



**AUSTRALIAN
AUTOMOBILE
ASSOCIATION**

**Constituent
Members**



**AAA Submission to Inquiry into the investment of
Commonwealth and State funds in public passenger
transport infrastructure and services**

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1. Introduction

Australian Automobile Association (AAA) represents the interest of over 6 million motorists through its State and Territory motoring Clubs and Associations. One of the objectives of AAA is to represent, safeguard and protect the interests of Australian motorists. That does not mean our organization has limited interest in public transport. To the contrary, our view is that investment in public transport infrastructure and services is not only desirable, but essential if improvements are to be made to mobility, accessibility (including for the disadvantaged), the environment and the overall efficiency of the transport network.

The avoidable cost of congestion in Australian capital cities totalled \$9.4 billion in 2005¹ and public transport has a role to play in reducing this enormous cost to the community. Just how much of a role and what specific improvements need to be made in public transport infrastructure and services is a question that is better answered by our Constituent Clubs, given that State Governments have the principal responsibility for public transport. In addition, the types of services (buses, trains, ferries, taxis) vary from State to State. Accordingly, some of our Clubs will provide more detailed submissions that focus on infrastructure needs and service delivery in their States/Territories and the way that public transport is best integrated with bicycle and pedestrian initiatives.

In this submission, we propose to assert the role of the Commonwealth in *funding* public transport (as well as roads) and to dispel misconceptions that motorists are subsidised to the detriment of public transport. Thus our emphasis will be on parts (b), (d) and (e) of the Terms of Reference.

2. Background

AAA has a keen interest in environmental issues and the climate change challenge with eight in ten motorists having expressed concern about the effect of motor vehicles on the environment.²

In responding to the need to reduce greenhouse emissions from motor vehicles and improve energy efficiency, AAA released a statement 'On the Road to Greener Motoring' that contained a number of climate change objectives and associated policies.³ One of the objectives was 'sustainable mobility for all'. In commenting on this objective, we referred to evidence that nine in ten motorists use their car 'every or most days of the week' and that the number of

¹ Bureau of Transport and Regional Economics, Working Paper 71

² AAA National survey of motorists' attitudes and priorities, conducted by ANOP, 2007

³ http://www.aaa.asn.au/documents/reports/2008/AAAGreener_web24pp.pdf

respondents to our survey using public transport at least once a week had increased only marginally from 11 per cent in 1999 to 13 per cent in 2007. We also noted that many capital city public transport systems are struggling to cope with recent increases in patronage despite the fact that the change is small compared with the total transport task.

In identifying a range of policies to address 'sustainable mobility for all' we argued that it was imperative for Governments to improve the coverage and frequency of public transport services to provide a viable alternative to the car. We also stressed that if governments wish to encourage the public to use cars less, then alternatives need to be safe, reliable, affordable, convenient and efficient.

However, motorists do not see the encouragement of public transport use as the only solution to reducing the environmental impact of cars. Nor do they believe that it is desirable to encourage people to drive less. In a major survey of motorists in 2007, motorists were asked to nominate, in an open-ended question, realistic solutions for reducing the impact of cars on the environment.⁴ The main suggestions (43 per cent) were to develop "alternative" cars (electric, solar, hydrogen), followed by encouraging public transport use (30 per cent), developing cleaner, alternative fuels (29 per cent) and improving vehicle emissions (13 per cent). Only a small minority (12 per cent) suggested the need to encourage people to drive less. This is hardly surprising when one considers another finding of the survey that a staggering 65 per cent of motorists stated that the car was 'extremely important' to them in their day-to-day lives.

3. Public investment in private vehicle and public passenger transport services and infrastructure

Terms of Reference (b) seeks 'current and historical levels of public investment in private vehicle and public passenger transport services and infrastructure.' It is not clear what is meant by private vehicle transport services and infrastructure, but we can only assume that there is an intention to compare public investment in roads with investment in public transport. If this is the case, we caution against making too much of such comparisons because investment in roads benefits public transport, since roads are used not only by cars, but also by forms of public transport such as buses and taxis (and other alternatives to the car such as bicycles). In some Australian cities, on-road bicycle lanes are also being constructed.

