should go towards projects that benefit walking, cycling and public transport and projects 'to mitigate the health impacts of vehicle pollution and global warming'.[16]

4.16 Likewise, the Sustainable Transport Coalition of Western Australia was in strong support of fuel indexation but wanted the revenue raised to be hypothecated not only to roads in general but to 'walking, cycling and public transports'.[17]

4.17 The Australasian Railway Association also supported the biannual indexation of fuel excise but on the 'proviso the rail rebates are increased in line with the rise in fuel excise'. While the association was of the view that the proposed indexation

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11 *Submission 16*, p. 1.

12 *Submission 6*, p. 2.

13 *Submission 16*, p. 3.

14 Mr Rose noted that he had 10 years' experience as an environmental consultant and 43 years as a motorist on Australian roads.

15 *Submission 4*, p. [2].

16 *Submission 4*, p. [1].

17 *Submission 3*, p. [1].

arrangements would be a positive move toward building infrastructure, it suggested that:

> …it must be done in a way that promotes competitive neutrality between all modes of transport and does not create distortions within the transport market.[18]

4.18 It drew attention to the rebate received on fuel by rail operators, which it believed, according to the ATO, would decrease by approximately 1 per cent on 1 July 2014. The ARA concluded that:

> The decrease in rebate and the passing of this legislative package will mean that Australian rail will essentially pay an even larger proportion of tax through diesel.[19]

4.19 In the ARA's view this result would not be right for the government and the community, because:

> Rail, as the more environmentally friendly form of land transport, should be promoted and supported by the Federal Government, not penalised through the increase in diesel prices.[20]

4.20 The ARA stated further:

> What the Government has failed to recognise when making this decision is the fact that it is not only road users that will be paying the increased excise. Part of the revenue will be paid by the rail and public transport sector. Essentially, under the current proposal, the Government is taxing rail to fund road infrastructure.[21]

4.21 For the ARA, the Australian Rail industry would not support the government's proposal for biannual indexation if the rail rebates do not increase in line with the fuel excise.[22]

4.22 Furthermore, the ARA was of the view that the revenue raised from the indexation 'must be hypothecated back to both roads and rail infrastructure'. It argued that this injection of funding for rail as well as roads would 'allow Australia to build vital infrastructure for the future'.[23] It suggested:

> Re-introducing CPI increases and hypothecating Australia's fuel tax for public transport and road investment would re-allow revenue from Australia's fuel tax to increase with GDP, increasing the funding pool and

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18 *Submission 7*, p. 5.

19 *Submission 7*, p. 6.

20 *Submission 7*, p. 7.

21 *Submission 7*, p. 7.

22 *Submission 7*, p. 7.

23 *Submission 7*, pp. 3–4.

> providing a reliable source of revenue for transport investment. Although this would still leave the revenue slightly behind where it could have been had CPI increases not been removed, it would stop the income from the Fuel Tax decreasing each year and would re-allow the revenue from Australia's fuel tax to grow with CPI. This would give Australian governments a greater ability to grow Australian infrastructure and reduce the current infrastructure deficit evident in the Australian economy.[24]

4.23 The ARA highlighted the importance of improving public transport, which, it argued, provides 'wide-reaching social and economic benefits'. It suggested that the industry would like to see the revenue used, in part, to fund future rail infrastructure projects such as the Inland Rail project and public transport projects that would improve service quality and infrastructure. In its view, whether Australians actually travel by public transport or not, they benefit from its use and existence:

> Investing in more roads will simply lead to more vehicles and ultimately to more congestion, longer travel times, heightened pollution and increased running costs for vehicles. Ultimately, all of these factors contribute to reducing our nation's productivity.
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> …
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> …transport investment should be made according to the bigger picture. Integration and service coordination between all modes is vital, as is balanced investment. We believe that if Australia is to have a world-class transport system the federal government needs to invest in all modes of transport. That means hypothecating the revenue from the fuel tax into all forms of transport—that is, roads, rail and public transport—not just roads.[25]

4.24 Although, according to the Bus Industry Confederation, the indexation of fuel excise would be revenue neutral for bus and coach operators throughout Australia, it shared the ARA's view that the revenue raised through indexation opened up prospects for improving infrastructure other than just roads. It noted that the intention to dedicate revenue collected from the indexation of fuel excise into road funding would take Australia 'back to the future', when in 1929 the introduction of an excise on petrol saw the hypothecation of this revenue to road funding.[26] It argued further:

> …in hypothecating road use revenue into the maintenance and development of the road network, consideration must be given to the mobility needs of Australians who either cannot afford, or are unable to drive. This necessitates the investment of revenue into not only road construction and maintenance, but investment into infrastructure for alternative modes of travel including bus and rail public transport.

