AUSTRALIAN LOGISTICS COUNCIL

DECEMBER 2012

ALC INITIAL RESPONSE TO THE HEAVY VEHICLE CHARGING AND INVESTMENT REFORM

CONTENTS

Introduction

Competing policy priorities mean that governments have a reduced capacity to fund the infrastructure necessary to ensure (among other things) the efficient movement of freight.

Governments are therefore looking at funding models that directly charge for heavy vehicle use of infrastructure.

They are discussed in a number of recent high-level policy and planning documents including:

» *National Ports Strategy* (2011);

» *National Land Freight Strategy Update* (2012)

» *COAG Road Reform Plan Feasibility Study Final Report to COAG* (2011)

» *Australia's Future Tax System – Report to the Treasurer* (the Henry Review 2010)

In July 2012, the Council of Australian Governments (COAG) subsequently established the Heavy Vehicle Charging and Investment Reform (**HVCI**) to build on the work of the COAG Road Reform Plan (**CRRP**).

HVCI will look at the following matters:

» **Investment and planning:** enabling road providers to respond to the needs of the market and make targeted investments in the road for now and in the future;

» **Access:** providing heavy vehicles sufficient access to the road network to support the growing freight task and encourage productivity growth; and

» **Regulatory oversight and the setting of charges:** implementing a charging framework that reflects the costs of road use, is directly linked to road funding and facilitates greater access.[1]

Importantly, the HVCI process is likely to come up with a funding model that will recover more than the short run marginal costs incurred by asset owners attributable to heavy vehicles largely recovered under the current PAYGO system.

A regulatory impact statement (**RIS**) outlining possible funding models developed under the HVCI process will be published sometime in 2013.

» An overview of how government thinking in the area has evolved is contained in **Attachment 1**.

An examination of the policy documentation suggests a move towards:

» a pricing model for vehicle operators based on the (static) mass of the vehicle, the distance travelled and the location of the movement(s) of the vehicle (**MDL**); with

» asset owners recovering the costs of providing the road (as well as receiving incentives to make further investments) through the receipt of funding based on the 'building block' mechanism, a well understood method of calculating the revenue requirements for infrastructure providers such as telecommunications and electricity owners, which is preferred by the ACCC.[2]

1 http://www.roadreform.gov.au/AboutUs/2012WorkProgram.aspx

2 It should be noted that Meyrick and Associates analysed the 'building block approach' for the CRRP secretariat and only gave the concept lukewarm support – see generally CRRP *Driving Australia's Road Reform – Alternate Approaches to Estimating the Road Cost Base* esp. p.52

Basis for supporting reform

ALC supports the objective of the HVCI reform of providing revenue to asset owners through reformed funding arrangements in an endeavour to encourage the efficient provision and maintenance of infrastructure and infrastructure services for use by heavy vehicles.

When considering the options contained in the RIS prepared for the HVCI reform initiative, ALC will support those proposals that:

1. Provide a net increase in efficiency, productivity and reliability.
2. Encourages asset owners to act as if they are providing services for which they receive a 'fee' rather than as passive 'asset protectors'.
3. Produces a road user charge that is transparent and justified.
4. Does not distort the heavy vehicle industry – that is, it applies to all heavy vehicles and operators in a manner that neither cross-subsidises different classes of heavy vehicle nor discourages the use of more productive vehicles that over the long run will impose less wear on infrastructure.
5. Only collects the efficient cost of providing, maintaining and operating roads used by heavy vehicles *and no more.*
6. Contains a rigorous compliance and enforcement regime to ensure everyone pays their way.
7. Develops incentives for vehicle operators that use efficient automated paying arrangements.

Need for an overall agreement

Recommendation 68 of the 2010 document *Australia's Future Tax System – Report to the Treasurer* (the Henry Review) suggested COAG develop a National Road Transport Agreement to establish objectives, outcomes, outputs and incentives to guide governments in the use and supply of road infrastructure with a single institution nominated to lead road tax reform.

The specific proposals are contained in **Attachment 2**.

Australian governments must commit to an agreement of this nature to establish a clear reference point that will assist the subsequent development of both the mechanisms that will be used to fund road infrastructure as well as the institutions that will administer the new road funding system.

