

**REVIEW OF AUSTRALIAN FREIGHT COUNCIL  
PERFORMANCE AND AUSTRALIAN GOVERNMENT  
FUNDING OF FREIGHT COUNCILS  
2005-06 to 2007-08**

**EXECUTIVE SUMMARY**

**REPORT PREPARED FOR THE DEPARTMENT OF INFRASTRUCTURE,  
TRANSPORT, REGIONAL DEVELOPMENT AND LOCAL GOVERNMENT**

**John Bowdler and Associates Pty Ltd**

**30 April 2008**

## EXECUTIVE SUMMARY

This report reviews the performance of Australia's Freight Councils over the period 2005-06 to 2007-08, from the perspective of the support provided to them by the Australian Government.

Australian Government assistance to the Freight Councils commenced in the late 1990s. The original approach was to set up separate Sea and Air Freight Councils with an export chain focus, in partnership with State and Territory governments and industry. The interests of many Councils have since evolved into a broader consideration of freight logistics issues across transport modes and intermodal transfers. The Freight Councils have built a national structure through the Australian Freight Councils Network (AFCN).

Reviews in early 2005 concluded that the Australian Government had gained value from its support of the Councils for the triennium 2002-03 to 2004-05. The then Minister wrote to his State and Northern Territory counterparts in May 2005, offering funding for another triennium subject to the Australian Government contribution being matched by their governments.

A further review of Council performance and funding arrangements was proposed toward the end of the new triennium to inform decisions on future assistance. This report, prepared for the Department of Infrastructure, Transport, Regional Development and Local Government, is based on consultations with some 40 organisations and individuals in all States and Territories. Twenty five formal submissions were also received.

### **Financial and Administrative Arrangements**

The 2005 review process led to two significant changes in the structure of Australian Government assistance to the Freight Councils. The first was the introduction of exact requirements for joint funding, support being continued on the basis that the States and the Northern Territory agree to match, dollar for dollar, the Australian Government funding offer for each Council of up to \$100 000 per annum (plus GST) for three years. Previously the Australian Government had accepted broad matching of its financial assistance by both direct and in-kind contributions from State/Territory governments and industry; however

in-kind support from governments and industry was not included in the new matching arrangements.

The requirement for equal monetary contributions from the Australian and State/Territory governments led to reductions in funding for three Councils - the NSW Sea and Air Freight Councils in 2005-06, and the Victorian Airfreight Council throughout the triennium. The NSW Government then increased its contribution and that State received maximum funding for 2006-07 and 2007-08. In Victoria, while State Government support for the Freight and Logistics Council is now almost twice that of the Australian Government, funding has not been increased for the Airfreight Council. Support for the Tasmanian Freight Logistics Council from each of the Australian and Tasmanian governments remained at \$80 000 per annum for the triennium.

The second major change was that the legislative base for Australian Government funding shifted from the Australian Land Transport Development (ALTD) Act to the AusLink (National Land Transport) Act 2005. The AusLink Act provides that the Minister can declare an organisation to be a research entity and so provide funding for land transport research. The Freight Councils have been declared as land transport research entities on an annual basis.

While the emphasis on land transport remained, the AusLink Act's provisions gave greater scope for Council work than did the ALTD Act, as they included inter-modal transfer facilities in addition to road and rail transport. The definition of research in the Act also provided for a wide range of activities. Councils have been able to establish to the Department that Australian Government funding has been applied in a manner consistent with the AusLink Act.

A lengthy annual cycle for reporting, assessment and payment continued on from the previous triennium. The introduction of the AusLink Act added to the Department's administrative processes, and other contributing factors to payment delays were late lodgement by some Councils of required documentation (despite reasonable timelines) and Departmental decisions to 'batch' assessments. Payment to Councils in the June quarter of each year has not assisted planning and twelve-month scheduling of research activities, and has raised governance issues for the majority of Councils that are companies limited by guarantee or incorporated bodies, as Directors must have a constant eye to the issues of solvency. On the Department's side, considerable resources have been put into

administration, limiting more strategic involvement, although some economies have been achieved in 2007-08 and payments will be slightly earlier.

There was no change in the level of Australian Government assistance for the triennium, with the upper limit of funding for a Council maintained at the \$100 000 level originally introduced in the late 1990s. The decline in the real value of assistance is now of substantial proportions, and has placed pressure on the range and depth of Council activities.

