



AUSTRALIAN CAPITAL TERRITORY

SUBMISSION TO THE COMMONWEALTH GRANTS COMMISSION'S 2010 REVIEW DRAFT REPORT: *ATTACHMENT 17 – TRANSPORT SERVICES*

September 2009



TRANSPORT ASSESSMENT

Introduction

The 2010 Review Draft Report outlines the Commission's proposed Transport services assessment. The proposal includes the Commission's intended treatment for Commonwealth payments that it considers relevant to the Transport services category.

The ACT's principal concern with the proposed assessment is the intention to exclude payments made by the Commonwealth to the States through the metropolitan rail component of the *Nation Building Plan for the Future* (NBPF).¹ Details of this concern are discussed below.

Nation Building Plan for the Future

In April 2008, the Commonwealth enacted the *Infrastructure Australia Act 2008*, which paved the way to establish Infrastructure Australia (IA). The purpose of IA was to develop a blueprint for the nation's future infrastructure needs and in partnership with the State and Local Governments, facilitate its implementation.

Later in 2008, the Commonwealth introduced the *Nation-Building Funds Act 2008*, which specifically tasked IA with advising the Minister for Infrastructure on appropriate infrastructure projects that could be funded from the Building Australia Fund.²

In its 2009-10 Budget, the Commonwealth announced the *Nation Building Plan for the Future – Building Australia Fund* (NBPF). The NBPF provided for \$8.5 billion in Commonwealth contributions towards road, port and rail infrastructure projects, many of which had been recommended by IA.

Although the NBPF provides payments for road, port and rail infrastructure projects, this submission only considers the appropriate treatment of NBPF payments for rail projects. The appropriate treatment for road and port payments is covered in the ACT's submission to the Capital assessment.

Treatment of Nation Building Plan for the Future payments

The 2010 Review Draft Report proposes treating NBPF payments so that they will not impact State relativities. This is because they are considered payments to third parties.³

The ACT agrees that payments provided for transport projects are predominantly provided to third parties. However, these parties are State-owned public non-financial corporations (PNFCs) that provide metropolitan rail services to State populations. Therefore, although provided to third parties in the first instance, these payments represent capital subsidies indirectly provided to the States.

¹ Although the Program only refers to metropolitan transport projects, it is noted that some payments, for example payments for the Regional Rail Express, are provided to regional areas.

² [http://www.comlaw.gov.au/ComLaw/Legislation/LegislativeInstrument1.nsf/0/7CFC70DA7149D585CA2575270000049C/\\$file/BAFCriteriaInstrumentFINAL.pdf](http://www.comlaw.gov.au/ComLaw/Legislation/LegislativeInstrument1.nsf/0/7CFC70DA7149D585CA2575270000049C/$file/BAFCriteriaInstrumentFINAL.pdf)

³ 2010 Review Draft Report – *Attachment 1: The Adjusted Budget*, Appendix 1B

In that respect, the ACT considers Commonwealth subsidies for State-owned PNFC capital projects should be included in the capital subsidies component of the Transport assessment and assessed EPC. This is because the Commonwealth's subsidies:

- impact State fiscal capacities;
- share common characteristics and drivers with State capital subsidies; and
- have the potential to interact with the net lending component of the Capital assessment and deliver unintended outcomes.

These concerns are discussed in turn below.

Commonwealth capital subsidies impact State fiscal capacities

The Commission accepts that certain Commonwealth Own Purpose Expenditure (COPE) payments may indirectly affect State fiscal capacities.⁴ For example, Commonwealth payments made to a State's transport PNFC may reduce the need for that State to make an own-source contribution to the entity. In these instances, the Commission has indicated that it intends to recognise the indirect effects of COPEs where:

- a conceptual case can be provided with evidence to demonstrate that Commonwealth funded services are close substitutes for State funded services;
- there are reliable data to measure the impact; and
- the impact is material.⁵

The ACT considers that capital subsidies provided through the metropolitan rail component of the NBPF exhibit all of these criteria. Evidence of this is provided below.

Conceptual case

In its 2008-09 Budget, the South Australian Government announced the \$335 million Gawler Line Upgrade on the Adelaide rail network.⁶ The Upgrade included concrete re-sleepering and rail track turn-out upgrading in preparation for electrification. The project commenced in July 2008 with an expected completion in June 2014.

