

Submission to: Heavy Vehicle Charging and Investment Reform

Title: Options Development Discussion Paper

Date: 25 July 2013



Contents

1.	Introduction	3
2.	Australian Trucking Association	3
3.	Recommendations	3
4.	Supply side reform	4
4.1	Independent review of access decisions	5
4.2	Improve road agency and local government knowledge of the impact and benefits of High Productivity Vehicles.	5
4.3	Complete Performance Based Standards maps	6
4.4	Define the network of roads	7
4.5	Implement benchmarking between agencies and within layers of government	7
4.6	Continuation of political oversight	8
4.7	Integrated freight planning	8
4.8	Potentially establishing a national road fund	9
5.	Intricacies of supply side reform	10
5.1	An independent economic regulator	10
5.2	Road agency capabilities	10
5.3	Forward looking planning	11
5.4	The funding and financial function	11
5.5	Revenue redistribution	11
5.6	Local government access to funding	11
5.7	Community Service Obligation roads	12
5.8	Data to inform road investment	12
6.	Heavy Vehicle charges reform	14
7.	Intricacies of heavy vehicle charges reform	16
7.1	The Road User Charge (RUC) exceeding the excise cap	16
7.2	Fleet management data	16
7.3	National or state based charges	17
7.4	Adequate price signals and the optimal fleet mix	17
7.5	Incremental charges for heavy vehicles	17
8.	Conclusion	18

1. Introduction

The ATA has been involved in the Heavy Vehicle Charging and Investment (HVCI) process since the project's inception in 2006. In that time the focus of reform has shifted from heavy vehicle charges to road agency culture and the framework of road provision. The Australian Trucking Association strongly supports the need to reform the provision of road agencies to deliver roads more efficiently.

This submission is written in response to the HVCI discussion paper. It also reflects industry's views following the Co-design Workshops that the ATA and member associations were involved in.

In 2012, the ATA commissioned independent advice that examined many of the topics HVCI are investigating. The ATA has endorsed all short-term recommendations made by the PricewaterhouseCoopers (PwC) report. The ATA strongly advises HVCI to take notice of the PwC report in making any recommendations with regard to the desired way of changing road agency behaviour and reforming heavy vehicle charges.

2. 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.

3. Recommendations

Recommendation 1

The PwC short term recommendations should be replicated by HVCI including:

- Defining a three tier road freight network to focus heavy vehicle investment, reporting and funding to target particular heavy vehicle access levels.
- Reporting, benchmarking and reviewing road expenditure costs across each tier of the network, in order to improve accountability and transparency.
- A transparent formula for allocating funding to road suppliers reflecting road costs, heavy vehicle usage and access upgrade requirements. The formula should also incorporate a mechanism for funding low volume roads through community service obligations (CSOs).
- Improving the cost reflectivity of road charges by increasing the variable fuel component of the PayGo model, along with third party review of PayGo inputs.

Recommendation 2

The transitional changes that need to occur in order for the PwC short term recommended changes include:

- Complete Performance Based Standard maps and automatic access for prescribed vehicles
- External review of access decisions
- Essential training provided to local government and road agencies on the infrastructure impacts and benefits of high productivity vehicles.

Recommendation 3

When transitional changes are implemented and the short term PwC recommendations are executed there should be consideration of:

- Allocating road funding based on independent assessments of efficient road investment and maintenance costs.
- Potentially establishing a road fund which would establish forward looking investment and maintenance plans for the different tiers of the network.
- Adopting a majority fuel based change, further reducing the role for registration charges.
- Only progressing with variable charges once a strong business case is made showing the detailed data obtained can and will be used to improve road investment decision making and that the added cost, time and complexity is warranted.

Recommendation 4

The HVCI regulatory impact statement should make sure that any changes to road provision and governance and heavy vehicles charges recognise the challenges presented by:

- Local government and road agency capability to reform and provide sufficient accountability and transparency,
- Rural and remote Australia and the treatment of community service obligation (CSO) roads,
- The partial market issue,
- An industry with distinct operators, moving freight on varying road conditions, with different types and uses of trucks and that are predominantly small firms.

4. Supply side reform

It is of national significance that the heavy vehicle industry's productivity increases. The HVCI, are the catalyst necessary to reform the systematic performance and governance problems of road agencies in order to provide these productivity improvements.

Increased accountability and transparency in planning, design decisions, along and the construction phase of capital and maintenance needs to be implemented.

A recent report to Infrastructure Australia (IA) about infrastructure project governance effectiveness in Australia found that on average, 48% of projects failed to meet baseline timeframes, costs and quality objectives.

There is a high level of non-compliance with basic governance measures¹:

- 87% did not have approved governance plans
- 94% did not measure governance in team member performance
- 80% said project skills were not adequate
- 55% governance team members did not exhibit proper corporate behaviour

Unsurprisingly, the report concluded that 'a major cause of project failure in Australia has its roots in project Governance or the lack thereof. The delivery of project governance in Australia is also highly dysfunctional.'²

¹ Page 4 - Caravel to Infrastructure Australia: A Review of Project Governance Effectiveness in Australia, March 2013

HVCI have confirmed that supply side reform will be implemented regardless of which heavy vehicle charges option is recommended. While HVCI may be examining significant changes to the overarching framework of providing roads, including an economic regulator, HVCI may need to reflect on the current situation and resources and consider how long any transition will take to reach an independent economic regulator with a commercial relationship with operators.