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24 *Submission 7*, p. 4.

25 Ms Emma Woods, *Proof Committee Hansard*, 2 July 2014, p. 5.

26 *Submission 9*, p. 2.

> Public transport presented as a viable alternative to those Australians who are able to drive can serve the purpose of reducing demand for the road network, thereby reducing road construction and maintenance costs.
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> Allowing the revenue collected from fuel excise indexation to be invested in public transport infrastructure can assist in addressing the added demand for public transport services that will arise as driving becomes more expensive.[27]

4.25 According to Mr Michael Apps, Bus Industry Confederation, congestion currently costs Australia around $13 billion in productivity losses to the economy, which is expected to grow to $20 billion by 2020—a drain on Australia's productivity. Witnesses informed the committee that the average passenger train takes 525 cars off the road, one freight train can take 110 trucks off the road and a full bus takes 50 cars of the road.[28] The Bus Industry Confederation recommended that the legislation be reworded to reflect the intention to fund land transport infrastructure and the purpose of the renamed Fuel Indexation (Land Transport Infrastructure Funding) Special Account to identify clearly that its purpose was to:

> …ensure that amounts equal to the fuel indexation amount mentioned in subsection (2) are transferred to the COAG Reform Fund in order to provide funding to the States and Territories for expenditure in relation to Australian land transport infrastructure investment.[29]

4.26 Accordingly, consequential changes would also be required to relevant provisions in the package of bills to make sure that this purpose was consistently represented throughout the legislation. The Bus Industry Confederation made a number of other recommendations including that Commonwealth funds invested in new road construction give, where appropriate, priority to bus transport and the Commonwealth allocate a portion of revenue collected from fuel excise indexation to the resumption of the National Travel Behaviour Change Project.[30]

4.27 Mr Cole Hendrigan likewise underlined the importance of using the funds from fuel indexation to 'fund high-capacity public transport'.[31]

4.28 Crude Oil Peak noted that the abolition of the fuel excise indexation, which has resulted in cheaper diesel and petrol prices, had distorted fuel use in the economy.[32] It suggested that any additional revenue from fuel excise indexation should be used to finance projects that would 'reduce the use of oil in the economy—

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27 *Submission 9*, p. 3.

28 Ms Woods and Mr Apps, *Proof Committee Hansard*, 2 July 2014, pp. 6, 8 and 9.

29 *Submission 9*, p. 4.

30 *Submission 9*, p. 4.

31 *Submission 1*, p. [1]. Mr Hendrigan is a PhD candidate at Land Use and Transport Integration, Curtin University Sustainability Policy Institute.

32 *Submission 10*, p. 1.

alternative fuel infrastructure, electric rail and other public transport.[33] Similarly, the Australian Association for the Study of Peak Oil (ASPO–Australia) recognised the proposed indexation as a 'crucial first step' but wanted the government to go much further. It recommended that Australia increase fuel excise on a fuel-tax escalator by CPI plus around 5 per cent. According to the ASPO, this measure 'would help shield Australia from future oil shocks and an ever-growing oil-import bill, and provide vital funds for crucial government services'. In its words:

> The main reason for a fuel tax escalator is to give people advance notice that fuel is a valuable non-renewable resource which is likely to become increasingly scarce, probably within five or ten years.[34]

4.29 It argued the additional funds raised should not be hypothecated to 'ever more roads', but used for 'education, hospitals, aged care and all other services which are not properly funded'.[35]

Effect of indexation on particular sectors of the community

4.30 The final group of submitters was concerned that the rise in fuel prices due to the proposed indexation arrangements would place a burden on specific sections of the Australian community. For example, the National Growth Areas Alliance (NGAA) referred to research to demonstrate that there were high levels of vulnerability on the outskirts of capital cities. It cited the work of Mr Elliot Fishman and Mr Tim Brennan who reached similar findings indicating that there was 'a clear correlation between fuel use and location with fuel use increasing with distance from the CBD'. The NGAA suggested that:

> Residents in outer suburbs already pay a high price for living there. Even higher fuel prices, to still sit for hours on congested roads, will add to their burden as they do not have the available choices that others enjoy to use their cars less.[36]

4.31 NGAA argued that indexation would result in cost of living increases but without improving quality unless jobs are brought closer to home and a range of transport options are provided. It was of the view that:

> If fuel indexation as countenanced is introduced, the proceeds should be spent where the impacts will affect large numbers of households. The disproportionate impacts on the outer suburbs should result in significant resources returning to those areas to contribute to providing the suite of transport solutions these areas sorely need. [37]

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33 *Submission 10*, p. 1.

