



Implementing a Forward-Looking Cost Base for Heavy Vehicle Charges

Submission on behalf of the Victorian **Transport Association**

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Submitted by:

Peter Anderson
Chief Executive Officer
Victorian Transport Association
Level 1, AAT House
46 Koorringa Way
Port Melbourne VIC 3207
Telephone: (03) 9646 8590
Email: [REDACTED]



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1. Executive Summary

The Victorian Transport Association (VTA) broadly supports the development of a Forward-Looking Cost Base model for heavy vehicle charges, subject to stronger governance, transparency and accountability measures being embedded in the final framework.

The VTA supports the move to a more stable and transparent model that spreads road infrastructure costs over the life of road assets. This should improve certainty for transport operators and better align heavy vehicle charges with long-term road investment.

However, heavy vehicle charges must remain a road infrastructure cost-recovery mechanism, with revenue hypothecated to road maintenance, renewal and construction, rather than treated as a general revenue source. Revenue collected from operators should be clearly linked to road maintenance, renewal and construction, and any over-recovery must be identified, published and deducted from future revenue requirements.

The VTA supports the use of a blended rate of return in principle, as it better reflects the actual cost of capital faced by state and territory governments. This support is conditional on the methodology being transparent, independently verifiable and not used to transfer unrelated government fiscal risk onto heavy vehicle operators.

The VTA could support Option 2 as a balanced implementation pathway, provided stronger governance and true-up safeguards are adopted. Option 2 appears to provide a more realistic funding path than the lowest increase option, while avoiding the sharper immediate impact of Option 3.

The VTA also recommends that roads that heavy vehicles are prohibited or materially restricted from using should not be treated in the same way as freight-accessible roads for cost-recovery purposes. Future reviews should also consider the impact of heavier light vehicles, including electric vehicles, plug-in hybrids and large SUVs, to ensure heavy vehicles do not carry a disproportionate share of road infrastructure costs as the broader vehicle fleet changes.

With these safeguards in place, the VTA believes the FLCB model can provide a stronger and more credible foundation for setting heavy vehicle charges in the future.



2. About the Victorian Transport Association

2.1. Introduction

The Victorian Transport Association (VTA) has over 800 members and is dedicated to the service of members and supporters across all sectors of the transport and logistics industry.

With over 100 years' experience and a specific industry focus, the VTA possesses the industry acumen, market knowledge and industry relationships required to support members operating in complex commercial and regulatory environments.

Recognised as one of Australia's pre-eminent multimodal employer and industry organisations in transport and logistics, the VTA works with all levels of government, unions, statutory authorities, regulators and industry stakeholders to achieve practical and mutually beneficial outcomes.

The VTA is committed to enhancing the image of the transport and logistics industry, improving safety and productivity outcomes, and supporting a commercial environment that enables freight operators to operate efficiently, sustainably and competitively.

3. VTA's Response to the NTC Consultation Regulatory Impact Statement

3.1. Approach to the VTA Response

The Victorian Transport Association welcomes the opportunity to respond to the National Transport Commission's Consultation Regulatory Impact Statement, *Implementing a forward-looking cost base for heavy vehicle charges*.

The VTA has considered the proposed Forward-Looking Cost Base model from the perspective of transport operators that rely on safe, efficient and productive road infrastructure across metropolitan, regional and interstate freight networks.

Heavy vehicle charges are a material operating cost for transport businesses. Any change to the way these charges are calculated must therefore be transparent, predictable, equitable and directly connected to the road infrastructure outcomes that industry is being asked to fund.

The VTA's detailed response is set out below.

4. Overall Position

The VTA is broadly supportive of the proposed forward-looking cost base model.

We recognise the significant work undertaken by the NTC to develop a more rigorous, transparent and stable approach to setting heavy vehicle charges. The proposed model appears to address several longstanding issues with the current PAYGO approach, including volatility in the cost base,



uncertainty for operators, and the inequity of recovering the cost of long-lived infrastructure from current users rather than spreading those costs over the life of the asset.