It is also vital that the inefficiencies that currently exist are not transposed into a new road provision system.

Below are a number of practical changes to the regulations and transparency of road agency operations, which need to be implemented in order to improve road agency decision-making.

4.1 Independent review of access decisions

Currently, decisions on road access for heavy vehicles are not externally reviewable. Road agencies are not held to account for verdicts and do not have to justify decisions. If road agencies are to be more accountable for their actions, third party review of road agency access decisions needs to occur.

Over time, a series of tribunal decisions would establish precedents for road agencies to use to make consistent access decisions. Many law reform papers report better decision-making flows from external review being available. In the broader regulatory environment, it is now uncommon for government agency decisions not to be subject to external review.

Wrong decisions impose costs not just on the companies seeking administrative review, but also on government. Therefore, using a process of external review may add more systematic approach to decisions and move agencies toward best practice decision making. Further, external reviews allow political oversight to focus on high level access and charging policy issues rather than being dealing with lobbying on specific access decisions.

The NHVR guidelines on access decisions should be robust requirements for road agencies rather than simply requesting they 'have regard to' a matter. It is also important that rejected decisions be recorded and presented transparently to industry in order for further appropriate action to be taken.

Industry needs consistent outcomes that show rigour, with the same outcomes in same circumstances and value for investment in roads from sensible access decisions.

4.2 Improve road agency and local government knowledge of the impact and benefits of High Productivity Vehicles.

Restricting access for High Productivity Vehicles (HPV) or Higher Mass Limit (HML) vehicles has a negative effect on the productivity of industry, the local community and the economy. Allowing these vehicles to access suitable routes means freight movements could be undertaken more safely with less total road wear and at a cheaper cost for the operator and subsequently for businesses.

While higher mass limits on road friendly suspension (RFS) for articulated vehicles and some rigid trucks was endorsed by the Australian Council of Transport in 2000, many road agencies have still not agreed to commit to this productivity understanding which reduces the number of trips needed to move freight and allows additional mass for the same amount of road impact. Much of the rejection of RFS is due to misconceptions about the impact of HPVs.

HVCI should aim to educate those agencies and councils making access decisions on the real impacts and benefits of HML/HPV vehicles.

Such vehicles will enable Australia to meet the doubling of freight task in 2030 and the tripling by 2050. For example, when transporting a freight task of 1000 tonnes, B-double trucks transport the freight in only 26 trips with a total Equivalent Standard Axle (ESA) (a rating of the impact of the vehicle on the road) figure of 195. Comparing this with a traditional semi-trailer, the latter takes 16 more trips (i.e.42) to complete the freight task and adds 62 ESA (i.e. 257for the same freight task) than the B-double.

Figure 1: ESA impact for a selection of heavy vehicle combinations

Heavy vehicle	No. of trips per 1000 tonnes	Equivalent Standard Axle per 1000 tonnes (ESA)
Traditional 3 axle rigid	77	316
Traditional 6 axle semi-trailer	42	257
Innovative 9 axle B-double	26	195
Innovative 12 axle B-triple	20	178

Source: The ATA and Barkwood Consulting Pty Ltd Truck Impact Chart

The ATA has made efforts to inform local government and other road stakeholders of the benefits of High Productivity Vehicles, such as providing a Factsheet on HPVs and Intelligent Access Program (IAP) to jurisdictions.

Modular HPVs or HML vehicles should be accepted without IAP (or similar monitoring) as a prerequisite.

Advancing access arrangements for modular HPVs, e.g. planned route assessment and upgrading for AB-triples to access as much of the Type 1 road train network as possible should be in road agency work plans now.

4.3 Complete Performance Based Standards maps

The Performance Based Standards (PBS) system was created to allow innovative heavy vehicles that comply with relevant engineering standards to prove their safety so that they can operate as normal heavy vehicles on the same roads as the vehicle types the engineering standards were drawn from.

The rationale for the PBS scheme is to make it easier for industry to use innovative or specialised heavy vehicles. Although business has complied with the strict criteria set in PBS, local governments and state agencies have made the scheme ineffectual. For example, PBS maps were intended to have been produced to identify “automatic” access opportunities but in 2013, access is not automatic as COAG agreed, it is granted via specific individual applications with no guarantees of access.

PBS shows road agencies are not providing services that businesses have paid for. The scheme has been operational since 2007 and 80 trucks and buses have registered in PBS as of January 2010³ and PBS mapping is still not complete nor does the scheme provide automatic access. The scheme’s success would be ensured if local and state governments were able to fulfil their role. The example of PBS demonstrates that if local governments do not adhere to the rules the intent of productivity-improving schemes will be considerably undermined.

