Heavy vehicle charges consultation report

December 2019

National Transport Commission

Report outline

Title	Heavy vehicle charges consultation report
Type of report	Consultation report
Purpose	For public consultation
Abstract	The purpose of this report is to support public consultation on a Transport and Infrastructure Council preference to increase heavy vehicle charges for the 2020–21 and 2021–22 years. This is in response to the end of a two-year period where heavy vehicle charges were frozen, which expires on 30 June 2020.
Submission details	The NTC will accept submissions until 28 February 2020 online at **www.ntc.gov.au** or by mail to: National Transport Commission Public submission – Heavy vehicle charges consultation report Level 3, 600 Bourke Street Melbourne VIC 3000
Attribution	Source: National Transport Commission, Heavy vehicle charges consultation report
Key words	Road User Charge, heavy vehicle charges, registration charges, road expenditure, charges revenue, cost base
Contact	National Transport Commission Level 3/600 Bourke Street Melbourne VIC 3000 Ph: (03) 9236 5000 Email: **enquiries@ntc.gov.au** **www.ntc.gov.au**

Have your say

What to submit and by whom

- The NTC would like to hear from industry and the public.
- The NTC welcomes submissions that respond to the issues raised in this paper.

Consultation question

Question 1:	What are your views on the Council's preference for an increase in both heavy vehicle registration and Road User Charges by 2.5 per cent in 2020-21 and a further 2.5 per cent in 2021-22?

When to submit

We are seeking submissions on this consultation report by 28 February 2020.

How to submit

Any individual or organisation can make a submission to the NTC.

Visit **www.ntc.gov.au** and select 'Submissions' in the top navigation menu.

Or, send a hard copy to:

National Transport Commission
Public submission – Heavy vehicle charges consultation report
Level 3, 600 Bourke Street
Melbourne VIC 3000.

Where possible, you should provide evidence, such as data and documents, to support the views in your submission.

Publishing your submission

Unless you clearly ask us not to, we publish all the submissions we receive online. We will not publish submissions that contain defamatory or offensive content.

The *Freedom of Information Act 1982* (Cwlth) applies to the NTC.

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Executive summary

Introduction

The Deputy Prime Minister and Minister for Infrastructure, Transport and Regional Development, the Hon Michael McCormack MP, wrote to the NTC on 10 December 2019, directing it to undertake a public consultation process on proposed increases to heavy vehicle charges for 2020–21 and 2021–22. This follows the Transport and Infrastructure Council (the Council) meeting on Friday, 22 November 2019 at which ministers indicated a preferred increase, subject to consideration by governments. The Council consists of Commonwealth, state, and territory ministers with responsibility for transport and infrastructure issues.

This consultation responds to direction from the Chair of the Council, and also supports the Deputy Prime Minister and Minister for Infrastructure, Transport and Regional Development's obligations as Transport Minister under the *Fuel Tax Act 2006* (Cth).

Current situation – heavy vehicle cost recovery

The NTC estimates that to ensure governments recover the amount spent on providing roads to heavy vehicles in 2018–19, current heavy vehicle charges would need to rise by 11.4 per cent for 2020–21. If no decision is taken by the Council, heavy vehicle charges would be automatically increased by 3.7 per cent for 2020–21.

Other factors

Due to economic conditions facing the industry and the impact of the drought resulting in reduced freight volumes in regional Australia, ministers have proposed a lesser increase of 2.5 per cent over each of the next two years.

Preferred increase to state and territory registration charges

That a 2.5 per cent increase be applied to the roads component of registration charges in 2020–21 with a further increase of 2.5 per cent in 2021–22. There would be a small offsetting reduction in the regulatory component of registration charges in 2020–21. This will see a net increase in total registration charges of less than 2.5 per cent in 2020–21.

Proposed increase to the Commonwealth Road User Charge (RUC)

That a 2.5 per cent increase be applied to the RUC in 2020–21 with a further increase of 2.5 per cent in 2021–22. This will increase the RUC to 26.4 cents per litre on 1 July 2020 and to 27.1 cents per litre on 1 July 2021.

Question: What are your views on the Council's preference for an increase in both heavy vehicle registration charges and the Road User Charge by 2.5 per cent in 2020-21 and 2.5 per cent in 2021-22?

1 Introduction

Key points

- The current ‘freeze’ of heavy vehicle charges is ending.
- The Transport and Infrastructure Council identified a preference for charges—both registration charges and the Road User Charge (RUC)—to rise by 2.5 per cent in 2020–21 and 2.5 per cent in 2021–22, subject to consideration by governments where necessary.
- As the Chair of the Council, the Deputy Prime Minister and Minister for Infrastructure, Transport and Regional Development directed the NTC to consult on the Council’s preferred increase to charges.
- Consequent to the Council’s preferred position, the Deputy Prime Minister has also directed the NTC in his capacity as Transport Minister under the *Fuel Tax Act 2006* (Cth) to consult on the proposed increase in the RUC for 2020–21 and 2021–22.

1.1 The NTC’s responsibilities

The National Transport Commission (NTC) has ongoing responsibilities for recommending heavy vehicle charges to the Transport and Infrastructure Council (the Council). These charges are intended to apply nationally and are set to fully recover the share of road construction and maintenance costs that can be allocated to heavy vehicles.

1.2 The current ‘freeze’ of heavy vehicle charges is ending

In November 2017, the Council resolved that charges be frozen for two years. This freeze ends on 30 June 2020. The Council had agreed to freeze charges recognising the need for governments to continue to invest in infrastructure to support heavy vehicle productivity, and the need to provide revenue and price certainty to road management agencies and heavy vehicle operators as heavy vehicle road reform is accelerated.

The Council considered options for setting heavy vehicle charges from 2020–21 onwards at its meeting on 22 November 2019. This timing ensured there would be adequate time to consult on the Council’s preferred position and then implement any changes to heavy vehicle charges.

