AUSTRALIAN TRUCKING ASSOCIATION

SUBMISSION **Heavy Vehicle Road User Charge Annual Adjustment**

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The Australian Trucking Association takes this opportunity to provide comment on the annual adjustment process applied to the heavy vehicle road user charge and in particular the consultation document released by the National Transport Commission on 28 March 2010.

Recommendations

Recommendation 1

Australia's governments should not apply an annual adjustment to registration or road user charges in 2010-11 as the current heavy vehicle population will already recover the required cost base. The year 3 phase in of increased registration charges for some heavy vehicles classes should go ahead.

Recommendation 2

If governments consider the NTC's option 2 increase to be appropriate, the increase should not be implemented until South Australia and New South Wales release their detailed road expenditure breakdowns, and industry has verified the adjustment calculations.

Recommendation 3

Any proposed increase in road user and registration charges should be delayed until a common date in the last quarter of 2010, due to the registration adjustment.

Recommendation 4

Future charges should be improved to promote efficient and equitable charging. This could include registration reductions for low use trailers as an immediate initial step.

Recommendation 5

The Government should extend the Heavy Vehicle Safety and Productivity Program past 2011-12.

Policy

The industry is committed to paying its fair share of road maintenance and infrastructure provision costs. This is conditional upon road user and registration charges being calculated in an agreed, clear and transparent process, which must include the release to industry of the methodologies and data used.

It is reasonable to ask the industry to pay its charge in an administratively simple way. Specifically, charges should be able to be passed onto customers and not place excessive financial burden on operators, especially as they are a significant contributor to the Australian economy.

Reconciliation with the NTC's identified Options

NTC Option 1

Industry does not support option 1. As the current calculation method results in an annual adjustment amount of 9.7 per cent. It clearly results in significant over-recovery, which is contrary to the policy principles approved by the Council of Australian Governments. In addition it would be a harsh financial burden if forced on businesses in the current economic climate.

NTC Option 2

Industry agrees that making adjustments to the indexation methodology so as to avoid over-recovery is a sound move. Of the options put forward by the NTC, this would be industry's preference.

However, industry presently does ***not*** accept the 4.2 per cent figure put forward by the NTC as it includes expenditure that cannot be verified.

The figures supplied in the NTC's discussion paper also disclose that the 'calculated' increase in road costs which has been used to produce the charges increase of 4.2 per cent is higher than the rate of increase in road costs that would be declared if a new Charges Determination was run using the current modelling factors.

As identified in the discussion paper, this 'calculated' increase in road costs – known as the Annual Adjustment Cost Base – is 13.2 per cent. The paper states that, in contrast, the increase in road costs which would be declared as part of a full determination - known as the Model Cost Base – is only 12 per cent.

We note that in the last adjustment this sensitivity check produced the opposite result, where the Model Cost Base was higher than the Annual Adjustment Cost Base. The assumptions and data inputs in the model cost base are not public, thus it cannot be confirmed whether this is a stringent verification.

No increase in heavy vehicle road user charges is necessary

The calculation methodology automatically over-recovers

In the NTC's calculation, the 2010-11 allocated cost base to be recovered is $2,210.6[1] million. Using this figure, the adjustment rate needed to recover this amount is calculated, based on 2005-06 vehicle population data.

The amount of revenue actually earned in this period will be much higher, because it will be paid by the current vehicle population. Growth in the vehicle population has tended to be positive, meaning there are more vehicles paying therefore over-recovering the desired amount.

Based on past growth and projected vehicle numbers for 2010-11, revenue earnt is forecasted to be $2986.9m, resulting in an over-recovery of $776.3m.

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[1] $2210.62m is the heavy vehicle cost recovery required in 2010-11. It is the 2007 Determination cost base that has been adjusted in 2009 (3.2%) and 2010 (9.7%). (NTC 2010 Heavy Vehicle Road User Charge Annual Adjustment Consultation Document).

