



Heavy vehicle charges determination – scope

April 2020

Information paper

Report outline

Title	Heavy vehicle charges determination – scope
Type of report	Information paper
Abstract	In November 2019, the Transport and Infrastructure Council directed the NTC to commence a heavy vehicle charges determination. This paper outlines the scope for the determination for the information of governments and industry stakeholders.
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1 About this project

Key points

The purpose of a heavy vehicle charges determination is to review the current methodology (known as Pay-As-You-Go or PAYGO) for setting heavy vehicle charges to ensure it is current and accurate.

The determination will seek to develop recommendations for setting heavy vehicle charges from 2022–23 onwards that are based on an open and transparent methodology and assumptions, and the best available data.

Defining the scope, approach and timelines early in the project will ensure that the determination focuses on important issues, including those that are important to stakeholders. Outlining the broad approach and timelines will ensure that stakeholders can engage effectively to ensure their views are considered.

The determination will consist of several phases, including:

- scoping
- analysis and investigation (in several workstreams)
- option definition
- option modelling
- Regulation Impact Statement (RIS) development (including consultation on draft RIS)
- implementation.

The analysis and investigation task will be undertaken during 2020, followed by the RIS development and public consultation phases taking place in 2021. Final recommendations will be delivered to the Council in November 2021.

1.1 Project objectives

Purpose of a heavy vehicle charges determination

At its meeting on 22 November 2019, the Transport and Infrastructure Council directed the NTC to undertake a heavy vehicle charges determination and present final recommendations to the Council in November 2021.

The purpose of a heavy vehicle charges determination is to review the current methodology (known as Pay-As-You-Go or PAYGO) for setting heavy vehicle charges to ensure it is appropriate, current and accurate.

There are several issues with the current methodology which the determination will seek to address:

- The current PAYGO methodology has not been reviewed since the 2014 heavy vehicle charges determination. A thorough review of the methodology will ensure that the methodology and the information used in it are current and as accurate as possible.

- PAYGO is a cost recovery mechanism underpinned by a set of pricing principles which are binding on the NTC (Appendix A). The heavy vehicle cost base identified under the current methodology is higher than the revenue collected by current heavy vehicle charges but has been lower in the past. The determination will review the PAYGO methodology with a focus on cost recovery in line with the pricing principles. This includes ensuring that the heavy vehicle cost base underpinning future heavy vehicle charges is calculated using appropriate data, assumptions and calculations.
- To the extent that the determination identifies a gap between the identified cost base and heavy vehicle charges revenue, changes may need to be introduced using a gradual transition process. If required, the determination will develop transition options for consideration by the Council.

The determination will seek to develop recommendations for setting heavy vehicle charges from 2022-23 onwards that are based on an open and transparent methodology and assumptions, and the best available data.

1.2 Background

1.2.1 Recent decisions on heavy vehicle charges

The 2014 heavy vehicle charges determination identified that previous charges were recovering more than the identified heavy vehicle cost base. It recommended that heavy vehicle charges be reduced.

Following the determination, the Council made the following decisions on heavy vehicle charges:

- increases of 1.3 per cent and 0.6 per cent in 2014–15 and 2015–16 respectively
- set to recover a fixed level of revenue in 2016–17 and 2017–18 resulting in small decreases in heavy vehicle charges due to increasing vehicle numbers and fuel consumption
- frozen at 2017–18 levels for 2018–19 and 2019–20.

On 22 November 2019, the Council considered options for setting heavy vehicle charges from 2020–21 to 2021–22. By then, government expenditure on roads had increased to an extent that heavy vehicle charges would have needed to increase by 11.4 per cent for 2020–21 to achieve full cost recovery.

The Council was mindful of the challenges faced by transport industry operators, and having sought the views of industry representatives, decided to freeze charges in 2020–21.

1.2.2 Direction to undertake a determination

At its 22 November 2019 meeting, the Transport and Infrastructure Council (the Council) directed the National Transport Commission (NTC) to undertake a heavy vehicle charges determination, presenting final recommendations to the Council in November 2021.

The purpose of a heavy vehicle charges determination is to review the current methodology (known as Pay-As-You-Go or PAYGO) for setting heavy vehicle charges to ensure it is current and accurate.

Defining the scope and timelines early in the project will ensure that the determination focuses on important issues, including those that are important to stakeholders. Outlining the

broad approach and timelines will ensure that stakeholders can engage effectively to ensure their views are considered.

