



# Heavy Vehicle Road Reform Consultation Paper

Submission to The Department of Infrastructure, Transport,  
Regional Development and Communications

29 October 2020

## Introduction

The National Heavy Vehicle Regulator (NHVR) supports the development of a new and better national system for setting heavy vehicle charges and investing the funds raised in roads in a transparent and consistent way.

The NHVR agrees that the four elements outlined in the Heavy Vehicle Road Reform Consultation Paper – *Proposed changes to the way heavy vehicle charges are set and invested* (the Consultation Paper) will help increase heavy vehicle productivity through focused government investments in roads and will also improve heavy vehicle safety outcomes.

We welcome the opportunity to provide input to the Consultation Paper, noting that our responses are based on our knowledge and experience with road managers and industry, as well as recent feedback received through our own consultation process in the development of the NHVR Heavy Vehicle Productivity Plan (HVPP) 2020-2025 which was released in August 2020.

Throughout consultation on the HVPP we engaged with 55 stakeholders in pre-submission consultation, received 23 formal submissions, presented a webinar with 178 registered participants, and held nine workshops with the Commonwealth Government, all state and territory transport agencies and all local government associations in participating jurisdictions. The outcome of the consultation process provided the NHVR with unique insight to the challenges and opportunities of improving heavy vehicle productivity and safety, with many stakeholders commenting on the importance of sustainable road infrastructure investment and investing in infrastructure at the right location, at the right time and to the right standard.

While the NHVR focuses on delivering services to our customers through non-road infrastructure initiatives to provide better access and productivity, road infrastructure maintenance and upgrade plays a critical role in heavy vehicle access decisions. This was further reinforced through our HVPP consultation process.

We believe that there are synergies between the outcomes of Heavy Vehicle Road Reform and the services provided by the NHVR. The NHVR and the Commonwealth Government together are developing a strong narrative supporting opportunities to boost productivity, safety and heavy vehicle access through infrastructure and non-infrastructure solutions.

We commend the Commonwealth Government for undertaking this consultation process, which provides a critical opportunity for governments and industry to work together to find a sustainable revenue generation and funding hypothecation model for future road maintenance and investment.

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## Our Purpose

We provide leadership to, and work collaboratively with, industry and partner agencies to drive sustainable improvements to safety, productivity and efficiency outcomes across the Australian heavy vehicle road transport sector.

## Our Vision

Delivering safe, efficient and productive heavy vehicle movements supporting a strong and prosperous Australia.

## Our Mission

Through leadership and advocacy we administer a national statutory system to deliver streamlined regulatory services and administration to the heavy vehicle road transport sector, minimising regulatory burdens while fostering greater safety and productivity.

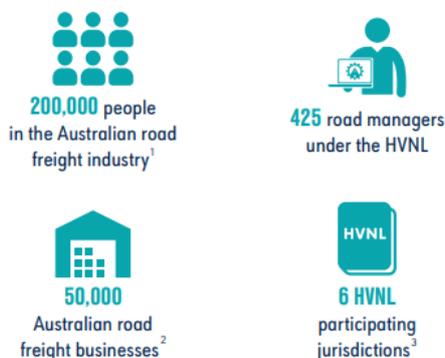
# About this Submission

The NHVR is Australia’s dedicated statutory regulator for all heavy vehicles over 4.5 tonnes gross vehicle mass. Our submission is unique in the sense that we are a regulator with strong relationships with road managers and industry. Through our constant engagement and service delivery, we are very aware of how the availability and quality of road infrastructure, among other things, impacts on heavy vehicle access decisions and, by extension, safety, productivity and sustainability.

