



# **COMMONWEALTH GRANTS COMMISSION**

**DRAFT ASSESSMENT PAPER CGC 2003/45**

## **CONCESSIONS AND OTHER PAYMENTS— NON-URBAN TRANSPORT**

Prepared for the Commission's 2003 Conferences on Draft Assessments

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## NOTE

**Included in this paper are the results of preliminary calculations based on the methods proposed throughout the paper and using the data currently available. Those results are indicative only and should be seen as work in progress. Ongoing changes are being made to standards and factor calculations as new data come to hand. Moreover, the calculations have been done using a prototype assessment system and are subject to ongoing revision as checking processes proceed.**

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## INTRODUCTION

1. This paper presents the draft assessment for the 2004 Review for Concessions and Other Payments: Non-urban Transport. It builds on the staff proposals set out in *Discussion Paper CGC 2002/35, Concessions and Other Community Service Obligations* and State comments on them provided at the 2002 Conferences and in the 2003 Rejoinder submissions.

2. General issues relating to the assessment of Concessions and Other Payments are addressed in *Draft Assessment Paper CGC 2003/43, Concessions and Other Payments: General Issues and Electricity and Gas*. Decisions on those general issues are applied in this assessment.

## THE 1999 REVIEW METHOD

3. Expenses proposed for inclusion in the 2004 Review Non-urban Transport category were assessed, in the 1999 Review, in two separate categories: Freight Services and Non-urban Passenger Transport. These two assessments are shown in Table 2. The new category includes subsidies relating to freight, non-urban passenger rail and bus transport and non-urban air and water transport.

4. In the 1999 Review, the then Non-urban Passenger Transport and Freight categories comprised costs to the State budget sector of payments made to, or on behalf of, undertakings providing non-urban passenger transport and freight services. More specifically, they included all costs associated with the reimbursement of concessions, subsidies and payments of community service obligations. Payments made by government on behalf of the public trading enterprises (PTEs) for depreciation and debt charges were also included. Where the services operated as part of the general government sector, and did so at a loss, that loss was also included.

5. The 1999 Review assessment for non-urban passenger transport services treated the category as one component. It did not distinguish between costs of regulation, concession payments, general subsidies and economic development. The assessment was composed of factors for the relative number of concession holders, input costs and interest rates. In addition to the normal input costs of wages, accommodation, and electricity, another input cost factor was included to account for the difference in diesel costs in capital cities. This was given a 7 per cent cost weight in the assessment.

6. The Commission concluded that it was standard policy of governments to run freight services on a cost recovery basis. It concluded that any differences in State government expenses on freight services were due to policy relating to industry assistance and development. An equal per capita (EPC) assessment was adopted.

7. Table 1 shows the gross standard expenses for 1996-97 to 2001-02. In 2001-02, the per capita standard for the Non-urban Passenger Transport and Freight categories combined was \$39.95. This represented 0.8 per cent of total gross standard expenses.

**Table 1** NON-URBAN PASSENGER TRANSPORT AND FREIGHT — GROSS STANDARD EXPENSES, 2003 UPDATE

Category	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
<b>Non-urban Passenger Transport</b>						
\$pc	32.22	25.85	17.69	17.30	17.49	17.64
% of total gross standard expenses	0.88	0.67	0.39	0.37	0.36	0.35
<b>Freight</b>						
\$pc	37.85	32.97	16.91	16.20	22.29	22.31
% of total gross standard expenses	1.03	0.85	0.37	0.35	0.46	0.45

### *Structure of the assessment*

8. The assessment structure used in the 1999 Review is summarised in Table 2.

**Table 2** NON-URBAN TRANSPORT ASSESSMENT STRUCTURE, 1999 REVIEW

Expenses component	Component weight <sup>(a)</sup>	Factors	Basis of calculation
	%		
Passenger transport services	44.2	Input costs	General method with weights of 50% for wages, 2% for accommodation, 1% for electricity and 7% for fuel.
		Interest rates	General method.
		Socio-demographic composition	Based on mean resident population with a weight of 2 for persons living in non-metropolitan areas and an additional weight of 2 for recipients of pensions and for those aged 11 to 18.
Freight	55.8	None	Equal per capita.

(a) The component weights are based on the gross standard used in the 2003 Update for the two separate categories Freight and Non-urban Passenger Transport.

9. Compared to an equal per capita assessment, the Non-urban Passenger Transport and Freight assessments redistributed about \$14.6 million, from Victoria, Western Australia, South Australia and the ACT to Queensland, New South Wales, Tasmania and the Northern Territory, in the 2003 Update.

## 2004 REVIEW CATEGORY DEFINITION AND STRUCTURE

### *Scope of the category*

10. The Commission proposes to define the Non-urban Transport category as comprising costs to the State general government sector of payments made to, or on behalf of, undertakings providing non-urban passenger transport services and freight services. It includes all costs associated with the reimbursement of concessions, subsidies and payments for community service obligations. Payments made by government on behalf of PTEs for depreciation are also included. Where the service operates as part of the general government sector, and does so at a loss, that loss is included.

11. This definition differs from that used in the 1999 Review in one respect. Payments made by government on behalf of PTEs for debt charges have been classified to the Debt Charges category.

12. ***Specific Purpose Payments (SPPs).*** In *Draft Assessment Paper CGC 2003/78, Treatment of Specific Purpose Payments*, the Commission proposed including expenses relating to the SPP for State Seniors Card Reciprocal Transport Concessions in the Non-urban Transport category for the 2004 Review. This is a new payment that was not relevant to the 2003 Update.

### *Treatment of freight in the assessment structure*

13. ***1999 Review.*** Freight was assessed in a separate category from non-urban passenger transport. The Commission considered that it was standard policy for governments to run freight services on a cost recovery basis and that any differences in State government expenses on freight services were due to policy differences. Consequently, an equal per capita freight assessment was made for all States.

14. ***Preliminary State views.*** New South Wales noted that the financial support of rail freight was vital to the rural economy. Victoria stated that it provided a light rail general freight service to rural and remote areas and also provided some free services to charitable organisations. Current Community Service Organisations (CSO) payments for the Victorian service were \$5.8 million per annum (excluding GST). Both States also subsidise access to rail infrastructure.

15. South Australia argued that the commercial nature of freight meant that no disability assessment should be applied. It supported an equal per capita assessment of the Freight component, with the exception that ACT should have zero standardised expenditure for freight. It argued that assessing the ACT as having needs for non-urban transport services would confer an unwarranted benefit on the ACT.

16. ***Staff proposals.*** In *Discussion Paper CGC 2001/18 An Assessment Approach to Concession Payments and Other Community Service Obligations*, staff

proposed combining the assessments of freight and non-urban passenger services on the basis that they often shared the same infrastructure.

17. In *Discussion Paper CGC 2002/35, Concessions and Other Community Service Obligations* staff reiterated the proposal to combine the assessment. This reflected information in State submissions that in rural areas, freight services were subsidised for both socially beneficial and commercial reasons<sup>1</sup>.

18. **Further State views.** States did not have further views on the subject.

19. **Analysis.** Information from State submissions indicates that expenses on freight include subsidies for general freight services in non-urban areas and subsidies for infrastructure for the specific benefit of firms or a region. Under the Commission’s general approach to economic development expenses, outlined in *Discussion Paper CGC 2003/5, Economic Development*, the latter type of subsidies would be treated as economic development expenses and subject to an equal per capita assessment. As such, they can be assessed within the general subsidies component and the economic development component in the category structure.

20. Information available in various sources allows us to estimate the allocation of freight expenses between general subsidies and economic development type expenses. Data from service provider annual reports and States’ data returns, summarised in Attachment B, indicate that the amount spent on freight services that could be classified as economic development subsidies in 2000-01 was about \$380 million. The GFS data indicate total freight expense for 2000-01 was estimated at \$437 million. An estimate of general subsidies for freight operations is thus \$57 million (\$437 million less \$380 million).

21. **Commission’s decision.** The Commission’s decision concerning treatment of freight expense in the category structure is summarised in Table 3.

**Table 3** COMMISSION DECISION — TREATMENT OF FREIGHT EXPENSE IN THE CATEGORY STRUCTURE

Decision	Reason
To allocate freight expenses between the general subsidies and economic development components and assess them accordingly.	The subsidies for freight services can be made for infrastructure for the specific benefit of firms or a region or for general freight services in non-urban areas. The first of those purposes meets the criteria the Commission has established to identify economic development expenses.

**Assessment structure and component weights**

22. **1999 Review.** The assessment structure used in the 1999 Review is summarised in Table 2.

<sup>1</sup> Attachment B summarises data supplied by States.

23. **State views.** States did not raise any issues specifically concerned with the assessment structure for this category.

