NATROAD

NATIONAL ROAD TRANSPORT ASSOCIATION

Submission to the National Transport Commission

Heavy Vehicle Charges consultation: options for setting heavy vehicle charges for 2023-24 and beyond.

12 October 2022

Executive Summary:

A road freight transport sector already under enormous cost pressure should not be subjected to onerous increases in heavy vehicle charges.

NatRoad remains wedded to its position that if governments are going to increase the road user charge (RUC) and registration charges, a small percentage increase should be adopted at the most. Given industry conditions, particularly record fuel prices, a zero increase at least in the first year is recommended.

We believe this should remain in place until a revamped cost model is implemented.

We also agree with the National Transport Commission's recommendation that Ministers set heavy vehicle charges for a three-year period beginning in 2023-24. This will give the industry a degree of certainty.

NatRoad believes that it is futile to base increased RUC and registration charges on past State and Territory road expenditure. This leads to a situation where charges are driven solely by governments' spending plans.

Those plans are often inconsistent with real world requirements (such as road maintenance or sealing) or industry's ability to pay (which is diminishing for a broad range of economic reasons.)

Introduction

1. The National Road Transport Association (NatRoad) is pleased to respond to the National Transport Commission's (NTC) consultation request. NTC is seeking feedback on a Consultation Paper entitled *Options for setting heavy vehicle charges for 2023-24 and beyond.*[1]

2. NatRoad is Australia's largest national representative road freight transport operators' association. NatRoad represents road freight operators, from owner-drivers to large fleet operators, general freight, road trains, livestock, tippers, car carriers, as well as tankers and refrigerated freight operators.

Position: Zero then Small Percentage Increases

3. We note that in a number of prior submissions NatRoad recommended, on the basis of simplicity, that if governments were to increase the road user charge (RUC) and registration charges a small percentage increase or the rate of inflation, whichever is the lower, be adopted. This solution, we proposed, should be in place until a revamped cost model was implemented. In this instance, for the reasons that follow, a zero increase is favoured for the first of three years.

4. The NatRoad position remains that it is futile to continue to attempt to determine cost responsibility based on ex post State and Territory road expenditure where there is a two year period between expenditure and attempted cost recovery. This leads to the situation where charges are driven solely by governments' spending plans, even where those plans are inconsistent with the industry's requirements (such as the need for more expenditure on road maintenance or sealing rather than particular newly constructed roads) or industry's ability to pay, with the latter diminishing for the reasons NatRoad has outlined in prior submissions. Further, there is no qualitative check on that expenditure undertaken by the NTC. Industry pays for State and Territory inefficiencies in road construction.

5. Recently, the above position, small annual percentage increases, was overshadowed by the NatRoad members' operating environment in which cost pressures have become more intense. This cost pressure has arisen because of the very large increases in the cost of diesel that has occurred because of the Russian invasion of Ukraine[2] and the poor outcome of the so-called reform associated with the fifty percent cut in excise that came to an end on 29 September 2022.

6. Notably, the measures taken by the previous federal Government in reducing the fuel excise for a temporary period, provided much smaller relief for industry than for the public. This was outlined to the NTC by NatRoad in a submission dated 31 March 2022. In that submission, NatRoad highlighted that the road freight industry had been particularly impacted because the Fuel Tax Credit (FTC) for heavy vehicles on public roads was reduced to nil during the six months of operation of the excise cut. It is against this background that we consider the terms of the Consultation Paper.

7. Despite the impact of the fuel tax debacle on Natroad members, the NTC has indicated that:

---

[1] Options for setting heavy vehicle charges for 2023-24 and beyond.pdf (ntc.gov.au)
[2] See for example T Brooker *Crisis looms as Russia-Ukraine tensions impact petrol prices* Petrol prices: How Russia-Ukraine tensions cause rise in fuel cost | news.com.au — Australia's leading news site

This temporary reduction is not considered in this consultation paper as the temporary reduction in fuel excise ends well before 2023-24. None of the financial implications for governments or heavy vehicle operators have been considered in any of the forecasts and options presented in this paper.[3]

8. Because of the current state of the industry, nothing has changed NatRoad's view that small percentage increases should remain the basis of increases to heavy vehicle charges, if any, following a zero rise in 2023-24. That view colours the response that we provide in this submission. This position also aligns with NatRoad's earlier position that a new costing model is needed to underpin the Heavy Vehicle Road Reform (HVRR) process. In the meantime, a zero or a small, fixed price increase is a better outcome than reliance on PAYGO or alternative models to set a recovery amount.[4]

9. We have not answered all numbered questions in the Consultation Paper.

Intervention Required

10. The NTC says that reliance on the statutory provisions to increase heavy vehicle charges would not be appropriate:

    Under normal circumstances, this would be the most obvious approach to implementing the heavy vehicle charges approved by ministers as part of this determination. However, this approach is not feasible as it would automatically increase heavy vehicle charges to fully recover the identified heavy vehicle cost base, leading to an increase in heavy vehicle charges of 40.4 per cent. Such a significant increase would arguably impose an unreasonable burden on heavy vehicle operators.