1.3 Transport and Infrastructure Council consideration

The Council considered the advice of the NTC, acknowledging that following the recent growth in government investment in roads, there was a growing gap between road expenditure and revenue from charges. National heavy vehicle charges, which are designed to recover the heavy vehicle share of road expenditure, have essentially been static since 2014.

In reaching its position the Council was very mindful of the challenges faced by the transport industry.

The Council identified a preference for charges to rise by 2.5 per cent in 2020–21 and 2.5 per cent in 2021–22, subject to consideration by governments where necessary.

The Council noted the charge increases would be significantly less than the amount of 11.4 per cent estimated for 2020–21 as necessary to recover the heavy vehicle share of recent road construction and maintenance costs.

The Council also directed the NTC to undertake a determination to review the method for calculating heavy vehicle charges. This will ensure future decisions on charges recover the correct amount from each heavy vehicle type. Industry and stakeholder consultation will be central to the determination process.

1.4 Deputy Prime Minister's direction to the NTC

As the Chair of the Council, the Deputy Prime Minister and Minister for Infrastructure, Transport and Regional Development wrote to the NTC on 10 December 2019, directing it to undertake a public consultation process on the Council's proposed increase to charges.

In the same letter (Appendix A), the Deputy Prime Minister also directed the NTC, in his capacity as Transport Minister under the *Fuel Tax Act 2006* (Cth), to undertake a public consultation process on a proposed increased in the RUC for 2020–21 and 2021–22. This was consequent to the Council's preferred position on an increase.

Under the *Fuel Tax Act 2006* (Cth), prior to determining to increase the RUC, the Transport Minister is required to make public the proposed increased rate of the Road User Charge (RUC), and any information relied upon in reaching the proposed increase, for at least 60 days, and must consider comments received from the public within the period specified.

2 Background on heavy vehicle charges

Key points

- Heavy vehicle charges apply to all vehicles with a Gross Vehicle Mass (GVM) of above 4.5 tonnes.
- They consist of a Road User Charge (RUC) on diesel fuel and a yearly registration charge comprising roads and regulatory components.
- Charges are set using the PAYGO model which calculates the heavy vehicle cost base on the basis of historical government road expenditure and road usage data.
- The Transport and Infrastructure Council (the Council) decides on heavy vehicle charges. The NTC provides advice to the Council to support its decision-making.
- The binding pricing principles governing the NTC's advice have a strong focus on achieving full cost recovery of allocated costs over time.
- The RUC is implemented under the Commonwealth *Fuel Tax Act 2006*. The RUC is implemented as a fuel tax credit.
- Registration charges are implemented through the Heavy Vehicle Charges Model Law. The charges have legislative force once the Model Law is adopted by states and territories.

2.1 Heavy vehicle charges

2.1.1 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 diesel fuel charge (also known as the Road User Charge or RUC), administered by the Commonwealth Government.
- The roads component of the registration charge, as applied by state and territory governments, which reflects the amount of damage that each type of heavy vehicle does to the road.
- The regulatory proportion of the registration charge, which is applied as a registration cost to cover the operating cost of the National Heavy Vehicle Regulator (NHVR).

The diesel fuel charge and registration charge are linked to government expenditure on roads. 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.

2.1.2 NTC's role

The NTC has ongoing responsibilities for recommending heavy vehicle charges to the Council[1]. These charges are intended to apply nationally and are set to fully recover the share of road construction and maintenance costs that can be allocated to heavy vehicles.

2.1.3 Pricing principles and the importance of cost recovery

A set of guiding principles govern the application of the cost recovery methodology. These pricing principles were agreed by the Australian Transport Council (a predecessor of the Transport and Infrastructure Council) and the Council of Australian Governments (COAG),and are binding on the NTC.

The current pricing principles were designed to guide the NTC towards an outcome that efficiently recovers the cost of providing road infrastructure for heavy vehicles. In addition, the principles also take into account issues of relevant public interest, such as fairness and equity.

The COAG principles[2] are:

"ATC direct the NTC, in developing its Determination, to apply principles and methods that

1. *ensure the delivery of full cost recovery in aggregate,*
2. *further develop indexation adjustment arrangements to ensure the ongoing delivery of full expenditure recovery in aggregate and*
3. *remove cross-subsidisation across different heavy vehicle classes,*

recognising that transition to any new arrangement may require a phased approach".

ATC/SCOTI guiding principles[3]

"National heavy vehicle road use prices should promote optimal use of infrastructure, vehicles and transport modes. This is subject to the following:

1. *full recovery of allocated infrastructure costs while minimising both the over and under recovery from any class of vehicle*
2. *cost effectiveness of pricing instruments*
3. *transparency*
4. *the need to balance administrative simplicity, efficiency and equity (e.g. impact on regional and remote communities/access)*
5. *the need to have regard to other pricing applications such as light vehicle charges, tolling and congestion."*

Both the ATC and COAG principles are standing principles until the relevant authority changes them and are binding on the NTC.

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[1] Under the Inter-Governmental Agreement for Regulatory and Operational Reform in Road, Rail and Intermodal Transport 2003, and in accordance with the pricing principles