24. **2004 Review.** The Commission's decision on the component structure for all Concessions and Other Payments categories is set out in the General Issues part of *Draft Assessment Paper CGC2003/43, Concessions and Other Payments: General Issues and Electricity and Gas*.

25. In that paper the Commission decided to use five components in the assessments of Electricity and Gas; Water, Sanitation and Protection of the Environment; and Non-urban Transport categories

- (i) fixed costs;
- (ii) regulation;
- (iii) concessions;
- (iv) general subsidies; and
- (v) economic development.

26. **Analysis.** Data in States' data returns, GFS data, States' budget reports and service provider annual reports can be used to allocate the expenses in the category to the components. Table 4 summarises the data. Data provided from States' data returns and budget reports were scaled to the amounts reported in GFS. Where data were not available for a State, estimates were used. These estimates were based on the average per capita expenses of other States.

**Table 4** EXPENSE DATA USED IN THE CALCULATION OF THE COMPONENT WEIGHTS

Component	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Fixed costs and regulation	14.14	1.85	6.87	13.69	3.13	0.57	0.00	1.34	44.85
Concession payments	51.00	6.26	25.76	33.37	32.22	1.44	0.00	0.07	152.26
General subsidies	127.51	1.32	56.00	132.63	24.21	1.54	0.00	1.95	275.77
Economic development	269.04	0.00	173.60	0.00	0.00	0.00	0.00	5.22	511.87
Total	461.70	9.43	262.23	179.69	59.57	3.54	0.00	8.59	984.75

Source: States data returns, GFS and States' budget papers. The figures in this table reconcile with the equalisation budget prepared for the 2004 Review draft assessment, which differs from that used in the 2003 Update and summarised in Table 1.

27. **Commission decisions.** The Commission's decisions on component weights are summarised in Table 5. These decisions are based on:

- (i) the decisions on the range of components to be assessed and recorded in the General Issues part of *Draft Assessment Paper CGC 2003/43*,

*Concessions and Other Payments: General Issues and Electricity and Gas;*

- (ii) decisions on the amount of fixed costs and the methods used to calculate the size of the fixed costs component recorded in *Draft Assessment Paper CGC 2003/60 Administrative Scale*); and
- (iii) data in Table 4.

28. For this category fixed costs were estimated at \$16 million. This represented 1.62 per cent of the total category expense based on GFS expense data. The balance of the fixed costs and regulation expenses shown in Table 4 was considered to be regulation expenses.

29. In *Discussion Paper CGC 2003/5, Economic Development*, the Commission said it considered economic development expenses should be assessed on an equal per capita basis. This provides a different assessment from that usually made for the general subsidies expenses. Those expenses are usually assessed with a socio-demographic composition factor that reflects the size of the population sub-groups that the subsidies are intended to benefit. There is thus a conceptual case for disaggregating subsidy expenses into those attributed to economic development-type activities and those for general subsidies. As noted above, information was available to allow most freight costs to be allocated between general subsidies and economic development expenses. The Commission considers that estimates that have an acceptable level of confidence can be made for the balance of the subsidy expenses.

30. Because the level of subsidies and the amount of economic development expenses may change substantially from year to year, the component weights will be reviewed in each update. This will ensure that the assessment is consistent with the current circumstances of the States.

**Table 5** COMMISSION DECISIONS — CATEGORY DEFINITION, ASSESSMENT STRUCTURE AND COMPONENT WEIGHTS

Decisions	Reason
Definition. Incorporates expenses on freight and non-urban passenger transport.	Freight and non-urban passenger transport services are provided using common infrastructure and aspects of both have similar disabilities.
Definition. Excludes debt charges payments made by government on behalf of PTEs.	There are practical limitations to separating debt charges relating to PTEs from other government debt charges payments.
Assessment structure and component weights:	States continue to provide subsidies to public transport enterprises. While these policies persist it is appropriate to continue to assess disabilities for that part of the subsidies that provides general benefits to groups in the population.
Fixed costs: 1.62%	
Regulation: 3.38%	
Concessions: 15.00%	
General subsidies: 30.00%	The Commission has said that expenses incurred for economic development should be assessed on an equal per capita basis. This is a substantially different assessment from that for the general subsidies and should be assessed separately.
Economic development: 50.00%	

### FIXED COSTS COMPONENT

31. This component consists of expenses on core head office functions relating to the administration, planning, regulation and subsidisation of non-urban transport services. Administrative scale and input costs factors have been assessed for the fixed cost component. This component was not separately identified in the comparable 1999 Review category because the Commission thought the costs were included in the Regulatory and Other Services category.

#### *Administrative scale*

32. **1999 Review.** An administrative scale factor was not assessed.

33. **2004 Review.** *Draft Assessment Paper CGC 2003/60 Administrative Scale* discusses the issues raised by the States regarding the assessment of this factor. The paper sets out the Commission's decisions on the general method of assessment adopted for the 2004 Review and on the size of the fixed cost component in each category. The States did not raise issues specific to this category.

34. The Commission has decided that administrative scale will be assessed for this category to recognise the unavoidable costs each State would incur to have the policy and administrative infrastructure necessary to provide the service regardless of the size of the task.

35. The administrative scale factors for this category, shown in Table 6, have been calculated using the 2004 Review general method. Fixed costs for this category have been estimated to be \$2 million per State. Total fixed costs for the category are \$16 million which represents 1.62 per cent of the category standard.

**Table 6** ADMINISTRATIVE SCALE FACTORS — FIXED COSTS COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	0.42123	0.57579	0.77745	1.47049	1.79213	5.62926	0.00000	14.08365
1998-1999	0.42118	0.57652	0.77448	1.46397	1.80337	5.70832	0.00000	14.00396
1999-2000	0.42119	0.57689	0.77118	1.46099	1.81520	5.78037	0.00000	13.94102
2000-01	0.42110	0.57702	0.76755	1.46020	1.83022	5.85373	0.00000	13.92148
2001-02	0.42161	0.57670	0.76281	1.45963	1.84366	5.91715	0.00000	14.00356

36. The factor, which is based on State estimated resident populations, and the component weight will be updated annually.

### *Input costs*

37. **1999 Review.** The input costs factor was assessed in the 1999 Review to account for differences between States in per capita costs of labour, office accommodation, electricity and fuel for the passenger transport services component in total. A separate factor was calculated for each type of input and the following standard expense proportions were applied to each of the factors assessed for the fixed cost component:

- (vi) wages and salaries 50 per cent;
- (vii) accommodation 2 per cent;
- (viii) electricity 1 per cent; and
- (ix) fuel 7 per cent.

38. A fuel input cost factor was included because the input costs factor was applied in the passenger transport services component, which included costs for general operations. Fuel costs were considered to impact on the level of subsidies. Fuel costs influenced subsidies for general operations but did not influence government costs on regulation.

39. **2004 Review.** *Discussion Paper CGC 2003/04 Input Costs* sets out the issues raised by the States regarding the assessment of wages and salaries costs. The paper sets out the Commission's proposals for the general method of assessment to be adopted for the 2004 Review. *Draft Assessment Paper CGC 2003/79 Input Costs - Electricity and Accommodation* sets out the issues raised by the States regarding the assessment of input costs relating to accommodation and electricity. The paper sets out the Commission's decisions on the general method of assessment to be adopted for the 2004 Review and on

the size of the standard expense proportions in each category for accommodation costs and electricity costs. The States did not raise issues specific to this category.

40. The Commission considered that the prices of labour, accommodation and electricity used in providing scale affected services differ across States for reasons beyond the control of individual States. It has therefore decided that input costs will be assessed for this component.

41. The input costs factors for the fixed cost component of this category, shown in Table 7, have been calculated according to the 2004 Review general methods. The standard expense proportions applied were 80 per cent for wages and salaries, 2 per cent for accommodation and 1 per cent for electricity.

**Table 7** INPUT COSTS FACTORS — FIXED COSTS EXPENSES COMPONENT, 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	1.03086	0.98776	0.98243	0.98229	0.97405	0.93225	1.00817	1.11439
1998-99	1.03267	0.98876	0.98050	0.97883	0.97213	0.92981	1.01243	1.10979
1999-2000	1.03546	0.98791	0.97763	0.98082	0.96857	0.92317	1.01680	1.10513
2000-01	1.03603	0.98930	0.97573	0.98076	0.96738	0.92031	1.01603	1.10244
2001-02	1.03498	0.99044	0.97446	0.98186	0.97135	0.92001	1.01306	1.09897

42. The factors will be updated annually. The proportions represented by wages and salaries, accommodation and electricity will not be re-examined until the next review.

