



# Queensland Government

## Queensland Treasury Response to Commonwealth Grants Commission Draft Report Attachment 17

### **Transport Services**

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**Contact Officer:**

Peter Johnson  
Inter-Governmental Relations Branch  
Queensland Treasury  
(07) 3225 8261  
[peter.johnson@treasury.qld.gov.au](mailto:peter.johnson@treasury.qld.gov.au)

## **SUMMARY OF QUEENSLAND'S POSITION**

Queensland supports the Commission's approach of assessing decision to assess transport services in three main areas urban subsidies, non-urban subsidies and capital subsidies. However, the approach used to assess urban subsidies is not robust, uses incomparable data and produces a method that is not policy neutral. Secondary issues include the use of UC/Ls, splitting of service delivery data to align with UC/Ls.

Queensland's has concerns about the use of the relationship established in the consultant's report because of a range of issues, such as the conversion of data into real terms, splitting of service delivery data, and some minor errors. Individually, these issues may be minor, but it would be prudent to confirm the combination of the issues does not adversely affect the relationship that forms the basis of the urban transport services factors in the Draft Report.

This submission contains an alternative method based on a single Australian average subsidy per capita for each mode of public transport is simple, transparent policy neutral, for the Commission's consideration. Neither method can address the underlying data comparability issues, so the Commission should consider discounting the factors to reflect the concerns over data quality.

Queensland recognises the difficulties the Commission has faced in obtaining comparable data on transport capital subsidies, let alone determining an appropriate method for the assessment. Ideally, a capital subsidy would recognise the impact a rapidly growing population has on the demand for new public transport infrastructure. Queensland encourages the Commission to continue pursuing data that will allow a robust assessment of capital in the 2010 Review.

The inclusion of a separate interstate wages location factor in the transport services assessment introduces an element of double counting. State-provided data used in the creation of a trend line for urban transport services would incorporate, inter alia, any interstate differences in wages. Adjusting the subsidy data, not assessing interstate wages location separately, or the application of a discount to the urban transport services factors would address double counting.

### ***Key Issues***

Further work is required on the Transport Services assessment proposed in the Draft Report. In particular, the urban transport subsidies component of the assessment. Queensland seeks consideration of the following issues before the assessment is finalised:

- The policy neutrality of the urban transport subsidy method proposed in the Draft Report, and the potential for the adoption of the simple method proposed in this submission;
- Data comparability which affects the urban transport subsidy factors, and the need for a discount to address data quality;
- Further work on a differential assessment of new capital subsidies, rather than adopting the EPC assessment proposed in the Draft Report; and
- Removing double counting of interstate wages location in the assessment.

## PROPOSED METHODOLOGY

The assessment of Transport Services proposed in the Draft Report has three main parts:

- An urban operating subsidy factor to assess the costs of providing subsidised transport services in urban areas according to their population size (UC/Ls with populations of 20,000 to 40,000, and UC/Ls with populations of 40,000 and above);
- A non-urban operating subsidy factor to assess the costs of providing subsidised transport services in non-urban areas (UC/Ls with less than 20,000 people); and,
- A capital subsidy factor to assess only new capital expenditure needs on an equal per capita (EPC) basis.

To calculate the urban operating subsidy factor, the Commission proposes summing the notional per capita subsidy for each states urban centre populations, based on a trend established by external consultants. Urban centres with populations greater than 40,000 are assigned an individual weight based on their population size, and all other urban centres (with populations between 20,000 and 40,000) are assigned the notional per capita subsidy for urban centres with populations of 40,000 (\$27.82 per capita).

The Commission proposes assessing the non-urban operating subsidy factor using state shares of non-urban populations, using UC/Ls with populations less than 20,000.

The Commission also proposes assessing two general disabilities in the Transport Services assessment: location – to recognise the costs of interstate differences in wage and non-wage costs, and administrative scale.

## ASSESSMENT APPROACH

Queensland broadly agrees with the Commission’s proposal to assess transport services in the three parts of urban, non-urban and capital subsidies, and drawing relationships between population and subsidies. However, Queensland has concerns about the reliability and comparability of the state-provided data used to calculate the urban and non-urban operating subsidy factors. Queensland is particularly concerned about the way in which some of these data have been adjusted by the consultants, and therefore, any conclusions based on these data.

