Response to 2010 Review Draft Report:

Transport Services

Department of Treasury and Finance

September 2009

Tasmanian Position

- Tasmania is of the view that the *Nation Building Plan for the Future* payments provided to State-owned PNFCs that provide metropolitan rail services to State populations impact, both directly and indirectly, on State fiscal capacities.
- Tasmania is currently considering how the CGC should treat these payments and may provide further arguments in a later supplementary submission.
- Tasmania does not oppose the general approach taken by the Commission in the Transport Services assessment. However, the data used to support the methodology have numerous problems affecting reliability. In other assessments, such data quality issues trigger the use of discounting.
- Given the significant data quality issues, Tasmania argues that the Commission should apply a 30 per cent discount to the operating subsidy curve for the urban assessment.

Commonwealth payments

1. The Commission has stated that the Commonwealth provides funds for some transport services, however, this funding does not generally subsidise transport services in a way that substitutes for State expenses.

2. Tasmania understands that the ACT is arguing that the *Nation Building Plan for the Future* payments provided to State-owned PNFCs that provide metropolitan rail services to State populations impact on State fiscal capacities. Tasmania agrees that, quite clearly, Commonwealth payments to improve public transport infrastructure relieves the need for state governments to provide capital subsidies to PNFCs.

3. The payments are also for expansion of existing infrastructure, not the replacement of stock. The drivers of State capital subsidies and Commonwealth capital subsidies to state PNFCs are both a mix of policy and non-policy factors. The actual distribution of payments to the states by the Commonwealth does not reflect need.

4. Tasmania is considering the issue of how the CGC should take this funding into its assessment and may provide further arguments in a later supplementary submission.

General comments on the methodology

Operating subsidy regression

5. Tasmania supports the Commission's decision to base the assessment on the relationship between urban size and subsidy using only the state provided operating subsidy data. However, Tasmania would argue that some discounting should occur due to data quality concerns. This issue is discussed further under the section 'data issues of concern'.

Concession

6. The Commission accepts that there is a conceptual case to assess a disability for concession travel because it is common policy. The Commission has stated that four states provided reliable concession subsidy data, but this was not considered enough information to develop an assessment. The fact that four states provided reliable data, plus the fact that Tasmania provided a workable notional split, should allow the Commission to exercise judgement. The Commission has used data from fewer states in other assessments, for example, Regional Location and Welfare and Housing, to make judgements. Tasmania is of the view that an assessment be constructed with the available data and the materiality tested.

The use of UCLs

7. The CGC will use UCLs and will not aggregate UCLs, except for Darwin and Hobart, which are considered special cases. Combining Hobart with some surrounding UCLs is appropriate given the incorrect application by the ABS of its urban boundary delimitation criteria.

Treatment of capital subsidies

8. Tasmania agrees that, in the absence of clear evidence to support a differential assessment, capital subsidies should be assessed EPC. Conceptually, while population growth may be a driver of capital subsidy, all else being equal, a state's history of investment in urban services will affect the subsidy level going forward.

9. A state's history of investment would be highly affected by short-term political considerations, as opposed to non-policy drivers like population and its distribution. For example, there is the potential for decision makers to ignore recurrent maintenance for transport infrastructure due to the gradual reduction in levels of service not being noticed by users, while new investments are far more attractive politically. There is also the potential for inefficient investment in response to patterns of transport use determined by incorrect price signals to users. The overall result is large fluctuations in capital subsidy over time by states for different reasons, which have nothing to do with the long-run replacement capital costs. A policy neutral differential assessment is, therefore, too problematic.

10. Tasmania considers, as an aside, that such factors apply broadly to other areas of states' capital spending decisions and Tasmania has made this point with respect to our concern with the direct assessment approach to capital.

Non-urban assessment

11. Tasmania agrees that it is best to use population in non-urban areas, in the non-urban assessment, due to the difficulty in identifying a common policy for non-urban subsidies (particularly given the diverse range of services and levels of service in this component).

