24 February 2023

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) does not support either a 6 per cent increase in heavy vehicle charges (annually for three years) or the alternative 10 per cent proposal. ALRTA would however support a 3 per cent increase in heavy vehicle charges in each of the three years commencing 2023-24.

Our rationale in this regard 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 Transport 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) consultation report on 17 February 2023. NTC kindly also provided a presentation to Council. Key among 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 continue the heavy vehicle charges freeze 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 improving. Recent harvests have been at near record levels, livestock prices are high and fodder is available. ALRTA considers the rural trucking sector in a position to make steps towards fair cost recovery via heavy vehicle charges.

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Together We Are Stronger

Investment in Road Infrastructure

ALRTA acknowledges that State and Territory investment in road infrastructure has increased significantly over recent years. We also appreciate that the Australian Government's response to COVID-19 has included a $1.5 billion infrastructure stimulus package that complements a commitment of $2.5 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 relatively low proportion of expenditure on rural and regional roads and the lack of 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 receive a reasonable level of service and have some say in how our money is spent.

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

Australia is in Recovery Mode

Road freight transport is at the core of the Australian economy. Freight is not moved for its own sake. Trucks essentially move freight from a place of lower value to a place of higher value, while at the same time representing an input cost of production for most Australian businesses. Taxing transport is akin to taxing all Australian business.

While most sectors are rebounding strongly from the pandemic, the Australian National Accounts to December 2021, demonstrated that the transport, warehousing and postal sector remained 10.9 per cent down on pre-pandemic levels in terms of gross value added (chain volume measures, seasonally adjusted) (Figure 1). More recently, the National Accounts have shown a 2.2 per cent improvement for road transport over the Mar-June 2022 quarter, indicating an improving situation.

The reasons for this situation are many fold.

Firstly, it takes time for the transport sector to adjust to changes in freight flows. Operators ordering new trucks and trailers must currently wait more than 9 months for delivery.

Secondly, inflation is rampant with significant increases in the cost of trucks, tyres, parts and servicing – in some cases there have been increases of more than 50 per cent.

Thirdly, there has been a massive increase in the cost of fuel over the past 18 months – a key contributor to freight transport costs. While the Federal Government provided some temporary relief via a fuel excise cut, this was counter-productive for heavy vehicle operators. Customers demanded a significant reduction in freight costs, but as the excise reduction effectively also eliminated the fuel tax credit, operators were unable to pass on savings and in some cases were worse off. The ongoing war in Ukraine has continued the uncertain environment with high prices likely to remain for the foreseeable future.