⁴ Australian Automobile Association, Motorists' Attitudes and Priorities in 2007, survey conducted by ANOP.

If indeed this is what is meant by the TOR, we can reference recent figures from the Department of Transport that show total Government investment in roads between 2000-01 and 2006-07 (see Table 1):

Table 1 Funding of road-related expenditure 2000-01 to 2006-07 (current Prices)

Source	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	(\$millions)						
Australian Government	1 458.0	1 820.8	1 719.9	1 818.1	2 101.1	4 251.4	2 771.9
State Governments	3 695.3	3 366.7	3 620.5	3 651.3	3 864.0	2 624.7	6 112.1
Local Government	2 676.5	2 738.0	3 087.7	3 007.7	2 622.3	2 023.6	2 512.0
Non-public sector	108.0	121.0	319.0	298.0	372.0	451.0	647.0
Total	7 937.7	8 046.4	8 747.2	8 775.1	8 959.4	9 350.7	12 042.9

Note: Australian Government expenditure in 2005-06 includes an amount of \$1.82 billion for works to be completed by the end of 2009.

Source: BTRE, Public related road expenditure and revenue in Australia, 2008 update, February 2009.

At the Commonwealth level, according to Federal Budget estimates, road funding has increased substantially since 2006-07. Furthermore, road funding is expected to increase over the next few years from around \$4 billion in 2008-09 to nearly five million in 2011-12.⁵ The increase is highlighted in Figure 1 along with the components of the expenditure. The apparent discrepancy in the amounts shown in Table 1 and Figure 1 for 2005-06 is due to the fact that additional Commonwealth expenditure of \$1.82 billion in that year as reported by the BTRE is to be spent over the following four years.

The estimated funding has changed further since the Budget with the Federal Government announcement of the Building Australia Program in December 2008.⁶ The Government promised to invest \$4.7 billion in this Program that included bringing forward road funding of \$711 million in 2008-09 and 2009-10 to accelerate construction of specific road projects (balanced by reductions in later years), and an additional \$60 million in the Black Spot program for 2008-09 bringing the total to \$110 million.

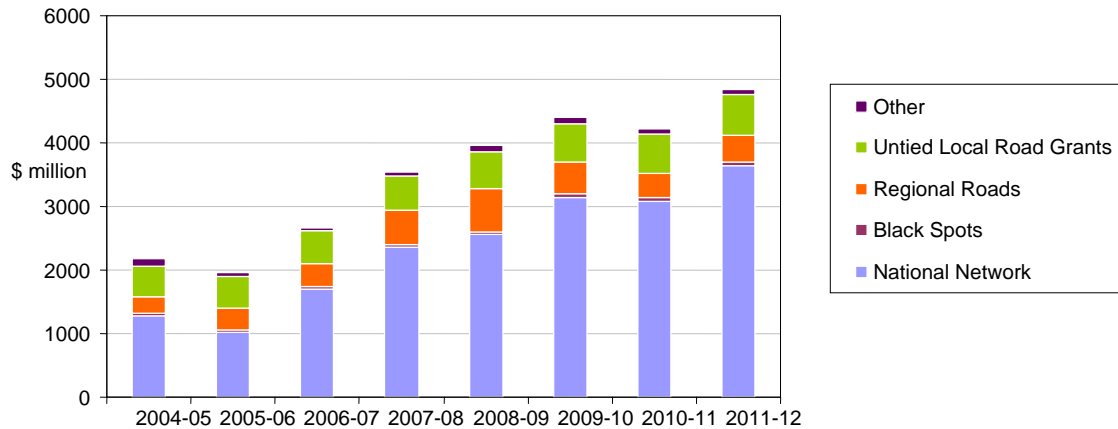
Funding for roads was further increased in February 2009 with the Federal Government announcement of an economic stimulus package that included a further \$90 million for Black Spots – an extra \$30 million in 2008-09 bringing the

