Rail Tram and Bus Union

Federal pre-Budget Submission

February 2015

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Executive Summary

The Rail, Tram and Bus Union (RTBU) calls on the Federal Government to:

- introduce a new approach to urban planning and transport infrastructure. This would involve the development of city commissions to oversee long-term transport and development strategies for our major cities, reporting to Infrastructure Australia. The RTBU also supports a return to Federal funding for urban rail projects within a funding model that determines priorities based on long-term urban growth strategies, applies rigorous cost-benefits analyses, and aims to improve the productivity of our cities.

- urgently review its planned Inland Rail project against established international industry standards, and to re-cast the project's scope and budget accordingly

- address bracket creep by ensuring tax brackets are regularly amended in line with wage inflation.

- The RTBU calls on the Federal Government to establish a TaskForce under the auspices of COAG to explore new funding models for transport infrastructure, including:
    - Value capture mechanisms;
    - Transit Oriented Developments; and
    - Converted Infrastructure Bonds

- introduce laws that would:
    - provide automatic exchange of information between tax authorities about money flowing across borders;
    - lead to greater disclosure by companies of how much profit they make and how much tax they pay in each country they operate in; and
    - apply tougher rules on disclosing the ultimate owners of companies and trusts so banks know who they are dealing with and can ensure that the money has not been illegally sourced.

Introduction

The Rail Tram and Bus Union (RTBU) represents over 35,000 workers in the transport industry around Australia. Membership of the union is open to anyone who works in the light rail, rail or the public bus industries.

The RTBU:

- works to continuously improve and maintain high workplace safety standards for workers and the travelling public;
- ensures every worker is treated with dignity and respect in their workplace;
- collectively bargains for wages and conditions that reflect the skills and contribution workers make to the transport industry and the economy;
- delivers industrial, legal and advocacy services to members;
- educates delegates and workplace activists;
- campaigns in the community; and
- consults and works with the community about transport issues.

The RTBU has actively engaged its members in the preparation of this submission. We thank the Federal Government for this opportunity to put forward the views of rail, tram and bus workers as part of the consultation process for the 2015-16 Federal Budget.

Investment in Public Transport Infrastructure

The Prime Minister has declared that he wants to be remembered as the Infrastructure Prime Minister, and a key objective of the Government is to "build the roads of the 21st century". The Government, however, has not – to our knowledge- ever made a public reference to building the rail lines of the 2st century.

Indeed, the RTBU recognises that the Federal Government has a firm policy position on the funding of passenger transport infrastructure. The Prime Minister made this policy position clear when he stated:

> *We have history of funding urban rail and I think it's important that we stick to our knitting. And the Commonwealth's knitting when it comes to funding infrastructure is roads.*[1]

The RTBU strongly believes that infrastructure funding priorities should be determined according to the national interest, rather than the personal preferences of politicians. Infrastructure that delivers the best outcomes in terms economic and social benefits to the country, and best increases our national economic productivity, should be given priority. It simply does not make sense to ignore the country's need for investment in passenger rail infrastructure because of a glib conception of what constitutes the government's "knitting".

The National Institute of Economic and Industry Research (NIEIR) has examined the economic benefits of investment in public transport infrastructure, and has found that the multiplier effects of public transport projects are effectively self-financing. This is because

> *Spending directed at enhancing the provision and delivery of public transport directly raises the productivity of public transport, in turn making it more accessible to users. This has an important implications for longer term economic growth throughout the economy because more people are being transported more efficiently enabling greater output and profits, while social, environmental and congestion costs are reduced.*[2]

NIEIR estimates that the economy wide benefits of a $100 million public transport investment would be equivalent to around $400 to $700 million a year.

> *That is, once all the direct and related benefits of more productive public transport are taken into account, there is a return of around four to seven times per annum on the initial investment.*[3]

[1] Tony Abbott, media doorstop in Franskton (Vic), 4 April 2014.
[2] Rail, Tram and Bus Union, *The Free Ride is Over,* 2014, p8.
[3] Rail, Tram and Bus Union, *The Free Ride is Over,* 2014, p8.

As the NIEIR research explains, public transport infrastructure is one of the surest and most reliable drivers of productivity. Public transport also contributes to economic growth by facilitating the beneficial effects of agglomeration – the benefits that firms obtain by locating near each other. Mass transit system such as heavy rail maximise the benefits of agglomeration by moving large numbers of people to a consolidated location, such as the CBD of a major city, quickly and efficiently.

There are a number of major capacity-building urban public transport infrastructure projects on the drawing board around Australia that have the potential to significantly improve the productivity of our cities, and hence improve national productivity. The Melbourne Metro Rail tunnel is a prime example of an urban public transport infrastructure project that deserves Federal involvement.