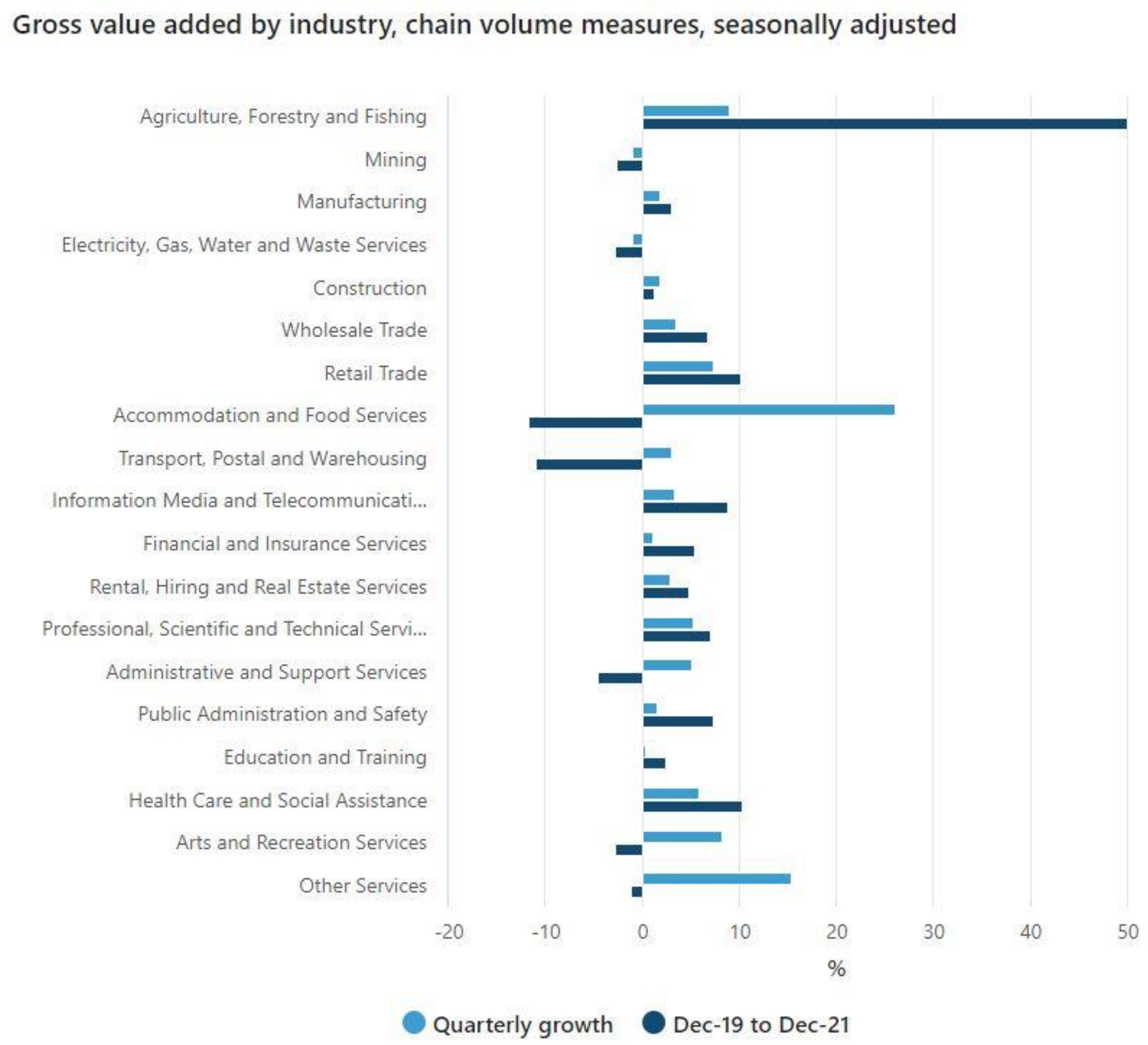

Figure 1: *Gross Value Added by Industry. Source: Australian National Accounts: National Income, Expenditure and Product – ABS.*

Fourthly, there is a dire shortage of truck drivers and support staff throughout the transport sector. The general Australian unemployment rate has sharply fallen from around 7 per cent at the height of the pandemic to just 3.4 per cent now. This situation means that capital utilisation in the industry has fallen, with some trucks and other equipment remaining idle due to a lack of available workers, and other workers with COVID or close contacts.

Lastly, central banks commenced rapidly raising interest rates in 2022. This is not only impacting margins for road transport operators, it has created a very real risk of a global recession at some point within the three year pricing horizon under consideration in the NTC consultation paper.

Natural Disasters

Australia has experienced unprecedented natural disasters including record bushfires and flooding. Since January 2022, there have been 23 flood events, with 429 declarations across 277 local government areas. Our roads have been left in an atrocious condition.

While the heavy vehicle sector is willing to pay for fair wear and tear on roads caused by heavy vehicles, it is not reasonable to expect our sector to pay for damage caused by bushfire and flooding events. In this respect, ALRTA notes the rapid cost-base increase over recent years and the forecast that it will inflate further over the next two years from $5.193b (2023-24) to $6.153b (2025-26).

It must be assumed that a significant proportion of this expenditure relates to bushfire or flood damage. ALRTA asserts that this expenditure should be identified and quarantined from the cost-base applicable to heavy vehicles.