Governance

ALC has argued for the establishment of a body called **Freight Australia** – a body with responsibility for:

- ensuring that infrastructure of national significance is identified and properly developed within designated corridors and development sites identified in the planning process;
- objectively analysing total demands on the network and developing a long term plan to improve performance of whole corridors and the network, taking into account freight and passenger volumes; and

- the subsequent regulation of the modes of land transport carrying freight to port.

The *National Land Freight Strategy Update* suggests the creation of a national road portfolio manager with roles including high level verification of asset management plans and providing advice to Infrastructure Australia and other bodies on policy matters and potential investment decisions.[3]

A body of this nature could ultimately evolve into Freight Australia.

It should be established as soon as practicable, with the following responsibilities:

- identifying the routes forming the national land freight network anticipated by the National Land Freight Strategy Update;
- administering and analysing the results of the two test cases identified by Infrastructure Australia to demonstrate the benefits of reform. These two test cases are the Hume Highway (NSW and Victoria) to enable high productivity vehicles to use the corridor and the Chullora rail terminal (NSW) by increasing mass limits on access roads. A third test case, reviewing how effective a direct charging system would be on a road 'network' owned by a number of different asset owners with limited heavy vehicular traffic should also be considered;
- oversighting the collection of funds paid by heavy vehicle operators;
- liaising with groups such as the Infrastructure Finance Working Group established by the Department of Finance to develop innovative methods in financing infrastructure (such as the development of investment products to encourage superannuation funds to invest in infrastructure) as well as with industry to determine demand for direct industry investment in access rights such as for example HOT lanes[4];
- determining the allocation of funds collected from heavy vehicle operators to asset owners; and
- dealing with any transitional issues that may arise as a result of the change in charging mechanisms.

Roads not on the National Freight Network

Over 80 percent of roads are owned and maintained by local governments. Many of these roads feed onto, but would not form part of, any National Freight Network.

Moreover, it may be the case that in some circumstances a particular route could become uneconomic for heavy vehicles to use if a mechanical application of a particular road pricing method was applied, noting that in some circumstances there may only be only one route to a particular freight source – there is no more 'efficient' route to take.

ALC believes:

- there will be a need for continued taxpayer support for road infrastructure through schemes such as the Regional Infrastructure Fund;
- there is some scope to encourage the creation of mechanisms to raise funds for infrastructure, such as bond type instruments;
- a national partnership should be developed under the federal financial framework established in the *Intergovernmental Agreement on Federal Financial Relations* that:
  - requires land use decisions prioritising the efficient operation of nationally significant infrastructure;
  - creates a fund for state and local governments which incur expense as a result of making land use decisions that favour the operation of nationally significant infrastructure over other uses, to deal with the spill-over effects on communities located near the 'first' and 'last' mile of nationally significant infrastructure; and
  - supports the principle of embedding the principle of contestability into the core infrastructure planning and delivery process to maximise innovation, diversity, choice and best value.[5]

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3 Infrastructure Australia *National Land Freight Strategy Update* (2012): 15

4 A HOT lane is reserved for those who are prepared to pay for access to a relatively uncongested lane. In this context, some operators may be prepared to pay for access to such a route between different locations.

5 A principle contained in NSW Government *A New Planning System for NSW* (2012): 69

Pricing

Both access to infrastructure and the more efficient use of infrastructure and related services are integral reasons for pricing reform. It follows there must be an incentive for asset owners to grant heavy vehicle access.

Asset owners should be required to provide access on the basis of agreed service levels with the 'road portfolio manager', with payments to asset owners that may otherwise be payable reduced where service levels have not been met or where access to infrastructure is denied.

Finally, should a 'building block' funding mechanism be adopted, the rules to be applied when considering a building block proposal from an asset owner should be established in a clear manner.

Chapter 6 of the *National Electricity Rules* is an example of this.

Asset users should also have the opportunity to respond to any draft determinations made by a 'road portfolio manager' with respect to an asset owner's building block proposal.

Corridor Preservation

As Infrastructure Australia has noted:

> If we do not set aside corridors for designated uses now, we risk them being built out. The result is spiralling costs – particularly in road and rail infrastructure where tunnelling can multiply costs by around ten times, and consequently, fewer funds invested in other projects.[6]

It also noted that the recent COAG Reform Council Review of Capital City Planning Systems identified corridor protection as an area of weakness in current planning systems.