34 *Submission 15*, p. 2.

35 *Submission 15*, p. 1.

36 *Submission 5*, p. 2.

37 *Submission 5*, p. 2.

4.32 In its submission, the Northern Territory Government drew attention to the specific circumstances of people living in the north. It noted that road transport was 'critical for Territorians to access basic goods and services as well as core government services including education, primary and tertiary health and law and order'. In its view:

> The greater reliance on road transport means that Territorians are likely to be disproportionately impacted by the proposal to reintroduce fuel indexation. This is compounded by the fact that Territorians are already paying more for fuel than the rest of Australia.[38]

4.33 The Treasurer for the Northern Territory Government wrote that since mid-2012, the price differential for unleaded petrol between Darwin and the rest of Australia had 'fluctuated around the 20 cent per litre mark.[39] In summary, he informed the committee that:

> The disproportionate impact that indexation of fuel excise will have on the Territory and the rest of Northern Australia is contrary to the Commonwealth's stated objectives of developing Northern Australia and will significantly add to the challenge of encouraging private investment in the region.[40]

4.34 The National Roads and Motorists Association (NRMA) argued that the reintroduction of fuel indexation would 'severely disadvantage Australian motorists who already pay more than their fair share of tax without getting enough back through road investment'.[41] In its view, the indexation would mean higher petrol prices that would make 'everyday activities less affordable for motorists', in particular, for those in rural and regional Australia who have to use their vehicles to travel longer distances.[42]

4.35 The Australian Automobile Association (AAA) agreed with the NRMA's view that Australian motorists were already 'paying too much tax and do not see a fair return through stronger investment in roads and other land transport infrastructure'.[43] They also noted that the price effect of any increase in fuel excise and excise-equivalent customs duty would 'fall most heavily on households and owners of light commercial vehicles used on-road'. As a consequence, it shared NRMA's concerns that the reintroduction of the fuel indexation would disproportionately affect those who need their vehicle to access employment and essential services—that they would bear the highest cost increases stemming from the indexation changes. According to

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38 *Submission 12*.

39 *Submission 12*.

40 *Submission 12*.

41 *Submission 11*, p. [1].

42 *Submission 11*, p. [1].

43 *Submission 13*, p. 1.

research, they tend to be people in the outer metropolitan areas and rural and regional areas where 'there are lower incomes, less jobs, and little or no access to public transport.'[44] They also must 'travel longer distances and who are often reliant on a private car for the majority of their transport requirements'.[45]

Adequacy and certainty of road funding

4.36 The NRMA referred to the more than $60 billion that would be raised over the next four years through the fuel excise. It noted, however, that from this substantial sum, the government's proposed legislation would allocate less than 4 per cent to road infrastructure—that is the net additional revenue (estimated at around $2.2 billion) collected from the reintroduction of fuel indexation.[46] The NRMA's position is that:

> …at least 50 per cent of all revenue collected from fuel excise to be hypothecated into a 'special account' and invested back into road and public transport infrastructure. However, NRMA acknowledges the Commonwealth's policy decision to provide rebates to certain primary industries.[47]

4.37 According to the NRMA, it supported the notion of hypothecating revenue raised from motorists for road funding, but not the proposed arrangements in their current form. It was concerned about the 'prima facie' lack of transparency and accountability in its administration and reporting requirements. It its view:

> …the process for hypothecation and the subsequent allocation of funds to road infrastructure projects is convoluted and appears to create additional layers of bureaucratic red-tape.[48]

4.38 Furthermore, it called on the government to ensure that allocations to and from the 'special account' be reported as a separate line item in its Budget Papers.[49] In addition, that all allocations made from the account to infrastructure projects be reported in sufficient detail in the Department of Infrastructure and Regional Development Annual Report.[50]

4.39 The NRMA suggested that the government consider adopting provisions along the lines of the provisions in the NSW Community Road Safety Fund. It argued that by adopting similar measures:

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44 *Submission 13*, Appendix, p. [1].