Transport operators require certainty to make commercial decisions, price contracts, invest in equipment, and plan fleet utilisation. A model that provides a clearer forward view of heavy vehicle charges, and that is supported by regular publication of expenditure forecasts, model assumptions and reconciliation of actual outcomes, has the potential to improve confidence in the heavy vehicle charging system.

However, the VTA's support is conditional on strong governance safeguards being built into the model. In particular, there must be clear assurance that revenue collected from heavy vehicle operators is used for road infrastructure purposes and not absorbed into consolidated revenue without a direct and transparent connection to road investment, maintenance and renewal.

5. Benefits of the Proposed Model

The VTA sees several clear benefits in moving to a forward-looking cost base.

First, the model should provide greater stability and predictability for industry. The current PAYGO model can produce significant changes in the heavy vehicle cost base when government road expenditure rises or falls sharply. This creates uncertainty for operators and makes it difficult to plan for future cost increases. By spreading road construction and maintenance costs over the life of road assets, the FLCB model should reduce short-term volatility and provide a more manageable path for future charges.

Second, the model better reflects the long-term nature of road infrastructure. Heavy vehicle operators using the network today should not be required to bear the full cost of long-lived infrastructure that will benefit future users for decades. Recovering capital costs over the life of the asset is a more equitable approach and is consistent with the way other regulated infrastructure sectors recover capital investment.

Third, the proposed model has the potential to improve transparency. Publishing expenditure forecasts, model assumptions, revenue requirements and actual expenditure outcomes should assist industry to understand how charges are calculated and why charges increase or decrease over time.

Fourth, the proposed true-up mechanism is an important safeguard. Because charges will be set based on forecasts, it is essential that actual expenditure and actual revenue are reconciled. In principle, this should ensure that heavy vehicle operators only pay for road expenditure that is actually incurred and that any over- or under-recovery is properly reflected in future pricing periods.



6. Revenue Integrity and Use of Funds

The VTA's primary concern is whether the revenue collected under the model will actually be spent on roads.

If the model operates as intended, and revenue collected from heavy vehicle operators is transparently linked to, and hypothecated for, road investment, maintenance and renewal, then the model should deliver significant benefits. It would provide a clearer and more disciplined connection between the charges paid by industry and the infrastructure required to support the freight task.

However, industry will have limited confidence in the model if the additional revenue collected is not hypothecated to road infrastructure and is instead treated as general government revenue. Heavy vehicle operators already face significant cost pressures, including fuel, labour, insurance, compliance, equipment, finance and toll costs. Any increase in road user charges or registration charges must be justifiable, transparent and connected to road network outcomes.

The VTA is concerned that, without stronger governance controls, the FLCB could create an opportunity for governments to increase revenue without a corresponding improvement in road funding, road condition, freight productivity or network access. If revenue collected from heavy vehicle operators is absorbed into consolidated revenue, the policy intent of the model would be undermined.

The VTA therefore recommends that the final model include clear safeguards to ensure that revenue collected through heavy vehicle charges is transparently reconciled against actual road expenditure and that over-recovery is returned to industry through future charge reductions or offsets.

7. Risk of Forecast Manipulation and Weak True-Ups

The true-up mechanism is a critical part of the model, but it must be robust enough to prevent over-recovery being carried forward indefinitely.

The VTA understands the proposed approach to mean that, where forecast expenditure exceeds actual expenditure, the difference would be recognised in future periods so that operators are not charged twice or charged for expenditure that did not occur. For example, if \$1 billion was forecast but only \$800 million was spent, the \$200 million over-recovery should be recognised and reduce the amount recovered in future years.

The concern is that, without strong controls, governments could offset this by increasing future expenditure forecasts in a way that prevents the over-recovery from ever being meaningfully returned to industry. In practical terms, a government could forecast \$1.2 billion in the following



period and absorb the prior \$200 million over-recovery without any real reduction in charges or any clear improvement in road outcomes.

This would be inconsistent with the principle that heavy vehicle operators should only pay for actual road expenditure over time.

