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# About the Australian Trucking Association

The ATA is the peak body that represents the trucking industry. Its members include state and sector-based trucking associations, some of the nation’s largest transport companies, and businesses with leading expertise in truck technology.

# Summary of recommendations

**Recommendation 1**

The Government should reduce the road user charge to 25.9 cents per litre in 2016-17 and 25.3 cents per litre in 2017-18.

**Recommendation 2**

The Government should increase its funding for the HVSPP and productivity projects under the BRP by $49.0 million in 2016-17 and $52.1 million in 2017-18.

**Recommendation 3**

The funding criteria for the HVSPP and BRP should be updated progressively to encourage councils to use information from the latest NHVR data analysis and visualisation tools to support their funding applications.

**Recommendation 4**

The Government should reprioritise existing spending to undertake the following developmental activities with respect to road pricing reform:

* developing an independent economic regulator for road prices, however they are to be imposed, and regulated service delivery standards for roads
* developing the road fund concept so it could be implemented in conjunction with any new pricing system
* reducing the cash flow gap caused by the interaction between road pricing and the existing fuel tax credits system.

# Introduction

The Australian Government is developing the 2016-17 budget at a time of international economic and financial volatility.

Domestically, the economy is still in transition from the period when growth was led by resource investment to broader bases of economic activity. The transition is proving to be gradual, with GDP growth in 2015-16 and 2016-17 now forecast to be lower than expected. Nonetheless, the RBA recently noted that surveys of business conditions are now at above average levels, employment growth has picked up and the unemployment rate has declined.[[1]](#footnote-1)

The budget deficit for 2016-17 is forecast to be $33.7 billion, mainly because of lower than expected tax revenue.

With new spending constrained by the need for budget repair, the ATA urges the Government to focus its efforts on carefully targeted measures to boost economic productivity. This submission puts forward four recommendations, which would:

* eliminate the Government’s share of the overcharging of truck and bus operators, and support further investments in industry productivity (recommendations 1 and 2)
* refine the funding criteria for the Heavy Vehicle Safety and Productivity Program and the Bridges Renewal Program to incorporate the digital tools now under development by the NHVR (recommendation 3) and
* support the development of the proposed new road pricing and supply system, including work on reducing the cashflow impact of the interaction between road pricing and the existing fuel tax credits system (recommendation 4). The Government must consider cashflow and compliance impacts as it considers any new system, because the trucking industry mainly consists of small businesses. 50 per cent of road freight businesses are non-employing; 98 per cent have fewer than 20 employees.[[2]](#footnote-2)

# Addressing the overcharging of truck and bus operators

Truck and bus operators pay for their use of the road system through a fuel-based road user charge, administered as a reduction in their fuel tax credits, and very high registration charges.

The National Transport Commission (NTC) found in 2014 that this system overcharged truck and bus operators, because it consistently underestimated the number of heavy vehicles on the road.

The system should raise about $2.9 billion per year. The NTC estimates that it will overcharge truck and bus operators by $190.3 million in 2015-16.[[3]](#footnote-3)

The NTC recommended a number of technical amendments to the system, which governments accepted, and later put forward three options for dealing with the overcharging from 2016-17. Of these, the ATA urged governments to adopt what the NTC described as ‘direct implementation’ – an immediate cut to the road user charge and registration charges to eliminate the over-recovery.

Instead, governments agreed to freeze the revenue from the road user charge and heavy vehicle registration charges at 2015-16 levels for two years. They agreed that the charge rates would be adjusted appropriately to deliver this result.

Based on NTC figures, the governments’ decision will overcharge truck and bus operators $250.2 million in 2016-17 and $264.8 million in 2017-18 – $515.0 million in all. Table 1 summarises how these figures are calculated:

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| **Table 1: Breakdown of overcharging, 2016-17 and 2017-18** |
|  | 2016-17 | 2017-18 | Total |
| Registration charges | 201.2 | 212.8 | 414.0 |
| Road user charge | 49.0 | 52.1 | 101.1 |
| Total | 250.2 | 264.8 | 515.0 |
| Source: NTC. Figures may not add to totals due to rounding. |

As an economic principle, user charges should reflect the cost of providing infrastructure – in this case, roads. Giving businesses a transparent signal about the cost of infrastructure gives them an incentive to use it efficiently.

