

**Submission
No 83**

INQUIRY INTO ROAD TOLLING

Name: Mr Peter Egan

Date received: 28 February 2017

GPSC2 Inquiry into road tolling Submissions due 28 Feb 2017

Terms of Reference B – rationale for extending these concession periods

For government – it is getting something built at no cost to it, and accepting the moral hazard of a likely large wealth transfer from workers in the economy to investors in Toll companies.

For toll operator – it is the opportunity to do work now and provide an income stream decades into the future that increase in relative value each year due to the escalation clause. The terms of the toll licence generally include a huge windfall gain implicit in the 1% per quarter-year toll inflator. In recent years, the RMS has standardised truck tolls at three times the car toll where it was not in the original contract – a windfall gain to the licensee???

Tolls now have a large weight component, but is there a weight reduction for bikes?

Axle weight and numbers are important factors in the design of pavement and structures. They particularly impact the depth, and thus the volume, of construction materials required.

Truck axles typically carry weight an order of magnitude ten times that of passenger cars – generally causing a construction depth three times that required for cars. However, this likely causes a pavement cost increase of 50% as the material used to give pavement depth is relatively cheap. Large trucks likely displace cars from road capacity by a factor of 5 to 1. Light trucks are likely subsidising the toll of large trucks.

Commercial companies appear to value future income and expenditure with a discount factor of about 10%.

Government should value its future income and expenditure using a discount factor equivalent to the historical average of its longest term bond rate since the floating of the Australian dollar.

Due to structural issues in the world economy, inflation is likely to remain below the midpoint of the Reserve Bank target of 2% to 3% per annum for decades.

Terms of Reference D – rationale for allowing higher than CPI increases on certain tolls.

Due to technological development, the cost, and thus the price, of vehicle capabilities has been falling. However, manufacturers offer more in their vehicles to maintain at least a constant price for vehicles. Toyota Corolla base models appear to have had average price increases of under 1% per annum for decades.

Internal combustion engines have increased in efficiency using less fuel. Fuel tax had a constant price per litre for many years. Total fuel price, at best, averages the CPI. Combined with more efficient use of fuel, fuel now forms a lower share of travel costs.

Hybrid vehicles have much improved fuel efficiency per km. Fully electric vehicles use energy very efficiently, use no liquid fuels tax by govt, and have much lower operating costs.

In real terms, the cost of owning and operating a vehicle is falling.

In real terms, the cost of transport infrastructure is falling, however, government has been building infrastructure with higher safety standards and lower environmental and urban impact - (underground tunnels).

In real terms, infrastructure and transport costs, likely form a lower share of household and business expenditure.

The toll operators, with a low initial toll, and a much higher toll in decades to come, are displacing infrastructure, vehicle and fuel costs in the total cost of transport.

Effectively, government is giving away licences to private businesses to tax people and companies for the use of critical economic and social infrastructure – to the dis-benefit of the community.

Governments tax on behalf of the community, for the overall benefit of the community. Private taxes have the purpose of wealth transfer to the generally better off in the community and are economically destructive.

Terms of Reference F – A role for IPART in determining tolls.

IPART regulates the price of services delivered via monopoly, or near monopoly infrastructure. The services may be government or private. The infrastructure, where not owned, has extremely long lease terms. This infrastructure, e.g., water and electricity pipes and cables, is generally not a primary user of land. An exception is the railways.

Surface motorways (and main roads) are a dominant use of large tracts of land. Motorway and railway tunnels rely on a right of way under public and private land uses at surface level.

Our means of transport change over time resulting in large social and economic impact. As an example, automated electric VTOL (vertical take-off and landing) vehicles, currently being demonstrated in a number of countries, could well become the cross metropolitan transport of the future. For this and other reasons, governments in Australia have decided tolling licences must be term limited.

Being term limited, the contract needs to set the tolls for the whole of the term so the toll licensee knows the quantity and thus present value the revenue to be received. In this environment, it is not appropriate for IPART to regulate tolls. However, government should consult IPART on tolling strategies.

As with public transport fares, road tolls should be set by government so economic, environmental and social objectives can be taken into account. For best economic outcome, transport should be a loss leader for the rest of the economy.

Community members find it much more palatable to pay a high user charge that helps pay for a community asset, than to pay a high user charge that is effectively transferring wealth to shareholders.

For the above reasons, fixing tolls for 10, 20, 30, 40, 50, 60 years is not appropriate.

The private sector's requirement for a much higher return on investment, combined with the above, make private tolls an expensive, inappropriate means of financing motorways.

In the end, the community funds public infrastructure via taxes and user charges.

Government should be a public infrastructure planner and financier on behalf of the community. In the end, the government funds nothing – it gets money via taxes and user charges.

The contract type used for the Sydney Metro and Sydney Light Rail – design, build and operate for a period of 15 years is appropriate for motorways. The contracts include a payments schedule that, hopefully, reflects construction and operation expenditures as the cost of finance to government is considerably below that for the private sector.