To address this risk, the VTA recommends that the true-up mechanism include:

- a transparent jurisdiction-by-jurisdiction reconciliation of forecast expenditure, actual expenditure, forecast revenue and actual revenue;
- publication of any over- or under-recovery balance by jurisdiction and by regulatory period;
- a requirement that over-recovery be explicitly deducted from the future revenue requirement before new expenditure forecasts are added;
- independent review or audit of expenditure forecasts and actual expenditure outcomes;
- clear explanation where future expenditure forecasts materially increase after an over-recovery has been identified;
- safeguards to prevent unrealistic or unsupported future expenditure forecasts being used to absorb prior over-recovery; and
- public reporting that allows industry to see whether charges paid by operators are producing measurable road investment, maintenance and network outcomes.

8. Transparency and Publication Requirements

The VTA supports the proposed publication of expenditure forecasts, model outputs, explanatory materials and updates on actual expenditure and estimated heavy vehicle charge revenue.

However, transparency must go beyond publication of high-level model outputs. Industry needs sufficient detail to understand whether the model is operating as intended.

The VTA recommends that the following information be published as part of each pricing cycle:

1. jurisdictional expenditure forecasts by category;
2. actual road expenditure by jurisdiction and category;
3. actual heavy vehicle charge revenue collected;
4. forecast versus actual differences;
5. true-up balances and how they are applied;
6. assumptions used for asset lives, inflation, cost of capital and usage data;
7. treatment of toll roads, PPPs and non-standard financing arrangements;



8. local government road expenditure assumptions;
9. the effect of any ministerial decision to depart from modelled charges; and
10. a plain-English summary explaining the impact on heavy vehicle operators.

This information should be published in a format that is accessible to industry, not only in technical model files. Operators should be able to understand why charges are changing, what expenditure they are funding, and how any over- or under-recovery has been treated.

9. Rate of Return

The VTA supports the use of the blended rate of return, provided it is transparent, independently verifiable and not used to transfer unrelated state and territory fiscal risk onto heavy vehicle operators.

While the Australian Government 10-year bond rate is attractive because it is transparent and likely to produce a lower cost base, the VTA recognises that road infrastructure is delivered by state and territory governments whose actual borrowing costs may be higher than the Commonwealth rate. If the model is intended to reflect the real cost of funding and delivering road infrastructure, there is merit in adopting a blended rate that more closely reflects the actual cost of capital faced by governments.

However, this support is conditional. Heavy vehicle operators should not be required to pay higher charges simply because a jurisdiction's broader fiscal position has deteriorated for reasons unrelated to road infrastructure delivery. The blended rate must therefore be calculated using a clear, published and independently verifiable methodology. The NTC should publish the inputs, assumptions and resulting rate used in each pricing period, and should clearly explain the difference between the Commonwealth rate and the blended rate in terms of its impact on heavy vehicle charges.

The VTA supports a model that provides sufficient funding for road maintenance, renewal and construction. However, the use of a higher rate of return must be accompanied by stronger governance and transparency to ensure the additional revenue is applied to road infrastructure outcomes, not absorbed into consolidated revenue.

10. Toll Roads and Non-Standard Financing

The VTA supports the principle that toll road revenue, PPP revenue and other non-standard financing arrangements should be treated on a net basis to avoid double recovery.

Where heavy vehicle operators already pay tolls to use particular roads, it is essential that those costs are appropriately recognised in the model. Operators should not pay once through tolls and again through national heavy vehicle charges for the same infrastructure cost.



The VTA supports the exclusion of fully toll-funded roads from the cost base and supports the principle that, where toll revenue exceeds relevant costs, the excess should reduce the amount recovered through heavy vehicle charges.

This area will require strong transparency, particularly for complex PPPs and road projects involving government contributions, toll extensions, availability payments or other financing mechanisms. The VTA recommends that the NTC publish a clear worked example showing how major toll road and PPP arrangements are treated in the model.

11. Roads with Heavy Vehicle Exclusions or Restricted Access

The VTA recommends that roads or road assets that heavy vehicles are prohibited from using, or are materially restricted from accessing, should not be included in the heavy vehicle asset base in the same way as freight-accessible roads.

Victoria has a significant number of truck exclusion zones, restricted access roads and local roads where heavy vehicle access is limited by regulation, infrastructure constraints, planning decisions or community amenity measures. This issue is likely to grow as new major road projects are delivered and as governments increasingly use truck bans or access restrictions to manage local traffic impacts.