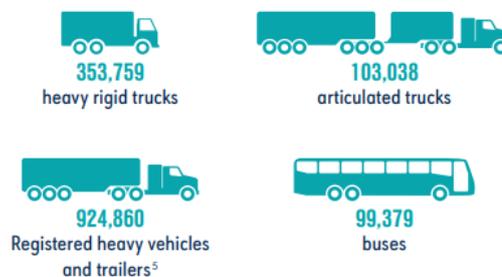
Supporting higher productivity freight vehicles (HPFV), particularly Performance Based Standards (PBS) vehicles, the link between transport infrastructure and land-use planning, and freight and heavy vehicle data are critical to productivity and economic prosperity in Australia, and to ensure Australia is internationally competitive.

Our submission focuses on addressing questions related to the four elements identified in the Consultation Paper. Further, we have included in this submission an additional section on a potential alternative approach to managing service level standards.

### The NHVR’s stakeholder profile



### Australia’s heavy vehicle profile<sup>4</sup>



<sup>1</sup> Australian Bureau of Statistics, 2018, 6291.0.55.003 - Labour Force, Australia, Detailed, Quarterly, November 2018  
<sup>2</sup> Australian Bureau of Statistics, 2018, 8165.0 Counts of Australian Businesses, including Entries and Exits, June 2013 to June 2017  
<sup>3</sup> The Australian Capital Territory, New South Wales, Queensland, South Australia, Tasmania and Victoria.  
<sup>4</sup> Australian Bureau of Statistics, 2018, 9309.0 - Motor Vehicle Census, Australia, 31 January 2019  
<sup>5</sup> NHVR, 2020, Registration demographics as at January 2020

## Service Level Standards

The NHVR supports the establishment of national service level standards with road categories covering safety, speed and reliability, and access. Feedback through the HVPP consultation process identified heavy vehicle access decisions were impacted by the quality of the road network or lack of knowledge on infrastructure capacity and capability. In particular, local councils voiced their concerns over limited funds available for maintenance, upgrades and investigations—this issue was most notable for rural councils who also lacked resources.

Some road operators indicated they would be willing to pay higher fees in exchange for better access and infrastructure upgrades, on the premise that there is certainty in long-term gains to outweigh initial costs.

### 1. What do you see as the pros and cons of establishing service level standards?

The establishment of service level standards could provide road users with a clear set of expectations of what the road system could deliver in terms of safety, speed and reliability, and access. Based on these expectations, road managers will understand what maintenance and investment is required to keep up to the said standard. Road users will be able to better plan their journeys in line with their expectations of a published service level standard.

Establishing and maintaining the service level standard could challenge some road managers' capability as constant assessment and a steady reliable funding stream would be required to determine standards and maintain roads to meet road user expectations.

Significant effort needs to be made to determine service level standards and identify which roads should have these standards applied. There may be potential issues with accuracy and consistency in undertaking this work, in particular appropriately aligning classification with heavy vehicle use, to avoid under or over estimating usage. These issues are compounded given the direction of HVRR is to consider (potentially conflicting) service level standard preferences from a broad range of road users, not just heavy vehicles.

### 2. What are the most important things for the service level standards to capture?

In addition to delivering road system benefits in terms of safety, speed and reliability, and access, a clear linkage to mass and dimension capacity and capability at a granular level for heavy vehicle access will greatly assist heavy vehicle operators to plan their trips on the most suitable routes. Further, this would assist infrastructure investment decision makers on user preferences and future upgrade requirements.

Evidently, some road operators are willing to pay a higher cost (for example through tolls) for a better road service level standard in exchange for journey reliability, better heavy vehicle access and a reduction in wear and tear in their vehicles.

A recent article in the Australian Financial Review *"Supply chain bosses disappointed by government's bet on rail and road"* (14 October 2020) noted that road operators were paying \$120 (in tolls) for a truck to go from Port Botany to Western Sydney. This demonstrates that where a commercial freight operator sees value in a road system, they will tend to use that road system if the benefits outweigh the costs and there is long-term reliability and sustainability in that system.

### 3. What mechanism/s should be established to make sure the service level standards reasonably reflect the views of users, including their willingness to pay? For example, how can a wide range of stakeholders be represented in the process?

