|  |  |
| --- | --- |
| **Submission to:** | Treasury |
| **Title:** | 2015-16 Pre-Budget Submission |
| **Date:** | 6 February 2015 |

**Contents**

1. Australian Trucking Association 3

2. Summary of recommendations 3

3. Introduction 4

4. The heavy vehicle industry and productivity 5

5. Funding for workforce skills initiatives to grow productivity 11

# 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 maintain the fuel tax credit for the heavy vehicle industry.

**Recommendation 2**

To address the over-recovery of tax from the industry the Government should implement option A of the NTC Heavy Vehicle Charges Determination RIS in the 2015-16 Budget. The road user charge should not be increased.

**Recommendation 3**

The Government should implement the short term recommendations provided by PricewaterhouseCoopers to improve the performance and productivity of road agencies and subsequently road users.

**Recommendation 4**

The Government should implement the following Productivity Commission Public Infrastructure inquiry recommendations in order to increase productivity in supply side provision and subsequently road users:

* conditional funding for states
* improved governance arrangements
* project benchmarking
* better project selection, and,
* improved cost benefit analysis.

**Recommendation 5**

The Government should increase the small business turnover threshold to $3 million and investigate the feasibility of an increase to $5 million.

**Recommendation 6**

The Government should continue to fund the following skills and workforce enhancement programs in order to improve workforce productivity:

* training for employment scholarships,
* youth employment pathways,
* indigenous employment program, and
* the restart program.

# Introduction

The Australian Government has asked for submissions on priorities for the 2015-16 Budget.

Australia faces a challenge to increase productivity. Living standards in Australia have been strongly influenced by the mining sector. However, mining investments and a significant fall in commodity prices have exposed the realities of Australia’s two speed economy. For many years mining’s contribution to GDP has overshadowed and compensated for the slow growth and low productivity of other local industries and sectors. With the slowdown in revenue produced from the mining industry these other sectors underlying productivity, or lack of, is being exposed.

Australia’s terms of trade have fallen due to significant falls in prices of iron ore (down 30 per cent since the 2014 Budget) and coal. This indicates the real need to remove inefficient regulation and burdensome taxes from the economy.

If the Government want to achieve 2.5-3 per cent growth for 2014-2016 much needs to be done to support businesses in being as efficient and productive as possible.

The heavy vehicle industry is a significant contributor to economic activity, generating direct as well as flow on activity through its support to a diverse range of industries and supply chains. The road transport industry added over $18 billion to the Australian economy in FY2012 or 1.4 per cent of Gross Domestic Product.[[1]](#footnote-1)

Road is the dominant mode of transport for freight in Australia. Road freight transported more than 70 per cent of the 2,930 million tonnes of Australian domestic freight in FY2010.[[2]](#footnote-2)

The industry is mainly populated with small businesses, with 72 per cent of operators owning one truck and only 1 percent of operators owning more than ten trucks.[[3]](#footnote-3) This industry composition should be taken into consideration when the government considers implementing changes that will affect the trucking industry.

The industry has sought to increase its productivity via the uptake of high productivity vehicles. However, inefficient road networks, unfair charges, asset protection by road agencies and declining road quality have blocked further productivity gains that can be made. The price of goods domestically and for export reflect the cost of transport and any increased inefficient expenses will cost the competitiveness of the trucking industry and the Australian economy.

Unnecessary costs and unjustified restrictions on the productivity of the trucking industry simply burdens the economy and constrains growth.

# The heavy vehicle industry and productivity

In December 2014, the Deputy Prime Minister announced there has been a $50 billion infrastructure investment, which has seen work start on 22 major projects in 2014 and 47 projects this year.

While providing new infrastructure will promote productivity, new roads also need to reduce the time it takes to undertake freight journeys and enable the industry to use vehicles that can carry heavier loads.

