

Bus Industry Confederation Response to COAG Road Reform Plan – Funding and Implementation Issues Paper

Submission by the Bus Industry Confederation



May 2011

Context

The Bus Industry Confederation (BIC) represents the interests of the Australian bus industry, including most operators and suppliers, together with many ancillary businesses. BIC welcomes this opportunity to respond to the *CRRP Issues Paper* and remains supportive of most of the general work directions that are outlined therein. Our response is primarily at a high level, reflecting the nature of our main concern with the direction of the work. While the detailed analysis in the Issues Paper is comprehensive and professional, we believe that the focus is somewhat misguided. Therein lays the greatest risk of inappropriate solutions.

As pointed out in our submission in response to the recent NTC/CRRP Discussion Paper on *Heavy Vehicle Pricing Options: Development and Assessment Framework*, our major issues in regard to the direction being taken with respect to heavy vehicle road pricing reform relate to;

- the continuing neglect of wider external costs associated with road use, which compounds as an issue when taken in conjunction with our subsequent issues of concern;
- the neglect of intermodal competitive considerations as they relate to person movement; and,
- the excessive focus on trucking and freight movement in the paper and neglect of passenger transport vehicles (buses).

This submission responds to the detailed questions posed by the Issues Paper. However, it first takes the opportunity to reiterate our higher level concerns listed above. It is simply not possible for the CRRP process to claim that its reform directions will be effective or efficient if these concerns continue to be ignored!

Continued neglect of wider external costs

Rudimentary calculations prepared by Professor John Stanley for BIC's submission on the Discussion Paper on *Heavy Vehicle Pricing Options: Development and Assessment Framework* suggest the total annual external costs of road use in Australia are about \$40 billion, as shown in Table 1.

This compares to revenues collected from road users of about \$16 billion annually. Heavy Vehicle Road Use Charging is concerned with only a very small part (about \$2 billion) of the first of the costs set out in Table 1, which represents only about five percent of the total external costs of road use in Australia. It is important, therefore, to not go overboard in terms of seeking sharper estimates of a cost that is relatively inconsequential in terms of the improving the effectiveness and efficiency of Australian land transport resource allocation. It is more important to move quickly to reform land transport planning procedures, within which decisions are taken about road expenditure priorities and associated funding, and move towards a more comprehensive reform of road pricing, which includes all external costs and all classes of road user.

BIC notes the CRRP process has been constrained to ignore wider external costs. The Issues Paper reports as follows at page 17:

COAG has confirmed the CRRP Phase 1 Report recommendation that national direct pricing of externalities for all heavy vehicles as part of a heavy vehicle charging arrangement is not considered optimal at this time.

BIC strongly submits this constraint can only possibly be justified if it does not contribute to misleading conclusions about pricing directions for more effective and efficient road use. Our submission points out some serious problems in this regard and proposes a way to reduce the risks associated with adopting the constraint.

Table 1: External costs of road use in Australia

| Road costs including externalities | \$A pa |
|---|------------------------------|
| Road Infrastructure | \$14 B |
| Congestion | \$10 B |
| GHG Emissions | \$ 5 B |
| Costs of road accidents (external costs only) | \$10 B |
| Noise and air pollution | \$ 4 B |
| Obesity (inactivity cost = \$14 B) | ? |
| Social exclusion | ? |
| Agglomeration benefits | ? |
| Total Costs | About \$40+ Billion annually |

Source: Estimated by Professor John Stanley, ITLS, University of Sydney, for BIC, 2010.

The Issues Paper repeats the previous Discussion paper finding that

... the best approach [for dealing with other externalities] would be local level assessments of the cost-effectiveness of additional externality treatments in locations where the impacts of externalities are concentrated and are of a level that suggest abatement measures might be worthwhile.

In support of this position, it points out on page 17 that

- 74% of total vehicle kilometres are performed by passenger vehicles, whereas rigid and articulated trucks only account for 7% of vkms and that
- the freight market could be distorted if externalities are not priced for each mode (road and rail freight).