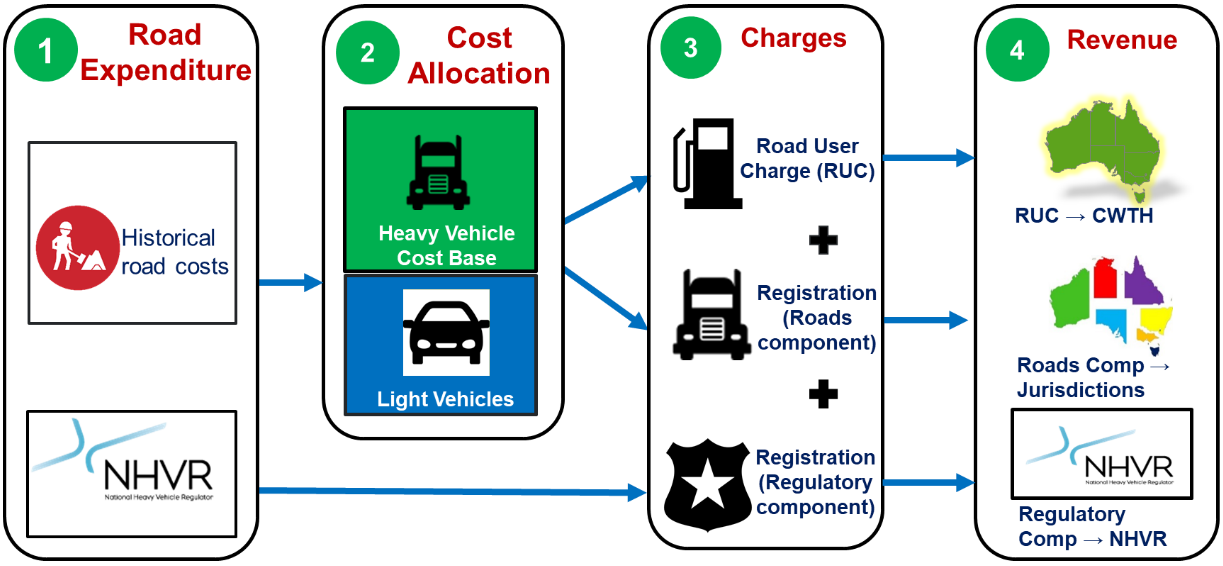
[2] Endorsed at its meeting of 13 April 2007.

[3] Approved by ATC in August 2004 and reaffirmed in May 2007. Note: SCOTI is the Standing Council on Transport and Infrastructure, a predecessor of the Transport and Infrastructure Council.

2.1.4 The PAYGO model

Each year, jurisdictions provide the NTC with a completed road expenditure template which covers all road construction and maintenance costs (light and heavy vehicles). Data from the Australian Bureau of Statistics Government Financial Statistics Series is used to account for local government expenditure on roads. A cost base is then established with the heavy vehicle portion recovered via heavy vehicle charges. Figure 1 provides an overview of the existing PAYGO system.

Figure 1. Overview of the current PAYGO system



The cost base is calculated by taking a 7-year average of the historic financial costs of providing roads. These costs, which are measured in a number of expenditure categories, are then allocated between vehicle classes on the basis of:

- a cost allocation matrix[4]
- usage data including vehicle kilometres travelled, ESA-kilometres travelled, AGM-kilometres travelled, and PCU-kilometres travelled[5].

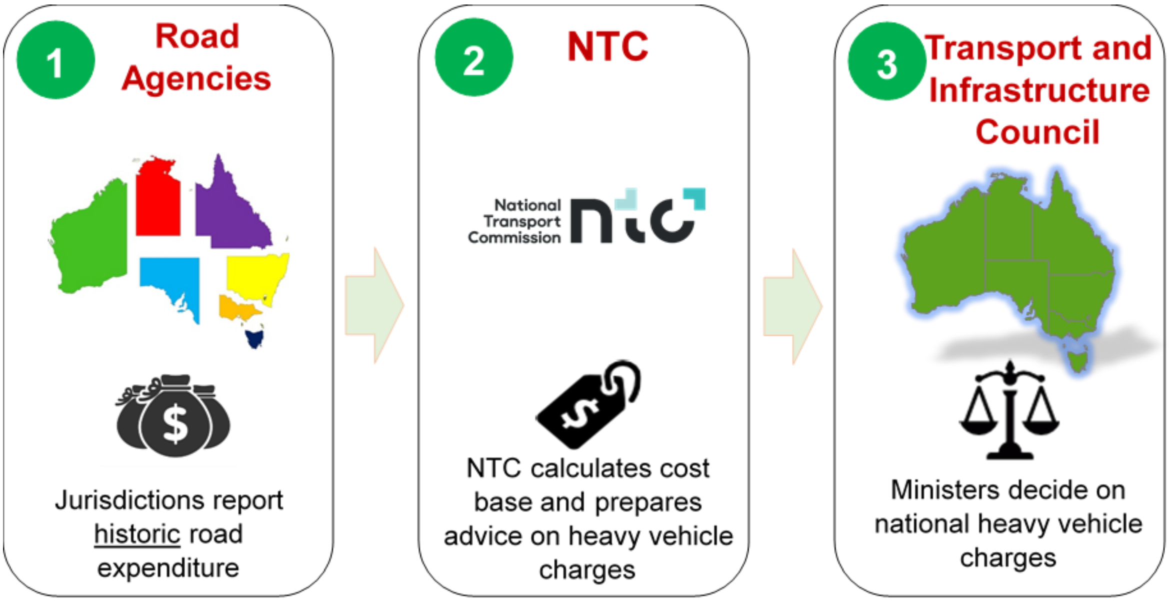
Based on the costs allocated to each vehicle class, the NTC then recommends a set of heavy vehicle charges that recovers the heavy vehicle cost base in total while ensuring each vehicle class, on average, pays at least the attributable costs allocated to the vehicle category.

Figure 2 illustrates how the NTC processes this information and makes recommendations to the Council. The NTC's advice on heavy vehicle charges is informative and decisions on setting heavy vehicle charges are made by the Council.

[4] The cost allocation matrix has been developed over time with input from industry and experts, and has been subject to consultation. The current matrix was approved as part of the 2007 Heavy Vehicle Charges Determination.

[5] ESA stands for Equivalent Standard Axles, a measure of road wear caused by a vehicle, AGM stands for Average Gross Mass, a measure of vehicle weight, and PCU stands for Passenger Car Unit, a measure of the footprint of a vehicle.

Figure 2. Overview of existing PAYGO regulatory process



Determinations where all aspects of the model and the resulting heavy vehicle charges are reviewed (taking into account the pricing principles and other directions from government) are carried out infrequently. In the years between determinations, an annual adjustment formula is used to ensure that heavy vehicle charges continue to recover the heavy vehicle cost base. This formula is included in the Heavy Vehicle Charges Model Law and is intended to automatically adjust heavy vehicle charges without the need for the Council to approve the change.

