12 March 2021

National Transport Commission
Level 3/600 Bourke Street
Melbourne VIC 3000

Via email: enquiries@ntc.gov.au

RESPONSE TO HEAVY VEHICLE CHARGES CONSULTATION REPORT

I write to advise that the Australian Livestock and Rural Transporters Association (ALRTA) supports the Infrastructure and Transport Ministers Meeting's proposal to increase heavy vehicle registration and Road User Charges by 2.5 per cent in 2021-22.

Our rationale in support of the proposal is outlined below.

The Australian Livestock and Rural Transporters Association

The ALRTA is the peak body representing road transport businesses servicing the agricultural supply chain. We are a federation of six state associations including:

- Livestock, Bulk and Rural Carriers Association of New South Wales
- Livestock and Rural Transporters Association of Victoria
- Livestock and Rural Transporters Association of South Australia
- Livestock and Rural Transporters Association of Western Australia
- Livestock and Rural Transporters Association of Queensland
- Livestock Transporters Association of Tasmania

Together our associations represent around 700 transport businesses including owner-drivers, small fleet operators and large fleet operators.

Consideration of the Charging Consultation Report

The ALRTA National Council considered the National Transport Commission's (NTC) Heavy Vehicle Charges Consultation Report on 19 February 2021. Key among the Council's considerations were current industry performance, infrastructure spending, recovery of charge increases and fair cost recovery principles.

Current Industry Performance

The Australian agricultural sector is recovering from a prolonged drought, bushfires and disruption due to COVID-19. ALRTA greatly appreciates the decision of (most) Australian governments to freeze heavy vehicle charges in 2020-21 in response to the crisis.

While at any one point in time there are individual transport businesses booming or in decline, overall demand for rural freight services is currently strong. The 2020-21 harvest was the second largest on record, livestock prices are high and fodder is again available. ALRTA considers that the rural trucking sector is now in a position to resume fair cost recovery via heavy vehicle charges.

Investment in Road Infrastructure

ALRTA acknowledges that State and Territory investment in road infrastructure has increased by 20 per cent between 2016-17 and 2019-20. We also appreciate that the Australian Government's response to COVID-19 has included a $1.5 billion infrastructure stimulus package that compliments a commitment of $1.5 billion for local road and community infrastructure projects.

Our members report that there is a demonstrable increase in road works on regional freight routes around Australia. We do however have concerns regarding the lack consultation with the ALRTA or our state associations about the nature and quality of regional road works. Given that our members pay for the road works, we ought to have some say in how our money is spent.

> **Recommendation 1:** *That Australian Governments be required to consult with peak road freight associations about the nature and quality of regional roadworks funded by heavy vehicle charges.*

Investment in Transport Businesses

ALRTA appreciates the additional measures implemented by the Australian Government to provide financial support during the COVID-19 pandemic. Of particular assistance to the rural transport sector were the cash flow boost; increase in the asset write-off to 31 December 2020; and accelerated depreciation of new business assets to 30 June 2021.

The measures have enabled road transport businesses to bring forward business level investments that have also benefited the supply chain and broader Australian economy. We understand that domestic truck and trailer manufacturers (and allied suppliers) have rarely been so busy.

Recovery of Heavy Vehicle Charge Increases

Most businesses, including road transport businesses, are subject to periodic cost increases which must be absorbed or passed on to customers. Prior to 2014-15, at which time heavy vehicle charges were frozen, PAYGO routinely prompted Australian Governments to increase charges. Despite some increases being excessive (e.g. 2009-10 and 2012-13), a level of increase was generally expected and incorporated into transport business operating models.

For context, percentage changes in annual charges in the lead up to freezing is presented in Table 2.

2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
3.5%	6.8%	4.2%	2.4%	10.4%	2.5%

Table 1: *Percentage Changes in the Road User Charge 2008-09 to 2013-14.*

As illustrated in Table 1, the proposed 2.5 per cent increase in heavy vehicle charges for 2021-22 is low by historic standards. In addition, the increase was flagged by governments and agreed by industry more than twelve months ago. The vast majority of road transport businesses would be anticipating and able to adapt to an increase in heavy vehicle charges of 2.5 per cent.

> **Recommendation 2:** *That heavy vehicle registration and Road User Charges be increased by 2.5 per cent in 2021-22.*

Is PAYGO Broken?

The genesis of the current 13.4 per cent funding shortfall can be summarised as follows:

- After a comprehensive review of PAYGO, the NTC recommended a 6.3 percent charging decrease to apply from 2014-15.
- While governments were not willing to forgo this quantum of revenue in a single year, the principle of fair cost recovery was nonetheless accepted, and charges were frozen with an expectation that expenditure would catch up in subsequent years.
- Figure 5 contained within the NTC Consultation Report demonstrates that the cost base and charging revenue were approximately equal by the conclusion of 2017-18.
- Notwithstanding cumulative overcharging approaching $1 billion and technical delays in undertaking backward looking cost base calculations, 2018-19 would have been the ideal point at which to recommence objective PAYGO based determinations.
- However, a charging increase was not contemplated until the 2020-21 determination.
- As a result of the delay, under-recovery had blown out to 11.4 per cent.
- The proposal to increase heavy vehicle charges over three years from 1 July 2020 by 6.0%, 3.0% and 2.4% was unacceptable due to the large upfront loading and lack of consultation.
- Industry agreed with a proposal to increase charges by 2.5 per cent in 2020-21 and 2021-22, however, the 2020-21 increase did not occur due to the unforeseen COVID-19 pandemic.
- At the conclusion of 2020-21, the gap between the heavy vehicle cost base and estimated revenue at current heavy vehicle charges will be $452 million or 13.4 per cent.