The formal consultation process along with regular key stakeholder meetings, in particular with industry associations and operators with differing fleet sizes, provides the opportunity for a diverse range of stakeholders to consider and refine the narrative and methodology presented by the Commonwealth to develop a better national system for setting heavy vehicle charges and investing the funds raised in roads.

An integrated media communication campaign targeting various heavy vehicle industry groups, with a focus on issues definition and benefits realisation, may also help create awareness and stimulate a positive

response in the consultation and refinement process. Importantly, clearly identifying the need for accurate definition and determination of service level standards, and why this input is needed from the various user groups, is required. This is a process where the views of all users must be captured and appropriately balanced, and the exclusion (or bias) of one group over another may negatively impact implementation of HVRR.

Obtaining heavy vehicle road user data on toll systems may provide insight on the number and type of road operators willing to pay for a higher service level standard (i.e. toll roads) to complete their freight journey.

It should be noted that the level of affordability for various freight operators' pay for higher service level standards will vary dramatically (particularly those operators required to use regional roads versus arterial roads); accordingly, the issue of fair competition is introduced.

**4. What mechanisms could be used to review the service level standards periodically? For example, should there be a standing body, or consultation periodically when the service level standards are reviewed.**

The NHVR supports the notion that an independent body is established to review service level standards, at regular pre-defined intervals (e.g. every three years, in line with annual government budget setting and two year forward estimates), and ensure the transparency, accountability and cost effectiveness of any decision-making on service level standards (including their setting, and extending beyond this for hypothecation). The heavy vehicle industry will want to ensure that they are not being overcharged for any road investment, and that there is appropriate alignment between service level standards, road use, revenue generation, hypothecation and infrastructure works that occur. An independent body that undertakes periodic reviews and publishes its finding will help build confidence in that process. Such a significant transformative endeavour will require commensurate efforts to obtain and maintain buy-in from all stakeholders.

Some road operators already believe that they are being unfairly charged through the current heavy vehicle charges given the level of investment in road infrastructure. Feedback from the HVPP consultation process suggested that government collected more revenue from current heavy vehicle charges than what is being spent on infrastructure improvement to support heavy vehicle access, safety and movement. As a result, service level standards for some roads are not meeting the expectations of heavy vehicle road operators. It needs to be firmly established what the financial impact may or may not be, and what the benefits will be—and this needs to be delivered on.

Independent assessment on service level standards will help address this concern with industry. It could provide guidance to road managers on the investment necessary to build and maintain roads against the service level standard declared for that road.

## **Expenditure planning and determining what costs can be recovered from heavy vehicles**

**5. Which model for independently determining what expenditure is recoverable from heavy vehicle users would you prefer and why?**

The NHVR generally supports the hybrid model as the most effective in determining what expenditure is recoverable from heavy vehicle charges. It is important that the nominated body is sufficiently independent and, for consistency, adopts the same method and priorities determined at a national level. The NHVR believes that while state and territory governments have expertise in road planning and investments, a national body undertaking a standards setting and auditing process will ensure that individual state needs are considered meritoriously.

Considering many heavy vehicle operators transport freight across state borders, the NHVR believes that a national model should be adopted for funding significant inter-jurisdictional roads (e.g. agreed key national

freight routes set by governments and industry). This would promote jurisdictional cooperation for investment in key national freight routes and increase the focus on significant national outcomes.

Local knowledge is critical to road planning, and local councils may have limited resourcing to effectively be a part of the process. Both national and state-based bodies could be influential and a valuable support mechanism in helping local councils appropriately identify and allocate heavy vehicle expenditure recoverable from the heavy vehicle industry. Expected recoverable expenditure for heavy vehicle use may influence the road investment decision. Certainty of appropriate cost allocation and recovery will be critical for decision makers. The national and state-based bodies could provide this certainty and ensure a consistent approach to cost determination and associated charges.