⁵ According to Budget Papers (see Budget Paper No 1, page 6-30, footnote to Table 15, some of the road funding from 2009-10 onwards may be re-classified to rail

⁶ http://www.infrastructure.gov.au/department/publications/pdf/Nation_Building_electronic.pdf

total to \$140 million – and an extra \$60 million for 2009-10, bringing the total to \$120 million.⁷

Figure 1 Commonwealth Road Expenditure



Source: Federal Budget papers (various)

In addition, a further \$150 million was promised for boom gates (\$50 million in 2008-09 and \$100 million in 2009-10) and \$150 million for road maintenance of regional roads on the National Land Transport Network.

4. Measures by which the Commonwealth Government could facilitate improvement in public passenger transport services and infrastructure

There are numerous reasons to justify Government involvement in urban public transport markets. One rationale is the ‘public good’ or non-commercial nature of urban transport, whose value is measured by its benefits to society above those normally delivered by private goods. These benefits can be measured, in part, by the ‘livability’ of a city.

Public transport may also be a natural monopoly – when the least cost way of supplying the market is by a single firm – and as such there is a need to prevent the exercise of market power and exploitation of the traveling public.

⁷ http://www.minister.infrastructure.gov.au/aa/releases/2009/February/AA011_2009.htm

Another reason for Government involvement is the need to provide information, particularly if there are insufficient incentives for private operators to provide it, particularly as it relates to the total network.

As noted earlier, urban roads generate considerable congestion costs and their presence can justify Government intervention.

Finally, Governments can play a role in assisting the transport disadvantaged who may not be able to afford adequate access to transport due to low incomes or the high cost of transport.

These arguments beg the question as to whether State Governments or the Federal Government should intervene. However, the fact that the Commonwealth funds urban *road* projects and that project expenditure is likely to exceed the capacity of the States to fund them, suggests that there is a role for the Commonwealth in providing significant funding for urban public transport. In the following Section, we will explore the funding issue further.

4.1 Investment in urban public transport

Commonwealth Government expenditure in 2008-09 for road transport is estimated to be \$3421 million.⁸ A further \$585 million is estimated to be allocated to roads by way of untied local roads grants (\$571 million) and supplementary funding to SA Councils for local roads (\$14 million).⁹

By contrast, Commonwealth expenditure on rail for the same period is estimated to be \$187 million.¹⁰ As far as we understand, none of the rail funding is allocated to urban public transport, but to projects related to rail freight on inter-capital corridors and some links to ports. While such investment might have limited benefit to motorists through shifting freight from road to rail, there is clearly scope for the Federal Government to substantially increase its investment in rail and other forms of public transport in urban centres as a means of reducing congestion, improving environmental outcomes and increasing the efficiency of the overall transport network.

In this context, however, we would expect Government investment to be based on clear economic benefit-cost criteria and allocated to infrastructure development rather than to meeting operational costs.

⁸ Budget Paper No 1, 2008-09, page 6-30, Table 15.

⁹ Budget Paper No 3, 2008-09, page 124, Table B.10

¹⁰ Budget Paper No1, *op cit*

The Commonwealth's responsibility for road funding over the past 10-15 years has been primarily to fund a national network of roads linking the capital cities¹¹ as well as local roads under the Roads to Recovery Program and untied local road grants. More recently, the Commonwealth has extended its role to include funding for *intra-capital* city roads partly because of the limited financial capacity of the States to finance an extended network, the need to ease congestion and the economic gains to the nation from moving freight more efficiently within capital cities.

In the same period, the role of the Commonwealth Government in urban transport has been limited, although it did fund an Urban Public Transport Program that was phased out in the early 90's and specific purpose programs such as Building Better Cities which saw the introduction of light rail to Sydney.