HVCI should make sure that PBS completes its original intentions by: ensuring that access is granted for PBS vehicles based on their performance; PBS maps are completed; review the PBS road classifications to make sure they reflect all required service standards (e.g. there is no B-triple equivalent category); and to make sure that once a heavy vehicle is certified as meeting PBS appropriate prescriptive gazettes the notices are updated so any operator can adopt the same vehicle specifications.

PBS mapping also provides a tried and tested method of road classification. The ATA believes PBS mapping is a suitable method to define the service standards of a road based on the access provided by that road.

³ <http://www.ntc.gov.au/filemedia/Groups/PBSmapsportalFAQ.pdf>

4.4 Define the network of roads

Currently there is no standard network of Australia's roads beyond IA's national Land Freight Strategy and the repository of PBS maps.

In the PwC report to the ATA, PwC recommended that the roads in Australia be classified in an initial three tier network (with each tier targeting a level of heavy vehicle access) in order to focus investment, reporting and funding.

- Tier 1 to focus primarily on road freight transport corridors, indicating the highest level of access, thereby building on Infrastructure Australia's National Land Freight Network priorities.
- Tier 2 to address significant 'last mile' higher mass limit connections. While Tier 2 would not manage Tier 1 access levels above, it could still align with Tier 1 Mass Limits to ensure end-to-end productivity is achieved for each truck trip.
- Tier 3 to concentrate on the remaining freight network. This would examine minimum levels of access in line with current general access requirements, and be supplemented by ad hoc improvements as overseen by NHVR.

Through direct and ongoing consultation with industry, the National Heavy Vehicle Regulator (NHVR) can help identify different network concerns as industry requests for access are received. Precisely defined levels of access for each of the three tiers would usefully guide new road investment, maintenance and access levels.

The benefit of this style of network classification is that it is understandable, consistent and useful to heavy vehicle operators, as well as capable of being transposed to other freight planning initiatives whether in states or nationally.

This approach is akin to defining service level standards (reliability) in the utilities sectors.

At the co-design workshops, an alternative approach using the attributes of service such as 'ride smoothness' and 'traveller information' was discussed at length. The conclusion reached by these discussions was that while such attributes are a good indicator of individual road features, including them in a pricing mechanism would be very difficult with marginal (if any) benefit for road agencies or operators.

An economic regulator may require more information regarding road attributes, however, from industry's perspective, the important parameters focus on access, maintenance condition and if the road is congested. Perhaps in a more mature system of road provision these individually variable service level attributes could be adopted, but in the present and foreseeable future measuring access requirements (via PBS levels), maintenance and congestion on an identified road would be a significant step forward.

4.5 Implement benchmarking between agencies and within layers of government

Currently, information on the competence of one road agency compared with another is limited. There is not an easily obtained and reviewable source of data for industry to use to review the efficiency of heavy vehicle-specific expenditure.

PwC recommended that state, territory and local government road owners should report investment and maintenance activity on each tier of the network. This information should then be compared with cost benchmarks and the levels of access achieved, relative to agreed targets or benchmarks for increased transparency and accountability.

Associated levels of access arising from investment should also be transparently reported. This will also give confidence to industry and the wider community that heavy vehicle-related expenditure is spent effectively and produces the expected access.

In the longer term, once basic benchmarking is established, independent benchmarking of efficient road investment and maintenance costs should be tied to funding allocations for road agencies. Such a move would support efficiency incentives and appropriate pricing.

Incentives to outperform guidelines should be provided, for instance, by allowing a road supplier to retain unspent funds to invest in other relevant priorities. However, safeguards are required to ensure quality of supply and to avoid inflated project estimates.

While it is easier to assess the benefits and costs of a project with a forward-looking costs base, the current National Transport Commission (NTC) heavy vehicle charges determination has highlighted that road agencies cannot split maintenance and capital costs in project costs. States have failed to comply with a twenty year old expenditure reporting system. A forward-looking cost base requires new approaches by road agencies as well as transparent and agreed methodologies that industry considers fair, best practice and robust. The 2013 Caravel⁴ report to IA further highlights the need for benchmarking and governance reform.

The current standard of public reporting; project governance and oversight needs to be improved before any serious moves are made to a forward-looking cost base or fundamentally changing road planning arrangements

4.6 Continuation of political oversight

Elected representatives often have visionary transport portfolios. The portfolio of the current Federal Transport Minister, which incorporates infrastructure policy, shows that some want to encourage productivity and growth in the transport sector. The issue industry comes up against is Ministers are sometimes poorly advised by their bureaucrats and their decisions or policies are not appropriately carried out. Ministers are accountable to the public and have incentive to deliver change in response to community input. They are also entitled to support the necessary processes and reporting that allows them to make informed decisions.

Ministerial oversight is not therefore a power that needs to be rolled back; instead both bureaucrats and party advisors need to be accountable for their input and actions. The ATA would hope any proposed economic regulator would promote best practice in road provision and provide incentives and discipline to agencies delivering inappropriate outcomes to industry.

4.7 Integrated freight planning

There is currently a jumble of state and national freight plans that do not seem to integrate into larger national projects. The result of these isolated jurisdictional plans is that Australia does not have a single, consistent approach to infrastructure planning.