## REGULATION COMPONENT

43. This component consists of costs of the administration, planning, regulation and subsidisation of non-urban transport (not including fixed costs). It includes expenses incurred in planning and regulating service levels, pricing and in safeguarding the welfare of industry employees and of users of the services. It includes inspecting service infrastructure and consumer complaints. The Commission considered per capita costs in this component vary between States in accordance with the size of the task and has assessed an economic environment factor to reflect that effect. Because costs in the component are dominated by wages and the services are provided throughout each State, it has assessed input costs and dispersion cost factors.

### *Economic environment*

44. **1999 Review.** Economic environment disabilities were not assessed for any component of this category in the 1999 Review.

45. **Preliminary State views.** Queensland said that, in the interests of simplicity and consistency, the assessment framework for the services to industry component (now fixed costs and regulation) should mirror that proposed in *Discussion Paper CGC 2001/16, Administrative Scale*, regarding fixed and variable costs.

46. **Staff proposals.** In *Discussion Paper CGC 2002/35 Concessions and Other Community Service Obligations*, staff proposed that the economic environment factor would be assessed to recognise the size of the task. It proposed measuring a size of task factor by either the number of businesses per capita or the non-urban population per capita. For the purposes of this assessment, non-urban population consists of the total population not residing in centres of 50 000 or more.

47. **Further State views.** Western Australia said it preferred the use of size of industry, rather than non-urban population, to measure the size of task factor.

48. South Australia suggested the Commission ensure that the size of task factor accurately reflected the relative size of the regulatory task, rather than State policy regarding service provision.

49. **Analysis.** Costs in the regulation component include expenses incurred in safeguarding the welfare of industry employees and of users of the services. The economic environment factor is intended to allow for the effects on the demand for State government regulatory services arising from the size or complexity of the activity being regulated.

50. The variable costs of regulation in non-urban transport services that impact on government relate more directly to the size of the non-urban population than they do to the number of businesses per capita undertaking the relevant services. Government policy can influence the number of service providers. These policies include:

- (i) whether or not the service is provided by public or private enterprises;
- (ii) allocation of licenses to operate services; and
- (iii) implementing preferences for industry restructuring.

51. The variable costs of regulation in the provision of non-urban transport services involve both inspecting service infrastructure and overseeing service providers, particularly in relation to service standards and pricing. The size of the population being serviced is a good proxy for the regulatory costs involved because it directly affects the level of consumer initiated investigations and indirectly affects the level of infrastructure, the complexity of the service and its geographic distribution.

52. The size of the non-urban population is a reliable indicator of both:

- (i) direct services to non-urban populations; and
- (ii) the relative size of the non-urban transport industry.

53. **Commission's decision.** The Commission has concluded that a conceptual case exists for assessing an economic environment factor because State government

expenses on regulatory services and planning are influenced by the size of the service being regulated. The Commission considers that the impact of inter-State differences in the size of the regulatory task on State budgets could be material.

54. After considering the influence that States' policies have on the alternative measures of activity, the Commission has decided to use the non-urban population per capita in each State as the policy neutral measure of disability. There is consistent and comparable data to measure the non-urban population in each State.

55. The Commission's decision concerning the economic environment factor is summarised in Table 8.

**Table 8** COMMISSION DECISION — REGULATION COMPONENT — ECONOMIC ENVIRONMENT FACTOR

Decision	Reason
To assess the economic environment costs based on the non-urban population per capita in each State.	The non-urban population is the most reliable source of information available that can indicate the size of non-urban transport services in a non-policy influenced way.

56. **Method and results.** The economic environment factors for this component are shown in Table 9. They have been calculated from the relative proportion of non-urban population to mean resident population in each State.

**Table 9** ECONOMIC ENVIRONMENT FACTOR — REGULATION — NON-URBAN TRANSPORT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	Population ('000)								
Non-urban population <sup>(a)</sup>	2244	1423	1216	611	475	250	0	108	6326
Total population	6641	4855	3671	1918	1519	473	323	200	19599
Non-urban population per capita	0.33783	0.29308	0.33134	0.31837	0.31299	0.52747	0.00000	0.54027	0.32278
Factor	1.04662	0.90798	1.02653	0.98634	0.96965	1.63415	0.00000	1.67379	1.00000

(a) Population excluding centres of 50 000 or more.

Source: ABS, 2001 Census.

57. **Updateability.** The non-urban population is based on census data. This data is not updated each year.

### **Input costs — regulation component**

58. **1999 Review.** Regulation expenses were not assessed separately in the 1999 Review.

59. **2004 Review.** The input costs factors for the regulation component have been calculated according to the general method outlined in *Discussion Paper CGC 2003/04 Input Costs* and in *Draft Assessment Paper CGC 2003/79 Input Costs – Electricity and Accommodation*. The standard expense proportions applied were 80 per cent for wages and salaries, 2 per cent for accommodation and 1 per cent for electricity. The input costs factors shown in Table 7 have been applied in this component.

### **Dispersion**

60. **1999 Review.** Dispersion disabilities were not assessed for any component of the comparable category in the 1999 Review because the category was considered to consist primarily of payments to individuals and service providers.

61. **2004 Review.** *Draft Assessment Paper CGC 2003/63 Dispersion* discusses the issues raised by the States regarding the assessment of the dispersion factor. The paper sets out the Commission’s decisions on the general method of assessment adopted for the 2004 Review and on the size of the standard expense proportions estimated for each of the nine elements of dispersion-affected expenses. Western Australia said that dispersion was a key driver of regulation costs.

62. The Commission noted that the expenses incurred in providing regulation services included costs that are affected by population dispersal. It has therefore decided that a dispersion disability would be assessed.

63. The dispersion factors for regulation have been calculated according to the 2004 Review general method. There were nine indexes within the dispersion factor for the 2004 Review. Table 10 shows the proportions of standard expenses estimated for each of the nine elements of dispersion affected expenses for this component.

**Table 10** DISPERSION COST WEIGHTS - REGULATION COMPONENT, 2004 REVIEW

Telecommunication		Freight, General	Air Travel	Road Travel		Repairs and Remote Staff Maintenance	Remote Staff Turnover	Locality Allowances
Voice	Non-voice			Inter Regional	Local			
0.0047	0.0005	0.00	0.0024	0.0030	0.0021	0.00	0.00	0.00

64. Table 11 shows the dispersion factors assessed for the 2004 Review.

**Table 11** DISPERSION FACTORS - REGULATION COMPONENT, 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	1.00021	0.99678	1.00388	1.00167	0.99744	0.99980	0.99118	1.02068
1998-99	1.00020	0.99677	1.00387	1.00166	0.99743	0.99979	0.99118	1.02067
1999-2000	1.00019	0.99677	1.00386	1.00165	0.99742	0.99978	0.99117	1.02066
2000-01	1.00019	0.99676	1.00386	1.00165	0.99742	0.99978	0.99116	1.02066
2001-02	1.00018	0.99676	1.00385	1.00164	0.99741	0.99977	0.99116	1.02065

The factor is rebased to the mean resident population each year.

65. Neither the factor nor the dispersion costs weights will be updated before the next review<sup>2</sup>.

### CONCESSIONS COMPONENT

66. This component consists of those payments made to service providers to cover the costs they incur in providing reduced fares for specific sub-groups of the population (for example, pensioners). A socio-demographic factor has been assessed.

#### *Socio-demographic composition*

67. **1999 Review.** In the 1999 Review, the concession payments were assessed as part of a broader assessment of the disabilities affecting non-urban passenger transport expenses. The sub-population eligible for concession travel (those aged 11 to 18 years and pensioners) was assigned a cost weight within the calculation of a socio-demographic composition factor used to assess disabilities for non-urban passenger services.

68. **Preliminary State views.** South Australia supported an assessment for concessions based on pensioner numbers and the population aged 11-18 years.

69. Tasmania suggested that the assessment recognise all school age children up to and including college age (as opposed to just 11 to 18 year olds) and pensioners and unemployed persons (as opposed to just pensioners). It also suggested that the revised assessment should recognise, as the current method does, the higher demand from people living in non-metropolitan areas. It noted that the utilisation of non-urban services by people in urban areas would be minimal.

70. The ACT said that it was appropriate to continue to assess concession payments, but that the assessment needed to be based on the proportion of persons in possession of a Commonwealth Health Care Card.

<sup>2</sup> Different factor values are shown for each year because the factor is rebased to the mean resident population each year.

71. **Staff proposals.** Staff proposed that the assessment of disabilities for the Concessions component be based on the proportion of persons holding a Commonwealth Health Care Card, including a Senior's Health Care Card, and the total population aged 11-18 years in each State's population. Staff proposed adjusting the number of Health Care Card Holders to exclude those aged 16-18 to avoid double counting with the total population aged 11-18. This population would be divided on the basis of their urban and non-urban residential status, with non-urban residents weighted by two. Because the cost of providing concession fares on non-urban transport services to eligible ACT residents is met by the New South Wales government, the concession population of the ACT would be counted in the New South Wales metropolitan concession population for the purpose of this assessment.