45 *Submission 13*, p. 1.

46 See p. 12.

47 *Submission 11*, p. [2].

48 *Submission 11*, p. [2].

49 *Submission 11*, p. [3].

50 *Submission 11*, p. [3].

> …revenue raised from the fuel excise, including any additional revenue collected from the reintroduction of fuel indexation, would be allocated into a 'special account' controlled by the Department of Infrastructure and Regional Development, independent of the Treasury.[51]

4.40 In its view, this measure would provide assurance that revenue collected from the fuel excise indexation would be 'allocated to road and transport projects, at the direction of the Minister for Infrastructure, and not redirected into consolidated revenue for other purposes'.[52]

4.41 According to the AAA, the current funding arrangements for roads and other land transport infrastructure in Australia was 'broken' and major reforms were needed 'to tackle the national infrastructure shortage'.[53] The AAA argued that:

> While motorists make a significant contribution to the Government's revenue base, only a portion of this flows back into public spending on transport infrastructure.[54]

4.42 Another major worry was that motorists have no guarantee, beyond forward estimates, that the amount credited to the Special Account would 'not be offset by diverting an increased proportion of the existing base of fuel excise revenue to other purposes.'[55] The AAA welcomed the requirement for the amount raised by the reintroduction of indexation to be dedicated to road transport. Even so, it was of the view that the proposed changes to the indexation of fuel excise and its use for road infrastructure, still fell far short of the AAA's preferred model. It reinforced the proposal by the NRMA that a 'guaranteed 50 per cent share of fuel excise revenue, net of fuel tax credits, should be set aside for road funding'.[56] The AAA spelt out its concerns:

> In the longer term, there is a concern about the sustainability of the special account as it attracts an increasing proportion of the total fuel excise revenue. In particular, given that it is specified that funds allocated from the special account must be paid to the states and territories through the COAG Reform Fund there is a question as to whether in the longer term this will result in increasing pressure to displace other mechanisms for Federal Government funding of roads, principally, the Infrastructure Investment Program, which itself is made up of a number of smaller programs each providing targeted funding for particular projects, including the Investment

51 *Submission 11*, p. [2].

52 *Submission 11*, p. [3].

53 *Submission 13*, Appendix, p. 2.

54 *Submission 13*, Appendix, p. 2.

55 *Submission 13*, Appendix, p. 2.

56 *Submission 13*, Appendix, p. 2.

> Road and Rail program, Roads to Recovery program, the Black Spot program and the Bridges Renewal Program.[57]

4.43 In summary, the AAA and NRMA argued that motorists are the ones who fund the excise and that a share of the base of the tax motorists pay should be invested in transport infrastructure. Furthermore, as already noted, they suggested that 50 per cent would be a 'fairer share and more effective return to motorists.'[58]

4.44 A number of submitters raised concerns about specific communities disproportionately bearing the burden of the increase in fuel prices. In response to a question about whether the Treasury had undertaken a distributional analysis, Mr Heferen informed the committee that the Treasury had not completed such an analysis. He explained to the committee the difficulties for the Treasury in undertaking a distributional analysis on the effects of the proposed indexation of fuel excise. He indicated that many tax changes were 'simply not amenable' to such analysis and in respect of the fuel indexation:

> There is distribution analysis across income levels. With this it is quite difficult because the bulk of the distribution analysis will be about users of petrol and diesel, on-road motorists, and where they live, what sort of car they drive, their expenditure pattern on fuel are all relevant factors. There are some datasets that go to the expenditure patterns that can be utilised. I think that it is fair to say that none of them is as comprehensive as what we could access on the personal tax side. On the personal tax side we could get very complete data out of the tax office about earnings and tax paid at income levels because the tax office has that for everyone. But with excise, because the excise payment is by the manufacturer or wholesaler, the consumer just purchases the excise-inclusive price and there is no excise return relative to consumers as there would be, say, for personal tax so that sort of information one can have regard to by nature or two or more steps removed so it makes the promulgation of these that much more problematic. Having said that, there are various datasets one can have access to, and that is the sort of thing we will be working through.[59]

4.45 Furthermore, with regard to the indexation on fuel excise, he noted that the increases were small and it was not a significant tax increase. He also drew attention to the care needed to be taken in producing analysis because in essence it would be an estimate. According to Mr Heferen, when the Treasury does not have information or data that is 'directly on point, it then makes it just that much harder to use is as a proper tool in the decision making'.[60]

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57 *Submission 13,* Appendix, p. 3.