This process should deliver a co-ordinated approach to planning the national freight task with involvement of industry, states, Commonwealth, IA, NTC and NHVR, in order for the current system to improve.

HVCI has suggested that a 'heavy vehicle infrastructure coordination function' could address this co-ordination problem.

The rationale for this function is to ensure that planning and expenditure is responsive to industry priorities, is focussed on what industry is willing to pay for, and that expenditure by road providers is aligned to deliver service and access levels that drive productivity improvements.

While this function would seem to represent industry's issues, in reality functions already exist that deal with specific shortcomings. The main issues that industry needs addressed are first and last mile access problems, maintenance issues and bottlenecks, along with aspirational access for High Productivity Vehicles.

NHVR is addressing access requests and improved performances of all road agencies would deal with the other matters of maintenance, bottlenecks and hopefully aspirational access.

⁴ Caravel to Infrastructure Australia: A Review of Project Governance Effectiveness in Australia, March 2013

Therefore, the function itself could be unnecessary if a National Co-Ordination Committee could address the issues brought to NHVR and road agencies attention.

Further, the workshops highlighted how state road agencies and the Commonwealth currently evaluate projects based on different methodologies. The Commonwealth currently uses a 'quantative method' to grant funds, whereas road agencies use a qualitative approach. This disconnect is one of the reasons industry experiences such a patchwork approach to access. Reconciling this situation so that there is a single way to value projects in future is crucial.

4.8 Potentially establishing a national road fund

PwC recommended that in the longer term, establishing an independent National Road Fund would possibly produce benefits.

A national fund would assess available freight demand data and submissions from government and the freight industry to develop forward-looking investment and maintenance plans for Tier 1 and Tier 2 networks. The result of these assessments would inform spending and charging requirements. The Fund would be mostly financed from heavy vehicle road user charges. However, Government should provide additional funds to facilitate additional freight capacity and efficiency as necessary.

An independent fund would address current weaknesses in road supply arrangements by providing consistent leadership and policy cohesion in terms of road supply maintenance, investment and planning.

PwC recommended that political power (Ministerial discretion) over spending decisions should not be fully removed. Ministers should set the objectives, desired outcomes and operating principles of the autonomous body through overarching legislation and the endorsement of a 'Master Plan'.

Ministers would also retain powers of direction for use in exceptional circumstances. The intricacies of such an approach demand further exploration once all short term PwC recommendations have been adopted.

IA has similarly recommended creating a single national infrastructure fund. It recommends that Commonwealth funding for all types of infrastructure be consolidated into a single assessment and prioritisation process. The result would be that only the best projects amongst the different types of infrastructure would be funded and delivered. The single assessment and prioritisation framework will ensure all major projects would involve informed decisions, supported by an independently assessed Cost Benefit Analysis⁵.

⁵ Page 18 – Infrastructure Australia: National Infrastructure plan, June 2013

5. Intricacies of supply side reform

The recommendations above are changes that need to be made to the supply side of infrastructure (road) provision. The Co-design Workshops highlighted the need for practical reforms and a workable framework for how road agencies and industry will interact - changing the current relationship to a more customer-focussed style of service provision and hypothecating heavy vehicle charge revenue to heavy vehicle road investments.

The heavy vehicle industry presents some particular constraints that do not make supply side reform as straightforward as simply adopting the utilities model in full for supply side reform. Specifically, the partial market issue, CSO roads, the diversity of operators, a variety of different trucks and the varying quality of roads; cannot be ignored in the reform.

5.1 An independent economic regulator

HVCI have highlighted the desire for an independent economic regulator, which can provide a number of system checks and balances while trying to replicate a competitive market for road provision in a natural monopoly.

Having a centralised economic regulator would provide the greatest comfort to industry. As with the NHVR, savings are likely to be incurred through having a single entity deal with heavy vehicle regulation. For this reason the economic regulator should be centralised.

While economic regulation can provide customer focus and strengthen the link between service standards and required expenditure, it is important to remember independent regulation does not equate to incentive regulation. At the Co-design Workshops a consultant stated the power of embedding cost-reducing incentives is an important design choice that is separate to establishing independent transparent regulation.

Given the prevailing constraints mentioned above, any regulation has to be fit-for-purpose and without detailed RIS testing industry is unable to offer a concrete answer to how heavy or light-handed the economic regulator should be. Nevertheless, industry needs assurance there is going to be much higher levels of accountability and transparency than there is currently.

The HVCI RIS should demonstrate how the regulator would accurately identify:

- Current/projected asset condition;
- Demand forecast;
- User requirements; and
- Safety and other requirements.

5.2 Road agency capabilities

There is a concern local governments may struggle to provide the information required by an economic regulator (e.g. such as asset values). Local governments also have the added complexity that many roads are classed as Community Service Obligation (CSO) roads and this would affect the heavy vehicle cost base and related distribution of revenue.

A solution to concerns over the constraint on resources that an economic regulator (and increased accountability) presents, is to create regional groupings of local governments based on regional economic activity. Such groups could identify asset condition, create maintenance programs, identify and cost major capital investments or expansions on their network that would be attributed to the heavy vehicle industry.