Nevertheless, despite the tightening in the real level of assistance, the accounts of many Freight Councils indicate sizeable holdings of cash and short-term deposits. The late receipt of payments explains retention of some reserves, and other reasons have included forward provision for major projects, provision for other liabilities, and short-term dislocations to work programs due to illness or restructuring. However, there remains a concern that the level of reserves in some instances is higher than necessary on operational grounds. Both levels of government generally want to see their funding applied for the purposes it is given in the year of funding, rather than be retained for some future use. The issue of the appropriate level of reserves to be held by Councils should be a matter considered by both the Australian and State governments, in consultation with the Councils, in any future funding arrangements.

### **Contribution to More Efficient Freight Logistics**

In August 2005, the Department issued a new AFCN Programme of Research for 2005-06 to 2007-08, to give guidance to Freight Councils in applying their Australian Government funding. Updated advice was provided to Councils in March 2008, but the central features remained. The Programme indicated that the main objective of the Councils, as seen by the Australian Government, was "to identify solutions to issues impeding logistics chain performance and constraining the development of Australia's logistics sector".

Examination of the activities of the Freight Councils over the triennium indicates an effective response to this emphasis. Councils have had a strong orientation toward constraints and impediments relating to infrastructure adequacy, for example the major reports prepared on land transport infrastructure in Victoria and South Australia. Constraints limiting better utilisation of infrastructure have also been addressed,

such as the work in Victoria, NSW, and Western Australia on better alignment of operating hours. Impediments in the areas of people and security have also received Council attention. Councils have shown effective leadership in identifying, analysing and following through solutions to the constraints and impediments identified. In this process, several projects have shown a high level of innovation.

This 'local' focus of Freight Council work relates closely to the rationale for matching assistance from State and Northern Territory governments, and to industry support. State government officials indicated a general satisfaction with the work of the Freight Councils, and were keen to keep them going. Queensland is the exception, where the current Councils are not regarded as meeting the expectations of the State Government, and a new Council is being established. All States are keen for Australian Government financial support to continue.

There was some industry concern about 'capture' of Freight Council work by particular industry interests or State government departments, the pursuit of projects or consultations more for the sake of the activity than potential benefit, and a lack of authority to see identified improvements through to fruition. The State-based nature of the Councils was regarded as a negative by some national operations which would prefer to see a greater Australian Government role in freight logistics relative to the States. These viewpoints were linked to concerns about the large number of industry bodies in freight logistics – there was a preference for rationalisation and coordination, and for having more effective industry bodies that could provide, say, stronger advocacy for the wider benefits of major infrastructure investments.

However the great majority of industry opinion was overwhelmingly supportive of the role of the Freight Councils, without qualification, and of continuing Australian Government assistance. Industry members found benefit in the practical focus of Councils, pitched toward problems and their solutions, and the broader appreciation that Council work gave of supply chain issues as against, say, a narrower focus on individual transport modes.

### **Contribution to National Priorities**

The priority areas of the Programme of Research retained a central focus on the implementation of the Australian Logistics Industry Strategy (ALIS) as a major national logistics initiative. Suggested ALIS-related activities were structured under five headings – *Leadership*,

*Infrastructure, People, Innovation and Sustainability and Security.* While the ALIS was formally wound up in early 2007, this broad framework has continued as a guide to Council work.

The Councils were to support the leadership role of the Australian Logistics Council (ALC) in implementing the ALIS. They were asked also to support other drivers of an improved national logistics effort – specifically the AusLink programme for land transport infrastructure and the Office of Transport Security (OTS) in the Department, and the Transport and Logistics Centre (TALC) established in May 2005 as a joint initiative of the Australian and NSW Governments.

Guided by the Programme of Research, the Freight Councils have been major contributors to ALIS implementation. A strong effort has been made under *Leadership* where Councils have been major players at the State and Northern Territory level in contributing to debate about freight logistics needs, facilitating information flows, assisting small and medium sized businesses and addressing freight issues in regional areas.

The Councils have also been prominent under *Infrastructure*, supporting planning and policy development through practically oriented research and reporting across the spectrum of land transport, including AusLink-related studies and projects. Councils have played a particular role in putting an industry viewpoint on land-use and environmental planning issues related to infrastructure, which could not be as readily done by a national organisation.

Most Freight Councils have been active under the *People* heading. While this has been mainly through complementing the work of the ALC and other bodies, a notable contribution has been the web-based Logistics Information and Navigation Centre (LINC) project in careers and training led by the SA Freight Council. Under *Security*, the Councils have provided good support to the OTS in arranging industry consultation and facilitating implementation of new initiatives.

