AUSTRALASIAN RAILWAY ASSOCIATION

Association Number A03958 | ABN 64 217 302 489

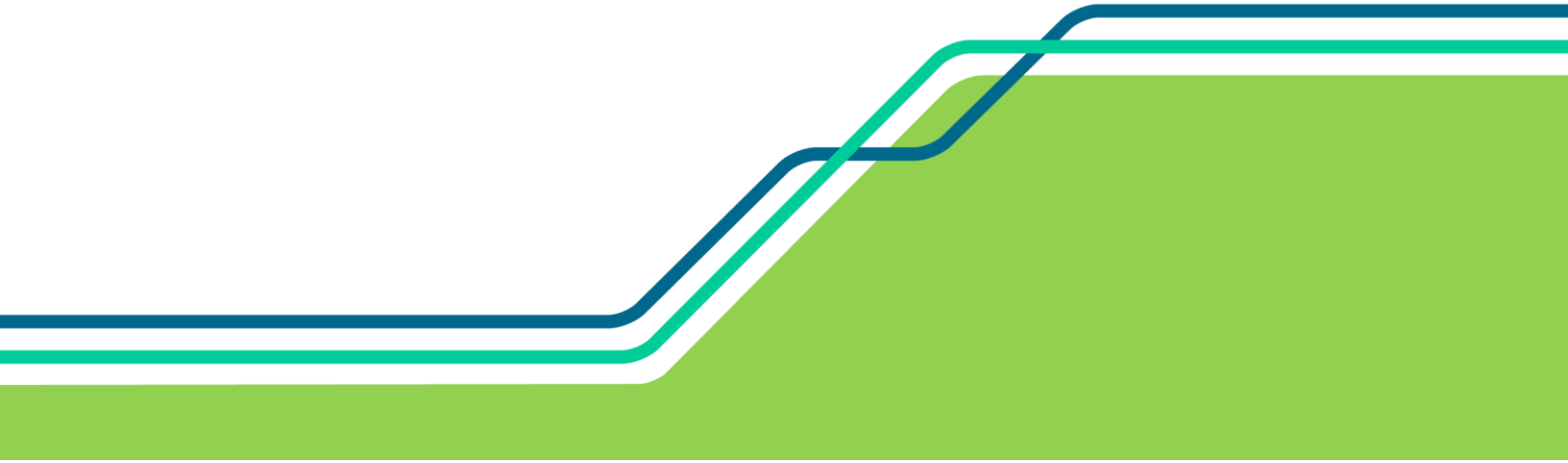
AUSTRALASIAN RAILWAY ASSOCIATION SUBMISSION

To

The Treasury

On

2019/20 Pre Budget Submission



The ARA

The Australasian Railway Association (ARA) is the peak body for the rail sector in Australia and New Zealand. Our 146 members include passenger and freight rail operators, track owners and managers, suppliers, manufacturers, maintainers, contractors, construction companies and consultants contributing to the rail sector. Our members are made up of publicly listed and private companies, government agencies and franchisees.

Rail in 2019

Rail transport is experiencing significant growth nationally, predominantly due to state and Territory government initiatives but also due to increasing Commonwealth spending since 2009, with the exception of 2014-2017.

ARA has estimated there is over $100 billion committed to rail over the next 10-15 years. Indeed, we are living through a true 'renaissance' of rail, with projects such as Brisbane's Cross River Rail, Inland Rail, Sydney and Melbourne Metros, level crossing replacement, Metronet, rail extensions in South Australia, growth in the Pilbara and light rail projects in many capital cities.

However the Australian Government must play a more significant role in funding and promoting passenger and freight rail infrastructure throughout Australia. Nation building infrastructure investment needs a climate of policy certainty, favourable regulatory arrangements, evidence-based decision making, and sustained funding envelopes. There must also be a desire to maximise local employment opportunities that may flow from rolling stock and related equipment manufacture in Australia.

Australia's population has grown by 25% since 2000. The current growth rate of 1.5% per year places Australia amongst the highest in the OECD. Australia will have 30.5 million people by 2031,[1] but this growth won't be evenly spread. The majority will be in major cities, with both Sydney and Melbourne expected to grow by around 3 million each by 2060. The population density of these cities will increase because natural boundaries, personal preferences, and commuting constraints will mitigate against growth of the physical footprint.