In addition, the NTC has previously recognised that charges can significantly affect the competitive position of individual operators, because the industry operates on tight margins.[[4]](#footnote-4) The problem is exacerbated by the yearly imposition of the large heavy vehicle registration charges, which creates cashflow difficulties for businesses.

There is a further reason for getting the level of cost recovery right: the eventual need to transition to a new charging system.

As the Productivity Commission has pointed out, complex reforms like road pricing require an institutional base accepted by all parties.[[5]](#footnote-5) Governments will struggle to gain public and industry support for any new road charging system unless they first show they have the capacity to fix the known problems with the charging system we have now.

For these reasons, the ATA considers that the Government should use the 2016-17 budget to address its share of the overcharging.

## Reducing the road user charge

As a result of the governments’ decision to freeze revenue and not rates, the NTC has estimated that the road user charge should fall from 26.14 cents per litre in 2015-16 to 25.9 cents per litre in 2016-17 and 25.3 cents per litre in 2017-18.

The Government should proceed with these reductions in the road user charge. The reductions in expected revenue were included in MYEFO; the over-recovery estimates in table 1 of this submission also incorporate the charge reductions.

**Recommendation 1**

The Government should reduce the road user charge to 25.9 cents per litre in 2016-17 and 25.3 cents per litre in 2017-18.

## Increasing funding for heavy vehicle productivity projects

The Australian Government has two infrastructure programs that target heavy vehicle productivity.

The Heavy Vehicle Safety and Productivity Program (HVSPP) aims to increase the productivity of heavy vehicles by enhancing the capacity of existing roads and improving connections to freight networks, and also seeks to improve the safety environment for the industry and its drivers. Round 5 of the program closes on 10 February 2016.

The objectives of the Bridges Renewal Program (BRP) are to contribute to the productivity of bridges serving local communities and facilitate higher productivity vehicle access. The program also aims to improve access for local communities. The projects funded under round 2 of the BRP were announced in January 2016.

The ATA proposes that the Government should address its over-recovery of charges from truck and bus operators by increasing its funding for these programs in 2016-17 and 2017-18.

This would see the funding for these programs increase as follows:

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| **Table 2: Increased funding for the HVSPP and BRP** |
|  | 2016-17$m | 2017-18$m | 2018-19$m | 2019-20$m |
| Increase in funding for the HVSPP and BRP | 49.0 | 52.1 | -- | -- |

**Recommendation 2**

The Government should increase its funding for the HVSPP and productivity projects under the BRP by $49.0 million in 2016-17 and $52.1 million in 2017-18.

# Improving the targeting of the HVSPP and BRP

The funding guidelines for the HVSPP and BRP seek to align applications with the industry’s productivity priorities.

The guidelines for round 2 of the BRP asked applicants to provide quantified evidence about the extent their project would contribute to increased productivity for heavy vehicles. It also required applicants to provide assurances that all efforts would be made to ensure that regulatory access through the NHVR was also gained.[[6]](#footnote-6)

Applicants for funding under round 5 of the HVSPP are required to provide a similar assurance, and to explain how their project is aligned with the NHVR’s access management operations.[[7]](#footnote-7)

The NHVR is developing new data analysis and visualisation tools based on its growing permit database. These tools aim to track blockages in the road system and help councils pinpoint where improvements need to be made to the road network.[[8]](#footnote-8)

The funding criteria for the HVSPP and BRP should be updated progressively to encourage councils to use these tools when they make applications under the future rounds of these programs.

**Recommendation 3**

The funding criteria for the HVSPP and BRP should be updated progressively to encourage councils to use information from the latest NHVR data analysis and visualisation tools to support their funding applications.

