



June 2007

Why are heavy vehicle charges being reviewed?

A COAG endorsed Charges Determination process will ensure heavy vehicles continue to pay their fair share of increased road spending by all levels of governments



COAG agree on heavy vehicle charge principles (April 2007)

Pay-as-you-go: the cost of road use

Since 1992, heavy vehicle charges have been set nationally using a pay-as-you-go (PAYGO) approach. This ensures heavy vehicles pay their share of road spending.

Based on 3rd Heavy Vehicle Charges Determination data, a total of \$10.4 billion is spent on roads each year (the annual average for three years to 2004-05). Of this, heavy vehicles pay over \$1.6 billion through registration fees and a net fuel charge.

Costs allocated to heavy vehicles include:

- the marginal (attributable) costs of road wear for each vehicle type; and
- a share of (common) road costs which benefit all road users, such as street lighting, rest bays and signage.

**Arterial road expenditure is increasing
(chart right)**

A Productivity Commission inquiry on *Road & Rail Infrastructure Pricing* concluded that the National Transport Commission's (NTC) estimates of heavy vehicle costs are "conservative" by international standards and "at the lower end of various attribution methodologies".

Registration and fuel charges

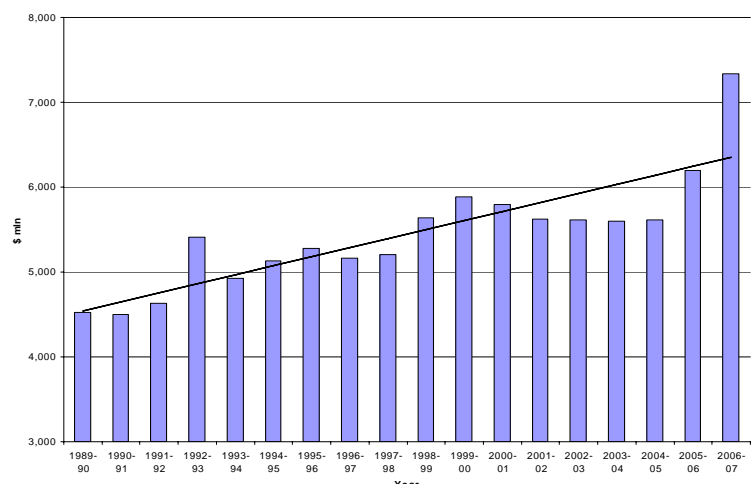
Around 30% of heavy vehicle costs are recovered as State/Territory registration fees, with the balance paid through a fuel-based road user charge (net excise) of 19.633cpl. Registration charges are adjusted each year to help keep pace with road spending. The fuel charge is not adjusted.

Are heavy vehicles paying their way?

Since heavy vehicle charges were last updated in 2000, road expenditure by all levels of government has increased by 30%. Current budget announcements suggest this trend will continue.

Road use charges may not, therefore, be keeping pace with road spending. This led the Productivity Commission inquiry to conclude that:

"Substantial increases in road investment in the past couple of years make it likely that heavy vehicle charges would have to rise to maintain cost recovery."





A new charging review

In October 2006, the NTC was directed by the Australian Transport Council (ATC) to develop a new Heavy Vehicle Charges Determination. The Council of Australia Governments' (COAG) meeting in April 2007 endorsed the need for a new charges determination.

ATC Ministers provided further policy direction in May 2007 and asked the NTC to develop a Regulatory Impact Statement for public consultation. Updated charges, if approved by the ATC, should be implemented by July 2008.

A 'building block' for COAG pricing reform

Current charges are set by averaging road use costs by vehicle class and road type. This leads to cross-subsidies from lighter loads to heavier loads, from low kilometre trucks to high kilometre trucks and from using major arterials to using rural roads.

As a result, the 'price signals' for truck use and road network investment are blurred.

COAG has endorsed a three phase reform agenda to improve the link between road use and funding through pricing reform. This includes incremental charges to pay for additional road wear caused by heavier loads.

Ensuring heavy vehicles to continue paying their share of increasing road spending through charges is the 'building block' for broad pricing reform. PAYGO contributes to the overall revenue base governments use to sustain their investment in better and safer roads (see Fact Sheet: *Road Spending for Safety & Productivity*).

Guidance from COAG/ATC

NTC has been directed by COAG and ATC to adopt the following principles in the development of updated heavy vehicle charges:

- average road spending over a longer period (7 years instead of 3 years) to avoid 'price shocks'
- ensure no in-aggregate over-recovery of heavy vehicle costs
- each class of vehicle should 'pay their way'

B-double and road train subsidies

Currently, B-doubles and road trains do not recover their full cost of road use.

The Productivity Commission concluded B-doubles should at least pay their long-run marginal (attributable) costs – that is their cost of road wear and tear. This excludes 'common costs' – such as lighting, signs, rest areas and markings – which benefit all road users.

What is the NTC's role?

Under an Inter-Governmental Agreement (IGA), the NTC recommends nationally uniform charges for heavy vehicles to the Australian Transport Council.

Where to from here?

A draft Regulatory Impact Statement will be prepared by the NTC for public consultation in July 2007.

Public consultation

Stakeholders will be encouraged to participate in public consultation through formal written submissions. A number of high-level focus groups are planned for stakeholders to explain and discuss their submissions.

What is the voting process?

Ministers vote on a schedule of recommended charges for truck and bus vehicle types. A two-thirds majority is needed to approve the updated charges.