Urban weight

12. The CGC intend to give each urban centre a weight based on its population size directly from the operating subsidy curve as opposed to banding. The CGC argue that banding is less accurate and gives a materially different outcome.

13. Tasmania supports the Commission's decision to not use the banding approach. While the proposed direct approach does suggest a level of accuracy that does not exist given the data quality; it is a more stable approach where, under the previous approach, the arbitrary placement of the bands materially affected the outcome.

Smaller urban population centres

14. The CGC's approach poses a problem for the smaller centres because, at 20 000 persons, the estimated regression line has the notional subsidy as a negative number. To solve this, the CGC has assigned the per capita subsidy for urban centres of 40 000 to all urban centres of this size or smaller. Tasmania supports this decision and notes that the last third of the curve in Figure 17-1 of the Transport Attachment has considerable scatter among the data points, and if regressed on their own, would produce a flat line. In other words, regardless of the size of the urban centre, the operating subsidy per capita would be the same up to a certain population size.

Outcomes for Tasmania and the ACT

15. Tasmania also notes that, while it can be seen why the ACT has a higher factor for urban operating subsidy due to the upward sloping subsidy curve and the Canberra UCL being one UCL as opposed to Tasmania with three smaller UCLs, intuitively, having three separate small urban centres (that sum to a similar number of people to a larger single urban centre) would not necessarily be a cost advantage to one larger UCL. The method has the ACT's urban population at 1.3 times the Tasmanian urban population, but the notional subsidy need is 2.1 times higher.

16. This outcome reflects the relative advantages and disadvantages of choosing weights within bands, verses weights based directly from the subsidy curve. In supporting the direct approach, Tasmania accepts that there may be outcomes produced that are debatable as to whether they reflect actual relative need differences between urban areas. Tasmania would argue that this ambiguity, together with the data concerns, justify the application of discounting by the Commission in this assessment.

Data issues of concern

17. The Commission was aware that the data provided by states initially may not have been comparable, and therefore conclusions about how subsidies relate to urban size may not have been reliable. A data request was sent out, which aimed to collect data on equity injections, dividends and operating surpluses or losses that were to be used to adjust the data already provided by states and thereby produce a more comparable set of state subsidy data. However, Tasmania would argue that the data used in Transport Services have numerous problems and, like in Regional Location, where the Commission encountered numerous data issues, discounting was applied.

18. States could not provide all the data or construct data on the same geographical basis. Data relating to 'service areas' have been manipulated to UCL to varying degrees of success, in other words, there is the potential for inconsistent treatment of the disaggregation of transport region costs into costs by UCL.

19. Costs relating to links between UCLs are to be separately identified and included in non-urban. However, the Commission has stated that it is unlikely that states that are affected by this aspect of the methodology will provide the disaggregated data. This will have the effect of inflating the pool of urban expenses.

20. The consultant has stated that it is not possible to reliably remove the effects of technical inefficiency. This may not have been an issue of concern given that the regression outcome represents the national average policy including average inefficiency. However, the estimated regression gradient is unduly affected because the technical inefficiency is not uniform across jurisdictions with Sydney having a relatively high degree of technical inefficiency.

21. The GFS data in Table 17-1 illustrates a large disparity in urban verses non-urban expenditure between NSW and Victoria. Non-urban transport expenditure in NSW is around 18 per cent of the total category expense, while for Victoria it is 41 per cent. It is not clear why NSW would spend so much less on non-urban rail than Victoria, and on face value, it suggests that some non-urban expenditure has been incorrectly classified to urban. This brings into question the comparability of the NSW data from the data request.

22. Tasmania would also like to note that the consultant's investigations revealed that data on operating costs did not always correspond with published information in the few instances where the latter data are publically available. Also, payments to private contractors may have included capital charges in some instances; and overhead costs may not have always been included.

23. While the consultant was of the view that the data were adequate to ascertain general relationships between subsidy and urban size, Tasmania urges the Commission to consider the data quality for this assessment relative to other assessments.

24. Tasmania considers that there is a significant level of uncertainty in this assessment and a 30 per cent discount to the operating subsidy curve should therefore be applied.