Submission No 37

INQUIRY INTO ROAD TOLLING REGIMES

Organisation: Australian Logistics Council (ALC)

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ALC Submission to Transport and Customer Service Committee's inquiry into road tolling regimes

Friday, 21 May 2021

ALC AUSTRALIAN LOGISTICS COUNCIL
SUPPLY CHAIN EFFICIENCY AND SAFETY

The Australian Logistics Council (**ALC**) welcomes the opportunity to make a submission to the Transport and Customer Service Committee's inquiry into road tolling regimes.

ALC is the peak national body representing major companies participating in the freight logistics industry. ALC's policy focus is on delivering enhanced supply chain efficiency and safety.

Freight affects every Australian, every day, everywhere. Common goods purchased by Australians such as food, clothing, household appliances and medicine all need to be transported by freight operators.

Similarly, the freight supply chain provides the materials to build and operate critical community infrastructure – roads, hospitals and schools – which are fundamental to our society.

An inefficient and unproductive national supply chain can ultimately result in lost export income, reduced employment, higher consumer prices and Australia becoming less competitive in the global market.

ALC will principally deal with the issue of the 'triple tolling' of trucks using NSW toll roads.

ALC believes road pricing processes should fairly capture all the relevant cost components of roads so that, as far as is practicable:

- pricing does not distort the choice of transport mode used by consignors and/or consignees in the transport of freight; whilst
- road infrastructure development undertaken to advance either general congestion issues, light vehicle user or community amenity (rather than the efficient movement of freight down the supply chain from freight generation point to ultimate destination) is not cross subsidised by heavy vehicle operators; although
- regard should be had to specific government policies designed to improve the efficiency, congestion and sustainability of the road network, especially around major trade gateways such as port rail mode share targets.

This is the second inquiry that has been recently conducted into road tolling by the NSW Legislative Council.

Portfolio Committee No.2 published a report called [Road Tolling in New South Wales](https://www.parliament.nsw.gov.au/lcdocs/inquiries/2428/Road%20Tolling%20in%20New%20South%20Wales%20-%20Final%20Report.pdf) during 2017.[1]
It made clear:

- the commercial arrangements for the delivery and operation of individual toll roads are set out in individual concession agreements/project deeds;
- each toll road is governed by its own concession agreement which is negotiated and signed off by the government of the day as per the process outlined in the previous section; and

1 https://www.parliament.nsw.gov.au/lcdocs/inquiries/2428/Road%20Tolling%20in%20New%20South%20Wales%20-%20Final%20Report.pdf

- the terms of a concession agreement will include as standard, including the initial toll level, how prices will escalate, the term of the concession and the Government contribution, i.e. the amount of tax payer funds that will be contributed to the project.

Page 7 published a table setting out the tolling principles adopted by the Government.

One principle was that heavy vehicles will have a toll imposed that is three times higher than car tolls.

It follows that the 2014-15 Infrastructure Australia Assessment brief for NorthConnex[2] indicated:

> The proposal includes a heavy vehicle regulation regime, where the NSW Government will implement regulatory measures to reduce the number of trucks using Pennant Hills Road when NorthConnex is completed.
> As part of the financing arrangement, the private sector sponsors will receive concession extensions on the M2/Lane Cove Tunnel and M7 and truck tolls will be increased.

However, the economic rationale behind the three-time multiplier has never been explained.

Heavy vehicle currently pay road user charges for using Australia's roads, through a pay-as-you-go model (colloquially known as **PAYGO**).

As explained in the *PAYGO Model User Manual*[3]:

> The pay-as-you-go (PAYGO) model was developed to allocate and recover road costs relating to heavy vehicle operations in Australia. Road costs are defined as the road expenditure required for sustaining, maintaining and operating the current road network in its accepted service condition. In Australia, heavy vehicles are defined as any vehicle or trailer with a Mass Rating for Charging of over 4.5 tonnes. The primary objective of PAYGO is to deliver nationally consistent heavy vehicle charges that recover both capital and operating costs related to heavy vehicle use as they are incurred. These charges are designed to promote the optimal use of the existing network. The National Transport Commission (NTC) has been administering the PAYGO system since 1995. During that time the NTC has completed several heavy vehicle charges determinations aimed at refining the PAYGO system.
> Typically, state and local road authorities incur road expenditures independently. The PAYGO model calculates the portion of road costs that are allocated to heavy vehicles based on the vehicle and road usage characteristics of these heavy vehicle classes. The PAYGO model then estimates a set of charges designed to recover these allocated costs.
> The PAYGO model estimates the road costs allocated to heavy vehicles by using a cost base, cost drivers and cost allocation rules. The total cost base comprises arterial and local road expenditure reported to the NTC by state/territory road authorities and the Australian Bureau of Statistics (ABS). The cost drivers are derived by using data on vehicle road usage characteristics that are supplied by the ABS in the Survey of Motor Vehicle Use (SMVU) and by state/territory road authorities (heavy vehicle registration data). The NTC then applies a set of cost allocation rules to allocate the cost base to each vehicle class based on the cost drivers. The objective of the cost allocation process is to ensure that costs are allocated to vehicle classes based on the road usage characteristics of that vehicle. The allocation process ensures