ALC therefore calls on all jurisdictions to ensure that transport corridors are identified and preserved as part of effective broader planning arrangements which include the future development of intermodal terminals and freight precincts.

In addition, the resources must be available to ensure that transport corridors are set aside.

Successive governments in Western Australia have taken various steps to address this issue, including use of a dedicated funding regime to meet the cost of buying land to ensure that corridors for transport connections to the Port of Fremantle have been protected.

The WA Government imposes a Metropolitan Region Improvement Tax on land liable for land tax, with the proceeds hypothecated to a trust fund for (among other things) road reserves.

This not only ensures that funds are available to preserve transport corridors, but also establishes a 'beneficiary pays' principle, so that those who benefit from improved land values arising from the provision of infrastructure also bear some of the costs.[7]

ALC calls on jurisdictions to develop funding mechanisms that will assist the preservation of transport corridors on a broad 'beneficiary pays' principle.

Jurisdictional documents prepared to be compliant with the National Ports Strategy

Finally, ALC notes that jurisdictions will be developing planning documents intended to be consistent with the National Ports Strategy and, in due course the National Land Freight Strategy.

ALC will expect that documents proposing the development of infrastructure anticipated to be used by freight contain:

» the mechanism through which the expenditure is to be financed;

» how the proposal is to be funded; and

» a timeline by which the project will be completed.

Australian Logistics Council
December 2012

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6 Infrastructure Australia *Progress and Action* (2012):22

7 The 'beneficiary pays' principle forms part of the new principles for infrastructure levies contained in *A New Planning System for NSW* (2012) – see p.75,

ATTACHMENT 1

SUMMARY OF RECENT DEVELOPMENTS IN ROAD FUNDING

Heavy Vehicle Charging and Investment Reform

Heavy vehicles currently pay road charges under what is called the PAYGO system.

It is designed to help recover the marginal or attributable costs of road wear and tear for each heavy vehicle type as well as to recover a share of common road costs which benefit all road users such as street lighting, rest bays and signage.[8]

The Council of Australian Governments (**COAG**) established the COAG Road Reform Plan (**CRRP**) to investigate the feasibility of alternative forms of pricing for road infrastructure access for heavy vehicles.

It found:

» network average road user charges under PAYGO (fuel excise and vehicle registration) do not provide signals to road users about the costs of using particular roads, or road providers about the demand of different roads;

» road charges are not linked to road spending, which can lead to inefficient decisions, and encourage public sector road providers to preserve road assets; and

» government provision of road infrastructure is unlikely to provide an incentive framework for providing road infrastructure services efficiently.[9]

In July 2012 COAG subsequently established the Heavy Vehicle Charging and Investment Reform (**HVCI**) following to build on the work of CRRP.

The HVCI will look at the following matters:

» **Investment and planning:** enabling road providers to respond to the needs of the market and make targeted investments in the road for now and in the future;

» **Access:** providing heavy vehicles sufficient access to the road network to support the growing freight task and encourage productivity growth; and

» **Regulatory oversight and the setting of charges:** implementing a charging framework that reflects the costs of road use, is directly linked to road funding and facilitates greater access.[10]

Importantly, the HVCI process will more likely than not come up with a funding model that will recover more than the short run marginal costs incurred by asset owners attributable to heavy vehicles.

A diagrammatic model of the possible scope of the HVCI process is contained at the end of this attachment.

8 http://www.ntc.gov.au/viewpage.aspx?documentid=2311
9 http://www.roadreform.gov.au/AboutUs/ProjectBackground.aspx
10 http://www.roadreform.gov.au/AboutUs/2012WorkProgram.aspx

The National Ports Strategy

In July 2012 the Council of Australian Governments (**COAG**) also approved a National Ports Strategy designed to provide a more nationally coordinated approach to the development and planning of Australia's port and freight infrastructure.

