Submission
No 36

INQUIRY INTO ROAD TOLLING REGIMES

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Inquiry into road tolling regimes - Submissions closing 23 May 2021

This submission may be published by the parliament.

TERMS OF REFERENCE j) consideration of the impact of direct or debt financing of road projects, including what would have been the impact on regional road projects of the direct financing of WestConnex.

As noted in the next section, government retention of road toll income streams increases over-all government revenue thereby allowing the government to fund more things despite a larger overall debt. The finance market presently values an income stream to the government at four times the value it places on the income stream when received by Transurban.

Economic and social impact

This is relevant to TERMS OF REFERENCE:
i) the long term impact on government finances as a result of toll roads being wholly or partly operated by non-government entities,
k) any other related matter.

Governments provide many services to people and economic entities. Transport infrastructure support transport services. For roads, the service is a self-service. In particular, roads support land use – which is virtually all our economic and social activity. When we walk for the land we have paid to occupy onto a street, we are accessing a government transport service. Transport services enable all other government services. Transport is the only service the government provides to all the community on a daily basis. As the enabler of all other services, transport is the key government service.

Some examples of the access to goods, services and jobs transport (in the broad sense) has enabled, and their timeframes are:
--- instantaneous (water, electricity, data – the utilities)
--- to five to ten minutes (cafes, money card machines, take-away food shops, hair cutting, doctors, dentists) thus local centres,
--- 10 to 20 minutes (restaurants, furniture, white goods, medical specialists, etc, etc) thus regional centres
--- 10 to 20 minutes (vehicle services like fuel and repairs) – fuel along main roads, service in industrial suburbs
--- 5 to 80 minutes – jobs of diminishing scarcity, business supplying people to perform services
--- 1 day to 2 months – online shopping (metro vehicle delivery and worldwide air service delivery) and vehicle shopping (delivery by ship)

The thirty minute city concept of the NSW government, on which its ignored Transport 2056 plan is meant to address, is crippling to the economy.

The price of road services, whether collected by fuel taxes or tolls, or other means, is something the government needs capacity to vary, at least on a yearly basis, is a key economic leaver. Selling income streams for 40 years to bind future governments to policies of the moment is the definition of corrupt government.

At the time of the WHT EIS release for comment in 2020, the state government was studying, with an intent to sell, the future toll income of:
--- the Western Harbour Tunnel,
--- the M1 from Lane Cove to Eastern Distributor, and
--- the Sydney Harbour bridge,
to reduce its debt.

The level of toll, and even whether it goes to government or a private company, impacts demand for tolled road travel and displacement of traffic to non-tolled roads. People who object to, even hate, the government's sale of tolls (taxes) minimise their use of roads with private tolls.

While demand is inelastic to tolls in the short term, they have a large impact on travel patterns in the longer term. Some workers spend $8,000 per year on tolls to and from work, prompting the registration cashback. The raising of the Harbour Bridge toll from $0.20 to $1.00 in 1987 saw an end to cross-harbour traffic growth until the Sydney Harbour Tunnel opened in 1992 (Section 4).

Road pricing includes fuel tax which is only levied on fuel used by roadgoing vehicles.

Electric vehicles are not subject to current fuel taxes. These, and more efficient internal combustion vehicles, have led to a relative decline in fuel taxes and a relative decline in total specific transport taxes. The likely government response is 'per kilometre' pricing.

There has been a shift in tolling from a toll for passing a point on the road network, towards tolling distance travelled. The present toll system is a mix of these pricing methods. Every change in tolling base has resulted in winfall gains to private toll operators. This includes imposition of the 'triple toll' for heavy vehicles (vehicles over 4.5 tonnes).

Tolls also increase at 1% every 3 months – there are thus 159 increases in tolls over 40 years. The final toll will be 4.8652 times the initial toll.

Consumer prices will rise over that time assuming CPI increases of:
--- 1% p.a., 1.49 times
--- 2% p.a., 2.21 times
--- 2.25 p.a., 2.435 times x2 = 4.870 times
--- 3% p.a., 3.26 times
--- 4% p.a., 4.8010 times

There is a high likelihood tolls will increase at twice the consumer price index over the next 40 years while other transport costs are likely to fall due to electrification and vehicle systems consolidation (electrical, power and heat management systems) in a similar manner to consolidation of many functions into phones that led to smart phones.

Current tolls are regarded as high resulting in government giving cash back to individuals needing to drive long distances. The 'cash back' applies to public and private tolls.

These 'cash backs' demonstrate tolling can be varied for social or economic reasons. This further demonstrates the tax nature of road tolls.

The more compact nature of EVs will see much greater variety of local travel two-, three- and four-wheel vehicles which will change parking requirements – particularly increasing them in apartment buildings, and changing the mix of spaces in retail centres.

The present system of selling 40 years of toll income streams (taxes) for short lengths of road, for a lump sum, freezes for 40 years a major road demand and environmental management tool.