This would pool local resources and give comfort to industry nationwide that accountability is improving, specifically in local government areas where first and last mile access problems, along with maintenance issues are common.

It is also vital that industry is involved in these regional groups in order to provide logistical and other local knowledge.

5.3 Forward looking planning

Currently, roads appear to be planned for lower capital costs, which results in high maintenance costs over the lifetime of the asset, and industry pays for this poor quality design.

Forward planning could increase project discipline to seek low maintenance costs over the life of the asset. However, if forward looking planning processes were properly developed, industry would need to be provided with greater certainty that what it needs will be provided and how this is reported. The charges produced from this process would also need to be scrutinised, as there is a potential for 'gaming' of the system to occur, with opportunities for road managers to overstate estimated costs directly affecting industry through artificially high charges or the uncertainty created.

Some road agencies have stated that increased data produced from on-board vehicle monitoring will provide more information for forecasting. This is not correct, as the data taken will only reflect where trucks currently travel. HVCI notes forecasting will involve GDP indicators and cover more than just the truck population. It must be remembered that if a change to the system is really desired then access needs to be aspirational. That means greater acceptance of HPVs and planning for freight movements.

On the heavy vehicle side, requests to NHVR for access represent the greatest indicators of where future demand is likely to occur.

5.4 The funding and financial function

HVCI finds that calculating the cost base may be difficult as a forward-looking cost base would be established on future expenditure plans with capital costs recovered over the life of the investment. The value of the asset and the formula for depreciation for each road will also need to be considered.

Road providers would be required to outline optimal programs of works, perhaps over a five year period, and their proposed links to long-term planning. Road providers would be funded based on their benchmarking of reasonable costs to deliver that program, acknowledging that underlying costs vary by location and other project attributes.

Again the issue of road agency capability, Community Service Obligation (CSO) roads and the partial market will play an important role here.

5.5 Revenue redistribution

Road agencies have argued that fuel-based charges do not provide location information and cannot be used to re-allocate the revenue. Therefore, alternative information will be to determine how revenues will be distributed.

PwC has recommended that the allocation of road funding should reflect the heavy vehicle share of costs, use and access upgrades for Tier 1 and Tier 2 roads. Existing and emerging data would act to support an allocation through the use of a transparent funding formula.

The formula would include mechanisms to have the heavy vehicle industry partially fund low-volume roads (i.e. Tier 3) via Community Service Obligations, at an appropriate level. It is important rural, remote and regional Australia is adequately funded so local improvements may be made in their communities and to facilitate the road freight task undertaken by the operators working in those locations. This requires funds from other sources to flow to CSO roads.

The formula provides certainty to road owners around supply of heavy vehicle- related funding.

5.6 Local government access to funding

The current way local governments are funded produces less than desirable outcomes. Local governments are funded through a system of grants which are unrelated to any need for maintenance or capital works. There is also no centralised accountability or control over how general funding specified for roads is spent except for some very specific road grants, such as *Roads To Recovery*, which are tied.

As mentioned above, more accountability could be attained by having funds flow to regional economic groups instead of individual local councils. HVCI has stated that “A regional model would provide a greater capacity for local governments to engage in a more structured investment process for heavy vehicle related road services.” This premise seems sensible.

Allowing direct road funding to local governments would provide a more efficient split of public monies. It would also possibly indirectly promote better planning for heavy vehicle maintenance and capital.

IA has also recommended consolidation of regional local government, which would strengthen their planning and delivery.⁶

5.7 Community Service Obligation roads

HVCI has indicated that under an ‘averaged system’ users could not be exempt from the charge without location information. However, many local CSO roads are currently excluded from the heavy vehicle cost base.

Remote and regional areas are likely to include many CSO roads and their communities are unlikely to bear the full cost of infrastructure required for heavy vehicle services.

The economic regulator would presumably still monitor these roads. In order for this to happen, it is necessary that all CSO roads in Australia be identified.

5.8 Data to inform road investment

A continuing argument for more direct user charges is that the amount of information produced would be useful for road planning. This is a lazy argument for increasing monitoring of road user movements, as there is presently considerable data available for this purpose. Simply increasing the amount of data that road agencies receive does not equate to better delivery outcomes.

Collecting data is also not a costless process. Hence, tradeoffs have to be made between cost, volume and accuracy of data when formulating policy.

The two main parameters of road investment are *durability* and *capacity*. Generally, durability specifications will be based on anticipated heavy vehicle usage while capacity will be based on demand by light vehicles.

It is obvious to both road users and road asset holders where there are transport issues. Sir Rod Eddington’s report on UK infrastructure noted that⁷:

In most cases, the best signals to identify where transport is acting to hold back growth will be the presence of clear signs of economic success (economic growth and very high wages and land prices), and that transport demand is starting to outstrip supply (signs of congestion and unreliability). In areas without such clear signs, it is unlikely that transport is holding back productivity and growth.