[1] ***Australian Infrastructure Audit***, *Executive Summary, Infrastructure Australia, 2015, p5*

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Cities are increasingly investing in integrated transport systems that link high-capacity metro systems with light rail, regional rail and other transport modes to encourage active and engaged community based lifestyles. Rail provides the backbone of public transport systems. Continued improvements through technology, infrastructure investment, research and development and expansion will increase the service and capacity offering while positioning rail as a viable alternative to the car.

Similarly, Australia's growing population requires an increased allocation of goods, adding pressure on our freight networks to deliver. According to the National Transport Commission, the domestic freight task increased 50% in the 10 years to 2016 and is forecast to grow another 26% by 2026. Container movements through Australia's ports are projected to grow by 165% between by 2031, while non-containerised trade is projected to grow by 138 per cent over the same period. The road and rail freight task is projected to increase by 86 per cent from around 458 billion tonne km in 2011 to 852 billion tonne km in 2031.

Rail freight provides a cost-effective, safe and environmentally sound solution for reducing congestion from heavy vehicles on urban, regional and interstate roads. Rail freight, as part of a supply chain will need to play a greater role in the future to meet Australia's freight task and to maintain our international competitiveness.

Due to these broad-reaching benefits, improved rail services, both passenger and freight benefit the whole of Australia and for this reason, the ARA urges the Australian Government to increase its support for rail by investing into freight and urban rail.

ARA has presented to Government a number of significantly researched submissions which require policy support, budget allocations and determined action for implementation.

Each of these submissions reflect the growing importance of rail to address the major societal concerns of urban congestion, connecting regions, safer travel, economic efficiency and productivity, supporting employment, environmental impact, access, equity and inclusion; each of these submissions identify what the agenda for the government should be in its new term and the necessity for appropriate budget allocations.

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Government should consider the following policy options for implementation in the 2019-20 budget:

1. The government should implement a National Rail Industry Plan including the 10 priorities for implementation, and resource its agency, the Department of Infrastructure, Regional Development and Cities accordingly.

2. The government should resource the Australian and New Zealand Industry Pipeline to provide a comprehensive list of rail projects to allow industry and government planning.

3. The government should support and resource a high level task force of the rail industry, governments and education providers to address critical skilled labour shortages and provide 'fit-for-purpose' training in rail construction, manufacturing, maintenance and operations that threaten the viability of rail projects over the next 10 years.

4. Government should consider supporting and funding Rail Optimisation Projects identified by ARA members in 2018 and assessed as priorities by Infrastructure Australia (Attachment A).

5. The government should provide sufficient resources for the Department of Infrastructure, Regional Development and Cities to implement recommendations from the National Freight and Supply Chain Strategy.

6. The government should provide sufficient resources to expedite the implementation of 2018 Heavy Vehicle Road Pricing Regulatory Impact Statement undertaken to explore the costs and benefits of independent price regulation of heavy vehicle charges. Appropriate funding also needs to be allocated to progress the outcomes of heavy vehicle charging trials to design and test options for replacing heavy vehicle registration fees and fuel-based charges with a fairer, more transparent and more efficient user charging system.

7. The government should take steps to preserve and secure the corridor of land required to establish a high-speed rail link between Melbourne, Sydney and Brisbane.

8. The government should demonstrate its commitment to tackling urban congestion by allowing Australians to salary sacrifice the purchase of public transport tickets, positioning public transport as a viable alternative to the more congesting, polluting and sedentary mode of car travel.

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9. The government should support passenger rail operators comply with Disability Standards for Accessible Public Transport (DSAPT).

10. The government should foster research and development in order to build the capability of rail and drive innovation, productivity, excellence and competitiveness. This would support the industry led SmartRail routemap, to harmonise rail's digital future.

ARA Priorities

National Rail Industry Plan

In September 2017, the Australasian Railway Association (ARA) presented a proposed National Rail Industry Plan for the Benefit of Australia (NRIP) to the Commonwealth Government. (Attached).

The plan presented a compelling case for a more collaborative approach between Australian governments and the rail industry to overcome inefficiencies inherent in our federal system.

