



## ROAD GOVERNANCE

### BACKGROUND

#### Goal

Achieve better value for public expenditure and greater certainty for private investment by setting directions for a national freight network.

#### Problem identification

Productivity may be compromised by sub-optimality or lack of flexibility of transport (and storage) in national logistics chains.

A particular issue raised in relation to roads is whether “governance” arrangements impede optimality or flexibility via fragmentation of asset management and lack of responsiveness to market needs. That is: does the situation of many government road owners impede the operation and development of roads as a network?

#### Problem assessment

At present “governance” arrangements see planning, financial and asset management responsibilities for roads shared among the three tiers of government. Allocation of responsibilities for a particular road segment depends on the classification of that road segment.

There are two basic types of roads:

- arterial roads which are used for movement among regions. Generally these are owned by the States; and
- local roads which are primarily used for access to properties. Generally these are owned by local government.

Funds to maintain / change the road network do not directly come from user charges. Rather funds come from governments. Much funding comes from a level of government above that of the road owner – for example via State grants to local government. The Commonwealth plays a substantial role in providing funds to State and local governments including for their roads.

Road design is relevant to freight use. This is because design parameters such as bridge strength impact most on heavy freight vehicles via eg. weight and vehicle length restrictions. Thus network configuration issues (other than lanes capacity in terms of vehicle numbers) are largely related to freight.

Notwithstanding the road classification typology, some local roads are important for freight tasks, and for nationally significant freight tasks. Included in these roads are segments in adjoining local government areas that together (could) form a freight route.

Given the large number of local governments (565), and the current structure of funding, there is potential for freight to be unduly restricted on some local roads, unless there is strong cooperation regarding design and maintenance across segments.

The current Tax Review is considering some issues regarding road pricing. Among the options is replacement of some current road related taxes with use related charges remitted – “hypothecated” - to road owners eg. via mass-distance-location charges.

Infrastructure Australia’s July 2009 papers on *Transport Infrastructure Market and Road charges, taxes and pricing* indicated that “hypothecation” is not a sufficient mechanism to ensure that the road network responds to users’ needs. Nor does hypothecation guarantee efficient delivery of roads to the community.

Consequently any approach of road charge hypothecation would need to be supplemented by other mechanisms to create effective road pricing in which the network responds to commercial demand. These other mechanisms would need to address the potential for network fragmentation, incentives for efficient management of assets, and the ability of users to provide direction as to the incremental shape of the network. These issues relate to road governance and, while complementary to road pricing, they could be usefully addressed even if a particular form road pricing was not introduced. They also could be introduced in advance of road pricing.

#### Problem analysis

The Office of Infrastructure Coordinator engaged Allen Consulting to examine the role of local government in the road transport system, and to identify practical solutions for improving existing road governance arrangements.

Allen Consulting found the main issues to be:

- Restrictions on freight access to local roads;
- Some roads are not constructed to standards needed by users;
- Lack of integration for roads where segments are owned by different governments;
- Asset management; and
- A possible national “maintenance deficit” in terms of local roads not meeting design standards.

Factors contributing to these issues were seen to be:

- A governance structure (ownership, control and regulation of use) not well aligned with services that are being delivered;
- Local governments lacking incentives to provide access to freight vehicles (and a focus on asset preservation resulting in infrastructure lagging behind fleet technology);
- Funding for local roads possibly not of the quantum or structure required;
- Lack of information upon which to plan networks; and
- Inadequacies in the arrangements between levels of government, for example in relation to asset management oversight.

### Option Generation

Options examined to address this issue included changes to:

- Government structures;
- The treatment of parts of the road freight network; and
- Financing (and associated conditions imposed on funding) for roads.

### Solution Assessment

Allen Consulting did not recommend wholesale change to current government structures, such as merger of local government authorities. Nor did it recommend change to the subsidiarity principle of the Australian federation.

Allen Consulting did indicate its support of the current Council of Australian Governments agenda for road pricing. It recommended measures which would complement this agenda:

- Creation of a new class of roads – local freight roads - to complement (and be included in) the existing National Land Transport Network;
- Enhanced collaboration between State and local governments including on identification of freight roads, regional road group meetings, flexibility to reallocate funding between roads, sharing of resources between local governments;
- National arrangements for asset management planning including a requirement for formal road management plans down to the local government level, and statutory protections against claims of negligence /non-feasance if there is compliance with asset management performance standards for maintenance;
- The national arrangements for asset management planning would extend to a nationally consistent framework for local government asset and financial management. This is an initiative of the Local Government and Planning Ministers' Council and is being supported by a \$25m Local Government Reform Fund announced by the Prime Minister in late June 2009;
- National arrangements for local governments to conduct asset assessments including that a portion of Commonwealth grants to local governments be restructured to allocate a pool of grants for road asset assessments and maintenance;
- Introduction of a formal and transparent structure to include the views of the private sector (users) in consideration by governments of road network planning, upgrades, maintenance and network design; and
- A Council of Australian Governments National Land Transport Agreement to establish objectives, outcomes, outputs and performance indicators to guide governments in service delivery to the road sector.

Infrastructure Australia agrees with these directions. It would add some further points that were outside the scope of the Allen Consulting brief.

Local freight roads may include roads in some urban areas, which currently are controlled by local governments but for which funding to improve infrastructure configuration may not be the issue it is in rural area. This urban dimension may be of especial interest in the context of "last mile" or "higher productivity" vehicle permissions including to freight nodes such as industrial warehousing, rail terminals

and ports. Infrastructure Australia intends to explore this matter in the contexts of the National Ports Strategy and National Freight Network.

Related to this is the process through which road responsibilities are currently assigned among governments. Allen Consulting does indicate some variation of the criteria (and the transparency of criteria) across Australia, and this matter may need some attention in decisions on road governance.

Arrangements for the oversight of asset management plans, and processes for the coordination of asset management plans across segments for a single freight road may require further development. Infrastructure Australia intends to examine this more closely in its further work on a National Freight Network, and in principle any coordination arrangements would be “light touch” in line with Council of Australian Government directions.

The question regarding adequacy of (certain) road maintenance calls up issues about asset management such as identification of asset condition, timing and sequencing of maintenance interventions, and service performance outcomes suitable for expected future traffic.

Expected future traffic levels and patterns brings into play road pricing and forecasts as discussed in Infrastructure Australia’s paper on *Road charges, taxes and pricing and Treasury Tax review*. Industry views would be critical in this context.

Infrastructure Australia intends to work further on options for formalisation of arrangements for private sector input into freight road development. This may include consideration of aspects of access regime type arrangements for network design for some (limited) roads and the relation of this with road pricing. It may also include consideration of a system for bidding for a pool of funds earmarked for freight purposes subject to the meeting of certain performance standards. Some linkage with national PPP arrangements may be possible and desirable.

The asset assessments echoes suggestions (previously made) that some Commonwealth funding might be made available for project feasibility studies. These suggestions arose in the context of projects that may have a significant national effect or purpose, but where studies are (genuinely) unable to be financed by States or by large businesses / associations.

The natural administrative umbrella for such changes would be in a National Land Transport Agreement as suggested by Allen Consulting. However, the content of such an Agreement might need to be (able to be) widened to deal with the above additional matters and conclusions of the Council on a National Freight Network.

Consequently, while there is considerable merit in now flagging the concept of such an Agreement – along the lines of other national partnership agreements – the Council should consider whether it wishes to assist governments by more fully fleshing out the content of such an agreement with some discussion being generated from the National Ports and National Freight Networks strategies.

*Written by Mr John Austen, Infrastructure Australia*