



**NORTHERN TERRITORY VIEWS ON
CGC DRAFT REPORT – ATTACHMENT 16**

ROADS

SEPTEMBER 2009

Key Points

- The Territory broadly supports the way in which road length and use disabilities are assessed but does not support the methodology used to determine their relative influence.
- The assumptions used by the Commission to cross-classify the NTC data produce such an unrealistic outcome that the resultant data is not fit for purpose.
- The Territory considers the Commission should instead derive the relative influence of use and length disabilities based on the Australian Road Research Board and National Road Transport Commission data used in the 2004 Review roads assessment.
- The Territory considers the unsealed roads discount overstated as it:
 - does not accord with the Territory’s experience;
 - inappropriately includes use related cost differences;
 - is based on a sample which is not representative of the relevant roads; and
 - does not acknowledge the explicit and implicit adjustments already incorporated in the National Transport Commission’s cost allocation methodology.
- The complete exclusion of National Transport Commission category F3 expenses is inappropriate as these expenses do not primarily relate to land acquisition.

This submission details the Northern Territory’s views on issues raised in the Commonwealth Grants Commission’s (the Commission’s) Draft Report, Attachment 16 – *Roads*.

Introduction

The Commission propose to base the assessment of road needs on the length and use of states’ road networks. The proposed assessment:

- measures rural road lengths using a mapping approach;
- uses urban populations to proxy urban road lengths;
- uses the length of minor roads in sparsely populated remote areas as a measure of local road needs;

- includes an adjustment for unsealed roads;
- measures traffic volume using vehicle kilometres travelled;
- measures the impact of heavy vehicles using average gross mass-kilometres; and
- uses National Transport Commission (NTC) data to determine the relative influence of use and length related disabilities.

The Territory broadly supports the way in which road length and use disabilities are assessed. However, the Territory does not support the methodology used to determine the relative influence of use and length related disabilities. The Territory also considers the unsealed roads discount overstated and believes the complete exclusion of Category F3 expenses is inappropriate. The Territory's comments on these aspects of the proposed assessment follow.

Combining Use and Length

The proposed methodology combines disabilities related to urban road length, rural road length, traffic volume, heavy vehicle use, local roads and other services using NTC expense proportions and a modified version of the NTC cost allocation model. The Commission uses two NTC datasets, one attributing expenditure to cost drivers, and the other providing an urban/rural expenditure split.

The Territory reiterates its concerns outlined in the Territory's response to Position Paper 2008/25, that as the two NTC data sets are not cross-classified, the Commission's methodology makes a number of assumptions which skew the assessment for jurisdictions which have urban/rural length and/or use proportions significantly different from the national average.

The Territory provided the Commission with an analysis of the proposed methodology that showed it effectively implies that an urban arterial road costs around eight times more per kilometre to maintain than a rural arterial road with the same traffic volume and heavy vehicle use. This is such an unrealistic result that it undermines the robustness of the assessed needs produced by the assessment and indicates that rural arterial road costs are

not adequately recognised. The results of the Territory’s analysis are reproduced in Table 1 for convenience.

Table 1: Implied Cost per Kilometre of Cross-Classified NTC Data

	Length (km)¹	Expenditure (\$m)²	\$/km
Urban	46 305	1 214	26 217
Rural	257 122	872	3 391
Total	303 427	2 086	6 875

1. Urban and rural arterial road lengths based on lane kilometre data from Table 2.3 in RoadFacts 2005 with national highways apportioned between urban and rural on the basis of urban and rural proportions of total arterials.
2. Urban and rural length related expense data sourced from Table 15 in the CGC Roads Paper 2008/25.

The Commission noted the concerns of several states that the proposed cross-classification produces an anomalous result, but observed that its outcome was closer to that of an assessment with separate use and length disabilities, than an assessment where the disabilities were not separated¹. The Commission concluded that a better equalisation outcome is obtained by recognising differences in the length of urban and rural roads, even if differences in the use by urban and rural are not recognised.

The Territory is not suggesting that the Commission aggregate rural and urban road length and/or use disabilities. Rather the Territory considers the Commission should recognise that its assessment methodology is underpinned by assumptions that produce unrealistic outcomes and that as a result the NTC data is not fit for purpose.