The passenger and freight task is growing rapidly and Australia is dependent on an efficient integrated multimodal transport system to address congestion, population growth and the movement of goods.

The NRIP was supported by analysis undertake by Deloitte Access Economics[2] which assessed the benefits of rail to the Australian economy. A summary of the outcomes include:

- Rail contributes $26 billion annually to the Australian economy and employs around 200,000 workers.
- Rail's positive impact on road congestion – one passenger train takes around 800 cars off the roads and one freight train takes 110 long haul trucks off the roads
- Rail's positive impact on costs – less congestion, fewer accidents and reduced road maintenance

[2] https://ara.net.au/value-of-rail

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- Rail's positive impact on emissions, commuting times, liveability in growth corridors, regions, social inclusion, health and amenity.

In 2018 ARA identified the following ten priorities for implementation:

1. A national pipeline of rail industry projects
2. The quantification of resource requirements against the pipeline of work, together with a skills gap analysis with consideration around technology influences and an aging workforce
3. Improving tendering and procurement practices
4. Road/rail pricing reform
5. Rail corridors preservation
6. Harmonising standards
7. Facilitation of innovation and new technologies in rail
8. Streamlining and rationalising industry training requirements and providing incentives to companies for undertaking cadetships, apprenticeships and expanding graduate positions
9. Supporting the implementation of supplier competitive capabilities and access to international markets
10. Separation of freight and passenger rail, and supporting intermodal hubs and access to ports.

ARA believes these policy issues are of substantive merit to require policy support and resourcing. ARA made submission in 2018 about the implementation of these issues. Discussions with the Department of Infrastructure, Regional Development and Cities led to the Department pursuing a different approach to addressing the NRIP than proposed by ARA. Nevertheless ARA believes significant increased resources are required to staff the Department's rail activities if it is to play any leadership role in rail.

Resourcing ANZIP

Rail industry participants believe that a known and quantifiable, pipeline of infrastructure projects is crucial to investing in industry capacity and capability. For private industry, having long lead times and greater certainty on projects was an important first step in planning for labour and non-labour resources and getting things done.

In October 2016 the Australia & New Zealand Infrastructure Pipeline (ANZIP) was launched by the Australian and New Zealand Governments under the Australia New Zealand Closer Economic Relation's Trade Agreement's Single Economic Market agenda aiming to harmonise policies and regulations, improve the ease of doing business across the Tasman and to better connect both countries to third markets. The ANZIP website was seen as a valuable extension of the information on major infrastructure projects committed to by local, state, territory and Commonwealth governments.

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ANZIP represents the ideal platform for the rail industry pipeline so strongly sought after by rail industry stakeholders.

ANZIP is managed and developed by Infrastructure Partnerships Australia. ANZIP's coverage extends well beyond rail to major infrastructure projects in both countries with a value of $300 million and above. Rail however is attracting increasing interest from users, and this engagement now exceeds that of other industry sectors embraced by ANZIP. This is not surprising due to the intensifying interest in rail as a transport solution.

At present rail organisations engage with ANZIP to varying degrees. But this is not universal. There are a significant number of rail organisations that do not access the valuable information that ANZIP provides. As well, State government jurisdictions do not overtly engage with ANZIP, nor take full advantage of it as a tool for better managing the flow of rail infrastructure projects.

For ANZIP to be recognised source of information on rail industry projects, and universally accepted as the 'go to' place for information on such projects by industry and government; additional resources are required. Modifications are required to the current ANZIP product, to include projects to a value of $50 million and above and to embrace rolling stock manufacture and maintenance contracts. Expanding ANZIP will require additional modest funding requirements.

Addressing Rail Skilled Labour Shortages

Corrective action by government is needed to address labour shortages in rail construction, manufacturing, operation and maintenance that threaten the delivery of rail projects over the next 10 years.

Modelling by BIS Oxford Economics shows that a skilled labour crisis in the rail sector will deliver a substantial blow out in project costs and delivery delays to rail projects in Australia and New Zealand over the next 10 years. By 2023, the peak of the construction phase, workforce gaps of up to 70,000 people across most skill levels are predicted.

