Implementing a forward-looking cost base for heavy vehicle charges

Submission to National Transport Commission

Executive summary

- NatRoad supports a forward-looking cost base.
- Expenditures must be transparent and audited.
- Expenditures should exclude government stimulus and costs incurred through illegal activity.
- Should a forward-looking cost base be progressed, NatRoad supports the National Transport Commission adopting Option 1.

Thank you for the opportunity to provide this short submission on *Implementing a forward-looking cost base for heavy vehicle charges*.

National Road Transport Association (**NatRoad**) is the largest road transport association in Australia representing thousands of members from owner operators to large national fleets.

We appreciate that the National Transport Commission (**NTC**) has extended their submission deadline to Friday 12 June 2026, considering industry focus on diesel prices. We further thank NTC for the work they have done in preparing a comprehensive *Consultation Regulatory Impact Statement* (**C-RIS**). This is a substantial piece of work.

NatRoad is using this submission to provide a general response to the C-RIS and will seek to broadly target our response to the listed consultation questions.

General Comments

Road charging is an imperfect and politically contentious area of Australian public policy.

NatRoad appreciates that NTC is limited by the *heavy vehicle charges pricing principles* developed two decades ago by the Australian Transport Council and the Council of Australian Governments. This necessitates NTC working towards full cost recovery.

As Australia's largest road transport association, NatRoad believes that what governments spend on infrastructure, and what industry can afford, is sometimes distorted. Indeed, we see road charging as part of a series of, typically increasing, charges that trucking operators must pay. The Road User Charge (**RUC**) and Registration Charge apply in conjunction with wages, superannuation, insurance, maintenance, fuel and compliance, to name a few. If costs are too high, this obviously threatens operator viability and can lead to sham contracting arrangements. When push comes to shove, it is government charges that can ultimately be lowered to support operators.

For this reason, NatRoad will not support a model that **significantly increases prices for trucking operators** or **unfairly targets them** in relation to other road users.

Notwithstanding this, NatRoad has previously been supportive on looking at developing a FLCB. We do agree that such a proposal can be less 'lumpy' and we support spreading the cost of an asset across current and future users of that asset.

Our comments on the specific consultation questions follow.

Overview of FLCB model

As stated, NatRoad has previously expressed support for a FLCB. While this should not be read as endorsing *any* FLCB model, NatRoad supports the general principles that a FLCB can:

1. Provide less volatility in revenue requirements, reducing the need for steep increases or decreases in heavy vehicle charges; and
2. Is fairer because all users pay for the asset over time rather than just the ones present when it was built.

The current PAYGO model, while flawed, is understood by the industry and doesn't provide a terrible public policy outcome. For most of the 2010's, heavy vehicle charges revenue largely met their cost base. Expenditure increases during COVID-19 seem to have played a role in the developing the gap now seen between the cost base and heavy vehicle charges revenue. This is slowly being recouped by above inflation increases to the RUC, as well as a likely downturn in road infrastructure investment as already debt-laden governments deal with higher interest rates and an ageing population.

The FLCB model also does not seem to change the fact that Infrastructure and Transport Ministers' Meeting (**ITMM**) remain the decision-making body for the setting of the RUC, on advice from NTC. This is appropriate, as it allows for greater accountability.

Model & policy design

This is a complex model. NatRoad has kept our responses at a high-level. We do not seek to answer all consultation questions.

<u>Expenditures</u>

Current concerns with the PAYGO model flow into the proposed FLCB model. These concerns include

1. **Transparency**

   NatRoad has previously raised concerns about the collection of state and territory data. This data is received by NTC to formulate the cost base each year but does not appear to be audited. An audit would be invaluable, not just to determine total costs but to determine costs within the defined expenditure categories, as well as the cost allocation matrix.

   The FLCB model is, as its name implies, forward looking. However, actual expenditures would be collected from state and territory governments as part of a 'true-up' process, in effect ensuring that forecast expenditure meets actual expenditures. The content of these annual expenditures must be audited, made publicly available and subject to industry comment.

   - **The true-up mechanism should include mandated audits and consultation on actual government expenditures, including the cost allocation matrix.**

2. **Stimulus Packages**

While all road transport funding will benefit industry, not all infrastructure funding is provided for the dominant purpose of road transport safety or efficiency.