72. **Further State views.** Western Australia suggested that the assessment should provide a cost weight for additional costs of providing concessions to people living in remote regions. It gave details of non-urban passenger transport expenses in specific regions.

73. **Analysis.** Supplying concession services to very remote areas adds to total cost of concession services. This is because:

- (i) concessions are provided on services, irrespective of where those services are;
- (ii) concessions are proportionate to total fares; and
- (iii) fares for services to and in very remote regions are higher because of the additional travel distances and the mode of transport involved.

74. Therefore, a conceptual case can be made to weight very remote populations differently from other non-urban populations.

75. Comprehensive State data on non-urban transport use by concession travellers are not available because service providers do not usually compile records at this level of detail. Without these data, it is not possible to calculate cost weights for different regions or for trips of different length.

76. The data provided by Queensland for the 1999 Review can be used to determine the relative weights for urban and non-urban regions. The data provided by Western Australia on the relative expense of providing concession services to very remote and other non-urban regions can be used to determine the relative weights for very remote regions. Those data sets suggest that weights of 1 for the urban population, 4 for very remote populations and 2 for the other non-urban population would be appropriate.

77. To avoid the possibility of incompatibility with the Urban Transit assessment, the method for determining the relevant concession population will be the same as that used in the Urban Transit population. The population that are significant users of concession travel on non-urban transport services are the following groups of people:

- (i) persons aged 12 to 14 years old;

- (ii) persons 15 to 24 not in the labour force;
- (iii) persons 60 and over not in the labour force; and
- (iv) unemployed persons.

78. Travel by non-urban students to and from school is assessed in the Transport of Rural School Children category and is therefore excluded from the non-urban transport calculations. Children aged 5 to 11 are not significant users of non-urban transport outside of commuting to school.

79. The data on the urban / non-urban populations are the same as those used in the Urban Transit category assessment. This ensures that the two assessments are compatible. Specifically, it ensures that the indicators used to measure the population eligible for concession fares are the same as those used for Urban Transit.

80. For travel outside of the ACT, the ACT population uses non-urban transport services supplied by New South Wales. Concession travel on New South Wales services is extended to concession card holders residing in the ACT, and the New South Wales government pays the relevant subsidies to service providers.

81. ***Commission decisions.*** The Commission accepts that there is a conceptual case that the number of people eligible for concession travel living in different regions of the State influences the amount of subsidies paid by States. This is because State government expenses on concessions to eligible users of services are based on a percentage of the cost of revenue foregone from providing them with reduced fares. The fares charged for non-urban transport services are influenced by the origin and destination regions and the distances between them. The differences are material. Data are available to estimate the differentials between metropolitan, non-metropolitan and very remote regions with a reasonable level of confidence. Data are not available to estimate the differentials between inner regional, outer regional and remote regions with a reasonable level of confidence.

82. The Commission's decisions are summarised in Table 12.

**Table 12** COMMISSION DECISIONS — CONCESSIONS COMPONENT —  
SOCIO-DEMOGRAPHIC COMPOSITION FACTOR

Decisions	Reason
<p>To use the population that are significant users of concession travel on non-urban transport services per capita as the basis for the concessions component assessment. That population consists of the following groups of people:</p> <ul style="list-style-type: none"> <li>(i) persons 15 to 24 not in the labour force;</li> <li>(ii) persons 60 and over not in the labour force;</li> <li>(iii) unemployed persons; and</li> <li>(iv) persons aged 12 to 14 years old.</li> </ul>	<p>The method proposed captures the vast majority of concession passengers. Attempting to precisely measure the size of the concession passenger groups in each State is not likely to improve fiscal equalisation markedly.</p>
<p>To assess concessions based on the different use of services in urban and non-urban areas; and the different use of non-urban services in very remote regions and other non-urban regions.</p>	<p>Concession travellers residing in non-urban regions have greater impact on non-urban transport services than do concession travellers residing in urban regions.</p> <p>The need to use air and ferry services, plus general conditions of remoteness, in very remote areas increases the cost of providing concessions on fares.</p>
<p>The concession population of the ACT will be counted with the urban population of New South Wales.</p>	<p>ACT residents use the New South Wales non-urban rail system and the cost of concession travel by these residents falls on New South Wales.</p>

83. ***Method and results.*** For the purpose of this calculation, urban populations are those living in areas with populations equal to, or greater than, 50 000. Very remote populations are those defined as very remote by ARIA+.

84. The urban population was weighted by 1, very remote population by 4 and other non-urban population by 2. The weights are sensitive to data and will be reviewed in the light of any additional data provided. If data were available on the relative cost of services in inner regional, outer regional and remote regions then the factor calculation could be adapted to include these regions or trip length. The factor calculation is shown in Table 13.

**Table 13** CONCESSIONS — CALCULATION OF SOCIO-DEMOGRAPHIC COMPOSITION FACTOR

Concession population by region	Wt	NSW	Vic	Qld	WA	SA	Tas	ACT <sup>(a)</sup>	NT	Aust
State Population ('000)										
Urban population	1	1118	840	609	323	287	65	0	15	3259
Very remote population	4	1	0	6	6	1	0	0	6	36
Other non-urban population	2	718	317	306	111	109	63	0	17	1431
Total Population		6641	4855	3671	1918	1519	473	323	200	19599
Weighted population		2560	1474	1247	569	510	192	0	71	6643
Per Capita		0.38544	0.30352	0.33959	0.29686	0.33556	0.40512	0.00000	0.35596	0.33894
Factor		1.13720	0.89550	1.00193	0.87585	0.99003	1.19524	0.00000	1.05023	1.00000

(a) The relevant ACT population is counted with the New South Wales weighted population for the purpose of the non-urban transport assessment.

85. **Updateability.** The relevant population will be based on census data. It will be updated with each census.

## GENERAL SUBSIDIES COMPONENT

86. This component consists of payments to providers for subsidies that are intended to benefit all users of a service (for example, supplying a minimum level of transport in all inhabited areas) A socio-demographic factor has been assessed.

### ***Socio-demographic composition***

87. **1999 Review.** General subsidies for non-urban passenger transport were assessed using input costs, interest rates and socio-demographic composition factors. The socio-demographic composition factor weighted metropolitan populations by one and non-metropolitan populations by two. The weights reflected the view that people in non-urban areas tended to use the services more than those from metropolitan areas and therefore had a greater relative impact on the cost of CSOs paid by government to service providers. The socio-demographic composition factor also included weights for concession users to reflect the extra cost to government arising from the fare concessions paid for those users — it is intended that this element of the subsidies be assessed in the concession component for the 2004 Review.

88. General subsidies for freight were assessed separately, in the Freight category. An equal per capita assessment was applied.

89. **Preliminary State views.** All States, except South Australia and ACT, indicated that they subsidised non-urban transport services — both passenger services and freight. Both operating subsidies and assistance with infrastructure are provided. Three States — Queensland, Western Australia and the Northern Territory — provide subsidies for air travel and four subsidise water transport for other passenger travel or freight. States indicated that the subsidies were for general deficit funding of non-economic, but socially beneficial services. The subsidies were necessary to keep the cost of travel (and travel times) at acceptable levels.

90. New South Wales noted that the financial support of rail freight was vital to the rural economy. Victoria said that current CSO payments for Victorian freight services were \$5.8 million per annum (excluding GST). Both States also subsidise access to rail infrastructure.

91. Queensland argued that needs for subsidies for water transport and air services should be assessed because these services are provided to enable access to essential services for people living in remote areas.

92. South Australia argued that assessing the ACT as having needs for non-urban transport services would confer an unwarranted benefit on the ACT.

93. Tasmania suggested that, if the Commission is to take into account rail infrastructure expenses not recovered, then it also needed to consider air and water transport services where the infrastructure costs were not fully recovered. It requested that the Commission consider all forms of transport, as some forms are not an option for all States.

94. The ACT said that a differential assessment for general subsidies was not appropriate because the provision of public transport is becoming more competitive.

95. **Staff proposals.** In *Discussion Paper CGC 2002/35, Concessions and Other Community Service Obligations*, staff proposed to develop a socio-demographic composition factor with weights based on the impact of:

- (i) urban and non-urban populations;
- (ii) freight subsidies for rural areas; and
- (iii) additional subsidies required for very remote populations, including island communities, to allow for the air and ferry services necessitated by their location.

96. **Urban and non-urban populations.** The data on service use from the 1999 Review indicated that non-urban populations were twice as likely to use non-urban services than urban populations. Based on that data, the staff proposed to weight:

- (i) the population residing in centres of 50 000 or more by one;

- (ii) the population residing outside centres of 50 000 or more by two.

97. *Freight subsidies for rural areas.* In their main submissions and data returns States indicated that some freight services to rural areas were subsidised for social equity reasons. Staff proposed that an additional weight for non-urban population be included in the factor to account for the rural freight subsidy.