### *Use of UC/Ls*

The Commission proposes defining urban population centres by using individual UC/Ls, based on the assumption transport services are delivered within UC/Ls on one level (urban) and across UC/Ls at a different level (non-urban). The use of UC/Ls as the geographical area for analysis was adopted by the CGC’s transport consultants on the basis ‘the UC/L is at least as effective a descriptor as any of the options that are available’<sup>1</sup>.

Queensland expressed its concern to the Commission in past submissions and in discussions regarding the use of individual UC/Ls rather than aggregating contiguous UC/Ls in cases where aggregation more accurately matched actual service delivery areas. The Commission chose not to adopt a simple method for aggregating contiguous UC/Ls proposed in Queensland’s response to Position Paper 2008/6 *Transport Services*.

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<sup>1</sup> Institute for Sustainable Systems and Technologies, University of South Australia, 2010 *Review of State Government Subsidised Urban Public Transport Services: Consultant Advice*, April 2009, p6.

Queensland notes the Commission used its judgement to combine UC/Ls for Darwin and Hobart. The need for these judgements confirms UC/Ls are not an ideal measure of geographical area for the purposes of state government service delivery. Queensland suggests the pursuit of an appropriate geographic measure of service delivery areas in any future review of the Transport Services assessment category methodology.

### *Assessing Urban expenses*

Queensland supports the Commission's position in the Draft Report, which recognises population banding 'would produce a less accurate and materially different result'.

Some elements of the Commission's proposed assessment of urban transport are of particular concern for Queensland, including:

- The state-provided data are incomparable and unreliable;
- Issues with consultant's report:
  - Unlike in any other Commission assessment, the consultants converted the data into real terms;
  - There is an error in the underlying data for the relationship used by the Commission;
  - The split of Translink rail and bus costs across UC/Ls;
- The need for a 'Minimum Subsidy' adjustment; and
- The policy neutrality of the method proposed in the Draft Report.

### *Data reliability and comparability*

Most states have expressed concerns about the quality and comparability of the state-provided data on urban public transport. The consultants identified areas of difference in the data in their report. The key issues included the inclusions and exclusions by states, whether the reported data aligns with UC/Ls rather than service delivery areas, and if the data include differences due to policy choice. The consultant's report states:

- *There is potential that data in the database that should represent the cost of operating public transport in each of the localities may not reflect actual costs. This may occur, for example, because payments to private contractors may include capital charges in some instances and because overhead costs associated with the provision of public transport may not have always been included.*
- *Data on operating costs in the CGC database does not always correspond with published information in the few instances where the latter data is publicly available.*
- *It is possible that the cost of providing public transport in, for instance, Adelaide and Perth may include costs associated with services to neighbouring settled areas that are within the public transport service region of the respective principal city.*
- *Vehicle-kilometres provided may be either the quantity of service provided to passengers (described here as revenue-km) or the total travel undertaken by public transport vehicles (i.e. total-km), where the latter includes dead-running such as travel to and from depots at the commencement of service.*

The consultant's report also highlights discrepancies from their expectations for costs of public transport by mode across states. Some of the discrepancies relate to the different treatments of capital expenses, with capital appearing to be included in data for Sydney, Melbourne and Adelaide but are specifically not included in data for Perth. Similarly, not all states separated, or were able to separate, their student concession subsidy data from their total concessions data. Student concessions were not required, as they will be assessed in the Schools Education assessment category.

It appears that there is an inconsistent treatment of overhead costs for managing public transport, with these costs not initially included in the data provided by Queensland but apparently included by other states.

The consultants mentions policy differences such as, the use of private or government operators, differences in dead-running time, and the choice of vessels for ferry services. These are only a selection of the policy differences that exist between states that affect the state-provided data. Other examples include, but are not limited to:

- Fare policies including zones;
- The degree of integration between different modes of public transport;
- The extent of the service delivery area;
- Choice of modes available in different locations;
- Choice to provide services in dedicated transport corridors (busways or rail corridors);
- The provision of service at grade or underground; and
- Industrial relations arrangements.

#### *Consultant's treatment of data*

Several aspects of the consultant's work cause some concern for Queensland. Individually, they are not significant issues that would cause a material difference to the outcome of the urban transport component or the transport services assessment. However, when they are considered together they reduce confidence in the suitability of the relationship as a basis for the Commission's assessment of urban transport disabilities.