**6. If some or all of the independent determination of what is recoverable from heavy vehicle users will take place at the state level, what checks could be put in place to ensure national consistency of expenditure recovery?**

A nationally consistent approach to cost determination and charges must be agreed by the Commonwealth, jurisdictions and industry. The NHVR recommends that once the determination is agreed then jurisdictions would need to self-regulate the determination and confirm to the Commonwealth that the appropriate reviews and audits had been undertaken when seeking road infrastructure funding. The Commonwealth (or independent bodies nominated by the Commonwealth), may then undertake random audits at their discretion to ensure system integrity.

**7. How important is the independence of the body/ies assessing expenditure?**

Feedback through the HVPP consultation process suggested that many road operators are frustrated that revenue currently raised through heavy vehicle registration fees and the road user charge are not fully invested in improving road infrastructure to provide better heavy vehicle access—this refers to the right infrastructure and the right standard. Further, some road operators commented that it is difficult to see how the heavy vehicle charges collected are spent on building, renewing and maintaining roads.

An independent body empowered to assess expenditure could provide industry with the transparency and confidence they are seeking to understand how revenue collected will be expended for the betterment of the heavy vehicle industry. A key responsibility will be to regularly communicate with industry investment initiatives that demonstrate how funds collected are being expended on road infrastructure to support the access, movement, and safety the heavy vehicle industry expects to be delivered.

**8. What benefits to users do you think particular expenditure review mechanisms might offer compared to the administrative costs associated with that mechanism?**

Assurance of appropriate cost allocation for the heavy vehicle industry is of paramount importance. The administrative cost to review and determine cost allocation will be insignificant compared to the revenue raised from the heavy vehicle industry. Providing a mechanism that is transparent so the heavy vehicle industry can see that they are being appropriately charged for the road level service that they will use will be essential.

## Independent setting of heavy vehicle charges

**9. How important is the aim of reducing volatility of heavy vehicle charges?**

Over the past five years, the volatility of the determination for heavy vehicle charges has been minor. According to the National Transport Commission<sup>1</sup>, the Transport and Infrastructure Council made the following decisions on heavy vehicle charges:

- increases of 1.3 per cent and 0.6 per cent in 2014–15 and 2015–16 respectively

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<sup>1</sup> National Transport Commission, (2020), *Heavy vehicle charges determination – scope*, p.5

- set to recover a fixed level of revenue in 2016–17 and 2017–18 resulting in small decreases in heavy vehicle charges due to increasing vehicle numbers and fuel consumption
- frozen at 2017–18 levels for 2018–19 and 2019–20.

The road freight industry is very cost conscious with many road operators working with minimal margins. The heavy vehicle industry will welcome introducing a new system reducing volatility of heavy vehicle charges and provide confidence to invest in their own road operations.

#### **10. Does a forward-looking cost base seem to be a better way of assigning charges over time?**

Establishing a forward-looking cost base to secure a funding stream to maintain, renew and construct roads will provide road managers with the confidence to invest in road infrastructure and help road operators estimate future heavy vehicle charges. Critically, a forward-looking cost base should, if implemented correctly, be premised on network prioritisation and commensurate apportionment, where roads and standards are set by both government and industry.

The NHVR supports this approach as it will provide road managers and industry with certainty in consistency, fairness and sustainability that is absent from the current heavy vehicle charging and infrastructure investment model.

#### **11. What, if any, additional information would you like to have about the proposed forward-looking cost base?**

No comment.

#### **12. How important is the element of independence in assessing expenditure and charge-setting?**

The NHVR supports the independent assessment of expenditure and charge setting on the proviso that the methodology is transparent and can be scrutinised by interested parties. Further, independence in assessing expenditure free of influence from government and industry should lead to evidentiary advice on charge setting that recognises the true cost to deliver and maintain service levels. This will also help build confidence with industry that the charge setting reflects the true cost of service levels and that the price charge proposed to the heavy vehicle industry is fair and reasonable.