The sale (loss) of reliable taxes (government income streams) must increase the investment risk for investment in government bonds as the cost of finance to the private sector is far higher than to government.

The tax power of government ensures governments carry less financial risk than businesses operating in the business environment enabled by the government.

Based on the cost of finance, future revenues are worth far more to government than the private sector. The sale of a tax (government income stream) makes a government less credit worthy and warrants a government credit rating downgrade and consequent lower prices received for government bonds.

The financial size of a business or government is not material to investment ratings unless they are of a size to cause systemic risk to worldwide investors.

The sale of taxes (toll income stream) for 40 years commits future government to compensate owners of the income streams for any action by government detrimental to the income stream. While any government action that results in an increase in income goes to the companies as a winfall gain. Australia's largest private toll collector, Transurban, has received many winfall gains as motorway network extensions have increased traffic on existing sections of motorway.

The system of winfall gain at the expense of NSW residents should be regarded as another revenue leakage warranting a downgrade in the risk rating of government bonds.

Government bonds are an efficient means of investing in the state economy of which the community transport network is a prime enabler. Government collection of the reliable toll income, more reliable than property taxes, lowers the risk for bond investors.

Current debt impacts interest paid, but is not a guide to future debt or capacity to pay interest. There is a misallocation of risk by the private rating agencies which favours private collection of taxes in the form of tolls.

Transurban's cost of capital and debt is roughly 3% higher than that of government bonds. With government bond rates at 1%, Transurban's costs are 4% - four times higher. This means the market values toll income streams received by government at four times the value when the same streams are received by Transurban.

If government bonds were to rise to 3% effective interest, the market would value Transurban based on a 6% cost of capital and debt - effectively valuing an income stream in government hands at only twice that when received by Transurban.

Another example of this difference in valuation, Telstra is to receive $3bn/yr for 30 years from NBN - $90 bn. Telstra valued this income stream at just $11 bn on the basis it discounts the future income of just this transaction at around 20% (??) per year. However, the market valued the income stream at about $40 bn and Telstra wanted to sell it for an immediate $30 bn gain – for effectively doing nothing. The Commonwealth refused to permit the sale of the revenue stream as it would expose just how much money it really gave Telstra for handing over customers who would have deserted it for the NBN as Telstra would not invest in a network upgrade.

The government has sold toll streams for short lengths of motorway. Transurban has bought up the short lengths to reduce risk related to each small part, and benefit from the winfall gain as new sections of motorway are added to the motorway network – each new section makes the whole more valuable. Also, each increase in the general ('free') road network makes the motorway network more valuable as it brings it more customers. The road network supports land use permitted by government. Government can increase traffic volumes on a section of motorway where demand is less than expected by permitting more development.

In this year's Federal Budget, the government will spend $87.5 million upgrading an M5 intersection at Moorebank to improve the utility of the Motorway – direct Federal and State government support to direct more income to Transurban. The truck toll for a round trip on the M5 from Moorebank to Port Botany is $71. Truck drivers consider the number of trips they can do in a day and the income and costs of it. Doing one less trip and paying tolls of $71 per trip is not economic – thus many trucks avoid the tolls, clogging local roads in southern Sydney.

Issues raised in the media recently

The government refunds $120m per year to drivers of private use registered vehicles using Transurban's M5 toll road (Sydney's M5 takes heavy toll on public, April 6, 2021, SMH). Over the remaining 40 years of the concession with quarterly 1% toll rises, this adds to $12b - 100 times this year's figure. The Transurban enterprise value (market capitalization plus debt) due to all its motorway concessions in NSW, QLD, VIC and the US is just 4.8 times this refund ($57b) - emphasizing the poor value to the community of private toll concessions. Transurban gets windfall gains every time a new section of motorway is built. We cannot even rationalize the tolls without ensuring Transurban gains a benefit. This insanity had to stop.

The Sydney Harbour Tunnel toll is due to end August 2022 (SMH.com.au, Uncertainty over end to tolls on Sydney Harbour Tunnel next year, January 4, 2021, SMH). The NSW Labor spokesman has good reason to suggest the government will tie future tolls to some complex financial deal with the Western Harbour Tunnel and Beaches Link. Motorists and taxpayers fund all our roads. Sydney pays more in motorway tolls than any other city in the world due to poor toll structure and expensive private finance. All public infrastructure, including motorways, should be financed by the normal sale of government bonds to the private sector, and from government operating surpluses, not by selling other income streams like road tolls which worsen the government's credit rating. The community discussion should be about a rational system of road toll payments collected by the government, not how we can further enrich the wealthy through complex deals.

NSW is not immune from revolution (Roads Minister warns against driving a hard bargain on tolls, March 27,2021, SMH). As former auditor-general Tony Harris says, the ability to have policy has been sold off. Transurban's value is heavily reliant on its social licence. The cashflow positive way out is for NSW to find an investment partner and buy-out the current shareholders with NSW taking its motorway contracts. If Queensland and Victoria joined in, the investor partner would be left with the US motorways - principally roads surrounding Washington DC. The private toll model has not spread far as its objectives are not aligned to community interests.