The NSW government collects public transport revenue via the Opal card contract. The government should collect road tolls via a similar contract with a similar consortium of technology provider and bank.

Terms of Reference G – Assuring fair tolls

Consumers generally regard the CPI as the maximum rate, a charge levied for the longer term, should change by.

Where higher rates apply for future tolls, the strategy was to lure customers in at the lower rate, and keep them by the incremental nature of toll rises hiding their impact – morally objectionable.

Tolling for distance travelled, rather than for passing particular points on a toll road, is a much better driver of rational use of economically and environmentally expensive infrastructure.

The value of a transport network lies in its value to the economy served. No transport networks, no economy.

The value of transport networks is greater than the sum of the parts. As the quantity and quality of transport services improve, the more sophisticated the services an economy can provide. Thus the greater the value of the economy and the services.

A motorway network on its own is of little economic value. But, given the presence of other transport modes, it can be a great economic enabler.

Always, the value of any transport network is greater than the sum of its parts. The value of WestConnex can be said to be its pro-rata share of total lane kilometres of the whole Sydney motorway network. Building WestConnex makes other parts of the network more valuable.

Because of the collective nature of value, it is extremely inefficient to apportion value to any particular element of the network.

Thus its extremely inefficient to licence private companies to collect tolls from parts of the network. Some elements (bridges and tunnels) are very expensive to build, but add no more value than a surface road through a 'green field' area.

All road of the same type (e.g., motorway), in a particular area, should have the same per km toll. However, electronic tolling allows government to tailor toll charges to individual users according to criteria determined by it.

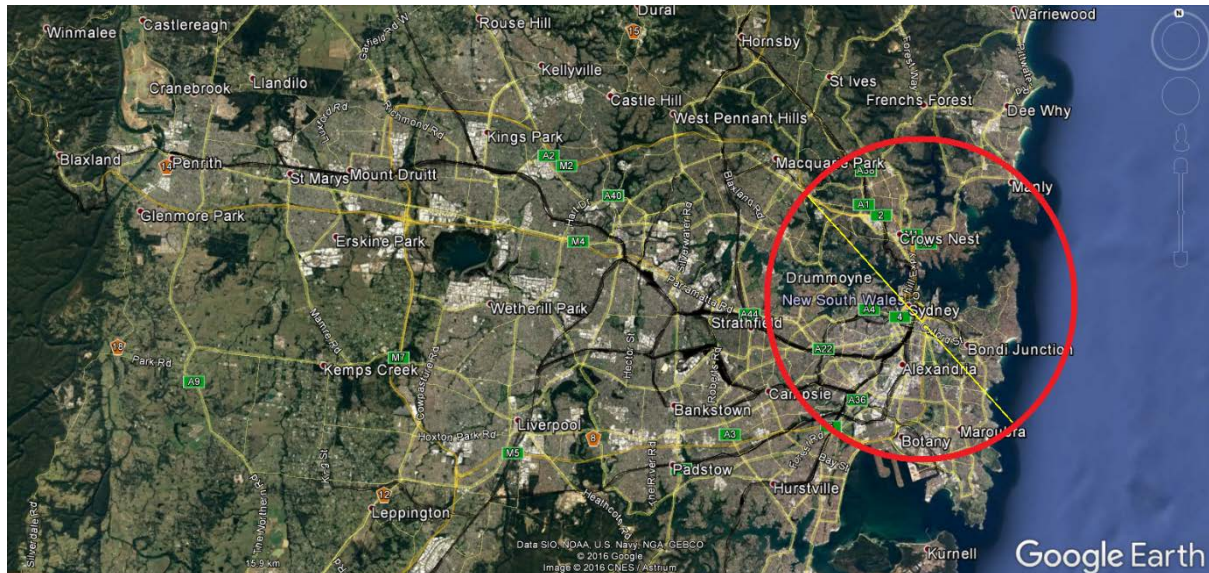
Our government has decided road tolling should only be applied to Sydney metropolitan roads, not roads outside Sydney.

Private operators retaining toll revenue needs to be ended in NSW for economic efficiency and effectiveness. The toll licence should be bought back, or an equivalent shadow toll paid.

As the private companies value future revenue using a discount rate of close to 10%, while the long-term government bond rate is less than 5%, it is in the community interest to buy the licence back.

Allowing the private toll operators to convert from toll charge points to per kilometre charging can only result in a windfall gain for the private licensees. Now is the time for government to end all private toll licenses and institute its own per kilometre charge.

Due to more intensive land use and geography, tolled roads near the Sydney CBD contain a lot of expensive bridges and tunnels. Demand to travel to this area is high. Travellers to the area are generally better paid. There is thus a strong case that motorway type roads within 10 km of the Sydney GPO be tolled at twice the per kilometre rate than other similar roads in the metropolitan area. See image below.



**Proposed double toll zone within 10 km of the Sydney GPO. Land area within the circle
~250 square kilometres**