If trucks cannot use a road, industry should not be asked to pay for it as though it forms part of the freight network. It should therefore not be treated as a standard heavy vehicle-accessible asset for cost recovery purposes.

The VTA recognises that some road assets may provide indirect network benefits, even where heavy vehicle access is restricted. However, the model should distinguish between:

- roads that heavy vehicles can lawfully and practically access;
- roads where heavy vehicle access is materially restricted;
- roads where heavy vehicles are prohibited except for limited local access or permit-based movements; and
- roads where heavy vehicles are fully excluded.

The VTA recommends that the NTC develop a clear methodology for identifying and adjusting the treatment of road assets subject to heavy vehicle exclusions or material access restrictions. At a minimum, expenditure on roads that heavy vehicles are prohibited from using should be excluded from the heavy vehicle cost base, or subject to a reduced allocation that reflects the limited or indirect benefit provided to heavy vehicle operators.

This is important for fairness and industry confidence. Heavy vehicle operators should not be required to fund infrastructure that they are not legally permitted to use.



12. Local Government Road Expenditure

The VTA recognises the need to include local government road expenditure in the model, given the importance of first-mile and last-mile freight access.

However, local road expenditure assumptions must be robust and transparent. Freight operators regularly experience poor local road conditions, inconsistent access outcomes and infrastructure that is not suitable for the vehicles required to service customers and communities. If heavy vehicle operators are contributing to local road expenditure through national charges, there should be greater visibility of how local road funding supports freight access, road condition and productivity.

The VTA recommends that the NTC continue to improve the quality of local government road expenditure data and that future reporting include clearer links between local road expenditure, freight access and heavy vehicle use.

13. Impact of Heavier Light Vehicles and Electric Vehicles

The VTA recommends that the FLCB model and future road funding framework consider the increasing impact of heavier light vehicles, including battery electric vehicles, plug-in hybrid vehicles, conventional hybrids and large SUVs, on road infrastructure costs.

The VTA acknowledges that electric and hybrid vehicles currently make up only a very small proportion of the heavy vehicle fleet. The NTC's C-RIS notes that, as at 31 January 2025, there were an estimated 1,232 pure electric and hybrid electric heavy vehicles in use, representing approximately 0.2 per cent of the total heavy vehicle fleet. On this basis, electric heavy vehicles are not yet a material driver of heavy vehicle road funding outcomes.

However, the position is very different in the consumer vehicle market. Recent VFACTS data reported by the FCAI shows that battery electric vehicles accounted for a record 20 per cent of all new vehicle sales in May 2026. Electrified vehicles more broadly, including battery electric vehicles, conventional hybrids and plug-in hybrids, accounted for 46 per cent of all new vehicle sales from all sources during that month. The shift is particularly significant in the SUV segment, where EV sales increased by 167 per cent compared with May 2025 and plug-in hybrid sales increased by 377 per cent, while petrol SUV sales declined by 31 per cent and diesel SUV sales declined by 41 per cent.

This matters for road funding because the light vehicle fleet is changing rapidly. Electric passenger vehicles are generally heavier than comparable internal combustion engine vehicles due to battery weight, and many large passenger vehicles and SUVs now approach weights that were historically more closely associated with light commercial vehicles. As consumer uptake continues to shift toward electrified SUVs and heavier passenger vehicles, the impact of the light



vehicle fleet on pavement wear, structures, road maintenance and long-term asset renewal is likely to become more material.

The VTA is concerned that, without regular review of cost allocation assumptions, an increasing share of road infrastructure costs may continue to be attributed to heavy vehicles while heavier light vehicles make a growing contribution to network wear and infrastructure demand. This risk is heightened by the fact that electrified light vehicles may also contribute less through fuel-based road funding mechanisms, even as their share of the vehicle fleet increases.

The VTA does not suggest that this issue should delay implementation of the FLCB model. However, it should be identified as a priority issue for future review. A forward-looking road funding model should not rely on assumptions about vehicle weight, fleet composition and cost allocation that may become outdated as the light vehicle fleet changes.