Between 1971 and 2007 industry productivity increased six-fold. This large increase occurred because of the uptake of high productivity vehicles like B-doubles. In this time period the average distance travelled by articulated trucks increased by almost 90 per cent and the average load they carried doubled.[[4]](#footnote-4)

The productivity gains to be derived by B-doubles have plateaued due to government policy decisions and slow response to the industry’s desire to use safer, longer, higher productivity heavy vehicles.

To reap the productivity gains available from using high productivity vehicles, PricewaterhouseCoopers has recommended that governments should set target engineering and access standards for each tier of the road freight network.[[5]](#footnote-5) The effect of the increased productivity would mean reduced freight costs and reduced road wear due to less vehicles being needed to complete the freight task.

Having an efficient infrastructure network for freight is also essential for competitive exports and there is much that can be done to improve the productivity of the road network in Australia.

There are a number of actions and policies that need to be adhered to by the Government if the industry and the sectors it support are to increase productivity:

# 4.1 Maintain Fuel Tax Credits.

The heavy vehicle industry pays fuel tax in line with all other road users. The industry is eligible to claim the *fuel tax credit* which is covered under the *Fuel Tax Act 2006* designated to allow businesses to recover the tax paid on diesel and petrol that has been consumed for the purposes of carrying out the activities of the business.

The fuel tax credit supports Australian trucking companies and as the *Fuel Tax Act* recognises, the fuel is used for the purposes of carrying out business actives. The credit provided is no different to the GST exemption for business purchases/inputs that other businesses are eligible for. Without the fuel tax credit the industry would be paying the full price for a business input and would pass on the cost the community leading to an increase in the price of freighted goods.

**Recommendation 1**

The Government should maintain the fuel tax credit for the heavy vehicle industry.

# 4.2 Implement the NTC 2014 Heavy Vehicle Charges Determination recommendations.

The heavy vehicle industry pays heavy vehicle registration and a road user charge calculated via a 7 year averaging charging model (PayGo). Attributable heavy vehicle road expenditure and heavy vehicle population figures are used to allocate costs over the heavy vehicle fleet. However, the heavy vehicle industry has been significantly overpaying since 2007 as the model uses the most up to date road expenditure data but a lagged heavy vehicle population figure. As a result, in the model considerably underestimates the heavy vehicle fleet and produces heavy vehicle charges that are excessively high.

In 2014, transport ministers were asked to consider a National Transport Commission Regulatory Impact statement (RIS) *Heavy Vehicle Charges Determination RIS February 2014*.

The RIS recommended the removal of over-recovery from the heavy vehicle charges model that meant the industry had been over-taxed since 2007. This was called option A. Option A would update the heavy vehicle population figures and heavy vehicle infrastructure impact figures in the seven year PayGo charges model.

Transport ministers did not agree to the NTC recommendation, although departmental advisers and industry had been agreed on the most reasonable option in the construction of the RIS.

Because of this decision in 2014-2015, the heavy vehicle industry will be overcharged by over $200 million dollars according to National Transport Commission figures in registration charges and fuel excise.[[6]](#footnote-6) The Australian Government acknowledged the over-recovery and decided to not raise the road user charge in 2014-15.

The burden of unfair increased taxes effects the competitiveness of the freight industry and Australia as a whole. The charges the heavy vehicle industry pays should be calculated and charged correctly.

**Recommendation 2**

To address the over-recovery of tax from the industry the Government should implement option A of the NTC Heavy Vehicle Charges Determination RIS in the 2015-16 Budget. The road user charge should not be increased.

# 4.3 Implement the PricewaterhouseCoopers (PwC) report: A future strategy for road supply and charging in Australia supply side reform measures.

The PwC work: *A future Strategy for Road Supply and Charging in Australia*, sets out clear priorities for reforming road supply and charging. Implementing these recommendations would increase productivity of road agencies and would rationalise the connection between road users and road managers.

PwC provided a transition pathway to improve supply side provision.