In simple terms, the annual adjustment formula works out a single percentage increase or decrease that is applied to all registration charges and to the RUC rate, which takes into account the gap between the most recent cost base and the previous year's cost base, as well as growth in the vehicle fleet and fuel consumption by heavy vehicles. Section 3.3 below has more detail on how the annual adjustment would apply to charges for 2020–21.

2.1.5 Legislation

The RUC is implemented under the Commonwealth *Fuel Tax Act 2006*. It is implemented as a fuel tax credit.

The *Fuel Tax Act 2006* (Cth) requires that the Transport Minister (the Minister) determine the amount of RUC paid by heavy vehicle operators. The Act requires that the minister conducts a public consultation process before increasing the rate of the RUC.

The consultation period must be at least 60 days and the minister must make available the proposed increased rate of RUC, and any information that was relied on in determining the proposed increased rate.

The *Fuel Tax Act 2006* then requires the minister to consider any comments received, within the period specified by the minister, from the public in relation to the proposed increased rate.

Registration charges are implemented through the Heavy Vehicle Charges Model Law. This contains the schedules of heavy vehicle registration charges agreed by the Council. The Model Law also provides a formula to calculate an annual adjustment for charges in the years between determinations. Since the 2007 determination, annual adjustments apply to both the RUC and registration charges.

The charges have legislative force once the Model Law is adopted by states and territories.

3 Information considered

Key points

- Road expenditure by jurisdictions has increased significantly in both 2017–18 and 2018–19.
- Expenditure in Category *F1-Pavement improvements* increased by approximately $1.5 billion in 2018–19. 46 per cent of these costs are allocated to heavy vehicles.
- As a result of increases in total road expenditure and changes in the composition of that expenditure, the heavy vehicle cost base for the 2020–21 charges year is now $3.714 billion, an increase of $655 million compared to the 2018–19 heavy vehicle cost base.
- Heavy vehicle charges revenue has remained relatively static due to the revenue and charges ‘freezes’ that applied to heavy vehicle charges from 2016–17 to 2019–20.
- For 2020–21, the gap between the heavy vehicle cost base and estimated revenue at current charges is $379.6 million or 11.4 per cent.
- The trucking industry is facing difficult trading conditions due to drought, bush fires and reducing freight volumes.

3.1 Current state – heavy vehicle cost base and revenue

3.1.1 Road expenditure trends

Road expenditure across all levels of government has increased significantly over the last two years. Figures 3 and 4 show how national arterial road expenditure and national local road expenditure have changed over time.

Figure 3. Trends in national arterial road expenditure

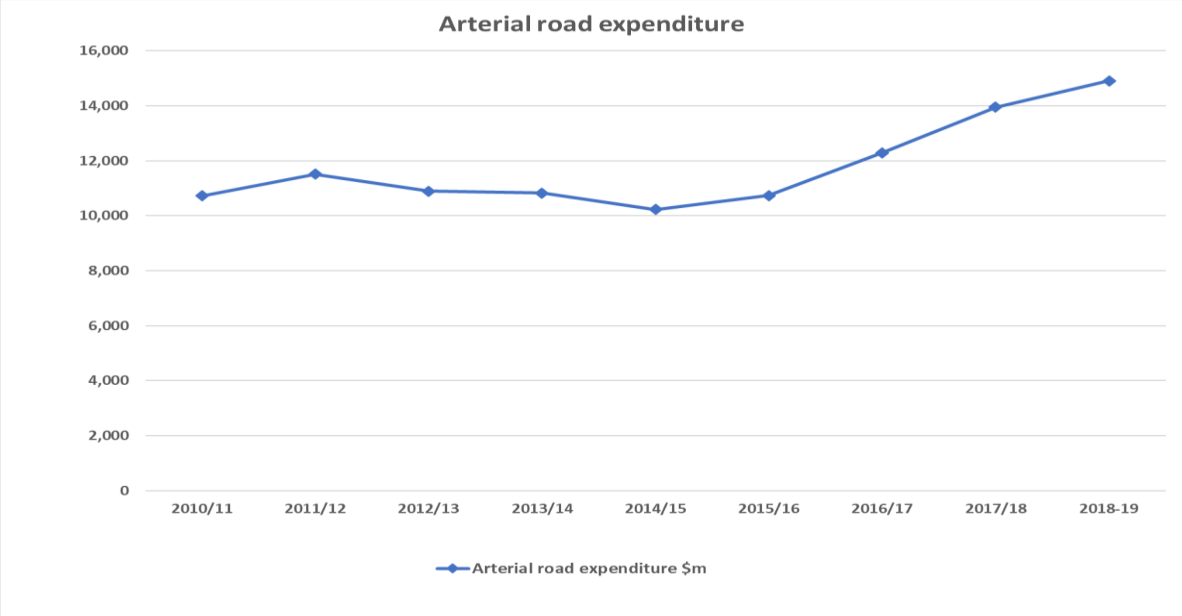
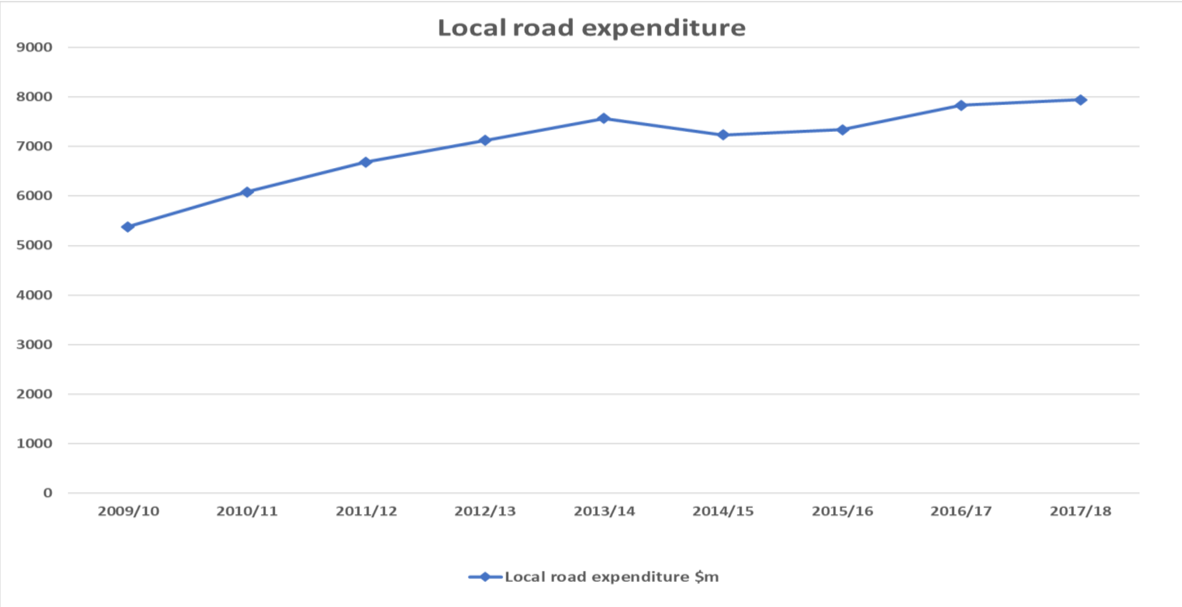