11. We agree that the burden of such an increase at over 40% would be unreasonable. Part of the rationale for small, fixed percentage increases as agreed by Ministers to date is to provide a small cost increase in times where the industry has suffered a large number of negative impacts, some of which were outlined earlier in this submission, but which have been fully traversed in prior NatRoad submissions. Industry profit margins are below 2.5%.[5] This is another reason to favour a zero increase in the first year.

The Price Path

12. The NTC recommends that Ministers set heavy vehicle charges for a three-year period beginning in 2023-24.[6]

13. Question 2 in the Consultation Paper is: *Do you agree with the NTC's recommendation that ministers agree to set charges for a three-year period beginning in 2023-24?* The answer is yes. We agree because of the simplicity and certainty associated with this approach. We also support this approach because we do not have confidence in the way the current costing model works, as NatRoad has made plain in prior submissions. Policy is not properly advanced when the discussions of heavy vehicle charges rely on a technical, mathematical discussion where the assumptions used are questionable.

[3] Above note 1 p11
[4] A position outlined in detail in this submission to the NTC: https://www.ntc.gov.au/submission_data/1125
[5] IBIS World *Road Freight Transport in Australia* Feb 2021 p13
[6] Above note 1 at p29

The Three Options

14. The NTC describes the options over the three-year period in these terms:

Option 1: Increase heavy vehicle charges by 2.75 per cent per annum: This is the same percentage increase as agreed by ITMM for 2022-23 heavy vehicle charges.

Option 2: Increase heavy vehicle charges by 6 per cent per annum: This is close to the current rate of consumer price inflation. Consumer price inflation was 6.1 per cent in the year ending June 2022.

Option 3: Increase heavy vehicle charges by 10 per cent per annum: This is higher than Option 2 but would still be insufficient to reduce the revenue gap below $1b by Year 3.[7]

15. As is obvious from the NatRoad position outlined earlier, we prefer a zero increase in the first year and then the balance of Option 1. We reject the basis on which the "revenue gap" referred to in the description of Option 3 has been calculated, as is evident from the detailed submission mentioned in paragraph 4 of this submission. As is noted in the Consultation Paper, heavy vehicle charges have not been set with reference to a specific revenue target since 2017-18. Instead, charges have been levied based on a Ministerial agreed percentage. NatRoad would like that process to continue on the basis of equity, efficiency and simplicity.

Rounding

16. Because of the current process used to increase heavy vehicle charges, there are issues with translating those percentage increases into dollar and cents figures. These issues relate to the process of rounding.

17. In this context, Question 4 says: *Do you consider that the NTC should retain the current approach to modelling heavy vehicle charges to multiple decimals and rounding the end result only, or do you support the alternative approach of applying percentage changes to rounded heavy vehicle charges, and then rounding the end result?*

18. The simplicity associated with the second, alternative approach is preferred. The Consultation Paper notes that regarding the alternative approach:

Year-on-year changes could be easier for the public to understand and reconcile

19. It is not just for the public where the translation of the percentage increase would be easier to understand. That would also be the case for those who pay the charge.

Analysis of Options

20. Registration charges that apply to larger combinations militate against other Government objectives, such as encouraging fewer truck trips for the same task and encouraging the uptake of larger, modern low emissions vehicles. That should be a factor in assessing the preferred options.

21. We disagree where the NTC says:

Other issues that need to be considered are the revenue implications for governments, and their implications for the amount of funding taxpayers need to contribute towards the

[7] Id p31

construction and maintenance of roads. In this context, any shortfall in revenue below the heavy vehicle cost base needs to be made up by taxpayers in general.

22. Heavy vehicle registration charges are not hypothecated. The revenue does not necessarily go to expenditure on roads. Hence, we do not agree with the propositions in the above paragraph. It is general revenue which supports road construction and maintenance. It is to the pool of general revenue that heavy vehicle charges go. In addition, in considering the revenue needs of Government, particularly from the RUC, the diminishing cost base and the inefficiency of fuel excise needs to be considered. Reform in this context is also required and as differently fuelled vehicles become more populous, so will the urgency of the reform task grow.

Conclusion

23. NatRoad continues to support the position outlined in paragraph 8 of this submission. As the system moves towards HVRR and the work undertaken in that area provides an appropriate, forward looking cost base for heavy vehicle charges, the most appropriate way of increasing heavy vehicle charges over the next three years is through an initial zero percentage rise in the first year and then a small percentage increase that is applied for the next two years.