> **Recommendation 2:** *That expenditure related to bushfire or flood damage be identified and quarantined from the cost-base applicable to heavy vehicles.*

PAYGO Adjustments Must be Fair and Reasonable

PAYGO is a cost recovery model. Expenditure and revenue is expected to equalise over time.

Governments have previously agreed that a 6 per cent charging adjustment in a single year is unacceptable. In 2014, when NTC recommended a one-off 6.3% <u>decrease</u> in charges, Governments instead chose to freeze charges rather than accept the revenue adjustment.

The current proposal put forward by Ministers would require industry to accept a 6 per cent charging <u>increase in each of the next three years</u>. Surely, if governments cannot accept a 6 per cent charging decrease, then it is not fair or reasonable for governments to thrust a 6 – 10 per cent charging increase on industry.

Moving Forward

While now is not the time for large increases in heavy vehicle charges, ALRTA acknowledges that government and industry must take steps to return to a state of fair cost recovery.

ALRTA considers that the 2.75 per cent increase in 2022-23 was reasonable in the circumstances.

While the current and forecast economic outlook is not conducive to large charging increases, ALRTA continues to hold that the vast majority of road transport businesses would be anticipating and able to adapt to moderate annual increases in heavy vehicle charges.

While we acknowledge that moderate increases will not reduce the gap between forecast revenue and expenditure, it is important that some level of increase is applied in each of the next three years to reduce the gap growth that would otherwise occur if charges were frozen.

ALRTA remains strongly supportive of multi-year price pathing to give certainty to industry and governments in challenging economic circumstances.

After carefully considering all factors, ALRTA considers that a 3 per cent increase applied over each of the three years commencing 2023-24, is the preferred charging option.

> **Recommendation 3:** *That heavy vehicle registration and Road User Charges be increased by 3 per cent in 2023-24, 2024-25 and 2025-26.*

ALRTA continues to support fair cost recovery based on an agreed economic model. However, the magnitude of the current gap between revenue and expenditure calculated via the PAYGO model is of grave concern.

This gap has now grown so large that it is difficult to imagine a scenario under which it could return to balance without either significantly reduced infrastructure investment (which would be counter-productive in a broader economic sense) or charging increases of a scale that would threaten the viability of road transport businesses.

Another fundamental shortcoming of the PAYGO system is the lack of third-party audit of road manager expenditure. This becomes a critical when, as outlined in the sections above, governments are spending outside of normal road construction and maintenance programs – specifically, fast-tracked stimulus spending and emergency repairs in response to natural disasters. Industry is expected to pay for rapidly increasing expenditure, but there is no consultation on expenditure plans, no transparency, no independent audit and no accountability in relation to value-for-money or quality of road construction.

Given that the current revenue-expenditure imbalance was largely brought about by external shocks and government's failure to act sooner to increase charges moderately (after a period of significant over-charging), ALRTA asserts that a frank conversation must occur between industry and government to identify a pragmatic approach to achieving balance in the medium term. This is likely to involve a one-off intervention to fix the imbalance under PAYGO (for example, excluding stimulus and natural disaster spending) or a transition to an entirely new approach to fair cost recovery involving a 'reset' such that it could be launched on a cost-neutral basis.

We are aware that governments are working on a new charging system, but at this point in time many elements remain unresolved and not yet agreed. Three years of moderate increases under PAYGO would give both industry and governments breathing space to arrive at an agreed new fair cost recovery model.

Recommendation 4: *That Australian governments consult with industry on a pragmatic and realistic approach to achieving balance under PAYGO, while accelerating work on a viable alternative model.*

Conclusion

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

ALRTA supports a 3 per cent increase in heavy vehicle charges in each of the three years commencing in 2023-24.

The current situation with PAYGO is unsustainable and cannot be resolved via expenditure decreases or large charging increases. Thus, governments and industry must, as a matter of priority and outside of the normal charging consultation process, discuss a pragmatic approach to achieving balance under PAYGO. This should occur while work on an alternative model is accelerated.

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