Heavy Vehicle Road Reform – What we are doing and why we are doing it

Road infrastructure in Australia is at a historic tipping point. Demand for significant new and upgraded infrastructure is growing. But it is getting harder for governments to fund the expectations and demands of road users almost entirely from general taxation revenue. In particular, road network and heavy vehicle industry productivity has plateaued or in some cases already fallen due to a disconnect between road charging and funding. Increasingly, road providers have neither the funds nor incentives to expand road access (including for heavy vehicles).

Roads – the last unpriced utility?

To date, roads have largely escaped the microeconomic reforms that have transformed other public infrastructure sectors such as water and electricity into customer focused utility markets.

Roads are provided as a public good, largely funded from consolidated revenues through government Budget processes with poor links between the supply of, and demand for road infrastructure. While the public good model of road provision served Australia well for many years, resulting in Australia building and maintaining one of the longest road networks of any country, structural Budget pressures, ageing road infrastructure, the diminishing returns from fuel-based taxes and a growing passenger and freight task, mean the model for funding and using roads is unlikely to be sustainable.

For example, in the US, estimates by some industry experts suggest there will be a 50 per cent increase in vehicle fuel efficiency over the next 15 years. If this trend was to be replicated in Australia, there would be a significant decline in the revenue collected from the fuel excise taxes. While these taxes are not hypothecated to road spending, it would likely be difficult to justify spending more on roads when taxation revenue from motorists was declining so sharply.

Fundamentally, Australian governments cannot afford to continue funding roads in ways that neither prioritise efficient investments targeted at meeting the needs of road users nor promote efficient use by ensuring users value the true cost of building and maintaining road infrastructure.

While there is a need to improve the efficient provision and use of road services, there will continue to be a role for all governments to support the provision of basic road services to ensure social mobility, economic welfare, road safety and public security. Any reforms to road investment and charging arrangements must be mindful of how best to integrate roads as an economic service with roads as a community service obligation. This is especially important where the true costs of road service provision would be divided among a very small number of users resulting in road charges that are considered to be too high – as would likely be the case on many rural and remote roads.

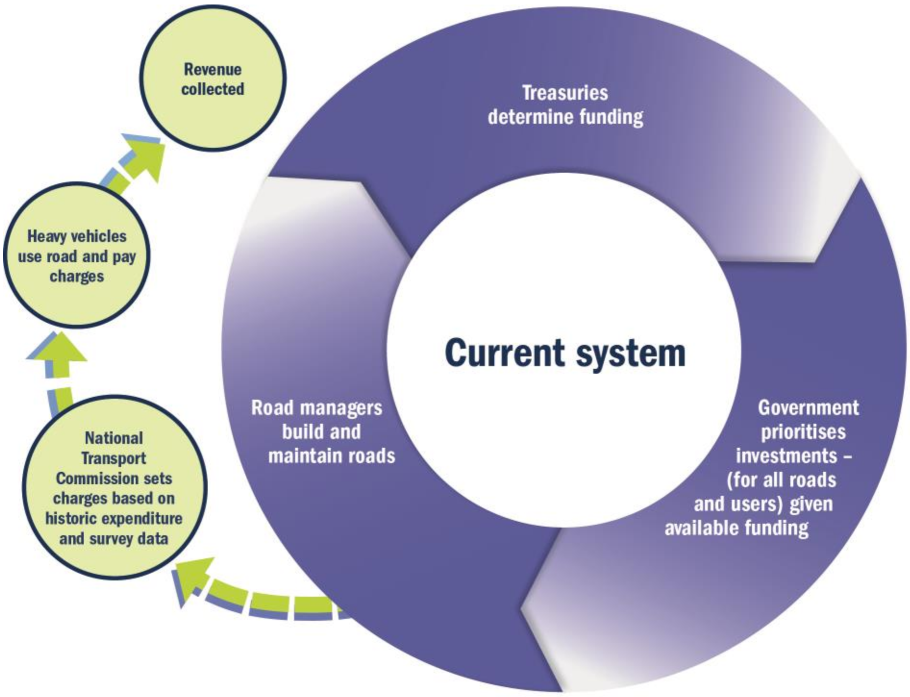
Heavy vehicle investment and charging – the starting point for reform