Figure 4. Trends in national local road expenditure



A key observation is that arterial road expenditure has increased significantly in recent years. As the heavy vehicle cost base is the part of total expenditure allocated to heavy vehicles, it will be influenced by expenditure trends.

3.1.2 Changes in expenditure since 2016–17

When the council made the decision to ‘freeze’ heavy vehicle charges in November 2017, it was relying on the latest road expenditure information for 2016–17. In its latest deliberations, the Council has relied on expenditure information for 2018–19. Comparing the changes in expenditure between these two years illustrates how the heavy vehicle cost base has been affected by changes in road expenditure.

Table 1. Changes in expenditure since 2016–17

Code	Expenditure category	Share allocated to heavy vehicles to 2018-19	2016-17 expenditure $m	2018-19 expenditure $m	Change $m	Change %
A	Servicing and operating expenses	6.7%	785	934	148	19%
B1	Routine maintenance	38.6%	690	684	-6	-1%
B2	Periodic surface maintenance of sealed roads	52.1%	584	800	216	37%
C	Bridge maintenance & rehabilitation	31.1%	284	320	36	13%
D	Road rehabilitation	45.7%	911	928	17	2%
E	Low-cost safety & traffic improvements	8.7%	1,197	1,780	583	49%
F1	Pavement improvements	45.7%	2,006	3,366	1,359	68%
F2	Bridge improvements	8.2%	1,029	1,043	15	1%
F3	Land acquisition, earthworks, other extensions / improvement expenditure	7.7%	4,093	4,290	197	5%
G1	Corporate services	6.7%	709	768	59	8%
	Totals	22.5%	12,288	14,913	2,624	21%

This table shows that total road expenditure that can be allocated between light and heavy vehicles has increased by $2.6b or 21 per cent between 2016–17 and 2018–19. In addition to the overall increase in expenditure, the composition of expenditure has also changed. For example, expenditure in category *F1-Pavement improvements* increased by 68 per cent over this period. As approximately 46 per cent of the expenditure in this category is allocated to heavy vehicles, it has strongly contributed to the increase in the heavy vehicle cost base.

3.1.3 Expenditure in 2018–19 has increased by $962m

Table 2. Latest change in road expenditure by expenditure category

Code	Expenditure category	Share allocated to heavy vehicles in 2018-19	2017-18 expenditure $m	2018-19 expenditure $m	Change $m	Change %
A	Servicing and operating expenses	6.7%	898	934	35	4%
B1	Routine maintenance	38.6%	626	684	58	9%
B2	Periodic surface maintenance of sealed roads	52.1%	819	800	- 19	-2%
C	Bridge maintenance & rehabilitation	31.1%	288	320	31	11%
D	Road rehabilitation	45.7%	995	928	-67	-7%
E	Low-cost safety & traffic improvements	8.7%	1,512	1,780	268	18%
F1	Pavement improvements	45.7%	1,872	3,366	1,493	80%
F2	Bridge improvements	8.2%	1,300	1,043	- 257	-20%
F3	Land acquisition, earthworks, other extensions / improvement expenditure	7.7%	4,843	4,290	- 553	-11%
G1	Corporate services	6.7%	796	768	- 28	-4%
	Totals	22.5%	13,951	14,913	962	7%

Total expenditure in 2018–19 increased by $962 million or approximately 7 per cent compared to 2017–18. There were significant changes in the composition of the total expenditure.

Expenditure in expenditure classes *B2-Periodic surface maintenance of sealed roads*, *D-Road rehabilitation* and *F3-Land acquisition, earthworks, other extensions/improvement expenditure* all decreased. This was more than compensated by an 80 per cent increase in expenditure in the *F1-Pavement improvements* category. As noted previously, almost 46 per cent of expenditure in this class is allocated to heavy vehicles, meaning that this increase had a significant impact on the heavy vehicle cost base.

3.1.4 The heavy vehicle cost base has increased

The following table shows the heavy vehicle cost base for the 2018–19, 2019–20 and 2020–21 charges years. These are based on reported expenditure for the seven years to 2016–17, 2017–18 and 2018–19 respectively. These figures may differ slightly from historical published figures due to later revisions of expenditure and usage data.

Table 3. Heavy vehicle cost base in various heavy vehicle charges years

Heavy vehicle charges year	Cost base, $m
2018–19	3,058.6
2019–20	3,274.7
2020–21	3,713.6

The heavy vehicle cost base for 2020–21 is now $3.714b which is $655m higher than the cost base for 2018-19.

3.1.5 Charges revenue

The implementation of the ‘frozen revenue’ approach for 2016–17 and 2017–18 heavy vehicle charges followed by the ‘frozen charges’ approach for 2018–19 and 2019–20 has meant that heavy vehicle charges revenue has remained static at first and then climbed slowly in recent years. Growth in heavy vehicle charges revenue was driven by growth in the heavy vehicle fleet and increasing total fuel consumption.