BIC accepts these points but, when the analytical framework turns from freight to person movement and from trucks to buses, the conclusion is reversed! Buses directly compete with cars. If cars account for most travel and most externalities, particularly in our cities, as recognised by the Issues Paper, then ignoring these externalities directly disadvantages bus. With competition between cars and public transport/buses being ubiquitous in our cities, and a base level of negative externalities from car use applying right across Australia (e.g. greenhouse gas emissions, the externality component of accident costs), the search for a generalised pricing approach is appropriate for buses with respect to externalities.

Research undertaken for Bus Association Victoria and reported to the April 2011 UITP World Congress in Dubai has shown that the external benefits of bus use in Melbourne are about 3.7 times the costs of the service provision (copy attached). The full calculation of the benefit cost ratio is seen in Table 2.

The Melbourne research identifies total (gross) annual externality plus user benefits of the city's route bus services of \$1.7 billion, of which \$1.4 billion can be classed as externality benefits (which includes user benefits categorised as the value of reduced risk of social exclusion). Net benefits were over \$1.2 billion. The two single largest externality benefits measured in the research are (1) benefits related to reducing risks of social exclusion (\$767m) and (2) reduced road congestion costs (\$588m).

If this benefit cost ratio for Melbourne was extrapolated to include all capital cities, the gross benefit value of capital city route bus services could conservatively be estimated at more than \$6 billion and relative net benefits in the range of at least \$4-5 billion, with external benefits accounting for the majority these benefits.

These externality benefits attributable to route bus services dwarf the total road user charge revenues raised from all heavy vehicles (trucks and buses) and show the critical importance of recognising externalities if resource allocation efficiency and effectiveness is to be improved.

Table 2: Indicative Annual Value of Melbourne's Route Bus Services

| Value of route bus services in metro Melbourne | \$A pa |
|--|---------------|
| Congestion time (\$A518m) and fuel (\$A70m) benefits | \$588 M |
| GHG (\$A7.5m), local pollution (\$A12.2m), energy security (A\$1.6m) | \$21 M |
| Accidents savings | \$15M |
| Bus user benefits of social inclusion = 33 m trips @ \$A23.25 per trip | \$767 M |
| User benefits for other bus users = 67 m trips @ \$A5 per trip | \$335 M |
| Total value (externality + user benefits) | \$1.726 B |
| | |
| Gross financial cost to budget | \$486 M |
| | |
| Benefit Cost Ratio (BCR) | ~3.5 |

Source: Presentation to 2011 UITP World Congress, Professor John Stanley, ITLS, University of Sydney, 2011.

The BIC believes failing to properly price externalities makes car use cheaper and disadvantages buses, coaches and rail based public transport in their efforts to attract people from cars.

This leads to the perverse and undesirable outcome of encouraging excessive road use by light vehicles and tilting the modal balance in favour of cars and against public transport.

A Proposed Solution

A reformed road pricing regime would recognise:

- (a) The different roles played by public transport and freight heavy vehicles in their road applications and the consequence this has on vehicle kilometres travelled.**
- (b) The negative externalities of vehicle use and the relatively negligible contribution to these by externalities by buses**
- (c) The external benefits delivered by buses and the cost benefit ratio of achieving these.**
- (d) The “space” created by increased bus patronage, in the form of savings, for road recovery charges to be reinvested in measures aimed at encouraging further public transport use.**

A starting point for the recognition of the above would be a **thorough analysis of the cost benefit ratio of the bus industry throughout Australia as part of a wider identification of the economic contribution of the Australian bus and coach sector.**

This analysis would measure:

- The existing vehicle fleet
- Forecast growth in the vehicle fleet
- Employment in the bus industry
- Forecast growth in employment
- Existing in bus patronage
- Forecast patronage trends
- External and user benefits delivered by the industry (see table 2)

This analysis would form the basis on which to calculate:

- 1. A reduction of road damage charges levied on buses and coaches through removing registration costs and providing an additional rebate of the fuel excise payment to the bus and coach sector.**
- 2. A larger additional rebate to be provided for urban route buses based on their relatively greater externality benefits than other bus and coach services.**
- 3. Investment levels from road recovery funds based on the road wear savings created by increased bus patronage.**

This approach BIC is advocating is consistent with the broad proposition in the Issues Paper (on p. 10):

Initial analysis suggests that it is unlikely that a ‘one size fits all’ approach to more direct pricing of heavy vehicles will be cost beneficial – rather a hybrid approach that applies a different pricing regime to different heavy vehicle classes or users is expected to result in a better overall benefit cost outcome.

