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Consultation Regulation Impact Statement: HVRR Phase 2: Independent Price Regulation of Heavy Vehicle Charges

I write to advise you about the position of the Australian Livestock and Rural Transporters Association (ALRTA) on the *Consultation Regulation Impact Statement (RIS): HVRR Phase 2: Independent Price Regulation of Heavy Vehicle Charges*.

Our 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 850 transport businesses including owner-drivers, small fleet operators and large fleet operators with hundreds of trucks and trailers.

The ALRTA Position

The ALRTA supports the five recommendations included in the submission developed by the Australian Trucking Association (ATA).

The ALRTA National Council considered the HVRR RIS at a face-to-face meeting on 16 August 2018. We have since worked cooperatively to develop the ATA submission.

General Comments

The ALRTA is wholly dissatisfied with the general attitude of Australian Governments with respect to heavy vehicle charging.

In 2014, the NTC discovered flaws in the PAYGO model and recommended that Ministers decrease registration charges by 6.3% and the fuel levy by 1.14cpl from 1 July 2014. Instead, Ministers agreed to freeze total charges for two years to allow revenue and expenditure to realign.

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When this did not occur, another two-year freeze was implemented.

Just when a realignment of revenue and expenditure was finally within reach, Ministers subtly changed the nature of the charging freeze to increase the amount of revenue over-recovered by \$41m compared with a continuation of the freeze.

At all points in this process, governments have chosen to gouge transport operators rather than return to principles of fair cost recovery – even after a comprehensive review of the PAYGO system had been completed.

The level of over-recovery now exceeds \$1bn.

It is also notable that since 1982 there have been multiple attempts at hypothecation of road revenue, none of which have survived successive budgets.

From our perspective, the HVRR process is, and always has been, about protecting government revenue – or at the very least, never having to decrease it. Supply-side reform or improving road safety are always secondary reform considerations – yet it is these elements that make up the bulk of the potential economic benefits of reform.

It should come as no surprise that road transport operators have become deeply suspicious of the prospect of an inherently more complex forward-looking cost base (FLCB) - especially when this is proposed at an early stage of the reform process rather than being the final step after the concepts of independent decision-making, scrutiny, hypothecation and direct user charging have been implemented and proven to be workable.

More fundamentally, a FLCB will not benefit the road transport industry unless it is accompanied by true supply-side reform that delivers better road infrastructure more efficiently. It is debatable whether or not this is even possible in a partial market that does not include the largest road user group – light vehicles.

In our observations, there is still far too much uncertainty concerning how heavy vehicle charges would be reasonably calculated under a FLCB. Even with an independent decision maker in place, governments may retain control over key costs determinants such as:

- Valuation of the current road asset;
- Rate of depreciation;
- Return on capital;
- Allowable cost inputs;
- Community service obligations; and
- Parameters relating to under/overs accounts.

If this was the case, governments would still largely control heavy vehicle charges with the independent regulator merely applying an agreed methodology using the inputs and coefficients arbitrarily determined by Treasurers and Road Transport Ministers.

Underscoring the apparent reluctance of governments to be bound by truly independent decision-making, it seems that there is no appetite for proper scrutiny of cost inputs (let alone the possibility of disallowance of cost inputs) or legally binding service guarantees - even though the stated aim of the reform process is to base heavy vehicle charges on a combination of total infrastructure spending and the level of economic service provided to individual road users.

Conclusion

The ALRTA does not accept the RIS methodology that measures the benefits of the proposed Phase 2 reforms in terms of 'avoiding delay in achieving end-state reform'.

We consider that the reform process would take less time and have a higher chance of success if the concepts of independent decision-making, scrutiny, hypothecation and direct user charging are implemented and proven to be workable before moving into the far more complex and uncertain environment of a FLCB.

If the reform process becomes permanently stalled at an intermediate stage, there will be little benefit delivered and potentially very significant costs for industry arising from regulatory and operational disruption. Such costs will flow to all Australian business that rely on road transport services.

The alternative reform process outlined in the ATA submission will help re-establish trust between industry and governments while progressively building the capacity of the new decision-maker and refining the supporting regulatory framework.

Maintenance of the simpler PAYGO environment is also the ideal testing ground for some of the intermediate reform stages such as cost input scrutiny and direct user charging.

In contrast to light vehicles, heavy vehicles are likely to remain reliant on oil-based fuels for many years to come. During this time, a new regulator could progressively increase the proportion of revenue collected via the RUC as compared with registration fees. This would have two very significant benefits:

1. The economic shock of a later move to a mass-distance-location style charging system would be greatly reduced; and
2. Governments would have an opportunity to develop and test a revenue sharing formula that could be applied at all later stage of the reform process.

During this period it would also be possible to 'smooth out' revenue collection by trialling an over and unders account and exploring the possibility of moving to a 'partial FLCB' by including one year of estimated and one year of forecast expenditure.

In addition, delaying the implementation of a FLCB is necessary to further develop the rules and responsibilities relating to the calculation of the total cost base over which charges must be levied.

If you would like to discuss this submission please contact the ALRTA Executive Director, Mathew Munro, on 0421 082 489 or mathew@alrta.org.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kevin Keenan', followed by a period.

Kevin Keenan
National President