Table 2

Revenue from heavy vehicle charges ($m)	2010-11
Allocated cost base	2210.6
Forecast of actual revenue earnt	2986.9
Over-recovery	776.3

This means there is no need for an adjustment. Over-recovery that automatically occurs needs to be accounted for. However, the year 3 phase in of increased registration charges for some heavy vehicle classes should go ahead.

Recommendation 1

Australia's governments should not apply an annual adjustment to registration or road user charges in 2010-11 as the current heavy vehicle population will already recover the required cost base. The year 3 phase in of increased registration charges for some heavy vehicles classes should go ahead.

Data release: 'no charge without transparency'

Industry has a fundamental objection to the lack of transparency caused by the failure to release expenditure data. The Commonwealth legislation focuses on this but the release of data continues to be a problem with New South Wales and South Australia.

While total expenditure amounts are attainable from other sources such as the NTC annual report, expenditure breakdowns across different road types is not available. This is required to verify the calculations, and must be provided to ensure accountability and efficient road provision and expenditure reporting.

Without this data release, past expenditure cannot be verified and industry has no assurance that over-recovery is not occurring. Failure to secure the release of this data means the Australian Government cannot demonstrate to industry or to Parliament that its legislative obligations have been met.

An adjustment using the NTC's option2 methodology based on only the published data would result in an increase of 2.9 per cent. A comparison between the two amounts can be seen in Table 2.

Table 2 Adjustment factor

Full calculation

Factor	Share	% Change	Calculate	Adjustment factor
Rural Art	0.454	6.287	2.854	
Urban Art	0.362	18.413	6.666	
Rural Local	0.119	6.841	0.814	
Urban Local	0.064	5.762	0.369	
Less road use factor			-1	
Total			**9.702**	**4.2**

Calculation with only published data

Factor	Share	% Change	Calculate	Adjustment factor
Rural Art	0.454	-2.751	-1.249	
Urban Art	0.362	10.962	3.968	
Rural Local	0.119	6.841	0.814	
Urban Local	0.064	5.762	0.369	
Less road use factor			-1	
Total			**2.902**	None required

As Table 1 shows, the absence of detailed information from SA and NSW means that the Government has only accounted for part of its proposed increase.

Under these circumstances, the industry is not prepared to recommend supporting the option 2 increase until the missing expenditure data is provided.

Industry further notes there is little time remaining for scrutiny of any data that may be released concerning the missing states and, if data is to be provided, the implementation date for the indexation of charges should be deferred to allow for its consideration.

Recommendation 2

If governments consider the NTC's option 2 increase to be appropriate, the increase should not be implemented until South Australia and New South Wales release their detailed road expenditure breakdowns, and industry has verified the adjustment calculations.

Timing of the adjustment

Past experience has shown that state agencies struggle to implement changes at short notice and this issue has been confirmed by the NTC. The process this year is more complicated as legislative changes will be required to change registration charges to implement option 2.

It is important that there is consistent implementation of these changes between states and thus any indication of a delay by any state should be applied to all. COAG's review of the NTC highlighted the need to manage reform implementation across different governments and this should be aimed for in this circumstance.

Industry therefore recommends delaying the introduction of this adjustment until a common date in the last quarter of 2010.

Recommendation 3

Any proposed increase in registration charges should be postponed until the last quarter of 2010, due to the legislative changes required to implement option 2.

Further improvements to charging arrangements

Small modifications around the current charging arrangements could improve the price signals operators face whilst adhering to the COAG principle regarding over-recovery. There is a market inefficiency relating to low use trailers, particularly "A trailers" that face considerable registration charges but are often underutilised. Over-recovery for individual operators that make limited use of their equipment could be reduced by offering registration rebates.

The registration fees on "A trailers" have encouraged business decisions in regards to trailers with negative effects on safety and productivity, as better practice combinations are financially disadvantaged.

Recommendation 4

Future charges should be improved to promote efficient and equitable charging. This could include registration reductions for low use trailers as an immediate initial step.