58 *Proof Committee Hansard,* 2 July 2014, pp. 15 and 17.

59 *Proof Committee Hansard,* 2 July 2014, pp. 20–21.

60 *Proof Committee Hansard*, 2 July 2014, p. 21.

4.46 Mr Rob Heferen noted a few important points about excise tax, transport infrastructure and the proposed legislation:

- in respect of efficiency and overall costs to the economy, the indexation of excise was 'far superior to any other tax';
- the establishment of the Special Account takes the allocation of funds to road infrastructure to a much stricter level—that the parliament through the legislation compels the minister to ensure that the amount of money raised through indexation is spent on roads;
- the government committed in the Budget to a 'pretty extensive infrastructure program'; and
- large proportions of Commonwealth revenue raised through other means, personal tax and corporate tax would be spent on public transport.[61]

4.47 Elaborating on the final two matters, Mr Heferen noted that the fuel indexation stood 'side by side with the significant expenditure outlined in the Budget on roads and transport infrastructure'. He noted the very clear links between infrastructure investment and improving overall productivity:

> The better the network, the better the transport, the less delay firms will have in getting spare parts and the quicker material can be delivered and so forth. That is pretty well articulated throughout the budget papers. A key part of the government's productivity agenda is to improve transport infrastructure.[62]

4.48 While acknowledging that the indexation of the excise component would be 'very small at the start because the indexed amount is very small', Mr Heferen suggested that it 'would grow over time, and therefore more and more money would be put into the fund to be allocated for infrastructure'.[63] Furthermore, he noted that often expenditure on roads or public transport was done at the state and local government level with 'a lot of the money' coming from the Commonwealth through various grants. He stated:

> So in one sense it is a bit disingenuous for people to say, 'You've got this excise amount, that all ought to be spent on these things,' when in fact the vast bulk of tax revenue comes through personal tax. Most of the distribution to the states and territories and local government through grants other than the GST comes out of personal tax and corporate tax.[64]

4.49 It should also be noted that Mr Michael Sutton, Department of Infrastructure and Regional Development, informed the committee that the government had asked

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61 *Proof Committee Hansard*, 2 July 2014, pp.23 and 25–27.

62 *Proof Committee Hansard*, 2 July 2014, p. 25.

63 *Proof Committee Hansard*, 2 July 2014, p. 25.

64 *Proof Committee Hansard*, 2 July 2014, p. 27.

Infrastructure Australia to undertake a national infrastructure audit, which was underway. The Department was also conducting an audit of infrastructure in northern Australia.[65] In addition, the Productivity Commission has recently provided the government with a report on infrastructure which included economic infrastructure that takes in rail, roads and public transport.[66]

Conclusion

4.50 The committee notes the concerns raised by a number of submitters about the hypothecation of funds in the Special Account solely to road infrastructure and not land transport projects. In this regard, the committee understands that the Commonwealth has a much broader commitment to funding public transport projects. It does so at the state and local government level with revenue raised by other means such as through personal income tax and corporate tax. Furthermore, the government recognises the need for achieving a stable and growing source of funding for major infrastructure development and has committed to achieving this goal. The package of bills must be seen in this broader context and as making a contribution to boosting Australia's productivity capacity through building and upgrading roads.

4.51 Moreover, the proposed legislation preserves the integrity of the fuel tax credits scheme which is consistent with the tax policy principle that 'business inputs should not be taxed'. The excise tax is easily understood, relatively simple to apply and its indexation to CPI would not add unnecessary complications.

4.52 The committee also takes account of concerns that some sectors of the Australian community would be disproportionately affected by the indexation of fuel excise. In this regard, the committee notes that the increase due to indexation would be in line with the CPI and that the funds go directly to road infrastructure that would benefit all motorists.

Recommendation 1

4.53 The committee recommends that the bill be passed.

Senator Sean Edwards

Chair

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65 *Proof Committee Hansard*, 2 July 2014, p. 27.

66 Productivity Commission, Draft Report, Volume 1, *Public Infrastructure*, March 2014 http://www.pc.gov.au/__data/assets/pdf_file/0007/134674/infrastructure-draft-volume1.pdf (accessed 20 June 2014).