98. *Very remote populations, including island communities.* States said access for very remote and island populations required air and ferry services. These forms of service were more expensive to operate than road and rail services and therefore required additional subsidies to keep them operating. Staff proposed that an additional weight for very remote and island populations be included in the factor to allow for the extra subsidies.

99. Staff noted that if this assessment approach were adopted, there would be no need to include separate input cost or dispersion factors, because the influence of differences in costs would be covered by the cost weights included in the composite factor.

100. *Treatment of the ACT population.* Staff proposed that the ACT population would be counted in the New South Wales urban population for the purposes of non-urban transport general subsidies. This was because the costs of subsidies for services to and from the ACT are incurred by New South Wales.

101. *Further State views.* Tasmania said that the proposed weighting (of two) for non-urban residents was too low, because non-urban travellers must have a far higher need to visit urban centres (to access services) than would urban residents need to visit rural or regional centres. Tasmania was unable to provide data to verify this.

102. In its data return, Tasmania said that it provided general subsidies for the Bruny Island ferry services and applied general subsidies to other non-metropolitan services in exceptional circumstances only. It said that in future, general subsidies may feature in a small number of instances where patronage was thin.

103. In its data return, Western Australia showed that transport services in very remote regions were more costly to operate than in other non-urban areas.

104. *Analysis. The relative weight of urban and non-urban population for general subsidies for passenger services.* In the 1999 Review, the non-urban/urban weight ratio of 2/1 was based on data for Queensland rail travel. States were asked for further information on the relevant expenses during this review. No State was able to provide data. As Tasmania explained, transport ticketing systems do not necessarily support the provision of such quantitative information. Without additional data to the contrary, it is reasonable to retain the same ratio for this review when determining the relative impact of urban and non-urban populations on the general subsidies required for passenger services.

105. *Rural freight.* States also provide subsidised freight services to rural areas. The relative impact of freight and passenger services on State budgets is shown in Table 14. The expense data used were those in Table 4. The disaggregation of expenses into freight and non-urban passenger was based on the relative proportion of expenses allocated to freight and non-urban passenger transport in the 2003 Update.

**Table 14** GENERAL SUBSIDY CSO PAYMENTS — FREIGHT AND PASSENGER SERVICES, 2001-02

Item	Expenses	
	\$m	\$m
Total freight	550	
less freight expense deemed subsidies for economic development	512	
Total general subsidies for freight services		38
Total non-urban passenger expenses	435	
less concession payments	152	
Total general subsidies for passenger services		283

Source: Commonwealth Grants Commission, *Standard Budget data for 2001-02*, see Table 4.

106. The data indicate total costs of general subsidies are \$321 million, of which \$38 million is attributable to freight and \$283 million is attributable to non-urban passenger services. The assessment will account for the relative proportion of freight and passenger service expenses.

107. *Very remote and island populations.* The data provided by States indicates that the additional expense in operating local services in very remote areas, plus the need to use air and ferry services to reach very remote populations, impacts on the net cost to government of providing general subsidies for non-urban transport services<sup>3</sup>. The services to very remote areas are for both passenger and freight services. There is a case for recognising these higher cost impacts in the factor by applying a higher cost weight to very remote populations.

108. The data from Western Australia indicated that, for intra-region passenger transport services, the weight for very remote populations should be twice that of other non-urban populations<sup>4</sup>. In the absence of more explicit information on the relative subsidies for services to very remote and other non-urban regions, the Commission will use the same relativities in deriving the weights for inter-regional services as is used for intra-regional services. That is, the weight of very remote populations will be twice the weight of other non-urban populations for both inter-regional and intra-regional services and for both passenger and freight services.

109. ARIA+ recognises the accessibility difficulties for island communities in classifying them. We do not think extra weighting for island communities would be necessary or material.

110. *Combining general subsidies for freight and passenger services.* The derivation of the weights for combined freight and passenger general subsidies is shown in Table 15. The passenger and freight general subsidy expenses used are those in Table 14.

<sup>3</sup> See Attachment A.

<sup>4</sup> Data supplied by Western Australia appears in Attachment A.

**Table 15** COMBINING PASSENGER AND FREIGHT GENERAL SUBSIDIES —  
DERIVATION OF RELATIVE REGIONAL POPULATION WEIGHTS

	Weight	Population (‘000)	Weighted population (‘000)	Total weighted cost <sup>(a)</sup> (\$’000)	Weighted cost per person <sup>(b)</sup> (\$)
<b>Passenger general subsidies (Total expenses = \$283 million)</b>					
Urban	1	13273	13273	142984	10.77
Other non-urban	2	6154	12307	132585	21.55
Very remote	4	172	690	7431	43.09
Total		19599	26270	283000	14.44
Cost per weighted population		\$10.77			
<b>Freight general subsidies (Total expenses = \$38 million)</b>					
Urban	0	13273	0	0	0
Other non-urban	2	6154	12307	35983	5.85
Very remote	4	172	690	2017	11.69
Total		19599	12997	38000	6.01
Cost per weighted population		\$2.92			
<b>Combined Passenger and Freight</b>			<b>Total weighted cost per person<sup>(c)</sup></b>	<b>Relative total weighted cost per person</b>	<b>Weights (rounded)</b>
Urban (‘000)			10.77	1.00	1
Other non-urban (‘000)			27.39	2.54	2.5
Very remote (‘000)			54.79	5.09	5

(a) Total cost per total weighted population \* weighted population.

(b) Total weighted cost/population.

(c) Addition of passenger and freight weighted costs per population.

111. **Commission decision.** The Commission has concluded that a conceptual case exists for assessing a socio-demographic factor because non-urban transport services are subsidized, the level of costs are affected by the number of people living in different regions of the States and there are differences between the States in the proportion of their population living in those regions. Because the level of subsidies is significant and there are substantial variations among the States in their settlement patterns, the effects are material.

112. The conceptual case is supported by data that establish how subsidies vary, on average, with where people live and the remoteness of the regions in which they live. The data permit the differentials stemming from different levels of use in the various

regions to be estimated with an acceptable level of confidence. The Commission's decision concerning the general subsidies component is summarised in Table 16.

**Table 16** COMMISSION DECISION — GENERAL SUBSIDIES COMPONENT — SOCIO-DEMOGRAPHIC COMPOSITION FACTOR

Decisions	Reason
To assess general subsidies for non-urban transport based on the different levels of use in different regions.	The proportion of State populations living in urban, very remote and other non-urban populations have different impacts on the general subsidies expenses provided by State governments.

113. **Method and results.** The derivation of the factor is shown in Table 17. The regional weights used were the calculated combined passenger and freight weights shown in Table 15. If data had been available on the relative costs of services in inner regional, outer regional and remote regions, the factor calculation could have been adapted to include those regions. At present data on costs in these regions are not sufficient to incorporate them into the cost weight structure.

**Table 17** GENERAL SUBSIDIES — CALCULATION OF SOCIO-DEMOGRAPHIC COMPOSITION FACTOR

Relevant Population by region	Wt	NSW	Vic	Qld	WA	SA	Tas	ACT <sup>(a)</sup>	NT	Aust
State Population ('000)										
Metropolitan	1	4720	3432	2454	1308	1043	224	0	92	13273
Very Remote	5	9	0	53	55	11	3	0	42	172
Other Non-urban	2.5	2235	1423	1163	555	464	247	0	66	6154
Total Population		6641	4855	3671	1918	1519	473	323	200	19599
Weighted population		10353	6990	5627	2971	2258	857	0	467	29518
Per Capita		1.55888	1.43965	1.53269	1.54875	1.48650	1.81078	0.00000	2.33500	1.50610
Factor		1.03504	0.95588	1.01766	1.02832	0.98699	1.20230	0.00000	1.55036	1.00000

(a) The relevant ACT population is counted with the New South Wales weighted population for the purpose of the non-urban transport assessment.

114. **Updateability.** The population data required for this assessment are Census based. Cost weights will not be revised. It is not proposed that this factor will be updated.

## ECONOMIC DEVELOPMENT COMPONENT

115. This component consists of expenses intended to improve the market position and/or the financial circumstances of industries, specific firms or regions.

116. **1999 Review.** This is a new component. In the 1999 Review all freight expenses were assessed equal per capita.

117. **Preliminary State views.** No State commented.

118. **Staff proposals.** In *Discussion Paper CGC 2002/35, Concessions and Other Community Service Obligations*, staff proposed that any decision the Commission made in relation to the assessment of economic development would be applied in this component.

119. **Further State views.** South Australia supported an equal per capita assessment of the freight component, with the exception that the ACT should be assessed as having zero standardised expenditure for freight.