1.2.3 What are heavy vehicle charges

Heavy vehicles include all vehicles with a Gross Vehicle Mass (GVM) of above 4.5 tonnes.

There are three components to the charges paid by heavy vehicles:

- the Road User Charge (RUC), administered by the Commonwealth Government
- the roads component of the registration charge, as applied by state and territory governments,
- the regulatory component of the registration charge, which covers the operating cost of the National Heavy Vehicle Regulator (NHVR).

The RUC and registration charge are designed to reflect the cost to governments of building and maintaining roads for trucks. The amount to cover the cost of the NHVR is designed to vary in-line with the NHVR's budget, which is approved by the Council.

1.3 Approach

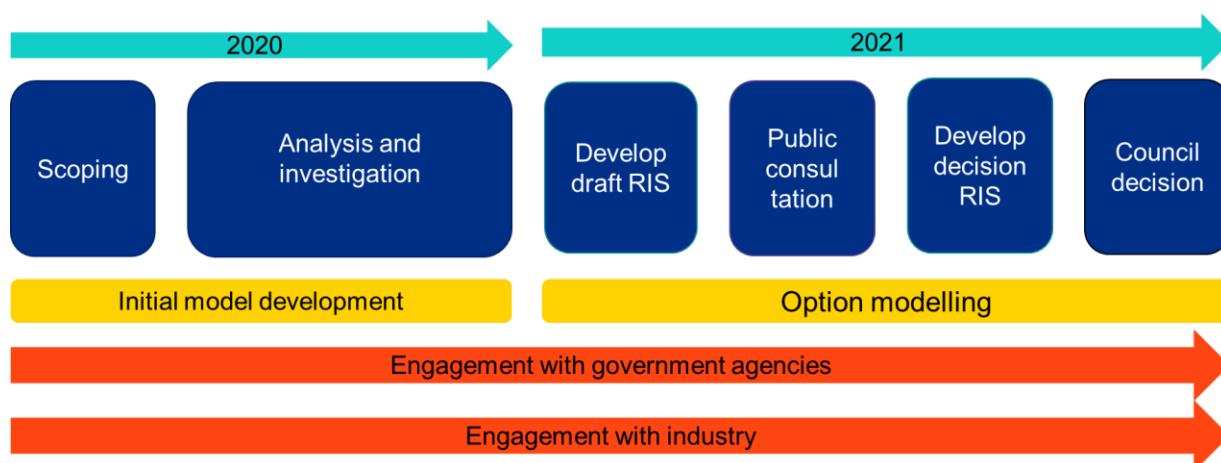
1.3.1 Broad approach to determination

The determination will consist of several phases, including:

- scoping
- analysis and investigation (in several workstreams)
- option definition
- option modelling
- RIS development (including consultation on draft RIS)
- implementation.

Engagement with governments, industry associations and individual operators will occur during all phases. Figure 1 Illustrates the phases of the determination process.

Figure 1. Approach to the determination process



The investigative and policy development work will be grouped into several workstreams. Once options and recommendations have been developed under the workstreams, they can then be combined into a limited number of comprehensive charges options. These options will then be included in the Regulation Impact Statement process which involves comprehensive public consultation.

Work on the model is divided into the initial model development task where technical aspects of the model are updated. The updated model is then used to model the outcomes of the specific options included in the RIS.

The final RIS containing final recommendations will be delivered to the Council in November 2021.

1.3.2 Scope

A heavy vehicle charges determination typically involves examining all aspects of the PAYGO methodology to ensure that it produces outcomes that are consistent with the pricing principles.

More specifically, the scope will include reviewing the following aspects of the current PAYGO methodology and, where possible, exploring alternative options:

- measuring road expenditure by state and territory governments over time, including investigating options to improve the reliability and quality of data sources
- measuring local government road expenditure, including the reliability and quality of data sources
- exploring possible approaches to minimise the volatility of heavy vehicle charges without compromising cost recovery in the longer term
- allocating expenditure between the different vehicle classes, including the cost allocation matrix used in the cost allocation process
- road use and fuel consumption data, and how it is used in the model
- how toll roads, partially tolled roads, PPPs¹ and other innovative financing models are treated

¹ Public Private Partnerships

- the relativity of charges paid by different heavy vehicle classes.