The report recommends the establishment of a high level taskforce of government, industry, and education providers with a three-pronged focus:

1. Facilitate the development and maintenance of an Australasian Rail Industry Pipeline of rail projects to map skilled labour required across construction, manufacturing, operations and maintenance. The ANZIP pipeline, established by Infrastructure Partnerships Australia, which enjoys financial backing from both the Australian and NZ governments, should be adapted and refined for this purpose
2. Develop a National Rail Industry Skills Development Strategy to drive reform in education and training systems and practices that increase the availability of

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required skills, their productivity, transferability, and mobility while retaining a commitment to quality and safety;

3. Boost awareness and attraction of rail careers. The need to attract skills and career aspirants to the rail industry is widely recognised. Industry has a significant responsibility in this regard. The taskforce should add its weight to initiatives such as establishing 'branding partnerships' with related industries across transport, mining and manufacturing.

The government should support and resource this Taskforce. The full report can be downloaded at https://ara.net.au/publications-list.

Rail Optimisation Projects

In April 2018 ARA provided Infrastructure Australia with a number of rail optimisation proposals. The ARA had consulted with members to obtain information on potential optimisation projects (where investments can be made on existing above or below rail projects to achieve faster, safer and more efficient rail services). We asked our members to identify such things as: Why the project is needed? - What are the benefits? - What are the costs if left unaddressed?

ARA believes Government should consider the assessment of these projects undertaken by Infrastructure Australia and consider supporting those that were determined to be of priority. The correspondence is attached.

National Freight and Supply Chain Strategy

The Australian Government is currently working with State and Territory jurisdictions to develop the National Freight and Supply Chain Strategy, which aims to enhance the efficiency and productivity of Australia's freight and supply chains.

The ARA has been an active contributor to the development of the Strategy, with a particular focus on ensuring the economic and social benefits of freight rail are appropriately considered. The ARA understands the Strategy will incorporate a 20 year outlook accompanied by a National Action Plan, against which jurisdictions will develop implementation plans. These documents will be considered for endorsement at the COAG Transport and Infrastructure Council in May 2019.

The National Freight and Supply Chain Strategy is fundamental to ensure Australia's freight and supply chains are prepared for significant growth in the freight task, both from a

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growing Australian population and increasing demand for Australian resources and produce internationally. It is critical therefore that appropriate resources are allocated at the federal level to progress and implement measures contained in the final Strategy, including both infrastructure upgrades and the strengthening of regulatory frameworks.

This includes sufficient resources to progress infrastructure initiatives necessary to maximise the effectiveness of the inland rail line from Melbourne to Brisbane, most notably, port connectivity in Victoria, New South Wales and Queensland.

This should include sufficient resources for the Department of Infrastructure, Regional Development and Cities to undertake necessary monitoring and reporting against the implementation plans to enhance accountability through appropriate review and measurement mechanisms.

Road Pricing

In order for rail to be truly competitive in Australian freight supply chains, Australia needs consistent pricing and regulatory framework applying to all modes of transport.

Reforms to heavy vehicle pricing are needed to create a fair and consistent regulatory environment and the more efficient use and supply of land transport. Additionally reform will help to maximise the non-economic benefits of freight rail, including reduced traffic congestion; safety improvements and a reduction in environmental impacts.

The ARA therefore welcomes the decision of the Transport and Infrastructure Council to request a consultation Regulation Impact Statement (RIS) on the introduction of independent price regulation of heavy vehicle charges and a forward-looking cost base for road expenditure. As the ARA has previously advocated in its submission to Government on the Independent Price Regulation of Heavy Vehicles[3] this reform process provides an important opportunity to address competitive neutrality issues between land transport modes on corridors where road and rail compete and to create a more direct link between road user funds received and the investments made by governments.

[3] ARA Submission - Independent Price Regulation of Heavy Vehicles, https://www.ara.net.au/sites/default/files/17-07-21_Independent%20price%20regulation%20of%20heavy%20vehicles.pdf p4

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This 2017 submission also voiced support for the introduction of a standard regulatory pricing model incorporating both future operational costs and both past and future capital investment. The Inquiry into National Freight and Supply Chain Priorities Report, identified efficient pricing and competitive access arrangements for key infrastructure assets as key priorities.

