Current Direction of Heavy Vehicle Road Reform

NB: This document does not represent governments' positions; reform decisions have not yet been taken.

Governments are considering and developing options for supply side changes i.e. changes to the way in which road services are provided. Separately, the National Heavy Vehicle Charging Pilot is testing options for potential future demand side changes i.e. changes aimed at influencing consumption of road services. The Pilot is at an early stage and governments are not currently considering demand side changes.

The Transport and Infrastructure Council (TIC) has requested officials return with advice on possible supply side changes later in 2019. These possible supply side changes are the focus of this document.

Context

Heavy Vehicle Road Reform (the reforms) aims to achieve productivity gains, improve roads for all users, and put in place an assured funding stream to allow road managers to maximise benefits from the existing road network. This is in the context of a burgeoning freight task and plateauing industry productivity.

The reforms are an opportunity to address the weak links between what heavy vehicle users pay and the services they receive. Additionally, the reforms can improve budget predictability for road building and maintenance, improving investment efficiency and service outcomes for road users.

In its 9 November 2018 communique,[i] TIC announced it had directed officials to prepare advice on heavy vehicle reform supply side-reforms. These reform options have also been explored in the publicly available *Changes to Heavy Vehicle Road Delivery: Background Paper* ('the *Background Paper*').[ii] These elements include:

(i) a national Service Level Standard (SLS) framework;
(ii) independent price regulation;
(iii) funding reform, including independent oversight of what expenditure is recoverable from user charges and returning revenue to road owners;
(iv) a focus on user needs, including users of less-travelled roads;

Of these elements, TIC has agreed to develop the SLS, but no decision has been taken on other supply-side reform elements. Below is an outline of current supply-side elements which Council has indicated it intends to consider later in 2019.

A national service level standard framework

On 9 November 2018, TIC agreed to develop a SLS framework for roads. As outlined in the TIC communique, the intention is for the SLS framework to be nationally consistent, user-focussed, and to categorise roads by their function. Given roads have many different functions and users, the SLS framework will be from the perspective of all road users.

As noted in the *Background Paper*, the SLS can drive government investment in roads (the cost of which flows through to heavy vehicle charges). Therefore, the SLS will need to take into account users' preferred trade-offs between service and cost. A nationally consistent SLS framework can improve transparency for road users and provide an evidence-base for road investment decisions.

Marsden Jacob Associates are developing the first stages of the SLS framework, including developing some indicative high level road categories. As the framework further develops, user input will be vital. The plan is to consult industry on a high-level draft framework before the November 2019 TIC meeting.

Independent price regulation

Another key supply-side HVRR element is establishing an independent price regulator to decide heavy vehicle charges on a forward-looking basis. On 10 November 2017, TIC asked for a Regulation Impact Statement (RIS) on this reform element.

A consultation RIS on establishing independent price regulation including a forward-looking cost base was released in July 2018.[iii] This consultation RIS explored different options for independent price regulation, including a basic regulator which sets prices to recover expenditure, or a more sophisticated regulator which would examine road expenditure in greater depth.

The consultation RIS noted some potential benefits of independent price regulation, including greater certainty for users, less volatile charges through the forward-looking cost base, and (over time) improvements in how road infrastructure is delivered. Fourteen public submissions were received on the consultation-RIS. A final RIS, which takes into account the submissions provided, will be submitted to TIC in 2019.

Road funding reform

As noted in the November 2018 communique, TIC asked officials for advice on funding reform options. There are two aspects of funding reform, each of which is noted in the *Background Paper*.

The first aspect of funding reform is independent oversight of what expenditure is recoverable from heavy vehicle charges. The independent oversight provides assurance users will only be charged up to the amount required to deliver the SLS in a cost-effective way. As noted above, national SLS would inform investments under a reformed system and the independent oversight role would involve assessing proposed expenditure against the national SLS.

The second aspect of funding reform would be arrangements for returning heavy vehicle charges revenue to road owners for investment in the road network. Linking charges to investment provides a stream of revenue for road owners to use to manage the network.

A cost-benefit analysis of HVRR undertaken by Deloitte Access Economics[iv] found greater revenue certainty for road managers can improve maintenance efficiency, leading in turn to lower vehicle operating costs for users.

Focus on user needs

As noted above, user input will be critical to developing the SLS to ensure they reflect the preferences of all road users, including heavy and light vehicle users and users in regional and rural and urban areas. Basing investment decisions and independent oversight on the SLS would put user needs and preferences at the centre of decision-making.

As noted in its November 2018 communique, TIC asked for the advice on supply-side HVRR changes to consider the needs of less-travelled roads. Investment planning based on the national SLS can take account of the investment needs of the whole road network, including less-travelled roads, and roads which have important community and economic functions for rural and remote communities.

User input would also be key in prioritising investments which meet the service level standards, and in guiding investment planning. As noted in the consultation RIS on independent price regulation, user consultation and input would also be a key part of aspects of the charge-setting process, for example, setting registration fees for different vehicle classes.

Update on the National Heavy Vehicle Charging Pilot (National Pilot)

The National Pilot is testing the feasibility of possible changes to how charges are collected (i.e. demand-side measures) using mock invoices generated by vehicle on-board telematics technology. The National Pilot team has been consulting extensively with industry participants and heavy vehicle peak bodies across the country, gathering feedback on the running of the initial Small Scale On-Road Trial and plans for the more complex Large Scale On-Road Trial to commence in 2020. No decisions have been made to change the way heavy vehicle charges are currently collected. Current arrangements will remain in place while the National Pilot is underway.

Next steps

Together, the supply-side reform elements outlined above are intended as a package of measures to deliver benefits for industry. Should TIC decide to progress the reforms, there will be further consultation with industry on the design of the system.

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[i] Available at: transportinfrastructurecouncil.gov.au/communique/index.aspx
[ii] Available at: infrastructure.gov.au/roads/heavy/independent-price-regulation-ris.aspx
[iii] Available at: ris.pmc.gov.au/2018/09/03/independent-price-regulation-heavy-vehicle-charges
[iv] Available at: infrastructure.gov.au/roads/heavy/independent-research-heavy-vehicle-reform.aspx