BIC’s proposal is, therefore, that buses/coaches be differentiated from trucks in the pricing framework, because buses/coaches generate very substantial external benefits that are not nearly so relevant for trucks. The pricing framework will substantially disadvantage buses/coaches (and their users) competitively if this continues to be ignored.

Specific matters raised by the *Issues Paper*

1. What reforms do you consider necessary in relation to road supplier funding and road provision?

BIC supports the general contention of the Issues paper that:

In simple terms, ... a reformed institutional road supply framework should create incentives to provide the right roads (money allocated to get the best value for users/taxpayers dollars) which are then built at lowest cost (productive efficiency in supply which minimises the cost to users/taxpayers) and the road network is upgraded through time in an efficient manner (dynamic efficiency).

We also contend, however, that because of the pervasive nature of externalities in land transport, such decisions **must** be taken within an integrated whole-of-government framework, not siloed off into a roads-only contextual setting. Our publication, *Moving People: Solutions for a growing Australia*, argues this case in detail. A narrowly based roads-only approach has dogged efforts to improve the efficiency of transport resource allocation in Australia for many years. There are encouraging signs that this is changing, through initiatives such as the COAG Capital Cities Strategic Planning process and Infrastructure Australia's work. Road pricing reform must not reverse the trend towards greater integration in land transport policy and planning.

It will be apparent from the data and argument presented in this submission to date that BIC believes the need to incorporate the external impacts of road use within the pricing framework is a critical requirement to improve the effectiveness and efficiency of road pricing/use and road expenditure (or provision) in Australia. Our answer to all questions starts from this position. Any reforms we support will need to be consistent with such a long term road pricing/expenditure/funding approach.

Because our research shows that the external costs of road use in Australia far outweigh road user charges, we start from the position that there is too much road use in Australia. An efficient road pricing regime that incorporated external costs would reduce the size of the road task and the associated requirement for infrastructure upgrades. For example, background research undertaken for the US National Surface Transportation Policy and Revenue Study Commission (which reported in 2008) found that future US Highway investment needs could be very substantially reduced (by about a third over the long term) by implementation of a congestion pricing regime. This finding argues against direct allocation of all revenues raised from a very narrowly based set of road user charges to road funding agencies, in the absence of provision for pricing of externalities. Only when charges for road use fully reflect relevant marginal social costs could any serious thought be given to hypothecation of revenues to a road fund, from which road expenditures are financed.

If the CRRP process refuses to contemplate incorporation of externalities within its pricing framework, then decisions about the appropriate scale and mix of road investments must be taken at a higher level, within an integrated policy decision making framework. This may emerge for capital cities from the COAG Capital Cities Strategic Planning Process reform and from the work of Infrastructure Australia. The decision framework must take into account all relevant external benefits and costs when prioritising investment decisions across the transport sector (and other sectors), recognising competing demands for funds. Infrastructure Australia's evaluation processes can add some rigour to this set of resource allocation decisions, including quantification of relevant externalities.

In short, BIC generally supports Ministers/Departments of Transport as the major Federal/State level advisers on road expenditure priorities and associated funding requirements, within the wider context of transport portfolio decisions and broader cross-portfolio priorities. This is intended to help ensure that road expenditure decision making is located within a wider integrated resource allocation framework of the kind that seems to be being pursued through the COAG capital Cities Strategic Planning process, where external costs and benefits have the opportunity to influence investment priorities.

Having said this, BIC is supportive of efforts to improve the flow of funds to local government for road damage done by heavy vehicles to local road networks. At present local government road funding flows seem least connected to revenues raised from heavy vehicle road user charges. Identification of relevant

CSO's, as argued by the Issues paper, is supported but we expect that local government may still have a good case for a better alignment of heavy vehicle road user revenues and road damage costs.