Only in the area of *Innovation and Sustainability* can the contribution of the Councils be said to have been limited, particularly for sustainability. However, under innovation, special mention is required of the International Food Chain Integrity and Traceability project led by the Victorian Freight and Logistics Council, and cold chain related work led by the SA Freight Council. Both these activities involve several other

Councils. The work recently commenced in NSW linked to the State's Innovation Strategy also holds promise.

The Councils have had mixed results in working with other drivers of national logistics strategy. Some support has been provided to the AusLink programme, particularly the corridor studies. The Councils have also worked effectively with the OTS, which in turn has provided funds to security-related projects in NSW and Victoria. The Councils have become more involved in activities of the ALC, with their Chairmen all ALC members and part of a States Working Group to focus on State-related freight logistics issues. Councils are also participants in other ALC activities, particularly relating to careers, training and industry profile. Overall though, the relationship with the ALC is still somewhat tentative in an operational sense and no major collaborations have yet resulted. There has been no substantial involvement of Councils with the TALC, save for joint work on the national roll-out of the SA Freight Council's LINC project.

It is not apparent that the Freight Councils have had a significant impact on policy development *specifically* related to Australian Government priorities. In consultations with the Department, no instance was identified for the triennium of a notable contribution by a Council, or Councils collectively, on a major policy matter before the Minister and the Department. Nevertheless, broader national contributions have come through Council work related to major infrastructure assets, and projects across groupings of Councils. The main formal structure for a collective contribution, the Australian Freight Councils Network (AFCN), lost momentum over the triennium, particularly in the middle part. However there is recognition of the AFCN's potential to play a stronger national role in harnessing cross-Council cooperation, and the Councils have committed to making the AFCN more effective. In this process, effort is needed also to clarify the AFCN relationship with the ALC and particularly its States Working Group.

### **Value to the Australian Government**

This review concludes that, overall, the Freight Councils have delivered value for money for the Australian Government over the three years to 2007-08. However this value has not been even across all areas in the Programme of Research.

The Councils have made an extensive contribution to the implementation of the ALIS, and have been effective in the facilitation of information exchange, support to SMEs and consideration of regional freight logistics issues. In this, they have given assistance not only to the Department, but to other Australian Government agencies in customs, quarantine management and trade promotion. Councils have also provided value over the triennium through submissions to Parliamentary and Productivity Commission inquiries.

The greater part of the value from a national perspective has been generated by the activities of individual Councils or several Councils working together, rather than through concerted, coordinated activities of the Australian Freight Council Network or other national initiatives linked to the Councils collectively. However, while the larger, best supported Councils are more likely to take leading roles and produce work of national significance, it is important not to discount the work carried out by Councils in smaller States which can be very valuable in the local context of the industry, its customers and communities.

Australian Government funding has helped to 'leverage' considerable input from the State and Northern Territory governments, and industry, to activities directed to enhancing freight logistics performance. Had any one of the three stakeholder groups not been involved to the extent that they have, then the value gained from the overall cooperative effort would have been far less. Here the positive signal provided to industry by the coming together of both levels of government in support of the Freight Councils has been very important.

The outputs of the Councils, as aligned to the Programme of Research, indicate that Australian Government funds have been appropriately applied. Further, audited statements for the Councils have been unqualified. Matching funds have been provided by the State and Northern Territory that equal or exceed the Australian Government's contribution. The value that State governments and industry have stated as being received from their own involvement in the Councils is another pointer to the overall effectiveness of their activities.

## **Risks Associated with Discontinuation of Australian Government Funding**

The Terms of Reference require the review to “consider any risks associated with Australian Government funding being discontinued from July 2008”.

Discontinuation of funding would mean that the Freight Councils would have to make do with around half, at best, of the public funding that they now receive, as State officials were of the view that their governments could not be expected to fill the gap left by the withdrawal of the Australian Government. Further, some officials indicated that there was a risk that their governments may decide also to cease support to the Councils if the Australian Government saw no future benefit in providing assistance, even though there had been value for the State in the Council’s past (and prospective) work. In aggregate, there would be a diminished capacity at a State and regional level for stakeholders to work together to address impediments and constraints in freight logistics.