3.1.6 Gap between heavy vehicle cost base and revenue for 2020-21 charges year

The significant increases in road expenditure outlined in sections 3.1.2 and 3.1.3 combined with the slower growth in heavy vehicle charges revenue shown under section 3.1.5 have resulted in a gap opening up between the heavy vehicle cost base and heavy vehicle charges revenue.

Figure 5. Comparison of heavy vehicle cost base and estimated revenue

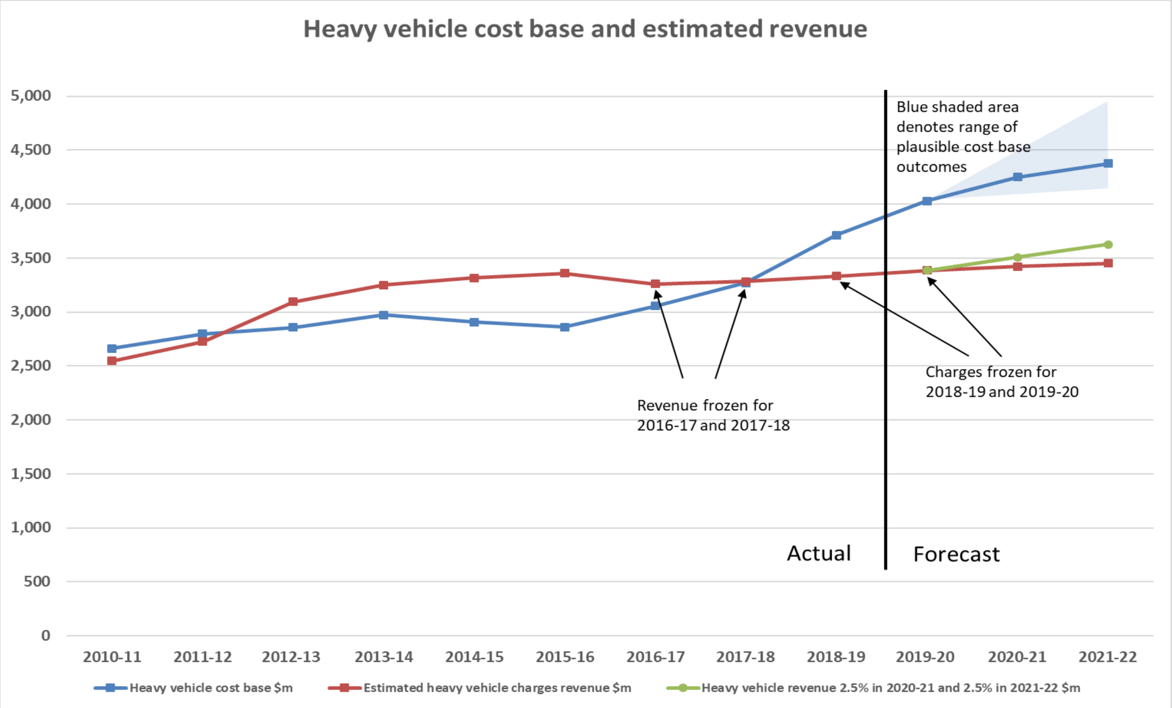


Figure 5 shows that the heavy vehicle cost base is higher than the revenue collected through current heavy vehicle charges in 2018–19, noting that under the PAYGO system, heavy vehicle charges for 2020–21 would be set based on the heavy vehicle cost base calculated using expenditure data for the seven years to 2018–19. This is due to the two-year lag between expenditure occurring, and the charges based on that expenditure being collected.

The expenditure forecast for 2019–20, 2020–21 and 2021–22 is a conservative forecast based on yearly expenditure growth slowly declining from current levels. The blue shaded area indicates that there is significant uncertainty around this forecast and expenditure may grow faster or slower than predicted.

This two-year lag means that the cost base and revenue lines cannot be expected to coincide unless expenditure is static. That is, over and under recoveries would be expected to occur. Figure 5 shows the period of over recovery following the 2014 determination. However, it is important to note that under recoveries have occurred prior to the time period covered by the graph. These were, for example, due to decisions to phase in the A-trailer charge over multiple years.

Any changes to heavy vehicle charges can be implemented from 2020–21 at the earliest. The two increases of 2.5% for 2020–21 and 2021–22 as preferred by the Council are shown as the green line.

3.2 Costs currently exceed estimated revenue by 11.4 per cent

The cost base for 2020–21 heavy vehicle charges is $3,713.6 million compared to estimated revenue for 2020–21 at current charges (in 2019–20) of $3,334.0 million.

The NTC estimates that current heavy vehicle charges would need to rise by 11.4 per cent in 2020–21 to ensure governments recover the amount spent on providing roads to heavy vehicles in 2018–19.

Table 4. Increase in revenue required

Calculation of increase required to achieve full cost recovery	$m
Heavy vehicle cost base for 2020–21 (expenditure up to 2018–19)	3,713.6
Estimated heavy vehicle charges revenue at current charges in 2020–21	3,334.0
Difference	379.6
Difference as percentage of estimated heavy vehicle charges revenue at current charges 2020–21	11.38%
Rounded to 1 decimal	11.4%

3.3 Increase of 3.7% if no decision made

The Heavy Vehicle Charges Model Law requires that, unless the Council resolves otherwise by 1 July 2020, new charges will apply. The formula for the automatic increase is in the Heavy Vehicle Charges Model Law. This formula uses the government expenditure base from 2016–17, not the most recent financial year.

An adjustment using the 2016–17 expenditure base, rather than the most recent financial year's expenditure, will result in charges revenue being less than expenditure. That is, charges would increase by 3.7 per cent.

3.4 Conditions facing the trucking industry

Despite the current under recovery ministers have proposed a lesser increase of 2.5 per cent over each of the next two years.

Key considerations raised by transport industry stakeholders with ministers during the industry engagement session at the Council meeting on 22 November 2019, that informed the Council's approach included:

- difficult economic conditions facing the industry
- the impact of drought and bush fires on the community
- the experience of reduced freight volumes in many parts of regional Australia.