The critical point for governments and industry to understand is that the 13.4 per cent revenue shortfall was not caused by implementation of PAYGO based determinations, rather, it was caused by a failure to objectively implement PAYGO based determinations on a timely basis.

Over more than a decade, there have been multiple unsuccessful attempts to replace PAYGO with a new forward looking charging model. Notably, all new proposals have been premised on fair cost recovery and objective (or even independent) decision making processes. There is no guarantee that governments or industry will be willing to accept a radically new charging system in the near term. PAYGO is not perfect, but it remains the best available model for achieving fair cost recovery.

Consequences of Failing to Act Responsibly

Delaying necessary increases in heavy vehicle charges (including decisions to increase charges by less than the necessary amount) will only serve to increase the gap between revenue and expenditure.

To illustrate, the COVID-19 related decision not to increase charges in 2020-21 due to COVID-19 materially increased the gap from 11.4 per cent to 13.4 percent.

Charting a responsible path back to fair cost recovery is a complex process. Setting charges too low will fail to close the gap (resulting in cumulative under recovery of revenue), while setting charges too high will threaten the viability of high capital, high turnover, low margin, transport businesses.

Calculating a total charge necessary to achieve a path back to fair cost recovery essentially involves two components:

1) A core increase (or decrease) reflecting future changes in the heavy vehicle cost base; and
2) An additional loading necessary to close the 13.4 per cent gap over a reasonable period.

PO Box 4233 MANUKA ACT 2603 ABN:16 034 545 414
P: 02 6247 5434 F: 02 6247 0476 E: office@alrta.org.au W: www.alrta.org.au

However, given that governments refused a 6.3 per cent decrease in 2014-15 and industry fought strongly against a proposed 6 per cent increase in 2020-21, it is reasonable to expect that the total quantum of the two charging components cannot exceed a maximum threshold in any one year.

Assuming that the underlying cost base will continue to increase, there is consequently a perilous 'point of no return' after which it will not be possible to keep the total quantum of charges under the maximum threshold, or the maximum threshold will need to be maintained year-on-year for an unacceptably long period. Two such scenarios are presented in Table 2 below.

$b	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Cost Base	3.817	3.912	4.010	4.110	4.213	4.319	4.427
Revenue up 4%	3.500	3.640	3.785	3.937	4.094	4.258	4.428
Revenue up 5%	3.533	3.710	3.895	4.090			

Table 2: *Cost Recovery Scenarios. Assumes 2.5 per cent annual cost base increase and revenue (charges) increased by either 4 percent or 5 percent annually from 2021-22.*

Table 2 illustrates that, if the cost base is assumed to increase by 2.5 per cent annually, it would already take four years to 'close the gap' if charges were also increased by 5 per cent annually, or seven years if charges were increased by 4 per cent annually.

It follows that a 2.5 per cent charging increase would maintain the gap, whereas any charging level less than 2.5 per cent would further increase the revenue shortfall.

Critically, delays in increasing heavy vehicle charges would extend recovery time frames into 'decades' or require annual charging fluctuations approaching 6 per cent – a level demonstrably unacceptable to both industry and governments.

Already, the above analysis is likely to represent a best-case scenario. Historically, the cost base has increased by more than 2.5 per cent on average (Table 1) and we must also consider the potential impact of COVID-19 infrastructure stimulus against the underlying Australian Government commitment to a record $110b infrastructure spend over 10 years from 2020-21.

There simply is no time to lose. We must immediately arrest further growth of the current gap between expenditure and revenue, plus accelerate work on multi-year price pathing scenarios, aiming to return to fair cost recovery in a reasonable period without impacting necessary infrastructure spending or threatening the viability of road transport businesses.

Recommendation 3: *That Australian governments accelerate work on multi-year price pathing scenarios, aiming to return to fair cost recovery in a reasonable period without threatening the viability of road transport businesses.*

Conclusion

ALRTA continues to believe in the long-standing principle of fair cost recovery via PAYGO.

There is a growing 13.4 per cent gap between the heavy vehicle cost base and revenue forecasts. PAYGO will become unsustainable unless immediate action is taken.

ALRTA supports the proposal to increase heavy vehicle charges by 2.5 per cent in 2021-22. This level of increase was flagged by governments and agreed by industry more than twelve months ago.

If you would like to discuss this matter in more detail please do not hesitate to contact the ALRTA Executive Director, Mathew Munro, on (02) 6247 5434 or mathew@alrta.org.au

Yours sincerely

Scott McDonald
National President