Most importantly, the RTBU believes that urban public transport projects such as these need to be considered for funding within the context of coordinated urban planning and transport strategies for each of our major cities. In the past, governments at both State and Federal level have exhibited a cargo-cult style approach to major transport projects – particularly road projects. In essence, governments have fallen for the myth that the next big road project will “fix” urban transport. Instead, Australia’s predilection for building freeways instead of railways has created unnecessarily high levels of car dependency, and our cities are major grappling with ever increasing transport congestion. Australia can no afford to continue making decisions on major transport projects in isolation from broader planning objectives, and without reference to long-term city development strategies.

The lack of transparency around funding decisions made in relation to the East-West road tunnel in Melbourne, and the WestConnex project in Sydney, show that the cargo-cult approach to urban planning remains ascendant. It’s time to move beyond this 20th century approach.

> **RTBU calls on the Federal Government to introduce a new approach to urban planning and transport infrastructure. This would involve the development of city commissions to oversee long-term transport and development strategies for our major cities, reporting to Infrastructure Australia. The RTBU also supports a return to Federal funding for urban public transport projects within a funding model that determines priorities based on long-term urban growth strategies, applies rigorous cost-benefits analyses, and aims to improve the productivity of our cities.**

Investment in Freight Rail Infrastructure

The RTBU believes the Inland Rail project is one of the most important infrastructure projects to be undertaken in this country since the construction of the Snowy Hydro scheme. The project has the potential to revolutionise the movement of transport north-south for the eastern states, and to contribute significantly to Australia's economic growth and productivity over the next 50 years and beyond.

We are pleased that the Federal Government has committed to an inland rail project, and has commenced work on delivering that project. We fear, however, that the project as it currently stands is not ambitious enough to deliver step-change required to secure the future of the Australian rail freight sector. The guiding principles for the delivery of Inland Rail should be:

- Inland Rail should be treated as transformational and intergenerational nation building project, delivering 21st Century performance and productivity benefits;
- The journey-time from one end to the other should be under 20 hours, enabling a return train consist to be completed in two days;
- The project should be constructed to North American Class I Railroad standards rather than ARTC mainline standards in order to support modern fast, efficient, high-productivity freight trains;
- The project should begin with the Toowoomba to Port of Brisbane corridor – the section that will deliver the most value to the national economy.

More information about the RTBU's position on the Inland Rail project is available in the Union's submission to the Inland Rail Implementation Group – see appendix.

> **The RTBU calls on the Federal Government to urgently review its planned Inland Rail project against established international industry standards, and to re-cast the project's scope and budget accordingly.**

Bracket Creep

The RTBU notes that the Federal budget is heavily reliant on personal incomes taxes. While Australia is currently experiencing low levels of wage inflation, income tax brackets remain fixed. This means that over time middle income earners (such as RTBU members) will gradually drift into higher tax brackets. This phenomenon, known as bracket creep, is essentially a subtle mechanism for the Federal Government to increase income tax.

According to PriceWaterhouseCoopers:

> *If the Commonwealth Government does not adjust tax brackets, average tax payers will move from paying around 21% of their income in personal income tax, to 34% in 2039-40 and 38% in 2049-50. This means individuals will be giving the government around 40% of every additional dollar they earn in 2039-40 and 42% in 2049-50 – effectively moving average tax payers from the middle personal income tax bracket to the top tax bracket.*[4]

Bracket creep is not only unfair on low and middle income earners, it has a negative impact on national productivity by undermining workplace incentives. Ultimately bracket creep will impinge on workforce participation, and deter many people from entering (or re-entering) the labour market.

> **The RTBU call on the Federal Government to address bracket creep by ensuring tax brackets are regularly amended in line with wage inflation.**

[4] PriceWaterhouseCoopers; *Tax Reform: Everything on the Table*; p12, 2014

Infrastructure Funding

The RTBU recognises that new and innovative infrastructure funding mechanisms must be found to supplement the usual forms of government funding for major projects. The RTBU believes that Task Force should be established under the auspices of COAG to examine potential models for funding transport infrastructure projects, including the following:

Value capture mechanisms

The benefits of new infrastructure are not shared evenly. Clearly, property investors and business owners in close proximity to that infrastructure gain the lion's share of the financial benefit. CBD businesses, for example, benefit greatly from transport infrastructure that allows more people to travel efficiently into and out of city areas. Property owners also get to capture 100% of the value uplift related to new infrastructure, without having to take any of the investment risk. Essentially, this is giving away money for nothing.

While the financial **benefits** are skewed towards this group, however, the **costs** are shared among the entire community via indirect taxation, or are pushed onto commuters via user charges. This is both unfair, and is an inefficient way of financing projects. The establishment of localized "improvement taxes" or levies on businesses and property owners that accrue a financial benefit from new infrastructure could therefore provide a form of revenue which governments can borrow against in order to fund projects.