120. **Analysis.** Economic development related expenses that have been identified consist mainly of expenses on rail freight in New South Wales and Queensland. Other related expenses includes subsidies for port infrastructure.

121. Because the ACT has no non-urban commercial freight operations, the South Australian argument that the ACT be assessed as having zero standardised expenditure is reasonable.

122. *Discussion Paper CGC 2003/5, Economic Development*, was distributed to States on 18 June 2003. It said the Commission staff would recommend to the Commission that economic development expenses continue to be assessed by the equal per capita method.

123. **Commission decision.** Based on the conclusions in *Discussion Paper CGC 2003/5, Economic Development*, the Commission proposes to assess the economic development component equal per capita, as shown in Table 18.

**Table 18** COMMISSION DECISION — ECONOMIC DEVELOPMENT EXPENSES

Decision	Reason
Economic development expenses will be assessed equal per capita, with the exception of the ACT.	This treatment is consistent with the general approach adopted for economic development expenses.
ACT is assessed as having zero standardised expenses.	The ACT has no non-urban transport industry.

### TREATMENT OF USER CHARGES

124. Expenses for this category are net of user charges. Any dividend receipts, tax equivalent payments or licence fees deemed to be tax equivalents paid to the budget by transport undertakings have been allocated to the Contributions by Trading Enterprises category.

### SUMMARY OF RESULTS

125. The proposed assessment structure is outlined in Table 19.

**Table 19** PROPOSED ASSESSMENT STRUCTURE FOR THE 2004 REVIEW —  
NON-URBAN TRANSPORT

Component	Component weight	Factors	Basis of calculation
	%		
Fixed costs	1.62	Administrative scale	General method.
		Input costs	General method with weights of 50% for wages, 2% for accommodation and 1% for electricity.
Regulation	3.38	Economic environment	Non-urban population per capita.
		Input costs	General method with weights of 50% for wages, 2% for accommodation and 1% for electricity.
		Dispersion	General method.
Concessions	15.00	Socio-demographic composition	Based on the numbers of persons in receipt of a Pensioner Card, a Seniors Card or a Commonwealth Health Care Card (excluding 16-18 year olds with Commonwealth Health Care Cards), and 11-18 year olds. Weighted for use by urban/non-urban residential status. The ACT population is treated as part of the NSW urban population.
General subsidies	30.00	Socio-demographic composition	Based on the population living in centres equal to or greater than 50 000 people weighted by 1; the very remote populations weighted by 5; and the other non-urban population weighted by 2.5.
Economic development	50.00	None	Equal per capita, except for the ACT which has no economic development expense needs.

***Calculating the category factor***

126. Table 20 summarises the components, component weights and disability factors assessed for this category for the 2004 Review. It shows the calculation of the category factor.

**Table 20** DERIVATION OF CATEGORY FACTOR — NON-URBAN TRANSPORT

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>Fixed Costs (fc_comp) (component weight = 1.62%)</b>								
Administrative scale (s)	0.42161	0.57670	0.76281	1.45963	1.84366	5.91715	0.00000	14.00356
Input costs (ic_fc)	1.03714	0.99034	0.97354	0.97996	0.96824	0.92479	1.01291	1.07737
Component factor	0.44033	0.57512	0.74782	1.44038	1.79759	5.51038	0.00000	15.19255
Contrib to category factor	<b>0.00713</b>	<b>0.00932</b>	<b>0.01211</b>	<b>0.02333</b>	<b>0.02912</b>	<b>0.08927</b>	<b>0.00000</b>	<b>0.24612</b>
<b>Regulation (reg_comp) (component weight = 3.38%)</b>								
Input costs (ic_fc)	1.00018	0.99676	1.00385	1.00164	0.99741	0.99977	0.99116	1.02065
Dispersion (d)	1.03714	0.99034	0.97354	0.97996	0.96824	0.92479	1.01291	1.07737
Economic environment(e)	1.04662	0.90798	1.02653	0.98634	0.96965	1.63415	0.00000	1.67379
Component factor	1.08533	0.89596	1.00299	0.96787	0.93604	1.51037	0.00000	1.83725
Contrib to category factor	<b>0.03668</b>	<b>0.03028</b>	<b>0.03390</b>	<b>0.03271</b>	<b>0.03164</b>	<b>0.05105</b>	<b>0.00000</b>	<b>0.06210</b>
<b>Concessions (conc_comp) (component weight = 15%)</b>								
Socio-demographic composition (sdc)	1.13720	0.89550	1.00193	0.87585	0.99003	1.19524	0.00000	1.05023
Component factor	1.14085	0.89837	1.00514	0.87866	0.99320	1.19908	0.00000	1.05359
Contrib category factor	<b>0.17113</b>	<b>0.13476</b>	<b>0.15077</b>	<b>0.13180</b>	<b>0.14898</b>	<b>0.17986</b>	<b>0.00000</b>	<b>0.15804</b>
<b>General Subsidies (gensub_comp) (component weight = 30%)</b>								
Socio-demographic composition (sdc)	1.03504	0.95588	1.01766	1.02832	0.98699	1.20230	0.00000	1.55036
Component factor	1.03499	0.95583	1.01760	1.02827	0.98694	1.20224	0.00000	1.55029
Contrib to category factor	<b>0.31050</b>	<b>0.28675</b>	<b>0.30528</b>	<b>0.30848</b>	<b>0.29608</b>	<b>0.36067</b>	<b>0.00000</b>	<b>0.46509</b>
<b>Economic Development (ecodev_comp) (component weight = 50%)</b>								
EPC Factor, ACT 0 (epc)	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	0.00000	1.00000
Component factor	1.01674	1.01674	1.01674	1.01674	1.01674	1.01674	0.00000	1.01674
Contrib to category factor	<b>0.50837</b>	<b>0.50837</b>	<b>0.50837</b>	<b>0.50837</b>	<b>0.50837</b>	<b>0.50837</b>	<b>0.00000</b>	<b>0.50837</b>
<b>CATEGORY FACTOR</b>	<b>1.03381</b>	<b>0.96948</b>	<b>1.01044</b>	<b>1.00470</b>	<b>1.01419</b>	<b>1.18922</b>	<b>0.00000</b>	<b>1.43971</b>

**Calculation formula**

127. The following formulas were used to calculate the contribution of each expenses component to the overall category factor. In each case, the contributions are calculated as the expenses component weight multiplied by the component factor (the bracketed terms in the formulas). Each contribution to the category factor was rescaled to ensure that the sum of standardised equals the sum of actual expenses.

$$\begin{aligned}
\text{fc\_comp} &= 0.0162 * (\text{ic\_fc}) * (\text{s}) \\
\text{reg\_comp} &= 0.0338 * (\text{ic\_fc} + \text{d} - 1) * (\text{e}) \\
\text{conc\_comp} &= 0.15 * (\text{sdc}) \\
\text{gensub\_comp} &= 0.30 * (\text{sdc}) \\
\text{ecodev\_comp} &= 0.50 * (\text{epc})
\end{aligned}$$

$$\text{Category Factor} = \text{fc\_comp} + \text{reg\_comp} + \text{conc\_comp} + \text{gensub\_comp} + \text{ecodev\_comp}$$

### *Comparison of category factors*

128. Table 21 shows the category factors calculated for the Draft Assessment for the 2004 Review compared with the category factors assessed in the 2003 Update.

**Table 21** COMPARISON OF CATEGORY FACTORS, 2003 UPDATE AND THE DRAFT ASSESSMENT FOR THE 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2003 Update <sup>(a)</sup>	1.00891	0.97150	1.04960	0.96859	0.97068	1.08566	0.86614	1.02274
Draft Assessment - 2004 Review	1.03381	0.96948	1.01044	1.00470	1.01419	1.18922	0.00000	1.43971

(a) Combination of Freight and Non-urban Passenger Transport.

### *Standardised expenses*

129. Table 22 shows the standardised expenses assessed for this category for 2001-02 in the draft assessment compared with those assessed in the 2003 Update.