Among other things it said:

> The Council of Australian Governments' road reform agenda is relevant to ports. It would be desirable to prioritise freight on the most heavily trucked major roads that potentially compete with rail lines, supported by trials of freight infrastructure pricing. Freight infrastructure pricing should be accompanied by freight priority. Corridor reservation is important to this.[11]

The Strategy also suggests that for identified port freight corridors any direct infrastructure freight pricing arrangements should include ensuring the adequacy of capacity for (port) freight priority, and the use of generated funds for the benefit of freight, freight operators or for preservation of community amenity.[12]

Jurisdictions are expected to develop long term planning documents that adopt the principles contained in Strategy.

One such document is the NSW Long Term Master Transport Plan. This document is currently in draft form. It has been criticised as being too aspirational in nature as well as being (in many places) vague as to precisely what proposals are being supported and how they will be funded.

However it does indicate:

> Over the next 20 years, the road freight task is projected to double, but road freight productivity growth will slow without further reform in the sector. NSW is providing support to the national reforms aimed at looking at incremental charging and activity-based charging for heavy vehicles. We will continue to support these reforms, with a view to the revenue from heavy vehicles charges being invested in the roads used by heavy vehicles.[13]

National Land Freight Strategy Update

In June 2012 Infrastructure Australia published a national land freight strategy update, containing recommendations endorsed by the Australian Government.

The Update contemplates a national network that will be (among others) a 'place for freight'. An indicative map is contained at the end of this attachment.

While the 'place for freight' concept is somewhat vague, the Update does say:

> The discussion paper's suggestion that there should be places for freight differs markedly from previous perceptions and views about "national networks". In particular, Infrastructure Australia's proposal focused on characteristics of national places for freight: planning; market style mechanisms; cooperation among the tiers of government and industry, as distinct from a focus for government funding of infrastructure.[14]

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11 Infrastructure Australia, National Transport Commission *National Ports Strategy* (2011): 15

12 *Ibid 23*. The Best Practice Guidelines on Port Governance contained in the document goes on to say that asset owners should operate in a commercially sustainable manner, which includes the recovery of sufficient revenues to cover operating costs and provide an appropriate return on the capital invested and to undertake undertake commercially prudent investments to improve the efficient conduct of trade and to avoid a gap between forecast trade and capacity.

13 NSW Government *Draft NSW Long Term Master Plan* (2012): 270

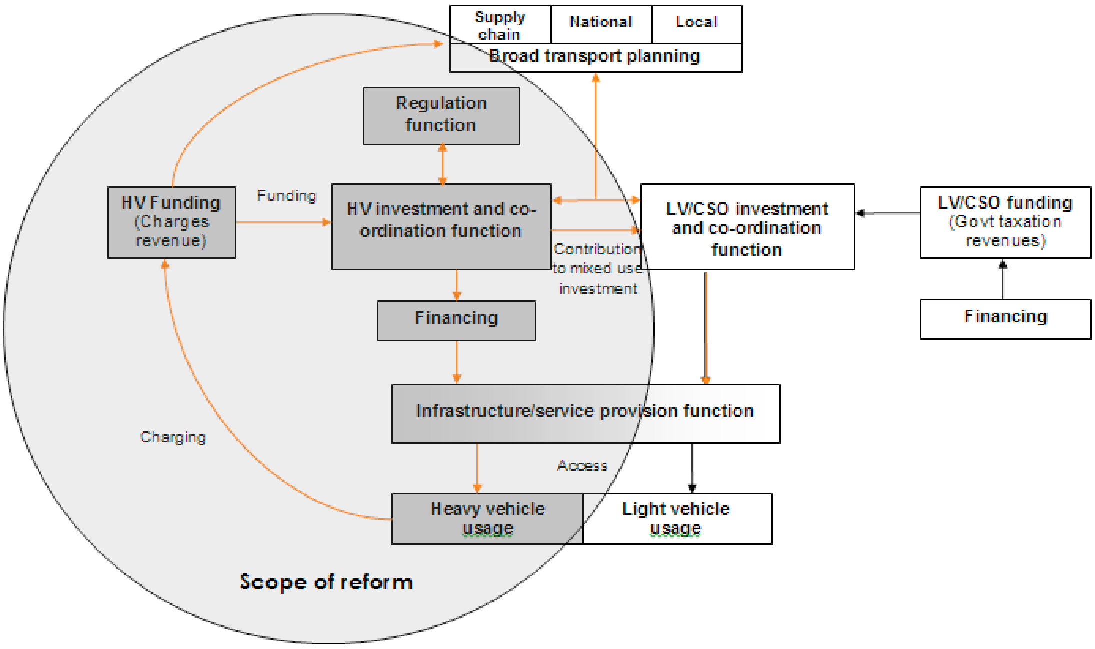
14 Infrastructure Australia *National Land Freight Strategy Update* (2012): 46-7