The short-term recommendations included:

* defining a three-tier road freight network, which would target investment, reporting and funding on the basis of the level of service provided.
* reporting, benchmarking and reviewing road costs reported by states, territories and local government road owners on each tier of the network. Comparing these costs to established benchmarks and the associated level of access with the investment would improve the accountability of road agency spending.
* a transparent formula for allocating funding to infrastructure suppliers. Allocating recovered funds should reflect the heavy vehicle share of road costs, heavy vehicle use and access upgrades required for the three tiers. Existing and emerging data can support this allocation. The formula would also include a mechanism to fund low-volume roads through community service obligations.

PwC also provided medium and long-term recommendations that should only be implemented, if and when, the short-term recommendations are delivered and operating:

* reporting, benchmarking and review of efficient costs. Independent benchmarking of efficient road investment and maintenance costs should be tied to funding allocations for road agencies.
* potentially establishing a national road fund. This would assess available freight demand data and submissions from government and the freight industry to develop forward looking investment and maintenance plans for each tier of the network.
* further improving the cost reflectivity of road charges in the medium term, a majority fuel based charge should be adopted, reducing the role of registration charges.
* continuing with a fuel and registration-based charge until a strong business case for variable charging emerges. A move to variable charging will be costly and carries high risks of inefficiency in revenue collection.

PwC recommended variable charging be implemented only if governments can demonstrate the detailed data collected through variable charging can, and will, be used to improve road investment decision-making, in such a way that the added cost, time and complexity of the new process is warranted.

The Governments approach to user charges was clarified in its response to the Productivity Commission inquiry into Public Infrastructure. The Australian government stated there are sound economic arguments for user charging on certain key freight and transport corridors that are under significant pressure. Opportunities to test the practical application of road funds could be implemented as pilot schemes, such as building on the regional based roads and transport alliance model currently in place in Queensland[[7]](#footnote-7).

However, the Government acknowledge there are many complex issues that need to be worked through before user charging could be rolled out on the scale proposed by the Productivity Commission. There is a need to consider equity, the technology and privacy implication of options like vehicle telematics and the availability of alternatives.[[8]](#footnote-8)

The ATA supports the short-term PwC recommendations and once the short-term recommendations are established it will consider the medium to long-term recommendations.

**Recommendation 3**

The Government should implement the short term recommendations provided by PricewaterhouseCoopers to improve the performance and productivity of road agencies and subsequently road users.

# 4.4 Implement selected Productivity Commission recommendations from the Public Infrastructure Inquiry.

The ATA contributed to the Productivity Commission inquiry into Public Infrastructure and supported a number of Commission’s recommendations in regards to road supply and user charges reforms. The Government response to the Productivity Commission supported a number of the Commission’s recommendations to improve road provision.

**Conditional funding for states**

The ATA supports the Productivity Commission recommendationthat Australian Government funding or other forms of assistance (such as loans and government guarantees) for public infrastructure that is provided to local, state and territory governments should be conditional. Grants currently given by the Commonwealth to states and local governments are not made on a conditional basis. This means that there are loose guidelines governing where monies originally earmarked for roads are spent.

The Commission suggested a sensible set of conditions for funding:

* use of effective cost benefit analysis and transparency assessments including the methodology and assumptions.
* evidence of demonstrable net public benefits from the project which is not obtainable without Australian Government support.
* evidence that competitive processes will be used for the selection of financing, design, construction, maintenance and operation of public infrastructure services where these tasks have been outsourced to the private sector.
* ex-post evaluation and publication of public infrastructure project outcomes.
* consultation on the criteria to be applied and any potential implementation issues associated with such an approach should be undertaken with local, state and territory governments.
* all governments should be encouraged to apply the above principles and actions to their own-funded projects.[[9]](#footnote-9)

**Improved governance arrangements**

The ATA also supports the Commissions improved governance arrangements for road agencies such as:

* the principal objective of ensuring that decisions are undertaken in the public interest.
* clear and transparent public infrastructure service standards.
* effective processes, procedures and policy guidelines for planning and selecting public infrastructure projects, including rigorous application of cost benefit analysis and transparency in cost benefit assessments, public consultation and public reporting of the decision (including transparent review of the decision by an independent body, for example, an Auditor General or Infrastructure Australia).
* efficient allocation and monitoring of project risks between government and the private sector.
* use of transparent and competitive processes for the selection of private sector partners for the design, financing, construction maintenance and/or operation of public infrastructure.
* sufficiently skilled public sector employees who are responsible and accountable for performing their functions.
* principles and processes for selecting efficient financing mechanisms and transparency of financing arrangements.
* performance reporting and independent evaluation of public infrastructure project performance.[[10]](#footnote-10)

**Project benchmarking**

The ATA supports the Commission’s view that the provision of data to support the benchmarking framework should be a requirement attached to all Australian Government funding for major infrastructure projects. Ongoing benchmarking must be seen to be independent of both government and industry influence and also be seen as technically robust and credible[[11]](#footnote-11).

The move towards benchmarking is in line with the PwC’s short-term recommendation to improve accountability and transparency in road provision.

The Government has shown support for project benchmarking. Stating that that Australian state and territory government have agreed to the development of a benchmarking framework for infrastructure. As a first step, the Government have agreed to the systematic collection of project information for land transport infrastructure, led by BITRE.

Additionally, the Government wants to implement post build evaluations for Commonwealth funded land transport projects to ensure projects that are delivered with Australian government funds are completed satisfactory. Testing variations from the original scope and timelines, comparison of cost estimates with final costs, and effectiveness and efficiency of particular delivery mechanisms such as PPP or Project Alliances. Evaluations will improve future delivery of projects can be made with more awareness of potential risks[[12]](#footnote-12).

**Project selection**

Governments are sometimes weak at determining what, where and when infrastructure projects should be scoped and constructed. This stems from deficiencies in using coherent decision making frameworks – especially scoping and developing transparent cost benefit analysis, rigorous demand forecasting, investigating project risks fully (including latent risks borne by governments) and efficiently allocating risks between public and private partners.[[13]](#footnote-13)

Many major projects and ribbon cutting exercises come at the expense of periodic maintenance (to extend and exploit the asset lifecycle) and of small scale de-bottlenecking options that could postpone or even avoid the need for costly asset expansions.

Evidence from the Newell Highway shows strategic investment can improve safety significantly, at lower cost than dual carriageways.

The issue of periodic maintenance cannot be ignored if the road quality and stock of Australia is to improve. Budgets for maintenance are reducing over time and there is a need to address the issue of poor maintenance programs.

Poor road maintenance and poor quality decisions will be worn by the industry again and again. Having a consistent and accurate maintenance program is crucial to providing roads that do not cause industry undue cost. While it is not feasible to upgrade every road in Australia to bitumen quality, poorly maintained roads cost users higher than necessary vehicle operating costs.

We share the Productivity Commission’s view that correct project selection or provision is the most important aspect of achieving good outcomes for the community from public infrastructure irrespective of the financing approach ultimately chosen.

The Government will be reviewing National Guidelines on project delivery this year, which will seek to improve the process of project selection and delivery[[14]](#footnote-14).

Along with good governance arrangements there should be a set of maintenance strategies, developed by engineers, to give road agencies a clear set of directives for maintenance of road infrastructure. While there is considerable discussion about road user charges to indicate usage figures for roads, a telematic device cannot tell a road agency where a pothole exists or where the road layer has subsided over time. Telematics will not solve the maintenance problems that persist and any subsequent safety issues.

**Cost benefit analysis**

The ATA supports the extension of appropriate cost benefit analyses (CBA) to make sure that benefits and costs are accurately assessed for significant projects. However, recent experience with CBA work has indicated that there has to be sufficient time for stakeholders to interrogate the findings.

The Commission identified that a properly conducted CBA is an important starting point for guiding project selection and improving the transparency of decision making. This should be augmented with real options analysis where appropriate.

Making sure that political outcomes inform the option selection is also crucial to having supportable conclusions.