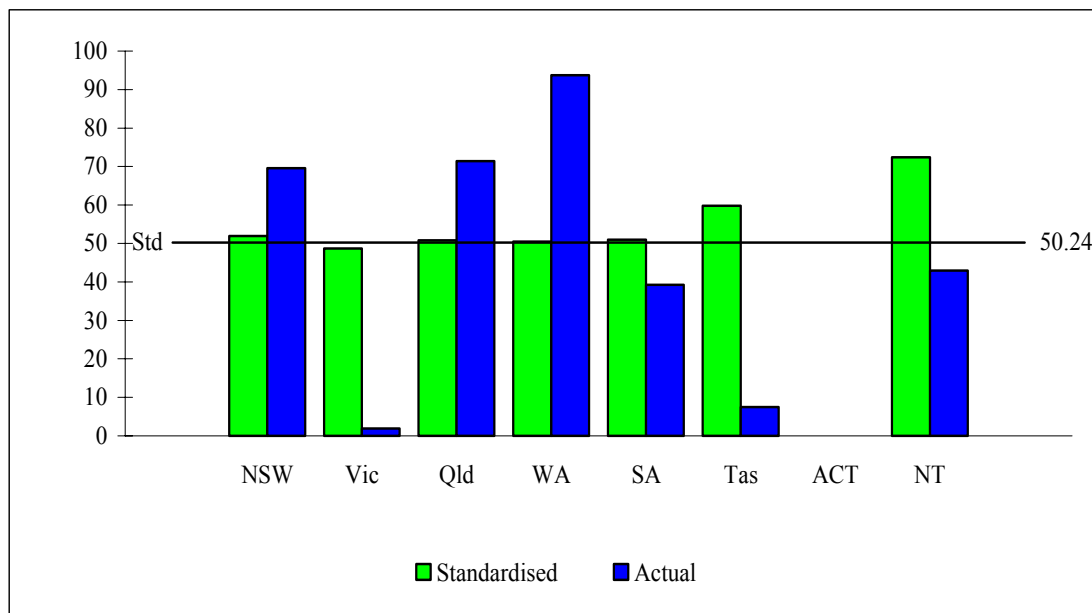
**Table 22** ACTUAL AND STANDARDISED EXPENSES

	Standard	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>2003 Update<sup>(a)</sup> -</b>									
Estimated expenses									
\$m		419.32	68.17	241.24	35.42	17.64	1.19	0.00	0.00
\$ per capita	39.95	63.14	14.04	65.72	18.46	11.62	2.50	0.00	0.60
Standardised expenses									
\$m		267.71	188.45	153.93	74.24	58.9	20.53	11.17	8.17
\$ per capita	39.95	41.31	38.82	41.94	38.7	38.78	43.38	34.60	40.86
2004 Review									
Estimated expenses									
\$m		461.70	9.43	262.23	179.69	59.57	3.54	0.00	8.59
\$ per capita	50.24	69.52	1.94	71.44	93.68	39.23	7.48	0.00	42.96
Standardised expenses									
\$m		344.95	236.49	186.35	96.83	77.39	28.27	0.00	14.46
\$ per capita	50.24	51.94	48.71	50.77	50.48	50.96	59.75	0.00	72.34

(a) Combination of Freight and Non-urban Passenger Transport.

Note: The standard expenses vary between the 2003 Update and the 2004 Review draft assessments because of changes in the data used in the preparation of the equalisation budget, such as the inclusion of some depreciation costs.

130. Figure 1 shows the gross expenses per capita for 2001-02 in terms standardised, estimated and gross standard expenses.

**Figure 1** NON-URBAN TRANSPORT — EXPENSES PER CAPITA — STANDARDISED, ESTIMATED AND STANDARD, 2001-02

## ANALYSIS

131. Table 23 shows the change in the distribution of grants between the assessment in the 2003 Update and in the draft assessment for the 2004 Review.

132. Compared with an equal per capita assessment, the 2004 Review assessment redistributed about \$26.5 million away from Victoria and the ACT to New South Wales, Queensland, Western Australia, South Australia, Tasmania and the Northern Territory, \$11.9 million more than in the 2003 Update.

133. The total change in the redistribution was \$24.5 million. The main reasons for the change in grants were:

- (i) the increase in the size of the category because of the inclusion of depreciation;
- (ii) the assessment of the ACT as having zero needs;
- (iii) the re-classification of areas in Queensland from non-urban to urban; and
- (iv) the inclusion of cost weights reflecting the larger subsidies paid in the non-metropolitan areas, especially very remote areas of States, which has increased the notional grants for States which have higher proportions of their population living in non-metropolitan areas — most notably the Northern Territory.

**Table 23** EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION —  
NON-URBAN TRANSPORT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total <sup>(a)</sup>
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Contribution to 2003 Update relativities<sup>(b)</sup></b>	2.6	-7.3	9.5	-3.0	-2.2	2.1	-2.1	0.3	14.6
<b>Composition</b>	0.5	-1.3	1.8	-0.6	-0.4	0.4	-0.4	0.0	2.7
<b>Assessment</b>	7.9	0.0	-7.7	3.4	3.2	2.2	-13.1	4.1	20.7
<b>Interaction</b>	1.4	0.0	-1.4	0.6	0.6	0.4	-2.3	0.8	3.8
<b>Contribution to 2004 Review draft assessments relativities<sup>(b)</sup></b>	12.4	-8.6	2.2	0.5	1.2	5.1	-17.9	5.1	26.5
<b>Total Change<sup>(c)</sup></b>	<b>9.7</b>	<b>-1.3</b>	<b>-7.4</b>	<b>3.5</b>	<b>3.4</b>	<b>3.0</b>	<b>-15.8</b>	<b>4.9</b>	<b>24.5</b>

(a) Total redistribution.

(b) Assuming same pool and a constant population.

(c) This figure shows the change in the amount redistributed among the States between the 2003 Update and the 2004 Review Draft Assessment. It does not necessarily equal the difference in the total contributions to the relativities between the two inquiries.

## ATTACHMENT A

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### INFORMATION PROVIDED BY STATES

#### *New South Wales*

1. StateRail and the Rail Infrastructure Corporation (RIC) receive subsidies. The subsidy to StateRail is for operations, while the subsidy to RIC is for infrastructure maintenance and non-commercial capital.

#### *Victoria*

2. The Government subsidises all country passenger rail, coach and bus services operated under contract to the Department of Infrastructure. This system is designed to keep fares at acceptable levels, well below the actual cost of service provision, particularly in rural areas where patronage levels are low.

3. Through an agreement with Freight Australia, the government provides a subsidy for general freight services in rural areas. This was previously known as the 'Fast Track' service.

4. The only water transport service subsidised in Victoria is a ferry service between French Island and Stony Point. It is predominantly used by school children attending Hastings Secondary College.

5. The Victorian Government does not subsidise regional air transport.

6. Rail infrastructure required to operate non-urban services was leased to Freight Australia and to a metropolitan rail operator, Bayside (now MTrain). The interstate track was leased to the Australian Rail Track Corporation (ARTC). Passenger operators pay the infrastructure lessees access charges for use of the track.

7. Bidders for both Freight Australia and Bayside were advised that the proposed regime for access would not permit the recovery of lease costs, so the value of the infrastructure existing at the dates of the respective leases (in 1999) is still essentially provided as a subsidy from the State.

8. Under the agreement with ARTC, a return on ‘sunk’ cost is permissible, based on evidence supplied to the ACCC by ARTC. A small contribution to capital costs is earned on the Melbourne – Adelaide route, but none on the Melbourne – Sydney line.

9. In the case of rolling stock, existing stock was included in the V/Line franchise ‘package’ and was purchased by Freight Australia and MTrain for a notional figure. The cost of new rolling stock will be largely met through higher subsidy payments from the State.

10. The capital cost of buses is included in contract rates paid to bus operators. Operators provide free bus services to eligible students and public transport services offering subsidised fares to the general public.

### ***Queensland***

11. ***Queensland Rail.*** Queensland Rail (QR) received about \$675 million from the Queensland Government for community services in 2000-01. Queensland Transport (QT) provides community service subsidies for non-urban transport to:

- (i) QR’s Traveltrain, for long distance rail services;
- (ii) QR’s Citytrain, for inter-urban services; and
- (iii) aspects of QR’s regional freight services, but excluding mining haulage.

12. Total payment for QT’s purchase of government services from QR was about \$652 million in 2000-01. In addition, rail concession payments from the Department of Families to QR are estimated at \$23 million in 2000-01.

13. ***Ferry Services.*** QT provides community service subsidies for inter-urban ferry services between Moreton Bay island communities and the mainland, and Magnetic Island and Townsville.

14. Provision of ferry services in the Torres Strait are currently under review.

15. Total community service subsidies for non-urban ferry services in Queensland was \$0.948 million in 2000-01.

16. ***Regional Air Services.*** The Queensland Government provides community service subsidies to private aviation operators in Western and Far North Queensland. Government financial support is necessary to ensure that transport-disadvantaged communities have reasonable access to essential social, cultural and economic destinations. The CSO payments totalled \$3.9 million in 2000-01.

17. ***Bus.*** In Queensland, there are generally no subsidies for long-distance bus services. Exceptions are the payments to private operators to provide bus services between Maryborough and Hervey Bay; Townsville and Charters Towers; and services to towns in South West Queensland, including Cunnamulla.

18. Government financial support is provided to these communities for the same reasons as subsidies for Regional Air Services. These particular subsidies are provided as a result of market failure and the private sector's inability to provide this essential service, to these communities, without government support. Total community service subsidies for these services were \$0.146 million in 2000-01.