The VTA recommends that the NTC undertake further work on the implications of heavier light vehicles and electrified passenger vehicles for road cost allocation. This should include consideration of:

- whether current cost allocators remain appropriate as the light vehicle fleet becomes heavier;
- whether electric passenger vehicles, plug-in hybrids and large SUVs are materially increasing road infrastructure costs;
- whether the current split between light and heavy vehicle cost responsibility remains fair;
- how future road funding models will account for declining fuel excise revenue from electrified light vehicles;
- whether heavy vehicle operators risk carrying a disproportionate share of road infrastructure costs as the broader vehicle fleet changes; and
- whether the FLCB model should include a scheduled review of fleet composition, vehicle mass trends and cost allocation settings before each future regulatory period.

The VTA considers this issue important to the long-term credibility of the FLCB. Heavy vehicle operators accept that they should make a fair contribution to the cost of the road network, but that contribution must remain proportionate and evidence-based as the broader vehicle fleet changes.

14. Preferred Implementation Option

The VTA supports a balanced and affordable transition to the FLCB model.

The VTA recognises that selecting the lowest initial increase may reduce short-term pressure on operators, but may also underfund the road network and defer necessary maintenance and renewal. Equally, higher initial increases cannot be supported unless there is clear assurance that



the additional revenue will be used for road infrastructure purposes and that any over-recovery will be returned to industry through future charge reductions or offsets.

On balance, the VTA could support Option 2 as a reasonable transition pathway, subject to stronger governance, transparency and true-up safeguards being adopted. Option 2 appears to provide a more realistic funding path than Option 1, while avoiding the sharper immediate impact of Option 3.

However, the VTA's support for Option 2 is conditional on the final framework including clear mechanisms to ensure:

- revenue collected from heavy vehicle operators is transparently linked to road expenditure;
- over-recovery is identified, published and deducted from future revenue requirements;
- future expenditure forecasts cannot be inflated to absorb prior over-recovery;
- jurisdictional expenditure and revenue outcomes are published;
- actual road expenditure is independently reviewed or audited; and
- industry can clearly see how charges paid by operators are supporting road condition, safety, access and productivity.

Without these safeguards, the case for adopting an increase above the lowest transition pathway is significantly weakened.

15. Additional Safeguards Recommended by the VTA

The VTA recommends that the final FLCB framework include the following safeguards:

1. A clear statement that heavy vehicle charges are for road infrastructure cost recovery and should be hypothecated to road maintenance, renewal and construction, rather than treated as general revenue.
2. Independent audit or review of expenditure forecasts, actual expenditure and true-up balances.
3. Publication of jurisdictional-level forecast and actual expenditure data.
4. A clear mechanism requiring over-recovery to reduce future revenue requirements.
5. A requirement for governments to explain material changes in future expenditure forecasts, particularly where prior over-recovery has occurred.
6. Transparent treatment of toll roads, PPPs, non-standard financing and revenue offsets.
7. Plain-English reporting for industry after each pricing cycle.
8. Ongoing consultation with industry before each three-year pricing period.



9. Specific reporting on how road expenditure funded through the model supports freight productivity, road condition, safety and access.
10. A commitment to review the model after the first regulatory period to assess whether it has delivered the intended transparency, stability and cost recovery outcomes.

16. Summary

The VTA supports the development of a forward-looking cost base for heavy vehicle charges and recognises the benefits of a more rigorous, transparent and stable model.

The proposed model has the potential to improve certainty for transport operators, reduce volatility in charges, better align infrastructure costs with asset lives, and strengthen the connection between road expenditure and heavy vehicle charges.

However, industry confidence will depend on the integrity of the model's governance. Heavy vehicle operators must be able to see that the charges they pay are connected to road infrastructure expenditure and are not simply being used as an additional revenue source for government.

The VTA's support is therefore conditional on strong transparency, true-up and accountability mechanisms being embedded in the final framework. In particular, any over-recovery must be clearly identified, publicly reported and returned to industry through future charge reductions or offsets, rather than being absorbed through inflated future expenditure forecasts.

With these safeguards in place, the VTA believes the FLCB model can provide a stronger and more credible foundation for setting heavy vehicle charges in the future.