The 2007 Productivity Commission Inquiry into *Road and Rail Freight Infrastructure Pricing* identified that heavy vehicles are the logical starting point for road charging and investment reform because:

- as a small segment of the total vehicle fleet (3%), heavy vehicles impose a disproportionate cost on the network through additional maintenance (wear and tear) and capital requirements (infrastructure strengthening);
- heavy vehicles are already subject to a user charging mechanism (albeit relatively rudimentary) to recover their share of past road expenditure; and
- as economic rather than social users of the road network, targeting infrastructure investments and expenditure to better support access and productivity in the road freight sector would have a substantial productivity dividend for the national economy.

The following diagram (diagram 1) illustrates the current PayGo charging system for heavy vehicles and how it relates to road provision. The current system is characterised by poor links between the needs of users, the costs of infrastructure provision, the calculation of charges and the reinvestment of charges back into meeting the needs of heavy vehicle users.

Diagram 1: Heavy vehicle infrastructure as a public good, with a disconnected charging system



We don't build assets to meet the needs of users and consumption choices are disconnected from charges.

Disadvantages

- Charges (revenue) don't reflect each individual user's share of road costs.
- No incentive for treasuries or road owners to prioritise road spending to benefit heavy vehicle operators either now or in the future.
- Charges are set based on backward cost recovery rather than the future network needs and this increases road asset lifecycle costs.
- Volatility in heavy vehicle charges and revenue results from the current charges methodology.
- Charges are not automatically or consistently applied across Australia.

Doing nothing to reform heavy vehicle investment and charging arrangements will mean that, increasingly, roads managers will not be able to deliver the quality of road services necessary to meet the growing national freight task. The costs will be borne by the road transport industry in lost productivity; the community in higher costs of goods and services; and the economy in overall lower efficiency and productivity.

Heavy vehicle road reform – what is the ultimate goal?

The ultimate goal of heavy vehicle road reform is to turn the provision of heavy vehicle road infrastructure into an economic service where feasible. This would see a market established that links the needs of heavy vehicle users with the level of service they receive, the charges they pay and the investment of those charges back into road services (diagram 2).

The potential benefits of transitioning to a market for heavy vehicle road service provision and use are substantial with previous analysis conservatively suggesting benefits in the order of $8 to $22 billion (NPV over 20 years), depending on the system.[i]

Diagram 2: Heavy vehicle infrastructure as an economic service, with an integrated charging system

Advantages

- Charges will reflect each user's share of road costs.
- Road owners have a direct incentive to invest in meeting heavy vehicle users' needs.
- Usage data will support better planning and investment decision making.
- Secure funding will help maximise efficient lifecycle management of road assets, reducing costs.
- Independent economic regulation will ensure the 'right truck on the right road at the right time'.
- Allows for transparent government funding on community service obligations.

As a longer-term priority, it will also be important to consider options for reforms to the charging of light vehicle users. It will be important to ensure that these reforms to the heavy vehicle sector complement – and do not foreclose – potential future light vehicle charging reforms.