Councils would have to consider their immediate viability, and may need to wind up within a short time. Those with sufficient reserves would likely continue for at least 12 months while they gauged the prospects for future support from the State government and local industry. Where a Council was wound up, the State government may set up alternative consultative arrangements, managed through a Department.

There would be wider national consequences from the State-by-State changes. The current national structure of like-minded Freight Councils would be seriously weakened, and with it a means of pursuing coordinated responses to national challenges in freight logistics would be lost. It is doubtful that the AFCN would continue in an effective form.

These developments, both in individual States and collectively, would adversely impact on the implementation of the new industry strategy, *Enhancing Australia’s Supply Chains 08-15*, and the related work of the Australian Logistics Council. The Freight Councils have been identified as having a major role to play in implementation of the strategy. The ALC would have to reassess membership and rationale of the States Working Group.

Criticism from individual State governments and possibly in the Australian Transport Council would likely be made of an Australian Government decision to withdraw from support of the Councils. Industry representatives would also be critical, as while the Freight Council funding has not been significant in dollar terms, it has encouraged a substantial input of in-kind contributions from industry over a decade. The Department could lose considerable goodwill and credibility, and may need to find new ways of addressing future issues which required a State-based approach and access to industry networks (eg in the area of transport security).

To the extent that the funds saved from a discontinuation of Freight Council funding were diverted to other activities in the freight logistics area, this could help defray criticism and open up new areas of support. However the amount available, about \$1.2 million per annum, is not large and would need to be applied effectively and without large administrative costs.

### **Future Directions**

Past support from the Australian Government to the Freight Councils has been based on specific policy objectives. The decision on whether to continue funding or not, and on the nature of that funding if continued, needs to consider new policy objectives now that the ALIS has been completed, the ALC is well established and a new industry-based strategy is in place. In addition, the current transport planning framework being developed for the ATC proposes a joint review of Australian and State government support for the Freight Councils and the ALC.

Regard will need to be had to imminent or possible changes to Freight Council structures in three States. In Queensland, a new Transport and Logistics Council is in prospect and the full implications for the current Sea and Air Freight Councils are still unfolding. In WA, moves are well advanced to bring the current Sea and Land Freight Councils into an integrated WA freight and logistics Council. It is also likely that there will be some reconsideration in Victoria of the relative merits of retaining the current two Councils, or moving to a single Council arrangement.

A further consideration is the Australian Government's position on the respective roles of the Freight Councils, their national grouping through the AFCN, and the ALC. To the extent that the Government wishes to achieve national outcomes from continuing support of the Councils as

well as the ALC, it would be helpful to develop a view on relationships and work priorities.

With this background, three basic approaches are open to the Australian Government in making a decision on future assistance to the Freight Councils.

The first involves withdrawal of support from the end of June 2008. The review has identified significant risks from such a decision, which does not accord with the finding that value has accrued to the Australian Government from its support of the Freight Councils over the triennium. A unilateral decision now would narrow Australian Government options in the ATC review process. This approach would see the Government concentrate its focus on national organisations and consultative arrangements in freight logistics.

The second approach is for the Government to provide assistance to the Freight Councils for another year to end-June 2009, deferring a decision on further support until the ATC-initiated transport planning process had worked through, and future responsibilities and priorities are established across governments. The Government would have opportunity to consult more closely with the States as its ATC partners. This more inclusive approach would hold out more prospect of achieving closer alignment of longer term objectives in the freight logistics and supply chain areas, as well as agreement on the respective roles and responsibilities of the two levels of government. As a result, it should also give more certainty to the Freight Councils and the ALC about the extent of Australian and State government support for their activities. The main risk is that the ATC review process concentrates on higher order issues and does not provide a considered outcome on these matters in a reasonable time frame.

The third approach is essentially a modification of the status quo, with the Australian Government committing to fund the Freight Councils for another three years, with updated strategic guidance and streamlined administrative arrangements, and consideration of an appropriate increase in the maximum level of funding available to individual Councils. The Councils could be required to apply the funds to support the implementation of the national industry strategy *Enhancing Australia's Supply Chains 08-15* and to assist the Department in delivery of the AusLink programme and in transport security. To the extent that the Department was able to be more active in its relationships with individual Councils, take on a greater role in supporting the Australian

Freight Councils Network and assist in developing collaboration with the ALC, then better national outcomes would be likely. The main risks of this approach are that it 'locks' the Government in ahead of the ATC processes being completed, and that national outcomes prove to be disappointing because the Department's resources constrain its role to essentially one of grant administration only .