There is thus a huge imbalance between funding for roads and funding for public transport, including rail. AAA believes that there is a role for the Commonwealth Government in public transport and that the predominant measure by which it could facilitate improvement in public passenger transport services and infrastructure is through funding specific public transport projects. AAA therefore, is pleased to see the Government's recent commitment to public transport through its Infrastructure Australia (IA) project list and its commitment to increasing transport capacity in our cities and making better use of transport infrastructure.

As noted in the IA report to COAG¹², there is a number of avenues for improving the use of existing infrastructure, including open access to infrastructure; efficient pricing; technology; and reform of transport operating costs.

The Report also identifies a number of areas for addressing climate change, including transport infrastructure, where it states under the heading of public transport that:

*It is clear that governments at all levels, including the Australian Government, needs to provide much greater investment in new public transport infrastructure, in order to expand current transport systems and ensure that existing infrastructure and public transport is utilised effectively and efficiently to mitigate effects on climate change.*¹³

The Report also identifies a number of public transport initiatives for further analysis. These projects are reported in Table 2 (below).

¹¹ This network has been referred to under different names over time, including the National Highway System and AusLink.

¹² Infrastructure Australia, A Report to the Council of Australian Governments, December 2008

¹³ Infrastructure Australia, *op cit*, page 37

The total cost of these projects amounts to between \$65 and \$92 billion. This order of magnitude of the capital cost of the various projects demands the involvement of the Commonwealth Government.

Table 2 Infrastructure proposals for prioritisation

Urban Rail / Bus or Urban Rail / Road	Brisbane Inner City Rail Capacity Upgrade	Brisbane	QLD	\$14b
	CBD Metro	Sydney	NSW	\$4.8b
	Extension of Passenger Rail Services to Seaford	Adelaide	SA	\$456m
	Geelong Growth Package	Geelong	VIC	\$94.6m
	Gold Coast Rapid Transport	Gold Coast	QLD	\$850m
	Light Rail for the ACT	Canberra	ACT	\$2.95b
	Melton Duplication and Electrification to Bacchus Marsh	Melbourne	VIC	\$NA
	Northbridge rail cutting link	Perth	WA	\$263m
	Regional Rail Express Line	Melbourne	VIC	\$3.8b
	East-West rail Tunnel	Melbourne	VIC	\$3.5b
	Southern Cross Platform 15 & 16 Activation	Melbourne	VIC	\$155m
	West Metro	Sydney	NSW	\$8.1b
	Gawler Rail line re-sleepering and electrification (formerly Adelaide's Future Public Transport Network)	Adelaide	SA	\$2.19b
	North-South Corridor – Darlington Transport Project	Adelaide	SA	\$750m
	Eastern Busway (Stage 2)	Brisbane	QLD	\$680m
	Eastern Busway (Stage 3)	Brisbane	QLD	\$140m
	Darra to Ipswich Transport Corridor	Brisbane/Ipswich	QLD	\$3.8b
	Very Fast Train (VFT)	VIC/ACT/NSW	ACT	\$32-59b

Source: Infrastructure Australia, A Report to the Council of Australian Governments, December 2008

Projects identified for further analysis are located in Brisbane, Sydney, Adelaide, Geelong, Gold Coast, Canberra, Perth, Melbourne and Ipswich. A Very Fast Train (VFT) for Victoria, NSW and ACT has also been put forward for prioritisation with an estimated capital cost ranging from \$32-\$59 billion.

Many of our Constituent Clubs made submissions to IA. In terms of public transport, of the projects listed in Table 2, RACQ put forward the Brisbane rail upgrade, RAASA looked for support for a \$2 billion investment strategy to revolutionise Adelaide's public transport network and RACV argued for the East-

West rail tunnel which was one of the many recommendations included in the Eddington Report.¹⁴

5. The role of Commonwealth Government legislation, taxation, subsidies, policies and other mechanisms that either discourage or encourage public passenger transport.