Heavy vehicle road reform – roadmap and progress to date

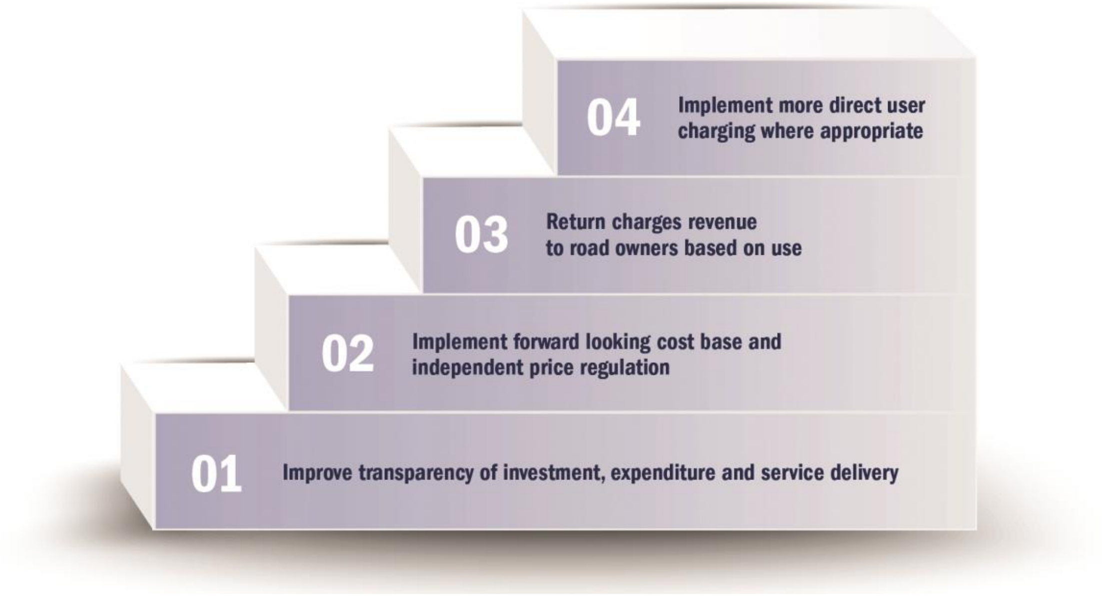
Shifting to a system where heavy vehicle infrastructure is provided as an economic service will be complex and take time to implement. The reform requires substantial policy, financial, institutional and governance changes to be implemented by all levels of government. In addition, heavy vehicle users, and the industry more broadly, will need to understand and participate in new investment decision making and charge setting processes.

A road map for reform has been developed which outlines an incremental and pragmatic approach to progressing reform of heavy vehicle investment and charging arrangements (see a summary of the four main phases of the road map in Diagram 3).

Each phase of the reform road map aims to progressively strengthen the links between the supply of, and demand for, heavy vehicle road services. Each also offers discreet benefits to industry and government with costs to industry, in particular, minimised until later in the reform process when they are expected to start reaping the benefits of earlier phases of reform. Progression beyond each phase of reform will be subject to the specific agreement of governments.

In line with economic analysis and feedback from industry, the road map prioritises supply side measures in progressing reform with charging reforms only considered later.

Diagram 3: Summary of the road map for progressing heavy vehicle road reform



On 23 May 2014, transport Ministers agreed that jurisdictions would work together to implement four heavy vehicle access and investment initial measures:

1. asset registers and assessments of road conditions according to agreed service level standards by the end of 2015;
2. improved data for demand forecasting by the end of 2016;
3. publish annual heavy vehicle expenditure plans, based on efficient costs and prepared on a consistent basis by the end of 2016; and
4. investigate practical ways for industry to negotiate and pay for improved access by the end of 2016.

The first editions of the *assets registers and expenditure plans,* covering the key freight routes were published on the Transport and Infrastructure Council website on 29 January 2016. Together, the asset registers and expenditure plans provide a level of transparency that is critical in ensuring that the roads heavy vehicles use and pay for through user charges best and most efficiently meet their needs. These products provide a baseline of information that would be required to transition to a more market orientated system of heavy vehicle infrastructure provision over the longer term. The products will be updated annually and continue to be improved based on feedback from users.

Governments have also delivered the measure to investigate practical ways for industry to negotiate and pay for improved heavy vehicle access. The Austroads ‘Framework for Guiding Private Sector Participation’ provides certainty of process for negotiations on paying for additional maintenance and/or funding small scale capital upgrades to improve heavy vehicle access. Governments are working with telematics providers to progress a project aimed at sourcing improved heavy vehicle usage data for demand forecasting on the key freight routes.

Reform momentum building

In November 2015, in response to the Harper Competition Policy Review, the Australian Government stated it would seek to work with states and territories to accelerate heavy vehicle road reform, including identifying potential steps to transition to independent price regulation for heavy vehicle charges by 2017-18. The Australian Government also agreed to investigate the high level costs, benefits and potential next steps of options to introduce cost reflective pricing for all vehicles.

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[i] Heavy Vehicle Charging and Investment Reform (2013), Strategic Directions Report to the Council of Australian Governments