HARPER REVIEW: ROAD PRICING - ARE WE AT A TURNING POINT?

INTRODUCTION

Several recent reports issued in Australia have highlighted the critical economic impact of road congestion in our major cities.

One such report, the Final Harper Competition Policy Review Report (Harper Review) released on 31 March 2015 makes a number of recommendations about road pricing. The recommendations echo recent calls for reform to enable capacity growth in the right places on the right roads and for user demand to drive infrastructure programs. This alert reviews some of the current thinking on road pricing and looks at the way forward.

HARPER RECOMMENDATION - ROAD TRANSPORT

The Harper Review found that roads are the *'least reformed of all infrastructure sectors'*, with institutional arrangements around funding and provision remaining much the same as they were 20 years ago.

The Harper Review recommends that:

- cost reflective direct road pricing should be introduced with a progressive and concurrent reduction in indirect charges and taxes on road users so that charging is revenue neutral;
- new technologies be implemented to aid introduction;
- pricing should be subject to independent oversight;
- revenues should be hypothecated to road transport investment - that is, used to fund construction, maintenance and road safety;
- all governments should approach road pricing on a cross jurisdictional basis; and
- revenue implications for different government levels should be managed by adjustment of Australian government grants.

These recommendations attempt to put the road sector back on a similar footing to other infrastructure sectors. A key rationale for these recommendations is that cost reflective pricing should lead to better road investment decisions, which will benefit both the community and road users.

THE STRUCTURAL PROBLEM

Whilst structural separation and privatisation has been pursued to varying degrees in the electricity, retailing, gas, port and rail sectors, the Harper Review concludes that the pace of road reform has been slow.

The Review finds that the road transport industry operates in a *'diffuse regulatory and funding framework'*.

Road users are subject to a range of revenue raising taxes (fuel excise, registration and licence fees and stamp duties). There are a number of challenges raised by this form of revenue:

- the revenue raised is not directly linked to expenditure by governments on roads;
- the indirect nature of these taxes means that there are very few price signals about road network use which might assist in deciding where extra capacity is required or indeed, the cost to the road network of any individual vehicle, whether a heavy or passenger vehicle;
- fuel excise is falling, partly as a result of improvement in the fuel efficiencies of newer passenger cars. This has the effect that those who drive older cars generally pay more excise on a per kilometre basis;
- if 'road is a mode' then it needs to be able to compete in an undistorted way against the other key competing transport modes - rail freight and public transport; and

- lack of road pricing may even exacerbate congestion because users are given no disincentive to use roads outside off peak periods.

At the same time, the gap between revenue raised and the amount spent by governments and the private sector on roads is growing ($6 billion in 2012-2013 and increasing annually). About half of this expenditure relates to maintenance, a cost which will only increase as new road infrastructure is built. There is a further gap, namely between the amount which is in fact spent on roads, and the amount which should or needs to be spent improving road infrastructure.

Bodies as diverse as the Business Council of Australia, Transurban, AAA, Infrastructure Partnerships Australia and Action for Public Transport (NSW) have stated that road pricing reform should be prioritised.

WHAT IS ROAD PRICING?

Road pricing provides a direct link between the entity delivering road infrastructure and from where the funding derives. It seeks to both manage demand and raise revenue and operates on a 'user-pays' model which may take a number of forms, including:

- fixed fee charging to enter a defined urban zone (often called congestion charging) or corridor charging;
- Lane specific charging (where a charge for a single occupancy vehicle is more than for a high occupancy vehicle);
- an 'environment' charge based on engine and fuel type;
- an annual charge for access to the road network;
- road wear charging; or
- variable trip charging (on the network or specific corridors or zones) on a fixed, per kilometre or time of day basis.

Transitional arrangements have been modelled allowing for progressive 'opt-in' by road users.

Several different road pricing models are being trialled in a number of jurisdictions overseas, including in Singapore and Oregon in the US. Congestion charging has been in place in London and Stockholm since 2003 and 2007 respectively.

Transurban (concessional operator of CityLink) has recently announced it will trial some user-pays models in Melbourne during 2015 in order to gather data, and evaluate simple and practical alternative pricing systems.

THE WAY FORWARD

The Harper Review identifies some key steps for implementation:

- a process be commenced to enable an informed consultation and to identify the benefits to the community;
- establishment of separate road funds to increase road funding transparency. Current sources of revenue such as fuel taxes should be directed to those funds and then progressively reduced as other funding sources are created; and
- a COAG working group comprising treasury and transport officials be established within 12 months to commence the development of trials.

Road pricing reform may create great opportunities. For example, the Harper Review emphasised that we can now use new technologies can enable road usage to be priced and charged on a real time dynamic basis. Tolling technologies and systems using GPS or cellular systems can track car movements and be used for direct charging.

There is now an opportunity for one or more States to take a leadership role by undertaking pilots to test both the technology and the underlying hypothesis of the Harper Review. Any implementation will also be subject to some oversight and guidance by any policy body created as a result of the Harper Review (such as the Australian Council for Competition Policy proposed by the Review).

There are many challenges however:

- care needs to be taken to ensure that public transport capacity can bear any consequential impact of road pricing reform;
- any reform must have regard to the diversity of the road network across Australia - from inner urban road networks which are in many cases subject to private concessions (in some cases more than one) to remote regional roadways controlled by local councils which are subject to heavy freight to the broad expanse of metropolitan and country roads and highways managed by state road authorities. Any reform will need to fairly balance the commercial, policy and other interests of these entities and take account of market realities.
- reform of the State based road authorities is likely to be required in a number of respects:
  - the Harper Review has suggested such reform will involve restructure of operations on the lines of other infrastructure network providers;
  - light vehicle registration will need to be harmonised and run on national basis;

- the various pieces of State based legislation applicable to roads (relating to road liability, registration and licensing, road and road reserve asset management, road safety and traffic management) needs to be simplified and harmonised to take account of the change to road pricing and in order to reflect the reality of a national road network. Significant work may be required here so that the legislative environment applicable to the various road regimes is 'reform ready'.

- more work needs to be done to ensure that road maintenance is delivered in a properly incentivised way so that outputs can be accurately measured and better cost efficiency is created. This will involve, in part, creating more innovative delivery models.

MORE INFORMATION

If you would like to understand further potential implications of the Harper Review on road pricing, please contact:

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(Sources: Harper Review, Productivity Commission Report into Public Infrastructure 2014, Transurban Road Pricing in Australia (25 March 2015) and IPA \ Deloitte Road Pricing and Transport Infrastructure Funding Discussion Paper (25 March 2014)).