BIC acknowledges the work in the Issues Paper on optimising maintenance/investment resource allocations, as summarised in the quote at the start of this section. The kinds of analytical frameworks needed to apply such logic do not depend on a direct link between road user charges and funding/expenditure flows at any particular level of government. They simply need a desire on the part of governments and their agency professionals and advisers to do their jobs properly and recognise that it is their responsibility to maximise the public value that is available from the resources under their influence/control. Failure to have such processes in place at any level of responsible government should have consequences for the staff involved and for access to intergovernmental funds transfers from higher levels of government for road and other transport purposes.

2. What are the main benefits you think are achievable from reforms to road supplier funding?

BIC sees the major requirement in terms of reforming road supplier funding as ensuring that road expenditure decisions, and associated funding flows, are taken within an integrated land transport decision making framework that recognises interactions with other parts of the land transport sector and with broader sectors which impact on the welfare of transport users (especially land use) and those affected by transport. This requires integrated transport/land use planning processes and evaluation frameworks that include all expected impacts on wellbeing, including externalities, as a foundation for expenditure prioritisation. Pursuing this approach will help to maximise the social value achievable from land transport in general and roads in particular. If externalities are fully internalised into pricing frameworks, then there is more justification in pursuing a distinct road expenditure/funding model to achieve the same end.

Otherwise, BIC does not see major benefits from reforming road supplier funding, other than for ensuring that local government has access to sufficient funds to recompense it for road damage from heavy vehicles.

The kinds of incentives that a private profit maximising firm might receive from market pricing signals and bottom line outcomes have can be replicated in public sector agencies, with suitable recognition of the importance of maximising public value and allowing for externalities. If this is done, the kinds of efficiencies within the road sector that are noted in the Issues Paper quote above should be readily achievable.

3. What are the key concerns you have with reforming road supplier funding and road supply related to this?

BIC's main concern in this regard is that the CRRP process will continue to ignore externalities and propose a road charging/funding/expenditure solution that fails to improve the effectiveness and efficiency of land transport resource allocation, because it has become lost in fine tuning what amounts to only a small part of the total picture.

4. Are there any major implementation issues likely to be associated with the pricing and funding reform options that have not been identified in this paper?

The wording of this request is ambiguous. We assume you mean unidentified implementation issues associated with options that have been identified, rather than implementation issues associated with unidentified pricing and funding reform options, which is a more direct reading of this question.

BIC strongly supports the CRRP research on possibly moving towards mass-distance-location charging in some form and recognises that a fair degree of approximation is acceptable in this process, given the relative insignificance of the costs involved within the totality of road use external costs. The MDL approach is potentially capable of being extended at some future time to encompass all vehicle types and all external costs, in a comprehensively reformed road pricing regime, which must be a long term objective. The approach proposed in the paper is a good start in this direction and the investigation should outline how such extension could be most effectively achieved over the medium term.

Concluding Comment

BIC's focus on the bigger picture, on getting land transport policy and planning directions optimised to tackle the major challenges that confront Australia's land transport systems, mirrors directions that are currently being pursued in Europe. The European Commission has just released (March 2011) a new Transport White paper, entitled *Roadmap to a single European Transport Area: Towards a competitive and resource efficient transport system*. That White paper proposes major reforms to pricing arrangements within the ambit of such an integrating framework. In relation to pricing and taxation, it proposes (inter alia)¹:

Phase 1 (up to 2016): Transport charges and taxes should be restructured. They should underpin transport's role in promoting European competitiveness, while the overall burden for the sector should reflect the total costs of transport in terms of infrastructure and external costs...

Phase 2 (2016 to 2026): Building on Phase 1, proceed to the full and mandatory internalisation of external costs...

Australia lacks such an integrating framework, which means that pricing reforms will inevitably focus on peripheral issues. The European approach recognises the importance of an integrated approach and of externality-based pricing within that integrated approach. Australia should rapidly move in this direction, our land transport systems requiring the same kinds of transformational changes that the EC is proposing. That will empower a more effective approach to tackling pricing/expenditure/funding questions, an approach that is based on the right contextual setting.

¹ European Commission (2011). Accompanying the White Paper – Roadmap to a single European Transport Area – Towards a competitive and resource efficient transport system, *Commission Staff Working Document* SEC(2011) 391 final, Brussels, 28.3.2011.