Heavy Vehicle Safety and Productivity Program

The Heavy Vehicle Safety and Productivity Program closed applications in 2009 and will only be financing needed projects in 2010-2011 and 2011-2012. This has been an essential source of funding for significant safety related road works and cannot be left to expire. The ability to raise local concerns and highlight needs through the application process has been well received and ensures on the ground success.

We ask you to maintain this program past the planned 2011-2010 years. Making this commitment to industry while considering increasing road user charges would be applauded. Potentially promising a portion or related value of the fuel component of the road user charge would also improve the acceptability of any charge increases.

Recommendation 5

The Government should extend the Heavy Vehicle Safety and Productivity Program past 2011-12.

Other comments on this adjustment

Peak expenditure levels

Although the NTC discussion paper has given considerable attention to COAG's requirement that heavy vehicle charges must not achieve over-recovery, it has not given any attention to another key directive of COAG: the requirement that charges provide industry with certainty.

A material driver of the proposed increase in charges for 2010-11 is the exceptionally high levels of spending that occurred 2009.

Available third-party forecasts suggest that road expenditures will potentially peak in 2009, resulting in a negative adjustment in immediate years, including road user charges in 2011-12.

In addition, implementing a reduction in registration fees and the road user charge is politically and administratively difficult, and likely to raise difficulties for many governments.

It is even more important then, that the adjustment for this year should not over-recover from the industry.

Non-applicable expenditures and impact of stimulus package

Available data shows state spending has been relatively stable over a number of years and recent increases in road expenditure are attributable to special project spending that has been undertaken by the Commonwealth Government, particularly in the context of its economic stimulus package.

There are significant doubts as to whether this spending should be allocated to heavy vehicles and whether heavy vehicles have adequately benefited from the spending. Much of the expenditure has been in urban areas and may be focused on non-heavy vehicle road provision. In a full determination, this matter should be explored.

In addition, moving to immediately commence recovery of these expenditures would appear contrary to the Commonwealth Government's objectives in its economic stimulus package. This is occurring at a time where the industry is still recovering, while business returns payment rates lag and there are still constraints on capital spending.

In other words, cash flow problems often exceed small businesses' ability to provide operational funding when business picks up following tough times.

Considerations for the future

Better business signals from the annual adjustment

Heavy vehicle road users should be charged for their access and use of the road network, though this charge should be simple to administer and efficient in terms of processing a business cost. Heavy vehicle road users are supply chain inputs that move much of Australia's domestic and international business and inefficiently taxing them will only dampen productivity.

The current method of administering a significant proportion of the charge through a fixed registration charge is inefficient.

A fixed cost bulk payment has cash flow implications for operators who already run very tight margins. Unlike the road user charge component of fuel excise, a registration charge is difficult to pass on to consumers, defeating the purpose of the charge. The effect of this is amplified by the late notice of the annual adjustment rates.

The difficulty in paying and communicating a fixed cost registration charge is highlighted in the ATA's fuel-based charging policy.

Significant fixed charges create other financial incentives for users. Weakening the link between the charge and usage levels means there are significant numbers of vehicles paid for but not used. Operators who register more trailers than prime movers are common victims of this. Registration charges differ significantly between classes, for understandable cost recovery reasons. However, this creates perverse incentives for vehicle choice and the market response has shown a subsequent move away from safer, high productivity vehicles. This is at the detriment of all road users, road infrastructure and business productivity.

For these reasons the ATA suggests future discussion on applying the annual adjustment only to the fuel excise as this will be more business friendly while still recovering the needed amount.

Expenditure data quality

When reviewing the data a number of concerns are raised. Significant variability in the data between states and time periods has been previously highlighted by the ATA. Also, under this expenditure reporting framework, there is no consideration on the effectiveness of this spending or reference to optimal construction and maintenance ratios. We believe this is an area that must be explored in the future.

ATC meeting

This information needs to be dealt with at ATC's 30 April meeting and desirably resulting in the same treatment of registration and road user charge adjustments and achieving consistency between jurisdictions.

We would welcome the opportunity to discuss this adjustment further with you prior to the ATC meeting on 30 April and have future discussions around charging methodology and implementation.