We support the Commission recommendation of making CBAs public (with clearly documented assumptions) for both projects that have been selected, and those that have been rejected, greatly improves the transparency of decision making. It also allows particular estimates to be debated and the consequences of different estimates of the projects net benefits to be calculated.[[15]](#footnote-15)

The Government also concurs that improvement in the conduct of CBAs are necessary, recommending a best practice framework for evaluating project and a nationally consistent approach to CBAs.[[16]](#footnote-16)

**Recommendation 4**

The Government should implement the following Productivity Commission Public Infrastructure inquiry recommendations in order to increase productivity in supply side provision and subsequently road users:

* conditional funding for states
* improved governance arrangements
* project benchmarking
* better project selection, and,
* improved cost benefit analysis.

# 4.5 Increase the small business turnover threshold from $2 million to $3 million

The ATO definition of ‘small business’ a business with a turnover of $2 million (excluding GST) or less does not capture all small businesses in the trucking industry.

A trucking company can have turnover of more than $2 million; however it may employ fewer than 20 workers. The amount of turnover is considerable but the resources available to complete tax administration, including business activity statements, superannuation payments and other tax responsibilities may not be sophisticated.

In Australia's Future Tax System Review report published in 2009 it was recommended that the small business turnover threshold be increased from $2 million to $5 million. This year the Board of Taxation released a review of tax impediments facing small business report reiterated the point that the $2 million turnover threshold for small business is out of date. The Board recommended the threshold be increased to $3 million as this would achieve a reasonable balance and provide a degree of future proofing. The Board also recommended that there should be further investigation of the feasibility of an increase to $5 million.

**Recommendation 5**

The Government should increase the small business turnover threshold to $3 million and investigate the feasibility of an increase to $5 million.

# Funding for workforce skills initiatives to grow productivity

While much can be done to improve government road provision and improving the quality of infrastructure, supporting the improved human capital and competency of the workforce also plays a vital role in improving productivity of the nation. Therefore the continuation of the Industry Skills Fund is supported by the ATA. The fund will provide funding for up to 200,000 training places and support services over four years.

The fund prioritises small to medium enterprises, including micro businesses. As over 89% of business own 2 or fewer trucks[[17]](#footnote-17) the fund will be useful to industry to increase its skills and competence. This will lead to safety outcomes and provide the workforce with better career progression opportunities.

The fund commenced 1 January this year.

The ATA recommends the federal government continue to fund the following programs:

* training for employment scholarships,
* youth employment pathways,
* indigenous employment program, and
* the restart program.

**Recommendation 6**

The Government should continue to fund the following skills and workforce enhancement programs in order to improve workforce productivity:

* training for employment scholarships,
* youth employment pathways,
* indigenous employment program, and
* the restart program.