There is a great deal of data available for heavy vehicle usage. The main sources are:

- 1) State and territory CULWAY/WIM (weigh-in-motion) data;
- 2) FDF FreightInfo inter-regional freight movements database;
- 3) ABS Survey of Motor Vehicle Use (SMVU); and
- 4) State and territory commercial vehicle traffic counts.⁸

Where a particular data source has shortcomings, these can often be overcome by using observed patterns from other data sources or via ‘informed estimates’. For instance, BITRE notes that:

⁶ Page 79 - Infrastructure Australia: National Infrastructure plan, June 2013

⁷ The Department of Transport The Eddington Transport Study December 2006

⁸ Page 195 - Bureau of Infrastructure, Transport and Regional Economics 2009, National road network intercity traffic projections to 2030, Working Paper 75, BITRE, Canberra

...some data (SA and NT) include estimates of the net freight task, others (NSW) the net freight task needs to be estimated by multiplying the difference between the average gross vehicle weight and the estimated average tare weight, for each Austroads vehicle class, by the total number of vehicles in each class, and summing over all vehicles classes.

Overall, the Weigh-in-Motion (WIM) data provided by various state authorities provides an accurate real-world picture of road freight flows between capital cities, with the exception of the Sydney-Canberra route.

The Transport and Infrastructure Senior Officials' Committee (TISOC) recently approved an expansion of the ABS SMVU to double the number of heavy vehicles surveyed and to have an additional focus on freight movements. In addition, industry now has the capacity to gather statistics on demand from NHVR records of failed access requests and attendant statements of reasons.

There is little evidence to suggest that more data being provided to road agencies and local government will lead to better devliery outcomes. As we demonstrate, it appears the governance of road agencies is the single largest issue as to why the right decisions are not being made and not a lack of data.

Hence, data sought from direct user charges is already being provided through less costly methods than direct monitoring of road users.

This data could also feed into the distribution of funds to states and local governments based on Tier 1-3 spending and access expectations.

6. Heavy Vehicle charges reform

HVCI has assured industry that until supply side reforms are established there will be no changes to the current method of how the heavy vehicle industry pays for its road use.

As stated above, while HVCI focuses on longer-term reforms, ensuring the transition from the short to the long term reform is done correctly is important.

The PayGo model should not be dismissed by HVCI, given the improvements being made to PayGo, which will extend the longevity of the current charges model through the NTC heavy vehicle charges review including:

- Axle group charging – supports the use of longer trailers and removes the A-trailer issue.
- Supporting the refinement and updating input data (Survey of Motor Vehicle Usage and other ABS data)
- Using latest SMVU population data and no longer using a midpoint population for heavy vehicles for calculation (to correct a previous bias that led to over-recovery as payments are made on the real population).
- Improving the accuracy of road agencies reporting heavy vehicle expenditure.
- Options for reducing large registration fees by raising the Road User Charge (RUC) component of heavy vehicle charges above current levels. The NTC will also be reviewing how this would be affected by any carbon charge; and the RUC and excise reaching parity.
- Refining the methodology of assessing the impact of trucks on infrastructure, to reflect the 'modularity' concept and to prepare for possible implementation of axle group charging.

PwC recommended that the cost reflectivity of road charges be improved by adjusting the existing PayGo scheme to be more reflective of road use, as well as a third party review of PayGo inputs.

The PwC Report also recommends improvements to the PayGo model, such as increasing the accuracy of data input and auditing road agency heavy vehicle expenditure.

The NTC heavy vehicle charges review has already recommended this and will hopefully implement it in the 2014 heavy vehicle charges determination.

In conjunction with this, the heavy vehicles charges that industry pays should be based on a high variable fuel charge with a reduced role for registration charges.

The ATA policy has been to adopt a fuel-based charge since 2009. The 2013 PwC report into the future for heavy vehicle charges also supported a high variable fuel charge.

Fuel burn mirrors road wear across different classes at allowed axle loadings, however, the ATA concedes that wear tends to increase more steeply than fuel use at higher than currently allowed axle loadings. But such loadings cannot readily occur due to bridge stock limitations. A higher variable charge would improve price signals as more fuel is used to drive longer distances and to transport heavier loads.

The ATA proposed that the RUC would vary between two broad vehicle groups:

Vehicle Class A: 2 axle rigids, Special Purpose Vehicles and Buses (VCA).

Vehicle Class B: 3 axle rigids and all articulated vehicles (VCB).

Dividing the vehicle fleet creates a stronger link between the associated cost and the type of vehicle paying for it. VCA vehicles can access almost all roads, require less infrastructure investment and have a lower impact on roads (eg tier 3 roads). VCB classification vehicles demand greater infrastructure provision, and impact more on roads, so should be charged accordingly (generally operate on tier 1 and 2 roads). Fuel consumption between the classes varies significantly, with different fuel efficiencies and typical loads, as well as average distance travelled.

Under the ATA proposal the fuel tax credit rate will be reduced, essentially increasing the road user charge to broadly replace the decrease in registration revenue. The road user charge will be a 'cents per litre' charge representing the variable cost of road use by heavy vehicles.