One year later, the Commonwealth, in its 2009-10 Budget, announced it would provide payments of \$585 million to support the delivery of various projects on Adelaide's metropolitan rail network through the NBPF. These payments included \$293.5 million for the Gawler Line Upgrade.⁷

⁴ 2010 Review Draft Report – *Chapter 5 Major assessment issues*, paragraph 117.

⁵ *Ibid*, paragraph 121.

⁶

http://www.treasury.sa.gov.au/public/download.jsp?id=2746&page=/dtf/budget/publications_and_downloads/previous_budgets/state_budget_2008_09.jsp, page 32.

⁷ 2009-10 Commonwealth Budget Papers, *Nation Building for the Future* Booklet, page 9.

Following the Commonwealth's announcement, the South Australian Premier stated:

*"The Rann Government's \$2 billion commitment to revitalising Adelaide's public transport system will be accelerated with an extra \$646 million allocated in last night's Federal Budget from the Building Australia Fund".*⁸

More specifically, the Premier noted that:

"...our State has been allocated a further \$293.5 million to accelerate the electrification of the Gawler line upgrade by two years..."

"Re-sleeping and electrification of the Gawler line will now be able to proceed in parallel with the Noarlunga line upgrade."

The ACT considers NBPF payments to rail PNFCs impact State fiscal capacities. Recipient States are able to reduce their own-source capital subsidies to their transport PNFCs and reallocate funding, as demonstrated above. A strong conceptual case exists that indicates NBPF payments provide funding for PNFC projects that would have otherwise been funded by the States, thereby impacting State fiscal capacities.

Reliable data and material impact

The Commonwealth Budget papers provide details of the distribution of NBPF payments to the States. This is a reliable source of data that can be used to measure the impact and construct the disabilities on an annual basis.

In addition, the quantum of funding distributed through the program means an EPC assessment is likely to have a material impact for all jurisdictions.

The characteristics and drivers of Commonwealth and State capital subsidies are the same

The ACT considers the characteristics of both Commonwealth and State capital subsidies are the same. For example, the Commission indicated that most State capital subsidies do not reflect long-run replacement capital costs. They largely relate to the expansion of PNFC infrastructure.⁹ Similarly, Commonwealth payments provided through the NBPF are directed at improving the quality, adequacy and efficiency of transport infrastructure. Not replacing existing stock.¹⁰

The Commission also indicated that the drivers of State capital subsidies to transport operators reflect a disparate mix of policy and non-policy influences, thus making the development of a policy neutral assessment impractical.¹¹ Similarly, Commonwealth capital subsidies provided to PNFCs through the NBPF reflect a broad mix of policy and non-policy influenced needs. See for example:

Regional Rail Express (\$3,200 million):

*"Melbourne's population is growing steadily. This project provides for substantial increases in capacity and reliability..."*¹²

⁸ <http://www.ministers.sa.gov.au/news.php?id=4769>

⁹ Draft Report – Attachment 17 Transport Services, paragraph 33.

¹⁰ Commonwealth 2009-10 Budget Papers, *Nation Building for the Future* booklet, page 2.

¹¹ Draft Report – Attachment 17 Transport Services, paragraph 34.

¹² Commonwealth 2009-10 Budget Papers, *Nation Building for the Future* booklet, page 6.

Gold Coast light rail (\$365 million):

“An effective public transport system is needed to meet the future needs of the Gold Coast and provide a boost to the vital tourism industry.” ¹³