#### **13. What advantages and disadvantages are there to establishing independent pricing regulation?**

The main advantage of an independent regulator is that it can resist pressures to lower or increase prices at the expense of cost recovery, long term maintenance and service quality in a regulated sector. An independent pricing regulator established to determine and recommend heavy vehicle charges for the purpose of recovering heavy vehicle costs incurred by road managers will lay the foundation for securing future road infrastructure funds and send a signal to the road industry that the recommended charges are without influence from government.

These advantages include:

- **long term regulator stability** which can help align the interests of government and the heavy vehicle industry in relation to price setting of heavy vehicle charges
- **independence from political influences** on price setting which could help establish a credible regulatory environment that facilitates long term road infrastructure investment
- **role clarity, focus and accountability** where the regulator's role is clearly defined in terms of its responsibility and how any pricing recommendations will be considered by government
- **adaptability** where the regulator will be agile enough to evolve and take advantage of new technology to gather, store, analyse and disseminate information to support the rationale and logic in determining price setting for heavy vehicle charges.

- **independence of professional conduct** allowing for the recruitment of professional staff whose skillset can meet the challenges required to manage and deliver a pricing model and resist political pressure.

Disadvantages could be:

- **additional cost borne** by industry to establish a new pricing regulator
- **credibility** if pricing recommendations are not accepted or implemented by government due to political or other economic reasons—this would undermine the rationale for having an independent pricing regulator.

#### **14. What are the advantages and disadvantages of the independent price regulator functions being held by a separate body to the body/ies with the expenditure review function?**

Having both the price regulator function and the expenditure review function together will lead to organisational efficiency in terms of cost and management of delivering improved outcomes to industry. Should the two functions remain apart, the timeliness of expenditure advice to the price regulator could impact on the price determination and the eventual charge setting.

Dealing with both functions within one organisation will be far more efficient than if these functions were managed through two different organisations. Further, should there be disagreement between the two functional areas then the matter could more easily be resolved “in house”. A more holistic approach to expenditure and pricing within one organisation could also promote a more flexible approach to price setting.

However, the advantage for separating the two functions could add value from a governance perspective in that the expenditure review area will solely focus on the cost element and leave the price implementation to the pricing regulator. In this instance, the pricing function would purely be an outcome of the advice provided by the expenditure review function and would implement the price without fear or favour.

#### **15. Are there any other functions or responsibilities the independent price regulator should have under the proposed new system?**

To ensure transparency, the price regulator would need to demonstrate its methodology in calculating road expenditure. BITRE provides a Road Construction and Maintenance Price (RCMP) Index which indicates the price variability from year to year on road construction and maintenance costs. The modelling that rests behind this is currently managed under BITRE.

Assuming the independent price regulator will consider RCMP cost, or similar appropriate methods, in its calculation to determine heavy vehicle charges, the NHVR suggests that this function best be undertaken under the remit of the independent price regulator.

Industry will gain confidence in the pricing methodology if this information is easily accessible and communicated. Publically communicating this information as part of an annual cycle of review, at both strategic and detailed levels, will support the independent price regulator with heavy vehicle charging determination.

#### **16. What pricing principles should apply to the independent price regulator/s with the above work?**

Good regulatory practice should promote stability and predictability in prices, offer transparency of the process for setting prices, and provide confidence in the system that prices are determined fairly and without undue influence from any organisation. Additionally, regulated pricing should be considered over the long term of the investment and therefore, once the price is established, should be modified only when unexpected events or situational change impact the pricing model.

Obviously when road systems are upgraded (or downgraded) or service level standards change, a revaluation supported by evidence could result in a change in price being necessitated. This same principle also applies in the event usage of roads changes (e.g. a new highway may change the preferred route—this would have a material effect to revenue generation and hypothecation if a flexible system that can be implemented with sufficient velocity is not adopted).

**17. Under the proposed new system, should heavy vehicle registration fees be nationally consistent and based on nationally agreed service level standards like the Commonwealth Road User Charge would be?**

The principles of setting heavy vehicle registration fees should be consistent, however recognition should be given to the volume and type of heavy vehicles, the volume of road kilometres, the standard and quality of road systems and the cost borne by the road operator in each jurisdiction.