Transit Oriented Developments

The RTBU has long supported the potential of Transit Oriented Developments (TODs) to contribute to infrastructure funding programs. The basic philosophy behind TODs is that constructing high-density urban developments – both commercial and residential – in close proximity to transport interchanges will encourage the use of public transport and improve urban transport efficiency. TODS can also generate revenue for a transport development agency, which can make the improve the business case for a new transport infrastructure development, or provide new sources of revenue for transport networks.

The RTBU believes the Federal Government can encourage greater use of TODs by State Government through a coordinated incentive scheme, similar in application to the current Asset Recycling Scheme. In essence, a TOD incentive scheme could provide for federal incentive payments (up to 100 per of the total value of the TOD) to State Governments which use TODs to defray the cost of new public transport infrastructure projects.

Converted Infrastructure Bonds

The traditional PPP model for the delivery of infrastructure projects in Australia has reached the end of its effective life. A string of unsuccessful projects, characterized by construction cost blow-outs and wildly optimistic revenue forecasts, have reduced the appetite for PPP projects both within the market and among governments. A new model is needed to re-engage capital investors in the delivery of new projects.

The RTBU is enthusiastic about the potential use of converted infrastructure bonds as the basis for a new PPP model. As strategic advisors Pottinger have argued, governments can fund projects using low-cost government debt and by engaging in a conventional "Design, Build, Operate". The asset can then be on-sold to a private owner/operator for pre-specified terms, ensuring the capital cost of the asset is transferred off the government balance sheet at completion. According to Pottinger,

> *Risks would be better matched with the optimal stakeholders, with construction companies accepting and managing construction risk, and long-term investors accepting long-term ownership risks.*[5]

Importantly, this model would be more attractive to investors seeking secure, reliable long-term investments, increasing the field of potential project bidders, and this thus increasing contestability and competitiveness for project financing and delivery.

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[5] Pottinger; *Perspectives,* April 2013, p2.

Closing Tax Loopholes

Research by United Voice and the Tax Justice Network (TJN) has found that the effective tax rate of Australia's biggest 200 publicly-listed companies over the past ten years was only 23 per cent[6]. Furthermore, nearly one third of those companies paid an average effective tax rate of just 10 per cent or less. If these companies were forced to pay the statutory company tax rate of 30 per cent, it would generated an additional $8.4 billion in annual revenue for the Federal Government.

The United Voice / TJN Research, however, does not cover the activities of private or overseas-based companies. As private companies are not subject to the same transparency and reporting requirements to those listed on the ASX, private companies are more likely to use strategies such as offshore subsidiaries and inter-company loans to minimize their paper profits in Australia and therefore minimize the their tax contribution. Genuine measures to tackle corporate tax avoidance would therefore make an enormous difference to the bottom line of the Federal Budget, and would put the Federal Government in a much stronger position to fund new transport infrastructure projects. The continued unwillingness, however, of the Federal Government to close the loopholes that enable multinationals to avoid paying their fair share of tax, undermines The Government's arguments about the so-called Budget Crisis. It's time to make the big multinationals pay their way.

The RTBU supports calls from the Tax Justice Network to introduce laws that would:

- **provide automatic exchange of information between tax authorities about money flowing across borders;**
- **lead to greater disclosure by companies of how much profit they make and how much tax they pay in each country they operate in; and**
- **apply tougher rules on disclosing the ultimate owners of companies and trusts so banks know who they are dealing with and can ensure that the money has not been illegally sourced.**

[6] United Voice and the Tax Justice Network, *WHO pays for our Common Wealth: Tax practices of the ASX 200*, 2014.

Conclusion

This submission calls for the Federal Government to

- Invest in public transport infrastructure;
- Re-cast the Inland Rail project to make the rail freight sector competitive with road freight for long-haul journeys;
- Provide greater choice for students from low socio-economic backgrounds;
- Make greater use of innovative project funding and delivery models for transport infrastructure; and
- Close loopholes that allow big business and multinational corporations to avoid paying their fair share of tax.

Public transport and rail freight are essential to the productivity of our national economy. By building better transpoet networks, and investing in the education of our future workforce, the Federal Government can make decisions today that will have a profound positive impact on the Australian economy and on Australian life for generations to come.

While the country must live within its means, it is clear that opportunities for raising revenue are currently being missed. Whether it is business cashing in on the benefits of new transport projects, or corporations using clever schemes to minimize their tax burden it is clear that too many organisations are getting a free ride. By capturing value from our investment in infrastructure, and by closing the loopholes which allow big business to dodge their responsibilities, the Federal Government can generate the revenue it needs to play a more active role in building the transport infrastructure of the future.