In assessing the current model, and potential changes, the NTC will comprehensively assess:

- the impact on the heavy vehicle industry in general, and on different operators within the industry
- the impact on remote and rural communities
- overall economic and fiscal implications.

The following issues will not be considered as part of the determination:

- changes to the PAYGO pricing principles
- changes to the responsibility of the Transport and Infrastructure Council for approving heavy vehicle charges
- implementation of a forward-looking cost base
- changes to the way the approved National Heavy Vehicle Regulator's approved budget is recovered through the regulatory component of heavy vehicle registration charges (although changes to the amount of the regulatory component of registration charges, and the relativities between different heavy vehicle types may be considered)
- changes to any of the current pricing mechanisms consisting of registration charges and the Road User Charge
- changes to the way heavy vehicle charges revenue is collected.

1.3.3 Workstreams

The determination will involve defining issues, gathering information and data and developing and testing a range of possible policy options. This analytical task is best grouped into workstreams where similar and/or related issues can be considered together.

The proposed workstreams, and their broad scope are:

Expenditure measurement

Objective: Ensure road expenditure is identified and measured correctly

This workstream will examine all aspects of how road expenditure is measured, including:

- data sources
- data quality
- expenditure categories
- inclusions and exclusions
- mechanisms to smooth expenditure measures over time
- options to ensure the expenditure data is accurate.

Cost allocation

Objective: Allocate costs appropriately between different vehicle classes and categories

This workstream will consider variations to the current cost allocation matrix based on data and evidence, including looking at overseas approaches and other methodologies, e.g. the

one developed by the Victorian Department of Treasury and Finance, the Victorian Department of Transport and ARRB.

Usage data

Objective: Ensure the most accurate and up-to-date information on road usage is used in the cost allocation process

This workstream will include reviewing the ESA values (last reviewed as part of the 2014 heavy vehicle charges determination using data from 2005 to 2007). It will also consider alternative data sources or possible improvements to existing data sources.

Interactions with tolls and leakages

Objective: Investigate areas where current charges interact with other charges such as tolls or where leakages have developed and evaluate possible solutions

This workstream will consider the various toll road models that have been implemented and consider how they interact with the current charging regimes. It will consider how different types of toll roads should be treated in terms of both cost measurement and revenue recognition, building on work previously carried out in this area. It will also consider recent developments where revenue leakages have developed in the tax system, and how these could possibly be reflected in the model.

Transition options

Objective: Develop options for transitioning to new charges if there is a significant gap between the heavy vehicle cost base and heavy vehicle charges revenue.

This workstream will investigate potential transition options should a longer-term transition path be required.

Additional workstreams

Where required, additional workstreams may be established to deal with issues not covered by the other workstreams, or to cover issues that emerge during the determination.

1.3.4 Resourcing

The determination will require significant resources and expertise. This will be sourced from NTC staff in the first degree. NTC resources may be augmented by external resources where specialist skills and expertise are required.

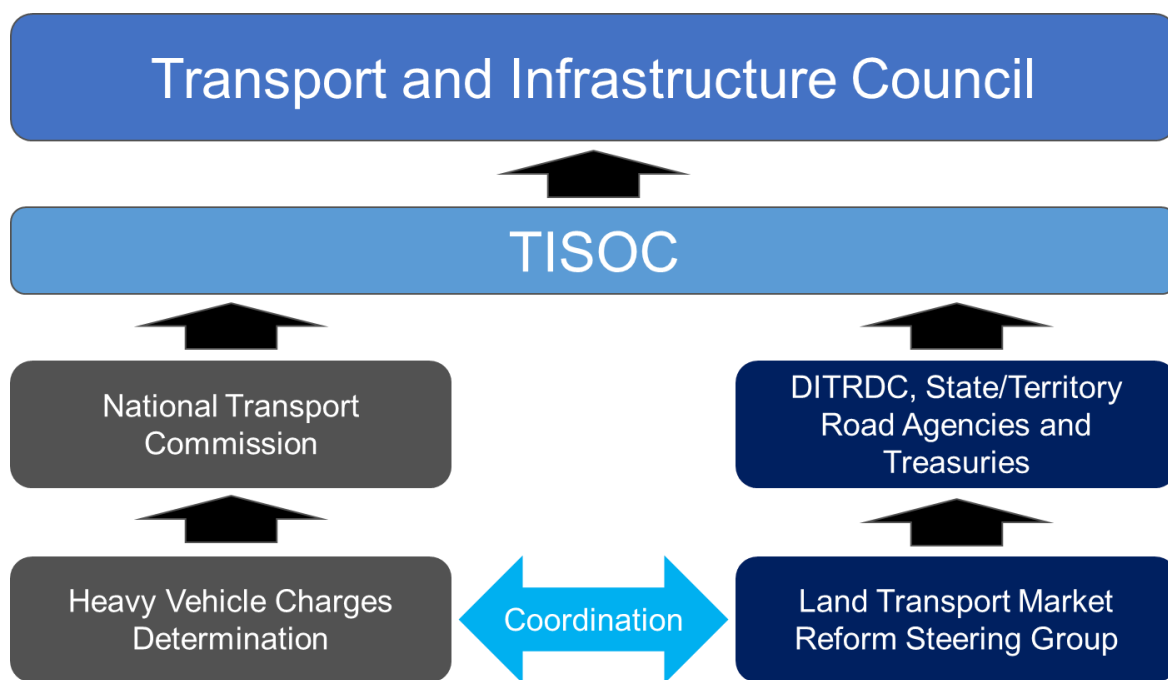
The workstreams will be progressed in parallel, to allow information to be shared between workstreams on an ongoing basis.