4 The Council’s preference

4.1 A 2.5 per cent increase in 2020-21 and 2021-22

The Council at its November 2019 meeting identified a preference for heavy vehicle charges to rise by 2.5 per cent in 2020–21 and 2.5 per cent in 2021–22, subject to consideration by governments where necessary.

The regulatory component of registration charges would continue to be set to recover the NHVR’s approved budget in each year.

4.2 Federal Minister of Transport’s intention for Road User Charge (RUC) rate

Consistent with the Council’s preference, the Deputy Prime Minister and Minister for Infrastructure, Transport and Regional Development as Transport Minister under the *Fuel Tax Act* 2006 (Cth) proposes to increase the RUC rate by 2.5% in 2020–21 and again by 2.5% in 2021–22.

This would result in the following RUC rates applying:

Table 5. RUC rates

Financial year	RUC rate in c/litre
2020–21	26.4
2021–22	27.1

It is a requirement under the *Fuel Tax Act 2006* that the RUC rate be rounded to one decimal point.

The Transport Minister may also determine a rate of RUC for taxable fuels for which duty is payable at a rate per kilogram of fuel. These fuels include liquefied natural gas and compressed natural gas. The proposed increased RUC rate for these fuels can be converted from cents per litre to cents per kilogram by multiplying by 1.333. The proposed increased RUC rate for these fuels would thus be 35.2 cents per kilogram in 2020–21 and 36.1 cents per kilogram in 2021–22.

4.3 Changes in registration charges

Registration charges consist of a roads component and a regulatory component. The roads component is set to recover the heavy vehicle cost base (in combination with revenue recovered from the RUC) whereas the regulatory component is set to recover the NHVR’s approved budget.

Under the Council’s preferred approach, the roads component of registration charges would be increased by 2.5% in 2020–21 and 2021–22.

The regulatory component of registration charges would be re-set in each year to recover the NHVR's approved budget. For 2020–21, a reduction of around 1.3 per cent in the regulatory component of registration charges is required to recover the NHVR's approved budget of $156.399m.

The following table shows the registration charges for 2020–21 and 2021–22 that would be paid by common heavy vehicle types. A complete list of registration charges is provided in Appendix B.

Table 6. Total registration charges for selected heavy vehicle types

	2019–20 total registration charge, $	2020–21 total registration charge, $	Change between 2019–20 and 2020–21, $	2021–22 total registration charge, $	Change between 2021–22 and 2019–20, $
2-axle rigid truck, no trailer, GVM to 12 tonnes	607	614	7	625	18
3-axle rigid truck, no trailer, GVM over 16.5 tonnes	1,142	1,158	16	1,179	37
3-axle rigid truck with a 3-axle dog trailer over 42.5 tonnes GCM	11,444	11,704	260	11,979	535
6-axle articulated truck	6,225	6,364	139	6,512	287
9-axle B-double	14,759	15,090	331	15,442	683
Double road train	14,815	15,144	329	15,496	681

Due to the reduction in the regulatory component of registration charges, the increase in the total registration charges for 2020–21 is slightly less than 2.5 per cent.

For 2021–22, we have assumed that the regulatory component will remain unchanged. In practice, it will be re-set to recover the NHVR's budget for 2021–22 which is yet to be approved by the Council.

4.4 Financial Implications

The following table shows the financial implications for industry and governments of the Council's preferred changes in heavy vehicle charges.

Table 7. Comparison of heavy vehicle cost base and estimated revenue ($m)[6]

Charges year	2019–20	2020–21	2021–22
Heavy Vehicle Cost Base	3,274.7	3,713.6	not yet known
Road User Charge Revenue	1,900.9	1,951.5	2,003.4
Registration Roads Component Revenue	1,383.7	1,465.9	1,541.3
Total Heavy Vehicle Charges Revenue	3,284.6	3,417.4	3,544.7
Difference between Heavy Vehicle Cost Base and Total	9.8	-296.3	not yet known

This shows that industry is estimated to pay an additional $132.8m in heavy vehicle charges in 2020–21 compared to 2019–20. It is also expected that industry would pay an additional $260.1m in heavy vehicle charges in 2021–22 compared to 2019–20.

Governments depend on revenue from heavy vehicle charges to be able to fund the investment in the road network reflected in recent road expenditure figures.

[6] Figures for 2021–22 are estimates that use forecasts of the vehicle fleet and fuel consumption based on recent trends.

5 Invitation to submit and next steps

5.1 Invitation to submit

The Deputy Prime Minister and Minister for Infrastructure, Transport and Regional Development as Transport Minister under the *Fuel Tax Act 2006* (Cth) has directed the NTC to undertake a public consultation on the Council's preference for heavy vehicle charges to increase by 2.5 per cent in 2020–21 and 2.5 per cent in 2021–22. This increase will apply equally to heavy vehicle registration charges and the Road User Charge.

Public submissions on the Council's preference are invited to be received by no later than 28 February 2020.

5.2 Next steps

Following the conclusion of the public consultation process any comments received on the proposed increases are to be provided to the Deputy Prime Minister and Minister for Infrastructure, Transport and Regional Development for consideration within two weeks.

Appendix A Minister's letter

The Hon Michael McCormack MP

Deputy Prime Minister
Minister for Infrastructure, Transport and Regional Development
Leader of The Nationals
Federal Member for Riverina

Ref: MS19-002286

10 DEC 2019

Dr Gillian Miles
Chief Executive Officer
National Transport Commission
Level 3/600 Bourke St,
Melbourne VIC 3000

Dear Dr Miles

As you are aware, at the Transport and Infrastructure Council (Council) meeting on 22 November 2019, Council identified a preference for heavy vehicle charges to increase by 2.5 per cent in 2020-21 and 2.5 per cent in 2021-22, subject to consideration by governments where necessary.

As Council Chair, I ask that National Transport Commission (NTC) undertake public consultation on Council's preference for heavy vehicle charges to increase. Following the conclusion of the public consultation process I ask that any comments received on the proposed increases be provided to me for consideration.