# Planning for road reform

In its public infrastructure inquiry report, the Productivity Commission concluded that the current governance, taxation and institutional arrangements for the provision and funding of roads are unsustainable. The Commission pointed out that:

* there is no direct link between road-related revenue and road-related expenditure. This makes it difficult to determine road users’ preferences and willingness to pay for roads
* investment in roads is subject to political pressures arising from the annual budget process and election processes
* decisions are often based on inadequate information and assessment of the costs and benefits of road projects.[[9]](#footnote-9)

These findings are consistent with issues raised by industry; for example, the ATA pointed out in its 2015-16 pre-budget submission that the road funding process had a structural bias towards new projects rather than maintenance.[[10]](#footnote-10)

The Commission also recommended that governments should conduct pilot studies of direct charging for both light and heavy vehicles.[[11]](#footnote-11) This recommendation was echoed by the Harper Competition Policy Review,[[12]](#footnote-12) and the Government responded by announcing it would work through COAG to develop steps to transition to independent heavy vehicle price regulation by 2017-18.[[13]](#footnote-13)

In an important step, the COAG Transport and Infrastructure Council has released national expenditure plans and asset registers for Australia’s key freight routes. The expenditure plans profile maintenance expenditure and capital investments planned by all levels of government over the next four years. The asset registers provide ratings for each of the key freight routes according to heavy vehicle access, safety and ride quality.[[14]](#footnote-14)

The ATA has previously raised important concerns about the introduction of direct road pricing, including:

* the compliance cost of fitting GPS monitoring equipment to Australia’s 427,000 heavy rigid and articulated trucks
* the sustainability of CSO payments versus network pricing
* the cashflow burden on operators of paying both fuel tax and direct network charges, with most operators receiving fuel tax credits some time after they pay the tax
* the need for better road planning and decision-making and
* the need for an independent pricing regulator to make binding decisions about road prices.

The ATA continues to hold these concerns.

In our view, the Government will need to fund considerable development work on these and other issues before stakeholders can make final decisions on the merits of the reform. In particular, we consider that the Government should reprioritise existing spending to undertake the following developmental activities:

## Developing an independent economic regulator and defined service standards

The introduction of cost-reflective road pricing must include the establishment of an independent economic regulator to set fair, enforceable prices for road users.

At present, the NTC can only make recommendations about the road user charge and heavy vehicle registration charges. In 2014 and again in 2015, governments chose not to accept NTC recommendations to reduce charges substantially, on the grounds that the recommendations would adversely affect their revenue. The Australian Government did, however, freeze the road user charge for 2014-15 and 2015-16, and governments have now agreed to freeze revenue.

Establishing an independent economic regulator, such as the Access and Pricing Regulator proposed in the Harper Review, would help ensure that governments could not evade pricing recommendations in the future.

In addition to regulating pricing, any road reform process must regulate road standards as well, because a price regulated monopoly provider of roads would have an economic incentive to underprovide on service quality.[[15]](#footnote-15)

Drawing on a comprehensive report from PricewaterhouseCoopers, the ATA has previously argued that the Government should define a three tier road freight network, with engineering and access standards set for each tier.[[16]](#footnote-16) These standards should include requirements for providing heavy vehicle rest areas.

## Developing road funds

There is no case for implementing road pricing reform if the Government does not also reform road planning and delivery.

In its public infrastructure report, the Productivity Commission recommended the adoption of a well-designed road fund model, where independent road funds would make transparent funding decisions. The funds would receive hypothecated revenue from road users and government funding to cover community service obligations.[[17]](#footnote-17)

The Government said it supported the recommendation in principle as long term reform option. It said it had begun working with state, territory and local governments to investigate road fund models.[[18]](#footnote-18)

The ATA considers that the development of road funds should be accelerated, so better road funding and planning arrangements can be implemented in conjunction with the proposed reforms to road user pricing. Adopting independent road planning and delivery mechanisms cannot be a ‘long term reform option.’

## Reforming fuel tax credit payments

One of the ATA’s long standing concerns about direct pricing is the cashflow burden that would be caused by the simultaneous imposition of fuel tax and direct prices.

At present, trucking operators pay fuel tax – currently 39.5 cents per litre – at the point of sale, through a fuel card solution, or via invoice for bulk purchases. Fuel card statements are typically payable monthly.

Businesses operating eligible heavy vehicles on public roads can receive fuel tax credits, currently 13.36 cents per litre. Operators claim fuel tax credits via the business activity statement system, so most operators receive their credits quarterly.

Trucking businesses paying for their road use via direct pricing would face an increased cash flow burden. They would continue to pay the full rate of fuel tax as well as their direct pricing payments. They would receive their fuel tax credits some time after making these increased payments.