1.3.5 Governance and linking with Land Transport Market Reform

The Council has directed the NTC to undertake the determination on the advice of TISOC. The NTC will provide update reports, and recommendations to the Council via TISOC.

At the same time, the Council and TISOC perform governance roles for the Land Transport Market Reform project. There is considerable overlap between these projects, and the recommendations coming out of the determination need to be designed to provide a suitable platform for future reform. Figure 2 outlines the governance of the projects and the coordination that will occur through the Land Transport Market Reform Steering Group.

Figure 2. Governance and linkages



A standing agenda item relating to the determination will be included in the agenda of the Land Transport Market Reform Steering Committee. This body will be the key forum for ensuring that the determination and Heavy Vehicle Road Reform are aligned and coordinated.

For technical issues, the advice and views of specific subject matter experts in industry and government agencies can be sought.

In addition, there will be ongoing liaison between the NTC and the Commonwealth Department of Infrastructure, Transport, Regional Development and Communications to ensure the two projects are coordinated.

1.3.6 Consultation and engagement

A detailed consultation and engagement plan will be developed as part of the determination.

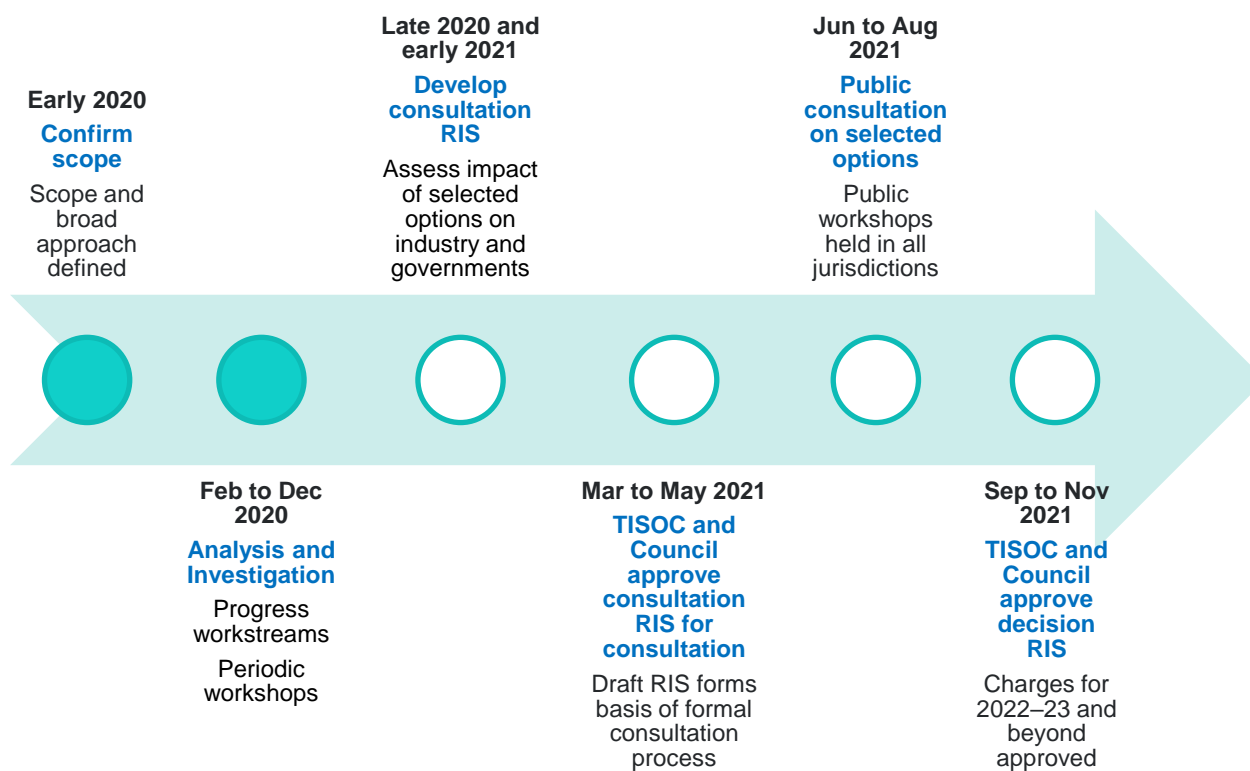
During the investigative and policy development phase, we will seek to engage directly with key stakeholders and experts. In addition, we will organise workshops for government and industry stakeholders where we can collaborate in developing options and testing their advantages and disadvantages.