In undertaking their analysis state-provided cost data, the Commission's consultants converted the data to real terms. Analysing costs in real price is a reasonable treatment in an academic exercise. No other data used directly in the Commission's assessments are in real terms. This may not have a material impact on the outcome of the transport but the treatment of data is inconsistent with other Commission assessments.

Table B.7, of the consultant's report omits cost data for Bendigo. Table B.7 is the source for Figure B.7. The linear equation identified in Figure B.7 in the consultant's report is identical to that presented in Figure 17.1 of the Commission's Draft Report. The linear equation from Figure 17.1 is the key to producing notional subsidies for the urban transport component of the transport services assessment.

Comparing Table B.7 and its source, Table B.12, indicated the operating subsidy per capita for Bendigo should be \$50 per capita. Further analysis of Tables B.12 and B.7 shows the operating subsidy per capita for all UC/Ls with smaller populations than Bendigo were incorrect.

The correct data should be included, even if it does not make a material difference to the outcome of the transport services assessment.

#### *Splitting of data across UC/Ls*

Queensland provides its public transport system in the Southeast corner of the state in an integrated way through a single body; the Translink Transit Authority. It appears that New South Wales reports on its public transport system in a broad manner, Greater Sydney taking in an area from Newcastle in the North to Wollongong in the South and the Blue Mountains in the West.

Translink and Greater Sydney are the most apparent aggregations across UC/Ls in the data provided by states, but the consultants noted states provided data across UC/Ls for Darwin, Hobart and Perth. As the Commission used its judgement to alter the areas defined as Darwin and Hobart the consultant was not required to alter the data.

Transport data for Perth appears to include data for the UC/Ls of Rockingham and Mandurah. Rail services did not commence on the Southern Line until 2007, so were not in scope for the Commission's exercise in determining the relationship between subsidies and population. Southern Coast Transit provides bus services in the separate UC/Ls of Perth, Rockingham and Mandurah, but the consultant did not disaggregate the data by UC/L. Based on information in the data provided by the Commission and the data in the consultant's report it appears that the treatment of Perth is not consistent with Sydney and Brisbane.

The Commission asked the consultant to split service provision data by UC/L and they used a method to split UC/Ls into what they deemed to be appropriate reflection of the operating subsidies by UC/L. It is not possible to determine whether the split determined by the consultants is an accurate reflection of the operating subsidies by UC/L. In the absence of an alternative approach to splitting Translink and Greater Sydney data, the Commission has a choice of assessing the data by service area or using the consultant's approach.

As is often the case in the Commission's work, the methodology is only as robust as the data that underpins it. In the Transport Services assessment, and urban expenses in particular, there is marked incomparability in the data. Queensland recognises that the Commission has to use the best available data to make its assessments. However, the Commission can choose which data it considers is reliable and attempt to adjust the data to make it more comparable. Alternatively, if it considers the data cannot be made comparable it can use its judgement to discount the resultant factors to reflect the concerns it has with the data. Queensland urges the Commission to consider each of these options in relation to the urban subsidy factors.

#### *'Minimum subsidy' adjustment*

Based on the methodology proposed in the Draft Report, population centres with populations between 20,000 and 40,000 have a notional per capita subsidy less than zero. The Commission adjusts these population centres to have the notional per capita subsidy for an urban centre with a population of 40,000 (\$27.82 per capita). The need for a 'minimum subsidy' adjustment indicates the relationship derived from the data does not represent a policy neutral relationship. Leaving aside any comparability issues that may exist with the state-provided data; Queensland is concerned that the 'minimum subsidy' adjustment indicates that the method is not robust.

The Draft Report does not indicate whether such an adjustment is material. A 'data adjustment' materiality test of the 'minimum subsidy' adjustment is not appropriate, as it does not make data more comparable. It would appear a disability materiality test (redistributing more than \$10 per capita) is appropriate, based on the 'disability' of having a greater than average number of population centres between 20,000 and 40,000 people.

#### *Policy neutrality*

A key issue for Queensland in the calculation of urban subsidy factors is policy neutrality. The data used in determining these factors is policy influenced, and a means must be found to create an assessment which is unaffected by the policies of individual states, by using an Australian average policy as is used in other Commission assessments.