To fulfil the legislative requirements set out in the *Fuel Tax Act 2006* placed upon me as Transport Minister, I ask the NTC make publicly available the proposed increase to the Commonwealth Road User Charge that accords with Council's preference. I also ask you make public the information presented at the Council meeting which was relied upon in reaching the proposed increase. I ask this information be made publicly available by Wednesday 11 December 2019. While the statutory requirement is to consult for 60 days, I ask you to leave the consultation open for 80 days given the pressure on many heavy vehicle operators at this time of year.

Could you work closely with Paula Stagg, General Manager of the Land Transport Market Reform Branch (02 6274 7127) from my department throughout the consultation process and in briefing me on the outcomes of that process.

I thank you for your assistance in this matter.

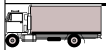
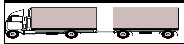
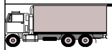
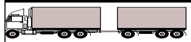
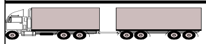
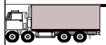
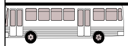
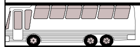
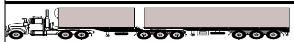
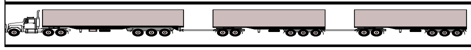
Yours sincerely

Michael McCormack

Michael McCormack

The Hon Michael McCormack MP
Parliament House Canberra | (02) 6277 7520 | minister.mccormack@infrastructure.gov.au
Suite 2, 11-15 Fitzmaurice Street, Wagga Wagga NSW 2650 | michael.mccormack.mp@aph.gov.au

Appendix B Heavy vehicle charges

Vehicle Type	Mass Rating for Charging	2019-20 charges: Roads component	2019-20 charges: Regulatory component	2019-20 charges: RUC paid per vehicle	2019-20 charges: Total charges	2020-21 charges: Roads component	2020-21 charges: Regulatory component	2020-21 charges: RUC paid per vehicle	2020-21 charges: Total charges	2020-21 charges: Percentage change in total charges	2021-22 charges: Roads component	2021-22 charges: Regulatory component	2021-22 charges: RUC paid per vehicle	2021-22 charges: Total charges	2021-22 charges: Percentage change in total charges
	Up to 12.0t	412	195	1,175	1,782	422	192	1,204	1,818	2.0%	433	192	1,234	1,859	2.3%
	Over 12.0t	720	255	1,553	2,528	738	252	1,592	2,582	2.1%	756	252	1,632	2,640	2.2%
	Under 42.5t	1,944	341	1,415	3,700	1,993	335	1,451	3,779	2.1%	2,043	335	1,487	3,865	2.3%
	Up to 16.5t	720	230	1,802	2,752	738	227	1,847	2,812	2.2%	756	227	1,893	2,876	2.3%
	Over 16.5t	817	325	2,767	3,909	837	321	2,836	3,994	2.2%	858	321	2,907	4,086	2.3%
	Under 42.5t	2,653	416	3,121	6,190	2,719	411	3,199	6,329	2.2%	2,787	411	3,279	6,477	2.3%
	Over 42.5t	10,742	702	9,441	20,885	11,011	693	9,677	21,381	2.4%	11,286	693	9,919	21,898	2.4%
	Over 42.5t	11,354	704	9,441	21,499	11,638	695	9,677	22,010	2.4%	11,929	695	9,919	22,543	2.4%
	Up to 20.0t	720	245	715	1,680	738	242	733	1,713	1.9%	756	242	751	1,749	2.1%
	Over 20.0t	817	346	3,887	5,050	837	341	3,984	5,162	2.2%	858	341	4,084	5,283	2.3%
	Up to 12.0t	309	204	943	1,456	317	201	967	1,485	2.0%	325	201	991	1,517	2.2%
	Over 12.0t	309	334	4,179	4,822	317	330	4,284	4,931	2.3%	325	330	4,391	5,046	2.3%
		2,260	414	5,333	8,007	2,317	409	5,466	8,192	2.3%	2,375	409	5,603	8,387	2.4%
		5,767	458	8,272	14,497	5,911	453	8,478	14,842	2.4%	6,059	453	8,690	15,202	2.4%
		13,739	1,020	22,298	37,057	14,082	1,008	22,856	37,946	2.4%	14,434	1,008	23,427	38,869	2.4%
		13,739	1,076	15,926	30,741	14,082	1,062	16,324	31,468	2.4%	14,434	1,062	16,732	32,228	2.4%
		15,398	1,186	29,765	46,349	15,783	1,170	30,509	47,462	2.4%	16,178	1,170	31,272	48,620	2.4%

Glossary

Term	Definition
Heavy vehicle cost base	The heavy vehicle cost base is that share of national government road expenditure that can be attributed to the heavy vehicle sector in the PAYGO model
PAYGO	Pay As You Go (PAYGO) is an approach used to determine the amount to be recovered from heavy vehicles through heavy vehicle charges. Trend levels of road construction and maintenance expenditure and road use is assessed over the past seven years to reflect the annualised costs of providing and maintaining roads
Registration charge	Is the annual registration charge that applies to heavy vehicles by vehicle and trailer type
Regulatory component of registration charge	The regulatory component of the heavy vehicle registration charge is applied to each heavy vehicle and trailer type and is based on the heavy vehicle fleet and the budget of the National Heavy Vehicle Regulator
Roads component of registration charge	The roads component of the heavy vehicle registration charge is applied to each heavy vehicle and trailer type and is determined by outcomes from the PAYGO model based on heavy vehicle allocated cost and use
Road expenditure	Road expenditure includes all government arterial and local road expenditure that meets NTC guidelines for inclusion in the PAYGO cost base.
RUC	Road User Charge. The Road User Charge is the charge that is applied to heavy vehicle fuel use expressed in cents per litre or cents per kilogram.
Transport and Infrastructure Council	The Transport and Infrastructure Council (the Council) brings together Commonwealth, State, Territory and New Zealand Ministers with responsibility for transport and infrastructure issues, as well as the Australian Local Government Association.

List of tables and figures

Tables

Figures

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