In the ATA’s view, the Government should explore options to reduce this cash flow gap by enabling eligible businesses to receive their fuel tax credits at the time of payment or invoice.

**Recommendation 4**

The Government should reprioritise existing spending to undertake the following developmental activities with respect to road pricing reform:

* developing an independent economic regulator for road prices, however they are to be imposed, and regulated service delivery standards for roads
* developing the road fund concept so it could be implemented in conjunction with any new pricing system
* reducing the cash flow gap caused by the interaction between road pricing and the existing fuel tax credits system.

# Other issues

In its final report on business set-up, transfer and closure, the Productivity Commission recommended that:

The current small business capital gains tax concessions should be rationalised. The White Paper on the Reform of Australia’s Tax System should consider:

* the recommendations of the Henry Tax Review relating to small business capital gains tax relief with a view to the effectiveness of implementation, avoidance of unintended consequences and ensuring consistency with broader tax policy.
* the relationship between small business capital gains tax relief and retirement incomes policy for small business owners.[[19]](#footnote-19)

The ATA’s submission to the inquiry argued that the existing CGT system made it difficult for small family businesses to pass the firm to the next generation of family members.[[20]](#footnote-20)

The ATA will continue pursuing this issue through the tax white paper process.

1. Stevens, G. “Monetary policy decision,” RBA media release, 2 February 2016. [↑](#footnote-ref-1)
2. ABS, *Counts of Australian Businesses, including Entries and Exits, Jun 2010 to Jun 2014*. (Cat 81650. Table 1: Businesses by Main State by Industry Class by Employment Size Ranges, June 2014. [↑](#footnote-ref-2)
3. NTC, *2016 heavy vehicle charges industry briefing information paper*, October 2015, p15. [↑](#footnote-ref-3)
4. NTC, *2014 Heavy vehicle charges determination regulatory impact statement*, p80. [↑](#footnote-ref-4)
5. Productivity Commission, *Public infrastructure*, May 2014, vol 1, p149. [↑](#footnote-ref-5)
6. DIRD, “Bridges Renewal Programme (BRP) round 2: programme criteria and proposal form.” [↑](#footnote-ref-6)
7. DIRD, “Heavy Vehicle Safety and Productivity Programme (HVSPP) round 5: programme criteria and proposal form.” [↑](#footnote-ref-7)
8. NHVR, “Improved performance tool to boost freight,” Media release, 19 January 2016. [↑](#footnote-ref-8)
9. Productivity Commission, 2014, vol 1, p303. [↑](#footnote-ref-9)
10. ATA, *2015-16 pre-budget submission*, p9. [↑](#footnote-ref-10)
11. Productivity Commission, 2014, vol 1, p161. [↑](#footnote-ref-11)
12. Australian Government, *Competition policy review: final report*, March 2015, p216. [↑](#footnote-ref-12)
13. Fletcher, P. (Minister for Major Projects, Territories and Local Government), *The Australian Government’s response to the Harper Review’s recommendations on road pricing*, 2 December 2015. [↑](#footnote-ref-13)
14. Truss, W. (Deputy Prime Minister and Minister for Infrastructure and Regional Development), “Expenditure plans and asset registers for key freight routes,” Media release, 29 January 2016. [↑](#footnote-ref-14)
15. See Harvey, M. “Commercial road supply with incentive regulation,” in *International Journal of Sustainable Transportation*, 9:4, pp241-253. [↑](#footnote-ref-15)
16. PricewaterhouseCoopers, *A future strategy for road supply and charging in Australia*. Report to the ATA, March 2013, pp31-32. [↑](#footnote-ref-16)
17. Productivity Commission, 2014, vol 1, p310. [↑](#footnote-ref-17)
18. DIRD, *Australian Government response: Productivity Commission inquiry report into public infrastructure*, 2014. p11. [↑](#footnote-ref-18)
19. Productivity Commission, *Business Set-Up, Transfer and Closure*, September 2015. p309. [↑](#footnote-ref-19)
20. ATA, *Business Set-Up, Transfer and Closure.* Submission to the Productivity Commission, February 2015. [↑](#footnote-ref-20)