Queensland has analysed the influence of the Greater Sydney data on the linear trend line. The analysis included removing the data for Sydney alone and Greater Sydney (Sydney, Wollongong, Central Coast and Newcastle). Removing data for Greater Sydney tested if the split of the data by the consultant affected the linear trend line. In addition, the subsidy per capita was increased for Sydney alone, and the component parts of Greater Sydney, to see how this affected the linear trend line. This analysis indicated that changes to Sydney, and Greater Sydney, data affect the linear trend line, which raises doubt about the policy neutrality of the urban subsidy approach proposed in the Draft Report.

#### *Queensland's Alternative Model*

A simple policy neutral way to assess urban public transport subsidies may be to determine a single Australian average subsidy per capita for each mode of public transport. That is, for rail, bus, ferry and tram. The next step is to multiply the Australian average subsidy per capita for each mode by the populations in the urban centres with that mode of public transport. The results summed for each state, and as in the final step in the Draft Report, state shares of the aggregate expenses relative to their population shares calculated.

Queensland considers that this approach would more fully remove the impact of state policies. Issues about data comparability would remain, but should also have less impact on the outcomes. Data provided for service areas could still be split into UC/Ls as it is in the consultant's report. If the Commission considers there are other material disabilities that exist in the provision of urban public transport, they can be applied in conjunction with this approach. However, Queensland would expect these disabilities to have a sound conceptual basis, evidence to support their existence and reliable and comparable data to produce a robust method to determine the size and scope of the disability.

The Commission should adopt a more transparent, robust and reliable method to measure differences in the relative cost of providing urban public transport. To be consistent with other assessments where there are data concerns, the Commission may need to discount the results of the method it chooses to use to determine an urban public transport factor.

#### *Non-urban operating subsidy factor*

In the absence of reliable, comparable and policy neutral data, Queensland supports using state shares of non-urban populations to calculate the non-urban operating subsidy factor.

#### *Capital subsidy factor*

Queensland supports the proposal to assess new capital investment on an equal per capita (EPC) basis. Ideally, the capital component of this assessment would address the increased demand for public transport services faced by states with rapidly growing populations. Creating a method to capture population growth is relatively straight forward, but accurately identifying capital costs associated with public transport is difficult. In part, the difficulties arise in determining capital subsidies, which could be grants, equity injections (with the attendant problem of what happens to equity withdrawals), inclusion of a capital component in subsidies paid to operators, or even capital works provided directly by the state.

States and the Commission have attempted to obtain this data in a reliable and comparable way during the course of the 2010 Review, with little success. The need for the consultant to try to devise an alternative way of capturing capital subsidies demonstrates the lack of progress on this issue. Even then, the Commission was uncomfortable with adopting that

aspect of the consultants work. Queensland urges the Commission to continue pursuing data that will allow a robust assessment of capital in the 2010 Review.

### **Location**

The inclusion of a separate interstate wages location factor in the transport services assessment introduces an element of double counting. Data provided by states for the creation of a trend line for urban transport services would incorporate, inter alia, any interstate differences in wages.

If a separate interstate wages location factor is applied, ideally the state-provided data would have the wage impacts removed to prevent double counting this ‘disability’. Queensland suggests the simplest way to remove the double counting is to remove the interstate wage location factor from the assessment. An alternative and relatively simple solution would be to adjust the state-provided data. Such an adjustment would entail increasing or decreasing subsidy data for each UC/L by the difference between the states’ interstate wage location factor and the Australian average interstate wage location factor. See table below for a worked example for Sydney and Brisbane.

<b>Example of how to adjust state-provided urban transport subsidy data to remove interstate wage differences</b>			
		Sydney	Brisbane
1	UC/L		
2	Population (M)	3.6	1.7
3	Subsidy (\$M)	1,418	362
4	Subsidy (\$per capita)	389.41	216.06
5	Interstate wage location factor for state	1.01514	0.984025
6	Difference from Australian average	-0.01514	0.015975
7	Adjusted Subsidy (\$M) [3+(3*6)]	1397	368
8	Adjusted Subsidy (\$per capita)	383.51	219.51

Source: Queensland Treasury calculations - based on data provided in the University of South Australia consultant’s report and emails from Glenn Pure 5 November 2008 and Tim Carlton 7 September 2009

Queensland considers a material difference would result from the data adjustment to remove the influences of interstate wage differentials from the state-provided data, or removing the location factor completely from the transport services assessment. Further, the data adjustment, or removal of the location factor, would produce a more robust method and produce a more equitable outcome by removing double counting.