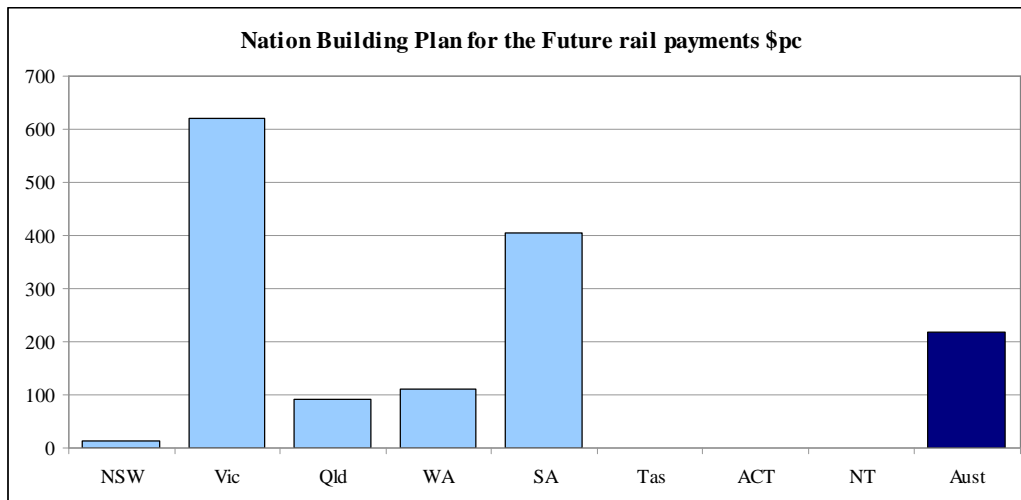
Gawler and Noarlunga rail (\$585 million):

“Adelaide’s public rail transport infrastructure is ageing. Electrification and modernisation are needed to meet increasing passenger demand.” ¹⁴

Northbridge rail link (\$236 million):

“The Government is investing \$236 million to sink the central city section of the Perth to Fremantle railway line and construct a new rail platform. This will mean around 50,000 square metres of land will become available for urban redevelopment...Better use of land and infrastructure in central Perth will help remove existing constraints by supporting greater economic and social activity, including the development of new retail, food, commercial and residential facilities.” ¹⁵

The ACT considers there is a strong case, supported by evidence, indicating NBPF payments contribute to a broad range of policy and non-policy State circumstances. In this way, the actual distribution, which is illustrated in the following chart, does not address relative State needs. For example, the distribution of payments does not reflect all States’ tourism needs. Nor does it reflect States’ relative population growth or the age of their rail infrastructure.



Source: Commonwealth 2009-10 Budget Paper 3;
ABS population data 2007-08.

In this context, the ACT considers the appropriate treatment for NBPF payments is to include them in the capital subsidies component of the Transport assessment and assess them EPC. Such an assessment would be consistent with the proposal for State capital subsidies (noting they too, are payments to third parties) and would recognise the impact these payments have on State fiscal capacities.

¹³ Ibid. page 8.

¹⁴ Ibid. page 9.

¹⁵ Ibid. page 10.

Interaction with net lending assessment

The ACT is concerned that the allocation of NBPF payments amongst the States will have a material impact on a State's ability to acquire the average per capita net financial assets (NFA), thus hindering the ability of the net lending assessment to achieve its desired outcome.

Notwithstanding the ACT's opposition to the proposed net lending assessment¹⁶, the assessment in essence attempts to equalise States' capacities to generate a return on their financial assets by equalising the stock of NFA. Only the change in State population is considered to affect States' capacities to acquire NFA.

At the same time, the ACT notes that NBPF payments provided to PNFCs increase the stock of infrastructure, or assets, held by those entities - thus flowing through to the value of each corporation's equity, and ultimately States' NFA.

Where different per capita shares of Commonwealth payments are made to different State-owned PNFCs, and the size of the difference between States is material, the Commission's intention that only changes in State populations affect States' capacities to acquire NFA is undermined.

NBPF payments are one such example where the per capita distribution is material.

By way of demonstration, suppose Victoria's population continues to grow at an above average rate throughout the period in which the NBPF payments are distributed. Before any assessment is undertaken, Victoria possesses an above average capacity to acquire NFA because of the above average rail capital subsidies provided to its PNFCs under the NBPF.

However, the net lending assessment then also assesses Victoria to need an above average share of GST for the purposes of acquiring NFA. This is due to the assessment recognising that above average population growth dilutes the State's capacity to acquire such assets. The ACT considers such a result is not the assessment's desired outcome as it essentially allows some States to 'double dip'.

On the other hand, States such as Queensland, which also experience above average population growth, have their relative capacity to acquire NFA undermined by receiving a below average per capita share of NBPF payments.

The ACT considers an EPC expenditure assessment, as proposed above, mitigates the potential for these unintended interactions to occur.

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¹⁶ The ACT's position on this issue is outlined in its submission to the Capital assessment.