There will be two different rates, for VCA and VCB vehicles. The rate will depend on the allocated cost amount for the two vehicle classes spread across the vehicle fleets in terms of fuel consumption. The road user charge would apply to all fuels consumed by heavy vehicles, including alternative fuels, with a rate adjusted to reflect energy factor. These fuels may also be included in separate rebate schemes.

Registration charges would cover administration and shared costs.

In the medium to long term there should be a continuation of a fuel and registration based charges until a strong business case for variable charging emerges.

Recent changes to the proposed carbon charge have extended the applicability of the PayGo model and of the use of a higher variable fuel charge. The carbon charge industry might now pay in 2014 is 1.6⁹ cents per litre, not 6.85 cents per litre.

PwC recommend that variable charging be implemented *only* if the government can demonstrate that the detailed data collected through variable charging can, and will, be used to improve road investment decision-making, and in such a way that any added cost, time and complexity are warranted.

PwC identified the most efficient form of variable charging would reflect operator use of the network by recognising vehicle/combination designated mass and the distance travelled by tier.

PwC have also noted that a new charging system could work on a self-assessment and audit basis, like the existing Fuel Tax Credit system.

Alternatively, a more expensive approach would be to employ in-vehicle telematics. Costs can be minimised by using existing information already collected as part of emerging government data requirements including driver work diaries and ABS freight data. Utilising existing business systems should also be explored. It is crucial that an 'open standards' approach to technology is adopted to promote technological innovation and take-up.

The costs of a telematics charge collection system should not be borne by the trucking industry. Road agencies are already provided detailed data through the Australian Bureau of Statistics and other entities, which are funded by the government. This cost imposed in order to gather data for road providers through telematics should be paid for by the government not the trucking industry.

Any cost recovery process should be separately distinguished and exclude data collection costs, as they are strategic policy costs.

Current examples where inappropriate costs are included in the charges industry pays are the NSW Safe-T-Cam costs being added to NSW enforcement costs resulting in state specific cost that are beyond other states. Also we have recently become aware that some States include IAP back room costs in the current heavy vehicle cost base.

Under a variable charging regime PwC also proposes that money should not necessarily follow the truck, i.e. revenue raised on a particular stretch of road need not automatically be spent on that road.

Investment and maintenance decisions are different from charging regimes so variable charging will not automatically make location-specific investment and maintenance decisions.

⁹ Based on a floating carbon price of \$6/tonne.

7. Intricacies of heavy vehicle charges reform

7.1 The Road User Charge (RUC) exceeding the excise cap

Under a higher RUC component charge, the RUC could exceed the fixed excise cap.

The effect of moving to a system where RUC exceeds excise presents some apparent challenges:

- Industry will be paying a levy not receiving a tax credit,
- A market system for carbon emissions that changes every six months will affect the levy industry pays,
- Different compliance requirements due to moving from a tax credit to a levy,
- Possible changes to the BAS (ATO has indicated this cost is around \$1M),
- Legislation changes necessary, attached to the fuel tax credit,
- The legislation changes would be likely to take 12-18 months to complete,
- ATO has stated the possibility of different RUC rates presents complexity.

The message from the ATO has been consistent; it's going to be a complex process. However, in the scheme of overall changes that any new charges system would present, the changes mentioned above are likely to be relatively low cost.

While a change in legislation would be necessary, this is not a logical reason not to alter the charging system to a more 'user pays' and more reflective system for recovering road expenditure. Passing legislation is part of the political landscape

While the ATO advice provides context, it is tasked with implementing legislation passed by elected representatives. The wishes of the responsible Minister should be implemented at all times by the ATO as is legally required.

There are currently well over 40 different excise charges and credits given by the ATO. Is the ATO really prepared to claim the addition of two or more excise rebates or levies will cripple the current BAS system?

A recent court ruling has shown the ATO is able to make an incremental change to the fuel tax credit that industry is eligible for. The *Linfox Australia Pty Ltd v Commissioner of Taxation* case resulted in a judgement in which fuels used in auxiliary equipment are not liable for the RUC.

All the changes necessary for industry to claim a rebate or a tax credit have been completed in less than year since this ruling. While there is considerable pressure on the ATO to deliver the necessary changes, it proves that modifications to the BAS system of claiming can be made flexible for many different purposes. Further, self-assessment of the excise change is the primary methodology, with appropriate compliance methods.

Regardless of which system of charges is adopted (even 'Mass Distance Location' charging), there will always been a need for a fuel tax credit/levy and a registration charge. Therefore, the ATO will not lose the need to provide a BAS to industry or monitor its compliance. Industry is well aware that one attempts to cheat the ATO at one's peril.

Increasing the fuel component has many benefits in terms of reflecting mass, distance and road condition. A higher RUC component would also show infrastructure usage better. We further believe Ministers would not be happy if informed the reason for not progressing to a fairer, more reflective RUC was because the ATO considered this a tiresome task.

7.2 Fleet management data

Road agencies are complaining about the lack of data to inform decisions made on capital and maintenance. An option for HVCI to consider is whether industry should be approached and asked if they are willing to offer fleet management data anonymously in order for this data to be provided.