In the last two decades, Australia has faced two global issues in which government have seen fit to stimulate the economy – the Global Financial Crisis of 2008-09 and the COVID-19 pandemic of 2020-21. In fact, during the COVID-19 pandemic, Australian governments were encouraged by the Reserve Bank of Australia to take on debt to stabilise the economy. This showed up in data, with the Australian Bureau of Statistics (**ABS**) reporting in March 2021 that:

> '*State governments supported their economies through the COVID-19 pandemic through **record net borrowing of $89.8b in calendar year 2020**. State governments' increased funding requirements reflect higher subsidies paid to businesses impacted by COVID-19 and grants to bushfire affected businesses, combined with increased healthcare spending and **ongoing public infrastructure projects***.'[1]

These types of stimulus projects are rare but should be excluded from a future cost base. While they do benefit industry they lead to a somewhat incongruent outcome – namely that the economy is struggling enough for the government to stimulate it but then charging trucking operators (who are probably struggling as well) to fund this stimulation. While these challenges exist in the current PAYGO model, the FLCB has the potential to exacerbate this issue.

- **Road infrastructure stimulus packages be excluded from the cost base.**

3. **Illegal Activity**

While also rare, credible reports have found that illegal activity has profiteered from road transport infrastructure projects.

A recent report, *Rotting from the Top*, prepared for the Queensland Government through a Commission of Inquiry, found examples of waste and corruption on road infrastructure projects in Victoria. This waste is included in cost estimates provided through PAYGO and should be excluded from any future FLCB. While waste estimates can vary, NTC should seek to apply a discount to expenditures on road infrastructure when a judicial, royal commission/commission of inquiry or parliamentary inquiry identifies that illegal activity has increased costs.

Transport operators should not be paying for illegal activity.

- **A discount be applied to expenditures on road transport infrastructure projects when it is competently determined that illegal activity has incurred cost overruns.**

[1] Government and Reserve Bank financial balance sheets during COVID-19 | Australian Bureau of Statistics

Rate of Return

One of the challenges with the model is that it is greatly complex. Any opportunity to reduce the complexity of the model should be adopted, provided it doesn't widely distort any outcomes. The difference between using the Australian Government 10-year bond rate or a blended rate in the FLCB is not negligible, but it does not seem significant either. For this reason, NatRoad supports using the Australian Government 10-year bond rate to determine the rate of return.

- **For simplicity, the rate of return should be set at the Australian Government 10-year bond rate**.

Tolls and Disaster Payments

On the face of it, NatRoad supports the treatment of tolls road funding and Disaster Recovery Funding Arrangements as proposed in the C-RIS. Public Private Partnerships are however becoming more innovative, so vigilance and transparency will be required by NTC on how they expenditures are treated.

- **NatRoad supports the treatment of tolls roads and disaster funding as outlined in the C-RIS.**

Electric Vehicles

NatRoad supports the proposed approach in relation to electric and hybrid vehicles.

The revenue forgone in not implementing a road charging model from electric and hybrid vehicles (both light and heavy) has been a conscious and deliberate choice of governments. Any gap that this creates in terms of a reduction in revenue from fuel excise/RUC must be funded by government, not industry.

NatRoad does question if the increased use of light electric and hybrid vehicles is adequately captured in the FLCB, notably the cost allocation matrix. As these vehicles are heavier and are increasing at a greater rate than electric and hybrid trucks, the maintenance requirements on the road network should shift slightly from heavy vehicle drivers to light vehicle drivers.

- **NatRoad supports the proposed treatment of electric vehicles, subject to a further review of the cost allocation matrix.**

Expenditure Categories

NatRoad would like to see greater clarity as to what costs are incurred for the purposes of expenditure category A200 – Corporate services (C-RIS, Table 3: *Expenditure categories in the FLCB model*, p. 40).

- **Greater clarity of expenditure category A200 should be provided.**

Implementation and operation of the model

Transparency is key to the support of the FLCB model. NTC should seek to publish all expenditure projections and cost allocations used to determine proposed heavy vehicle charges. This transparency should extend to publishing audited actual expenditures when used to calculate true-ups.

- **All documents used in the FLCB, including expenditure forecasts, cost allocation matrices and actual expenditures (audited) be made available to industry for review.**

Setting heavy vehicle charges for 2027-28 to 2029-30

As per our introduction, NatRoad does not view heavy vehicle charging in an isolated cost recovery context. These charges are part of an operators' broader cost. As advocates for our members, should ITMM elect to move to a FLCB, we support the adoption of **Option 1** – FLCB with 2.5% increase in 2027-28, set to Australian Government 10-year bond rates.

Any move to a FLCB should also be reviewed within five years.

- **Should the FLCB be accepted, NatRoad support Option 1.**
- **NTC to review the use of the FLCB, if adopted, within five years.**

Thank you for providing NatRoad with the opportunity to comment on this proposal. Should you require any further information, please feel free to contact Ben Damiano, Head of Policy, Government & Compliance at [redacted].

Kind regards

<signature removed>

Warren Clark
Chief Executive Officer

About NatRoad

National Road Transport Association (NatRoad) is the largest road transport association in Australia representing thousands of members from owner operators to large national fleets. NatRoad operates across all Australian states and territories working closely with government and regulators representing industry and its members.