### ***Western Australia***

19. The Department for Planning and Infrastructure (DPI) in Western Australia provides a range of subsidies in support of transport outside Perth. These subsidies include bus and rail inter-town services (\$21 million per annum) and intra-town bus and taxi services (\$5.3 million per annum).

20. The collapse of Ansett necessitated an increase in the existing subsidies and the introduction of further subsidies for air services in the north of the State. Overall, air subsidies are expected to quadruple, to \$1.4 million per annum.

21. There are no subsidised passenger water transport services in non-urban areas of Western Australia.

22. ***Freight Services.*** Western Australia subsidises the provision of a regular freight shipping service to the North West, at a cost of \$3.7 million annually. The service currently comprises a one vessel operation, maintaining a regular 17 day schedule between Fremantle and Darwin, with calls at Pilbara and Kimberley ports in between<sup>5</sup>. The subsidy provided by Government to the operator of the service recognises the non-commerciality of the route. If there were no Government support, there would be no service. The advantages of this service include:

- (i) an effective cap on freight costs to remote communities;
- (ii) reducing the cost of road damage;
- (iii) taking dangerous and unsuitable cargoes off the road system;
- (iv) maintaining a freight route to the North West, during road closures due to bad weather; and
- (v) encouraging industry, including exporters, by ensuring the viability of a freight service.

### ***Tasmania***

23. Non-urban transport policy is based on providing reasonable levels of access to communities of a minimum size, to ensure access to centres for the provision of amenities, including health services, Government services (Social security etc) and

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<sup>5</sup> The Government is examining the need to operate a second vessel.

educational facilities. General subsidies have been paid in exceptional circumstances and may, in future, feature in a small number of instances where patronage is thin. In the case of the Bruny Island ferry, both passengers and freight movements are supported by a general subsidy and specific passenger concessions.

### ***Northern Territory***

24. The Territory has higher costs due to factors unique to the Territory including isolation, dispersion, small scale and climatic extremes. Examples of these extra costs include:

- (v) maintenance costs on buses in Alice Springs and Darwin are increased by 1 cent per kilometre due to the need to bring spare parts from southern suppliers. The Public Transport Branch (PTB) of the Department of Infrastructure, Planning and Environment advises that the average maintenance cost for the Darwin Bus Service is 28 cents per kilometre, meaning that the cost after adjusting for the 1 cent per kilometre is 27 cents per kilometre or 3.6 per cent of the cost;
- (vi) coach type airconditioning systems need to be fitted to buses for them to cope with the high ambient temperatures, adding about 0.25cents per kilometre to bus running costs; and
- (vii) heavily tinted glass is required for bus windows to assist with keeping the bus interior cool and as protection against sunburn. This tinting is estimated to add \$2 500–\$3 000 to the purchase price of a bus (around 1 per cent of the total cost).

25. While a general subsidy is provided to the public bus service in Alice Springs, no subsidy is provided to operators of public, long-distance coach services.

26. No subsidies are paid to operators of air services in the Territory, but the Territory assists with the provision of airstrips and airports at some communities. The Territory owns aerodromes in 12 locations.

27. Information supplied by States concerning funding of concession and general subsidy payments is shown in Table A1.

28. Data on the relative subsidy cost of supplying transport services in very remote and other non-urban areas in Western Australia is shown in Table A2.

**Table A1** NON-URBAN TRANSPORT — CONCESSIONS AND GENERAL SUBSIDIES

State	Concessions		General Subsidy	
	Type of concession	How concession is funded	Type of subsidy	How subsidy is funded
NSW	Health care card holders plus students	Explicitly by Government from its budget	Rural rail lines \$169m Rail freight \$72	Explicitly by Government from its budget
Vic	Pensioners, certain benefit recipients, children, secondary school students and full-time tertiary students (50% of standard adult fares) Operators receive a concession top-up equal to 25% of the full adult fare for each concession ticket sold.		All country passenger rail, coach and bus services operated under contract to the Department of Infrastructure – amount not stated  Rural freight \$5.8m	Explicitly by Government from its budget
Qld	Rail concession payments from the Department of Families – Not stated as a separate item – total urban and non-urban concessions \$23m	Explicitly by Government from its budget	Bus not stated Rail service subsidies for non-urban passenger and freight services are provided  Not stated as a separate item – total urban and non-urban rail subsidies \$652m  Air \$3.9m, Ferry \$0.9m	Explicitly by Government from its budget
WA	Pensioner and remote student non-school travel \$7.8m	Explicitly by Government from its budget	Non-urban rail and bus services \$26m Air \$1.4m Shipping Freight \$3.7m	Explicitly by Government from its budget
SA			Non-urban bus services  No subsidies for rail, air or water.	
Tas	Pensioner concession and school age children (35% is paid by govt to operator)	Explicitly by Government from its budget	Bruny Island Ferry	
NT	Health care card holders plus full time students	Explicitly by Government from its budget	General transport operations – subsidises difference between operating costs and revenues for selected bus services. Mandorah Ferry. Infrastructure costs for air and sea transport services	

Source: States main submissions and data returns.

**Table A2** WESTERN AUSTRALIA AVERAGE SUBSIDY PER PASSENGER,  
2000-01

	<b>Passengers</b>	<b>Subsidy per passenger</b>
Intra town bus		
Albany	250,095	\$2.09
Port Hedland	190,564	\$4.29
Inter town rail		
Australind (Bunbury) to Perth	156,773	\$43.13
Kalgoorlie to Perth	80,575	\$75.44

Source: Western Australia, *Rejoinder Submission*, p.158.

## Restart Para. Numbering

### ATTACHMENT B

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#### DISSECTION OF FREIGHT EXPENSES

1. This attachment summarises the data Commission has extracted from service provider annual reports, State data returns and GFS data on freight expenses. The attachment outlines how the Commission allocated freight expenses between subsidies for economic development purposes and general subsidies.

2. *Freight expense in economic development.* Rail operations in New South Wales and Queensland include supplying infrastructure for the specific benefit of firms or a region. These services are subsidised with payments from government. In New South Wales, the community service obligations payments for freight are to the Rail Infrastructure Corporation. In the year ended 30 June 2002, the Rail Infrastructure Corporation received NSW Government Community Service Obligation payments of \$246.6 million<sup>6</sup>. The payments were to subsidise the cost of rail infrastructure to both urban and non-urban areas. The Rail Infrastructure Corporation operates with two very large customers, The State Rail Authority (SRA) in the metropolitan area and Pacific National in the rail freight market<sup>7</sup>. In the 2003 Update, for 2000-01, the portion of this subsidy attributable to freight was estimated at \$210.53 million<sup>8</sup>. The portion of this subsidy which is attributable to the SRA is assessed in the Urban Transit category. Economic development includes expenses on infrastructure for the specific benefit of firms or a region. Therefore, the proportion of subsidy expenses attributable to operations associated with infrastructure for Pacific National operations are assessed within the economic development component of this category.

3. In Queensland, subsidies for commercial freight services are mainly associated with providing infrastructure for the transport of coal. In the 2003 Update these subsidies for 2000-01 were estimated at \$155.27 million. They were assessed in the Freight category. The Queensland government receives revenues from the operation of the coal industry. In the 2003 Update, these revenues for 2000-01 were estimated at \$414.5 million. They were assessed in the Contributions by Trading Enterprises category. In the 2003

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<sup>6</sup> Rail Infrastructure Corporation, *2002 Annual Report*, p.2.

<sup>7</sup> *ibid.*, p.5.

<sup>8</sup> For the 2003 Update, expenses on freight and other transport related expenses were subject to a smoothing of the general purpose classifications (GPC). This smoothing process may result in estimates that do not necessarily reflect accurate allocations by GPC.

Update, expenses in the Freight category and the revenues in the Contributions by Trading Enterprises category were assessed equal per capita.

4. As noted in *Draft Assessment Paper CGC 2003/77 Equalisation Budget* for the 2004 Review, for the 2004 Review, any profits on coal haulage would be reflected in Queensland Rail's contributions to the budget through dividends or tax equivalent payments and included in the Contributions by Trading Enterprises category. Because it directly benefits Queensland Rail, the Commission considers the payment of the subsidy for rail infrastructure for coal operations to be an economic development expense.

5. GFS data indicate that States have freight expense associated with port services. For 2000-01, this expense was estimated at \$11 million.

6. The total of these identified amounts was \$376.80 million.

7. *Freight expense in general subsidies.* In their data returns, States indicated that subsidies for non-urban transport services included subsidies for services that ensure a basic level of service to all communities. For example, Western Australia operates a regular freight shipping service to the North West that is subsidised at a cost of \$3.7 million annually. This service maintains a freight route to the North West during road closures due to bad weather and also takes dangerous and unsuitable cargoes off the road system.