The public consultation phase will include stakeholder workshops in every state and territory as well as direct interaction with key stakeholders.

1.4 Timing

The key stages of the determination are illustrated in Figure 3.

Figure 3. Timing of the determination



Phase 1: Scoping – January to early March 2020

During this phase of the project, the scope and broad methodology will be agreed. This will involve discussions with governments and industry. The scope will determine the issues investigated and addressed as part of the determination.

Phase 2: Analysis and investigation – February to December 2020

The analysis and investigation phase consists of a number of broad workstreams. Typically, we will undertake the following tasks:

- issue and problem definition
- develop options
- evaluate options
- identify preferred options.

We will be seeking to engage with government and industry stakeholders throughout the entire analysis and investigation phase. For this purpose, we envisage holding a number of workshops during 2020.

Phase 3: Develop consultation RIS – October 2020 to May 2021

Partially in parallel with Phase 2, we will draft a consultation RIS. This will outline a limited number of comprehensive charges options identified in Phase 2, and assess their impact on governments, industry and Australia overall. The consultation RIS will identify any proposed changes to the PAYGO model and contrast the outcomes of the proposed changes with the current approach.

The draft consultation RIS will be presented to TISOC in March 2021 and then the Council in May 2021 for final approval.

Throughout the RIS drafting phase, we will be interacting with the Office of Best Practice Regulation (OBPR) to ensure that the RIS meets the required standards.

Phase 4: Public consultation – June to August 2021

The consultation RIS will be published in early June 2021, followed by a public consultation period. During this period, we will be organising public information and feedback meetings in all states and territories. We will discuss locations and times with stakeholder representatives to ensure the best possible reach.

The consultation period will close in August 2021. We will then collect and evaluate the submissions and prepare responses. The submissions received and proposed responses will be reflected in the final RIS.

Phase 5: Final RIS and decision by ministers – August 2021 to November 2021

Following the public consultation phase, we will draft the final RIS for consideration by TISOC and the Council. This will incorporate the feedback received through submissions and outline proposed responses.

The final RIS will outline a limited number of comprehensive charges options for consideration by Ministers. It will assess the impact on governments, industry and Australia overall and provide a number of transition options if required.

The final RIS will also contain draft amendments to the Heavy Vehicle Charges Model Law for approval by Ministers.

Phase 6: Implementation – December 2021 to June 2022

Following the Council's decision on heavy vehicle charges in November 2021, we will work with state and territory governments to assist them to implement the new charges. We will also brief industry stakeholders as required.

The approved changes to the Heavy Vehicle Charges Model Law will be implemented and published on the Australasian Parliamentary Counsel's Committee website.

2 Next steps

The NTC has commenced preparatory work for the determination and the analysis and investigation phase.

Once the stakeholder engagement plan is finalised, we will contact governments and industry stakeholders to set dates and venues for key engagements.

For discussion, or to provide feedback, please contact Ramon Staheli, Head of Economics, email: rstaheli@ntc.gov.au, phone 0439 637 079.

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