The ARA supports establishing a price regulator, which would have powers to set prices independently of government and potentially perform a range of oversight activities related to forward-looking road expenditure. This includes implementing a forward-looking cost base, which would develop a building-block model to determine allowed revenue under heavy vehicle charging based on expected future expenditure.

The government should provide sufficient resources to expedite the steps needed to implement heavy vehicle road pricing. This includes taking forward the recommendations of the RIS. In addition, appropriate funding needs to be allocated to progress the outcomes of heavy vehicle charging trials which are being undertaken to design and test options for replacing heavy vehicle registration fees and fuel-based charges with a fairer, more transparent and more efficient user charging system.

The ARA's longer-term policy objective is for the establishment of a national economic regulatory framework for transport and the establishment of more consistent pricing principles. The ARA believes the transition to a regulated utility model (and overseen by an independent economic regulator) would provide benefits to both the road and rail industries by achieving greater efficiency in the freight logistics supply chain.

Fundamentally, the ARA supports reform that leads to more efficient price signals, introduces important accountability measures and provides incentives to use infrastructure more efficiently. To help achieve these principles, the ARA believes there is also scope to expand the powers of the national regulator to strengthen its regulatory oversight abilities.

The ARA encourages a practical reform pathway that can be delivered at the earliest opportunity in a way that provides business certainty, productivity improvements and community benefits. A nation-wide, consistent and integrated approach to freight and supply chain issues, including regulation, is needed to enhance the efficient movement of freight.

The RIS consultation process is being carried out alongside broader work being undertaken by the Commonwealth to support Heavy Vehicle Road Reform. This includes the Business Case Program for Location-Specific Heavy Vehicle Charging Trials and the National Heavy Vehicle Charging Pilot. The ARA has been a vocal supporter of a Mass Distance Location (MDL) charging regime for heavy vehicles on arterial roads, including national highways, commencing on national highways between Melbourne, Sydney and Brisbane. The ARA takes this opportunity to encourage ongoing focus in this area in a timely manner to

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implement pilots and trials of the proposed reforms and to trial different elements of heavy vehicle road user charging, based on MDL charges, as the best way to better understand the most appropriate approach to implementing this reform.

Planning for High Speed Rail

High Speed Rail (HSR) is a transformative nation-building project which will benefit a large part of Australia's population living in capital cities and regional centres along the East Coast.

The HSR Phase 2 Report undertaken by the Australian Government found:

1. that the program and the majority of its individual stages are expected to produce only a small positive financial return on investment. Governments would be required to fund the majority of the upfront capital costs.
2. If HSR passenger projections were met at the fare levels proposed, the HSR system, once operational, could generate sufficient fare revenue and other revenue to meet operating costs without ongoing public subsidy.
3. HSR would substantially improve accessibility for the regional centres it served, and provide opportunity for—although not the automatic realisation of—regional development.

The ARA recommends the confirmation of and preservation of the corridor to secure the land required to establish a high-speed rail link between Melbourne, Sydney and Brisbane.

Salary sacrificed public transport tickets

A practical way the Australian Government can demonstrate its commitment to tackling urban congestion is by allowing Australians to salary sacrifice the purchase of public transport tickets. This will position public transport as a more viable alternative to the car.

Although Australian public transport networks are experiencing unprecedented infrastructure investment, Australia's current taxation system still subsidises Australians to travel by motor vehicles rather than use public transport.

It is poor policy, favouring one transport mode over others adding to carbon emissions, road congestion, time poverty and sedentary lifestyle.

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To realise the full benefits of investment projects, initiatives and policies that encourage greater use of public transport are crucial.

The *Fringe Benefits Tax Assessment Act (FBTAA) 1986* mandates fringe benefits arrangements between an employer and their employee. Commonly known as salary sacrificing or salary packaging, current legislation permits motor vehicles, their operating and parking costs to be paid for with pre-tax dollars. Public transport tickets are not currently identified as a fringe benefit and as a result, Australian employers cannot offer their employees salary sacrificed public transport tickets.