In Section 3 (above) we outlined the amount of Commonwealth funding in roads. The Budget estimates indicated that in 2008-09, funding would be around \$4 billion. In the same year, the fuel excise of 38.143 cpl raised approximately \$15 billion. This spending on roads is equivalent to only 10.1 cpl of the excise collection. In the short-term, AAA considers that a greater amount of fuel excise revenue needs to be spent on roads *and* public transport. Such an increase is needed to kick-start the economy, create jobs and improve transport efficiency.

In the medium-to-long term, fuel excise needs to be reformed.

Apart from revenue accruing to the Commonwealth for fuel excise, motorists also pay a substantial amount in vehicle registration fees and other motoring taxes and charges.

The question of whether motorists 'pay their way' for the use of infrastructure has been a long-standing issue. Proponents of public transport argue that public transport is disadvantaged because there is little incentive for motorists to switch modes since they do not pay for the total costs of road use. In our view, this argument cannot be sustained.

First, the operational costs of public transport are invariably subsidized by Government – although for the reasons enunciated earlier, they may be justified on the basis that the service offers benefits to the community that may not be realised through commercial operation.

Secondly, and perhaps more importantly, road users pay an array of taxes and charges and, as noted earlier, only 10 cents of the 38cents of fuel excise is allocated to roads.

We acknowledge that there are externalities – such as costs associated with crashes, air and noise pollution, greenhouse and congestion – that may need to be accounted for as a cost that road users should bear. In AAA's submission to

¹⁴ http://210.15.220.118/east_west_report/Investing_in_Transport_East_West-Overview_Contents.pdf

the Henry Taxation Review¹⁵, we argued for the replacement of fuel excise with a road user charge and that the charge should comprise a modest access charge to the network – levied through nationally consistent and minimal registration charges – and a user charge to address externalities where appropriate.

Further, AAA argued that crash costs should not be included in determining a road user charge because in practice, it would be more efficient to address such costs through direct measures (such as improved vehicle safety, better road infrastructure and pay-as-you-drive insurance) rather than via a road user charge. In addition, we argued that it was also efficient to address air and noise pollution costs through direct measures such as improved vehicle emission standards and fuel quality rather than via a user charge.

We acknowledge that congestion costs and the impact of climate change need to be included in a road use charge. However, as far as congestion is concerned, we believe that other measures such as intelligent transport systems, better land use planning, improved road infrastructure and parking provision should be introduced ahead of introducing a congestion charge. And even then, congestion charging should only be implemented if fuel excise were abolished and apply only at times and places where congestion exists.

6. Conclusion

The cost of congestion in Australian cities is significant and demands attention. Currently, Federal and State Governments are investing billions in road construction that can help to relieve this congestion by removing bottlenecks and improving links to ports.

However, this investment is not being matched by Commonwealth investment in public transport which is clearly necessary given the large scale funds required for major projects. Such investment in public transport can help to improve the overall efficiency of the transport network, the livability of Australian cities and generate overall benefits to the nation.

AAA recognizes that there is a role for the Federal Government in urban public transport. Traditionally only State Governments have played a role in this area, but the huge investments required and the national benefits – through productivity gains and improved environmental outcomes - that will accrue from Commonwealth involvement justify a financial commitment to urban public transport projects. The priority list established by Infrastructure Australia is a good starting point.

¹⁵

<http://www.aaa.asn.au/documents/submissions%2F2008%2FHenry%20Tax%20Review%20sub%20mission%20final.pdf>

Whether the current pricing structures are such that motorists are encouraged to use their car at the expense of public transport is an issue that AAA has addressed in the past. In various Inquiries we have advanced evidence to show that motorists do pay their way and consequently, public transport is not disadvantaged from a cost perspective.

Greater investment in road and public transport can help to relieve congestion. Both forms of transport have a role to play in advancing the interests of motorists and mobility more generally and the two modes should be regarded as being complementary to each other.

Reform of fuel taxation and the introduction of a user charging model can also play an important role in reducing congestion costs and improve the livability of our cities.