1. PricewaterhouseCoopers, *A future strategy for road supply and charging in Australia,* 2013, accessible at: [www.truck.net.au/industry-resources/future-strategy-road-supply-and-charging-australia](http://www.truck.net.au/industry-resources/future-strategy-road-supply-and-charging-australia), page 12 [↑](#footnote-ref-1)
2. PricewaterhouseCoopers, *A future strategy for road supply and charging in Australia,* 2013, accessible at: [www.truck.net.au/industry-resources/future-strategy-road-supply-and-charging-australia](http://www.truck.net.au/industry-resources/future-strategy-road-supply-and-charging-australia), page 10 [↑](#footnote-ref-2)
3. PricewaterhouseCoopers, *A future strategy for road supply and charging in Australia,* 2013, accessible at: [www.truck.net.au/industry-resources/future-strategy-road-supply-and-charging-australia](http://www.truck.net.au/industry-resources/future-strategy-road-supply-and-charging-australia), page 18 [↑](#footnote-ref-3)
4. Bureau of Infrastructure, Transport and Regional Economics, *Truck productivity: sources, trends and future prospects*. Report 123. BITRE, Canberra, 2011., accessible at: [www.bitre.gov.au/publications/2011/files/report\_123.pdf](http://www.bitre.gov.au/publications/2011/files/report_123.pdf) page xv. [↑](#footnote-ref-4)
5. PricewaterhouseCoopers, *A future strategy for road supply and charging in Australia,* 2013, accessible at: [www.truck.net.au/industry-resources/future-strategy-road-supply-and-charging-australia](http://www.truck.net.au/industry-resources/future-strategy-road-supply-and-charging-australia), page 31-32. [↑](#footnote-ref-5)
6. National Transport Commission, *2014 Heavy Vehicle Charges Determination RIS February 2014*, Accessible at :<http://www.ntc.gov.au/Media/Reports/(D72A1250-2EA5-5377-2008-17FE01D3DC72).pdf>, Page 59 [↑](#footnote-ref-6)
7. Australian Government Response, *Australian Government Response: Productivity Commission Inquiry Report into Public Infrastructure* ,2014 ,accessible at: <http://www.infrastructure.gov.au/infrastructure/publications/files/Productivity_Commission_Inquiry_Report_into_Public_Infrastructure.pdf> , Page 6 [↑](#footnote-ref-7)
8. Australian Government Response, *Australian Government Response: Productivity Commission Inquiry Report into Public Infrastructure* ,2014 ,accessible at: <http://www.infrastructure.gov.au/infrastructure/publications/files/Productivity_Commission_Inquiry_Report_into_Public_Infrastructure.pdf> Page 12 [↑](#footnote-ref-8)
9. The Productivity Commission *Public Infrastructure Draft Report* *March 2014*, accessible at: <http://www.pc.gov.au/inquiries/completed/infrastructure> Page 36 [↑](#footnote-ref-9)
10. The Productivity Commission *Public Infrastructure Draft Report* *March 2014*, accessible at: <http://www.pc.gov.au/inquiries/completed/infrastructure> Page 223 [↑](#footnote-ref-10)
11. The Productivity Commission *Public Infrastructure Draft Report* *March 2014*, accessible at: <http://www.pc.gov.au/inquiries/completed/infrastructure> Page 303 [↑](#footnote-ref-11)
12. Australian Government Response, *Australian Government Response: Productivity Commission Inquiry Report into Public Infrastructure* ,2014 ,accessible at: <http://www.infrastructure.gov.au/infrastructure/publications/files/Productivity_Commission_Inquiry_Report_into_Public_Infrastructure.pdf>,Page 8 [↑](#footnote-ref-12)
13. The Productivity Commission *Public Infrastructure Draft Report* *March 2014*, accessible at: <http://www.pc.gov.au/inquiries/completed/infrastructure> Page 8 [↑](#footnote-ref-13)
14. Australian Government Response, *Australian Government Response: Productivity Commission Inquiry Report into Public Infrastructure* ,2014 ,accessible at: <http://www.infrastructure.gov.au/infrastructure/publications/files/Productivity_Commission_Inquiry_Report_into_Public_Infrastructure.pdf>,Page 4 [↑](#footnote-ref-14)
15. The Productivity Commission *Public Infrastructure Draft Report* *March 2014*, accessible at: <http://www.pc.gov.au/inquiries/completed/infrastructure> Page 74 [↑](#footnote-ref-15)
16. Australian Government Response, *Australian Government Response: Productivity Commission Inquiry Report into Public Infrastructure* ,2014 ,accessible at: <http://www.infrastructure.gov.au/infrastructure/publications/files/Productivity_Commission_Inquiry_Report_into_Public_Infrastructure.pdf>,Page 4 [↑](#footnote-ref-16)
17. PricewaterhouseCoopers, *A future strategy for road supply and charging in Australia,* 2013, accessible at: [www.truck.net.au/industry-resources/future-strategy-road-supply-and-charging-australia](http://www.truck.net.au/industry-resources/future-strategy-road-supply-and-charging-australia), page 18 [↑](#footnote-ref-17)