## **Dedicating heavy vehicle revenue to roads (hypothecation)**

**18. Do you have any comments about how charges are proposed to be dedicated to road infrastructure?**

The NHVR fully supports hypothecation to improve the quality of road infrastructure, and to promote better access, productivity and safety.

Clear linkages between road use and investment is critical to build industry confidence that government is investing in roads used by industry. It is vital that key performance indicators (KPIs) are established on delivery of service level standards and road managers are held to account for delivery of those road service level standards.

A reliable funding stream through hypothecation will provide road managers with the confidence to plan and invest to maintain and or enhance service level standards for roads.

**19. What publicly available reporting from either regulatory bodies or state and territory governments would be useful?**

Industry would welcome public reporting on revenue collected from heavy vehicle charge against expenditure on road infrastructure related to heavy vehicle usage, in particular key freight routes and possibly, first and last mile access. It is important that this information is granular to ensure confidence in transparency and fairness.

As mentioned earlier, publishing the RCMP index would help provide context in relation to heavy vehicle price setting. The NHVR recommends that the RCMP index is published annually so industry can better relate the revenue collected against specific road expenditure.

## An alternative approach to managing service level standards

The NHVR proposes that minimum road service standards should be mandated to ensure heavy vehicle charges made and revenue collected is invested in road infrastructure to support heavy vehicle movement, access, safety and productivity. Should HVRR proceed, road operators will expect road managers to provide the infrastructure and level of access, safety and productivity that they are paying for. Periodic review of the road standards is fundamentally necessary to measure road manager performance and gauge customer (in this instance heavy vehicle operators) satisfaction.

To deliver this approach, the Commonwealth could establish under law an independent national body to act on its behalf, such as an independent regulator or roads commissioner who would have the authority to enforce and prescribe standards. Through its daily function and activities, the NHVR has built a strong relationship with the heavy vehicle industry and government and could offer insight on what systems and processes would be required for the establishment of an independent national body to determine and administer regulation of road level standards.

Identification and establishment of KPIs would help determine service level standards. Once the KPIs are agreed with industry and road managers, the Commonwealth (or nominated party) could review the performance and encourage road managers to meet the service level standards that revenue is being collected against.

The periodic review would focus on three elements. The first would be to determine if the initial road service standards are being met. This would be undertaken through an audit of the identified road systems against key criteria such as journey average speed, reliability of system, and number of critical safety incidents. The second element would be achieved via a customer survey to determine satisfaction on the performance of the service level standard. The third element would consider heavy vehicle operator demand requirement (present and future) for the road system and either reaffirm or amend the road service level standard.

The Commonwealth (or nominated party) could formalise this process by entering into an agreement with the jurisdictions for heavy vehicle charges and revenue hypothecation. The agreement would identify the key road assets by classification and the service level standard expected of those road assets. It could also identify the obligations of both parties in regards to the provision and expenditure of funds on road assets.

The proposed approach would be similar to agreements that are in place between jurisdictions and private road operators. For example, under a Road Franchise Agreement (RFA) between a state government and a toll operator, the toll operator is obliged to meet certain service level standards. This includes (among other things) monitoring and managing traffic flows to ensure minimum journey times are achieved, communication to road users for speed and incident management, providing minimum pavement standards to ensure heavy vehicle accessibility, resource allocation for critical incident management for disruptions to the network, notification periods for capital and maintenance programs, as well as an agreed price escalation formula to account for CPI and any significant capital improvement projects.

The RFA clearly articulates the road assets required and the service level standards and financial responsibilities between the parties, and provides a mechanism for periodic review and discussion to ensure road user satisfaction. KPIs are reviewed and initiatives for performance improvement are discussed.

Should HVRR proceed, road operators will have a higher expectation of road service level standards as they will believe that revenue collected through the RUC and heavy vehicle registration is directly invested in roads used by industry.