Transurban's Sydney toll revenue is up 8% (Toll road profit rises despite COVID, traffic back to normal, February 12, 2021, SMH). Sydney revenue per trip is 20% higher than for Transurban's other customers. We pay over $1.2 billion a year to Transurban. In comparison, public transport trips and fare revenue fell heavily due to COVID. If the government collected the tolls, the extra road revenue would go towards the public transport shortfall. The COVID burden is not being shared. Cheap transport has been a major factor in social mobility as it has allowed people to access jobs across the metropolitan area. Motorway network pricing is turning it into an exclusive mode for the well-off. Transport equity is being hit hard.

There are surely Sydneysiders paying more in road tolls than income tax (Where it hurts: tolls drive wedge though city, October 19, 2020, SMH). High private tolls are trickle-up economics. The toll distribution is quite striking - the better public transport services are, particularly rail services, the lower the average toll paid. The data is a great example that a radial rail structure helps a very small proportion of the metropolitan area - well-off Sydney City residents pay the least tolls. The state government's metropolitan plan foresees decades of heavy expenditure on radial railways to achieve the same effect for Parramatta. Our first transport priority should be a basic commuter rail grid for the metropolitan area that allows people to commute east-west and north-south.

An 80% increase in traffic on alternate roads to the M5 East and M8 is a foreseeable event (Vehicles flood city's south to avoid new toll, January 28, SMH). We should also expect greater avoidance of private tolls, relative to government tolls, as the perceived toxicity of the private toll companies grows in the minds of the community. Better navigation apps will allow greater toll avoidance. We, and the private toll companies, should expect community patience to run out on these ever more expensive tolls which contractually rise faster than inflation. A 'force majeure' declaration is entirely foreseeable in the light of the large social, environmental and transport equity impacts.

The state government has just switched on its $600million technology upgrade to the M4 motorway and plans to upgrade the entire motorway network with similar technology in coming years (WestConnex sale split in half, November 24, 2020, SMH). The technology improves both service and capacity. Thus, the private companies tolling our motorways will get winfall gains from what will surely be billions of state government expenditure. There has been a long pattern of private windfall gains as each addition is made to the network. Private tolls are high risk for corruption due to the many factors influencing revenue. We need an inquiry.

The government certainly has toll mania (Glad's slip takes a toll, 2/7/2020, DT). It is giving away $540 in rego tax for spending over $1300 a year in tolls which might all be paid to a private company. For an increasing number of people, tolls are by far their biggest transport expense. Worse, you can really only travel east-west on a train in Western Sydney without a gigantic detour. Worse again, we are really only building motorways this century when most developed countries built them toll free in the last century. Government finances would be better off if the tolls were halved, but never privatised.

Methods to transfer of road tolls back to government

1. The NSW government could buy Transurban with a partner with the partner getting all the non-NSW part of the business to regain control of the NSW motorway network.

2. The government could follow the more gradual approach:

2.1. Create a government-owned Tolls Collection company whose purpose is purchase, placement and maintenance of NSW road tolling infrastructure, and receipt and distribution of road tolls.

2.2. Government agrees payments to private toll owners based on projected future toll collection under current agreements and current road network, and the savings to motorway operators in the cost of toll collection. Major point of consideration are:

a) the unsustainability of 1% per quarter year private toll increases in a low inflation environment,
b) vehicle electrification which will require change to per-km road use charges,
c) vehicle automation will permit route selection to minimise tolls based on live traffic monitoring,
d) the increased share of transport costs private motorway tolls will represent - which has the effect of diverting traffic to the arterial road network, causing its congestion, while motorways are under used.
e) a suitable a dispute resolution procedure.

2.3. Government redesigns motorway tolls - suggest per kilometre charges only. Eliminate present charges for passing toll points. Adjust tolls for vehicle weight classes and zone of metropolitan area in which toll collected. Based on high concentration of tunnels and bridges within the area, toll zones should be:

a) within 10 km radius of the Sydney GPO tower, and
b) outside 10 km from the GPO tower.

2.4. Toll Collection company's surplus, after paying private toll operators and its own costs, be transferred to government to assist fund transport infrastructure and services.

2.5. Government retain toll collection indefinitely as:

a) it is a tax,
b) the government's lower cost of capital. Bond rates are about 3% below large operator Transurban's cost of debt and equity. Bond costs in the form of interest are presently around 25% of private debt and equity costs.

2.6. If another period of high inflation arises, the value of the toll income to the private sector will fall significantly. The government could then by Transurban and the other NSW tollroad businesses at a fraction of current valuations.

2.7. To depress the value of the tollroad operators the government can undertake a hostile media campaign pointing out the economic and social damage of the long-term freezing of an economic tool and pointing out the winfall gains made by the toll companies. It could also point to the very few private tollroads around the world as other government understand the damage done by the sale of the income streams.