Among its recommendations was the following:

2. That the Standing Council on Transport and Infrastructure adopt a high level implementation plan……… including the following tasks to be jointly delivered by government and industry:
   a. Confirm strategy aims, objectives, principles;
   b. Confirm that the proposed national land freight network comprises "places for freight" and that it complements the national ports strategy;
   c. Initiate long term planning, forecasting and scenarios needed for the network;
   d. Establish mechanisms to develop a long term pipeline of infrastructure projects attractive to government and private investors and to ensure that the right investments occur at the right time; and
   e. Address options for integrating the network, other aspects of the national land freight strategy and other policy initiatives including State freight plans, road governance and urban planning systems.
3. There be thorough consideration of road governance reform, including along national competition policy themes and with options to more clearly differentiate roads with a primary social purpose from roads with a primary economic purpose.
4. Infrastructure Australia's more detailed work on mechanisms for achieving privately initiated and financed investment in national freight network facilities including, as a priority, the Hume Highway and roads to the Chullora rail terminal in Sydney.
5. That governments:
   a. Pay further attention to asset management in the implementation of infrastructure strategies;
   b. Pay close attention to the desirability of taking an economic approach to investment;
   c. Address two risks of Community Service Obligations for transport infrastructure: overestimating community requirements; and inappropriate or undisciplined wear;
   d. Ask that further work of the Council of Australian Governments road reform plan include a proof of concept approach by a priority focus on charging and funding reform for a very limited number of roads.
6. That governments work towards proof of concept by progressing with industry the indicative program outlined in the discussion paper. High priorities ought to be:
   a. Inclusion of relevant freight infrastructure on the Nation Building Network; for example extending the national road network from the Pacific Highway through the port of Newcastle;
   b. Progress a formal trial of high productivity vehicles on key roads to ports and rail terminals, such as the Hume Highway with incremental costs of infrastructure financed from industry beneficiaries;'[15]

15 *Ibid: 7-8*

What is the scope of reform?



SOURCE: Heavy Vehicle Charging and Investment Reform (HVCI)

SOURCE: Infrastructure Australia *National Land Freight Strategy Discussion Paper* (2011):53

ATTACHMENT 2

POSSIBLE CONTENTS OF A NATIONAL ROAD TRANSPORT AGREEMENT

i. an agreed model for financing the road network, including the appropriate assignment of revenue from taxes and charges, a reduction of Australian government fuel tax as efficient road pricing is introduced, and adjustments to other taxes and transfers necessary to maintain equity in the overall tax system;

ii. a regulatory framework to ensure that road infrastructure providers' incentives are aligned with those of road users, particularly to prevent over-charging or supply restrictions;

iii. a methodology for identifying and valuing the social purpose components of road funding, to form the basis of an explicit treatment of community service obligations, as well as a consistent methodology for assessing environmental impacts;

iv. nationally consistent arrangements for asset management, including formal asset management plans, down to the local government level, as a condition for receiving revenue from road-specific taxes or charges;

v. a framework to support commercial agreements between road users and road infrastructure providers, including agreements for the provision and finance of infrastructure to meet specific needs, and for the delivery of guaranteed service standards;

vi. a protocol for the collection, handling and exchange of information from road pricing, as well ensuring personal privacy and interoperability of technical standards;

vii. arrangements to evaluate the efficiency of infrastructure spending by ensuring that major infrastructure projects are subject to post-build evaluations; and

viii. consideration of the broader impacts of road pricing reforms on other transport modes, particularly on public transport (in relation to congestion pricing) and freight rail (in relation to heavy vehicles charges).

SOURCE: Australia's Future Tax System – Report to the Treasurer (2010):406

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