Although Queensland has included bus tickets, the definition of motor vehicles effectively excludes rail and light rail tickets from similar pre-tax payment arrangements. According to the legislated definition, "a 'motor vehicle' means any motor-powered road vehicle (including a 4 wheel drive vehicle)"[4]. Rail and light rail vehicles are 'motor vehicles', but the word "road" currently excludes the provision of these public transport tickets from fringe benefit arrangements. If Governments are serious about positioning public transport as a viable alternate to cars, this must change. Public transport tickets of all modes must be recognised as an FBT exempt fringe benefit.

The FBT legislation, when introduced in 1986, was partly designed as an indirect method of providing support to the ailing Australian motor vehicle industry[5]. Today the Australian car manufacturing industry no longer exists and justification of the policy at the expense of public transport usage is outdated and conflicts with the Government's major project investment efforts to improve public transport networks and reduce congestion.

Overseas experience indicates initial take-up would range between 10 and 20 per cent. Taking the middle-line, independent analysis undertaken by Deloitte Access Economics for the ARA in 2017, anticipates that providing employers with the ability to offer their employees salary sacrificed public transport tickets using pre-tax dollars could cost 0.04 per cent of Commonwealth Government revenue (or $163 million). Within the 15 per cent take-up, Deloitte Access Economics estimates that 7.2 percent of existing users would use

the scheme and an additional 59.3 million new public transport journeys would be made. These additional journeys would provide additional ticketing revenue for public transport operators. DAE modelling suggests that NSW and Victoria would account for the majority of the increase in public transport use with NSW expected to experience around 25 million more public transport journeys a year while Victoria would be expected to experience around 16 million more journeys per year. In terms of mode, Deloitte Access Economics

4 Income Tax Assessment Act 1997 – Sect 955.1

5 Kraal, D, Yapa, S, and Harvey, D. *The impact of Australia's Fringe Benefits Tax for cars on petrol consumption and greenhouse emissions* (2008).

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anticipates that trains and buses would account for the majority of the increase with an additional 33 million journeys a year expected by train and 22 million by bus.

When considering the costs of this scheme, the benefits that increased use of public transport provides must be factored in. According to the ARA's Value of Rail study, each passenger journey made by rail instead of road generates benefits for society of $10.64 in Sydney, $8.59 in Melbourne, $5.50 in Perth and $3.88 in Brisbane by reducing congestion, accident and carbon costs. In addition, passenger rail is proven to provide health, social inclusion and amenity benefits that are not quantified in these figures.

Incorporating public transport tickets as a fringe benefit will provide Australian businesses the opportunity to provide salary sacrificed public transport tickets to their employees. In turn, salary sacrificed public transport tickets will encourage commuters onto public transport, initiating the broader benefits of reduced road congestion and healthier Australians as those who travel by public transport are proven to be more active and therefore healthier, reducing the burden on health systems. Social benefits of each new rail journey are calculated at $8.41 per journey in Sydney, $6.66 in Melbourne, $4.6 in Perth and $3.11 in Brisbane[6]. These estimated social benefits equal or exceed the estimated cost to Government in exempting public transport from FBT.

Similar schemes in the United States, United Kingdom and Ireland have proven successful. Locally, Federal and State Governments will benefit through an increased use of public transport and the flow-on benefits that greater use of public transport is proven to provide. A more detailed paper is available on request.

Passenger Rail Accessibility Upgrades

Passenger rail operators, both heavy and light, continue to upgrade their systems to comply with the Disability Standards for Accessible Public Transport (DSAPT) and encourage public transport use by providing accessible, easy to use, safe and secure interchanges between coaches, cars, parking, taxis & ride share, local buses and rail.

Compliance with the DSAPT still requires considerable investment, one that has been covered to date by State Governments. Australian Government assistance would help see passenger rail networks improve their accessibility levels sooner.

6 ARA (2011) *The True Value of Rail Report,* Deloitte Access Economics

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Supporting Research & Development

The government should foster research and development in order to build the capability of rail and drive innovation, productivity, excellence and competitiveness. This includes support for collaborative industry-funded research initiatives such as the Australian Centre for Rail Innovation and the Rail Manufacturing CRC and the underlying SmartRail research framework.

SmartRail is the rail industry led routemap to harmonise industry's digital future. More information can be found at https://ara.net.au/publications-list.

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