In conjunction with a higher variable fuel charge, this option would provide road agencies with the data they claim is desirable and not force telematic monitoring on the industry. Our membership has operators with good freight origin and destination data who are willing to consider such an approach from HVCI on behalf of governments.

HVCI should consider industry's appetite for such a scheme as it would provide the data road agencies state they lack.

7.3 National or state based charges

HVCI recommends that the charges industry pays should be different in each jurisdiction, because each state has different road provision costs. This position presents some concerns as it likely to promote one state over another and mean that interstate operators would be presented with possibly four or five different rates. Ironically, different state-based charges were historically the driver for national charging reform via the inter-state commission and ultimately the creation of the NRTC/NTC to establish equitable uniform charges.

7.4 Adequate price signals and the optimal fleet mix

HVCI has stated that an averaged charging system does not provide sufficient price signals to operators, however, previous CRRP work has shown that even with a more cost reflective charging system:

- Operators will not change their behaviour dramatically because of current operational limits (by road agencies) and the incentives operators already have to use the most efficient route and the most productive vehicle combination
- Only 25% of current freight trips have realistic alternative routes
- Only 11% of operators agreed they would have an alternative to the local roads on which they travel¹⁰.

Therefore, indicating there needs to be an improvement in route choice and fleet mix is a fanciful argument that won't produce a marginal change even with fully variable charges; industry is making the best decisions it can given current access restrictions and fixed origin and destination.

If HVCI is looking for a charges system that changes route choice it will struggle. HVCI also needs to consider that industry is constrained by noise curfews, time curfews, access curfews, depot operating hours and peak hour congestion . Any variable pricing mechanism needs to consider these constraints and the prices should reflect the barriers on operations and productivity that industry encounters.

Until these and other restrictions are addressed there is limited action industry can undertake to change delivery routes and times. Accordingly, this line of argument should be dropped by HVCI permanently.

7.5 Incremental charges for heavy vehicles

Incremental charges for more productive vehicles like B-triples or HML vehicles or additional mass works against promoting productivity in the industry, because they continue to target the most productive vehicles separately and with a disadvantage relative to the main fleet.

Some of those who want access to B-triple/HML routes are likely to pay, however, this should be viewed as road agencies gouging industry through a higher charges simply because they can, not because such payment reflects the impact of the vehicles or the saving they present to infrastructure.

In the Co-design Workshops, states who ran incremental trials noted that it was very difficult to calculate the marginal impact and the return on incremental trials was limited. Further, the charges model will need to remove any double counting and distortions arising from incremental charges.

¹⁰ Page 48- PwC report to the Australian Trucking Association: A Future Strategy for Road Supply and Charging in Australia, March 2013.

8. Conclusion

The transition from a fragmented and resistant road management culture to the optimal outcome, where productivity in the heavy vehicle industry can improve markedly depends heavily on what reforms are implemented.

A big bang approach to reform will cause massive shocks to both industry and road managers, therefore, a well thought through staggered approach that takes into account the particulars of the trucking industry and of road agencies will result in the best possible outcomes.

The submission covered many important topics for HVCI to consider. The main recommendations flowing from the details are:

Recommendation 1

The PwC short term recommendations should be replicated by HVCI including:

- *Defining a three tier road freight network to focus heavy vehicle investment, reporting and funding to target particular heavy vehicle access levels.*
- *Reporting, benchmarking and reviewing road expenditure costs across each tier of the network, in order to improve accountability and transparency.*
- *A transparent formula for allocating funding to road suppliers reflecting road costs, heavy vehicle usage and access upgrade requirements. The formula should also incorporate a mechanism for funding low volume roads through community service obligations (CSOs).*
- *Improving the cost reflectivity of road charges by increasing the variable fuel component of the PayGo model, along with third party review of PayGo inputs.*

Recommendation 2

The transitional changes that need to occur in order for the PwC short term recommended changes include:

- *Complete Performance Based Standard maps and automatic access for prescribed vehicles*
- *External review of access decisions*
- *Essential training provided to local government and road agencies on the infrastructure impacts and benefits of high productivity vehicles.*

Recommendation 3

When transitional changes are implemented and the short term PwC recommendations are executed there should be consideration of:

- *Allocating road funding based on independent assessments of efficient road investment and maintenance costs.*
- *Potentially establishing a road fund which would establish forward looking investment and maintenance plans for the different tiers of the network.*
- *Adopting a majority fuel based change, further reducing the role for registration charges.*
- *Only progressing with variable charges once a strong business case is made showing the detailed data obtained can and will be used to improve road investment decision making and that the added cost, time and complexity is warranted.*

Recommendation 4

The HVCI regulatory impact statement should make sure that any changes to road provision and governance and heavy vehicles charges recognise the challenges presented by:

- *Local government and road agency capability to reform and provide sufficient accountability and transparency,*
- *Rural and remote Australia and the treatment of community service obligation (CSO) roads,*
- *The partial market issue,*
- *An industry with distinct operators, moving freight on varying road conditions, with different types and uses of trucks and that are predominantly small firms.*