[2] https://www.infrastructureaustralia.gov.au/sites/default/files/2019-06/NSW-NorthConnex.pdf
[3] https://www.ntc.gov.au/sites/default/files/assets/files/PAYGO-model-user-manual-version-2.2.pdf

> that the road user charge (RUC) and registration charges are set so that heavy vehicle classes, as a group, recover their allocated share of road costs.[4]

In a nutshell, PAYGO is designed to recover from heavy vehicles the allocated proportion of the amount jurisdictions spent on the construction and maintenance of roads over the previous five years.

Australian governments are now considering a new pricing mechanism being developed under a project called Heavy Vehicle Road Reform (**HVRR**)[5] to replace PAYGO.

Put simply, the HVRR concept road owners will put forward for the consideration of governments road construction and maintenance proposals, with costs calculated on a 'forward-looking basis' using the 'building block' method of developing charges used in the water, rail and electricity sectors.

However, both methods only require heavy vehicles fund the additional maintenance costs incurred as a result of the road infrastructure carrying a heavy vehicle.

It doesn't establish a profit centre for road owners.

It has been reported that trucks are avoiding using, for example, NorthConnex[6] as a result of the costs imposed on using the infrastructure, clearly imposing freight chain inefficiencies as well as adding to the road congestion that access to infrastructure of a motorway standard was meant to avoid.

However, the tollroad pricing regime should support other government policies designed to ensure the efficient movement of freight, particularly within the Sydney Metropolitan area such as port rail mode share targets.

As the NSW Government has said:

> A Strategic Target of the NSW Freight and Ports Plan 2018-2023 is to increase the share of rail freight at Port Botany to 28% or 930,000 TEU by 2021 (against a 2016 baseline of 17% or 388,552).
>
> Transporting freight on the rail network significantly improves efficiency, congestion and sustainability, especially around major trade gateways. This is important as the volume of freight moved through NSW ports will grow in the future.[7]

This target has not been met.

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[4] Page 1

[5] https://www.infrastructure.gov.au/roads/heavy/proposed-changes-consultation.aspx

[6] https://www.smh.com.au/national/nsw/warnings-only-10-000-trucks-avoid-fines-for-dodging-sydney-tunnel-20210308-p578om.html#:~:text=More%20than%2010%2C000%20oversized%20vehicles,NSW%20has%20not%20issued%20fines

[7] https://www.transport.nsw.gov.au/data-and-research/freight-data/freight-performance-dashboard/use-of-rail-freight-at-port-botany

ALC Recommendation

As ALC said in its submission to the Senate Economics Legislation Committee inquiry into the COAG Reform Fund Amendment (No Electric Vehicle Taxes) Bill 2020[8]

> ALC believes the June ITMM (the meeting of infrastructure and transport ministers held under the new National Cabinet process) meeting should endorse recommendation 13 contained in the NSW *paper NSW Review of Federal Financial Relations: Supporting the Road to Recovery*[9] and authorise a report within 12 months that establishes a pathway for the development of a road user charge capable of being applied to all classes of vehicle.

However, in the interim ALC notes that section 12A of the *Independent Pricing and Regulatory Tribunal Act 1992*[10] permits IPART to conduct investigations and make reports on any matter with respect to pricing, industry or competition that is referred to the Tribunal by the Minister.

ALC therefore recommends the Minister makes such a reference, with terms of reference permitting IPART to investigate:

- the rationale behind the principle of requiring heavy vehicles to pay three times the toll of light vehicles for access to toll roads;
- the amount by which the revenue collected through application of the policy exceeds the costs attributable to heavy vehicle usage of the infrastructure; and
- That the Government's road pricing principles should take account of the objectives of other relevant polices such as the NSW Freight and Ports Plan and the NSW Ports Masterplan to increase the level of the movement of freight by rail.

ALC is grateful for this opportunity to provide a submission to the Transport and Customer Service Committee's inquiry into road tolling regimes.

If you require any additional information, please feel free to contact me , or via email to policy@austlogistics.com.au.

Yours sincerely

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Interim Chief Executive Officer

[8] https://www.austlogistics.com.au/policy-advocacy/submissions-2021-senate-inquiry-coag-reform-fund-amendment-no-electric-vehicle-taxes-bill-2020-opening-statement/

[9] https://www.treasury.nsw.gov.au/sites/default/files/2020-10/FFR%20Final%20Report%20-%20200828%20%281%29.pdf

[10] http://www.austlii.edu.au/cgi-bin/viewdoc/au/legis/nsw/consol_act/iparta1992426/s12a.html