The Territory considers the Commission should derive the relative influence of use and length disabilities based on the Australian Road Research Board and National Road Transport Commission data used in the 2004 Review Roads assessment which showed a 60/40 split of road length to road use is appropriate. The Territory is not aware of any changes in the proportion of road expenses driven by length as compared to use that would alter the appropriateness of this conclusion.

¹ Page 361, Attachment 16, Roads, CGC Draft Report.

Unsealed Roads

The Commission propose to measure unsealed roads using the length of minor rural roads identified in the Commission's mapping approach. The Territory broadly supports this approach. The Commission also considers that unsealed roads cost less to maintain than a sealed road and propose a 50 per cent discount. The Territory remains concerned that this discount is excessive given:

- the Territory's data indicates an unsealed road cost weight of 0.63; and
- the proposed weight may reflect differences in cost due to use as well as length which is inappropriate given the discount applies to length.

The Territory is also concerned that the Commission is predominately basing the unsealed road weight on data from New South Wales, Victoria and Tasmania², jurisdictions with relatively few unsealed arterial roads. Unsealed roads in these states are less likely to be arterial roads and as a result the associated costs are unlikely to be comparable with their sealed roads costs.

The Territory remains unconvinced that the NTC methodology does not already capture, in part, any lower costs resulting from unsealed roads. The NTC methodology incorporates adjustments to recognise that their disabilities impact sealed and unsealed roads differently. The NTC methodology also implicitly incorporates the impact of unsealed road costs through the urban and rural expenditure splits and resultant disability weights (i.e. rural arterial road expenses and the resulting rural arterial road length disability weight will be lower if unsealed roads are less expensive to maintain).

NTC Category F3 Expenses

The NTC has a category of road expenses labelled F3 (covering land acquisition, earthworks, and extensions) which the Commission propose to exclude from their methodology. The Draft Report states the Commission has excluded Category F3 expenses because they believe the expenses primarily relate to land and the Commission has decided that holdings and transactions in land should not influence the relativities.

² Page 350, Attachment 16, Roads, CGC Draft Report.

The Northern Territory Department of Planning and Infrastructure advise that virtually none of the Territory's F3 expenses in recent years relate to land acquisition. Advice from Western Australian Treasury officials indicates that, on average over the last five years, less than 10 per cent of Western Australia's F3 expenses relate to land acquisition. While the Territory acknowledges the Commission's intention to exclude holdings and transactions which relate to land, the Territory considers that the complete exclusion of F3 expenses is considerably overstating the influence of land acquisition on F3 expenses.

Table 2 shows the impact on the disability weights of different treatments for F3 expenses. The Territory estimates that including F3 expenses would have a material impact for at least two jurisdictions.

Table 2: Impact on Disability Weights of Excluding/Including F3 Expenses

	Traffic Volume	Heavy Vehicle Use	Urban Length	Rural Length	Other Services	Local Roads
Excluding F3	0.27	0.24	0.18	0.14	0.13	0.04
Including F3	0.22	0.17	0.29	0.20	0.09	0.03
Difference	- 0.05	- 0.07	0.11	0.06	- 0.04	- 0.01

Source: Northern Territory Treasury

The sensitivity of the assessment to the treatment of F3 expenses is such that even if 90 per cent of F3 expenditure was excluded the remaining 10 per cent would still have a material impact for at least one jurisdiction. The Territory notes that Western Australian and Northern Territory F3 expenses which do not relate to land acquisition comprise more than 10 per cent of total F3 expenses. As such, the inclusion of these expenses alone would have a material impact for at least one jurisdiction. Furthermore, the Territory considers that F3 expenditure relating to land acquisition is likely to be considerably higher for urban arterials compared to rural arterials given the generally higher land prices in densely populated urban areas.

The Territory suggests the Commission include all F3 expenditure, excluding that related to land acquisition, either based on judgement or on additional

state data which may require a follow-up data request. The Territory considers that the inclusion of non-land acquisition related F3 expenses is consistent with the inclusion of F1 and F2 expenses which are critical to ensure the roads assessment reflects the drivers of roads capital and depreciation expenses.