ACT Government

COMMONWEALTH GRANTS COMMISSION 2025 METHODOLOGY REVIEW OF GST REVENUE SHARING RELATIVITIES

DRAFT REPORT – Transport Addendum

ACT Government Submission

AUGUST 2024

Chief Minister, Treasury and Economic Development Directorate

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ABBREVIATIONS

Term	Definition
ACT	Australian Capital Territory
CGC	Commonwealth Grants Commission or Commission
SA1	Statistical Area Level 1 geography
SUAs	Significant Urban Areas
UCLs	Urban and Centre Localities
NSW	New South Wales
2025 Review	2025 Methodology Review

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EXECUTIVE SUMMARY

On 5 August 2024, the Commonwealth Grants Commission (CGC) released the Transport Addendum to the 2025 Methodology Review Draft Report (the Draft Report) for states and territories to comment.

The Transport Addendum provides the results of re-estimation of the model with the proposed changes to the recurrent transport expenses and the flow on impact to investment on transports, which were outlined in the Draft Report.

The ACT welcomes the opportunity to comment and commends the support from the CGC staff to the ACT in understanding the CGC's proposals and their potential impact on GST distribution.

This Submission outlines the ACT's positions to the CGC's proposals presented in the Transport Addendum.

The ACT does not support the proposed change in the calculation of population-weighted density from the existing Statistical Area Level 1 geography (SA1) method to the square kilometre grid method applied to the recurrent expenses and investment transport assessments. This is a departure from the original model and would not reflect the true demand for transport services as the relative size of Urban and Centre Localities (UCLs) would have more weight in determining the needs for transport services rather than the concentration of population within the Significant Urban Areas (SUAs).

The ACT supports all other proposed changes to the recurrent transport assessment, including the error correction to the ferry variable and the temporary increase in the blending ratio from 25 per cent to 35 per cent in the recurrent expenses assessment to account for additional data issues relating to COVID-19.

The ACT also supports retaining the existing blending ratio of 25 per cent and 75 per cent for the transport investment assessment, noting that COVID-19 has a marginal influence on transport investment decision.

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TRANSPORT ASSESSMENT

RECURRENT EXPENSES

The ACT does not support the proposed change to the calculation of population-weighted density from the existing Statistical Area Level 1 geography (SA1) method to the square kilometre grid method applied to the recurrent expenses on urban transport assessment. The square kilometre grid method does not capture the true demand for urban transport services due to underestimations of population density as it places more weight on the relative size of Urban and Centre Localities (UCLs), rather than the concentration of population within the Significant Urban Areas (SUAs).

The ACT considers the existing SA1 method remains appropriate as it was specifically designed to capture the true urban density for each SUA as the measure of demand for urban transport. This method also avoids the underestimation of population density resulting from the conventional density measure due to the inclusion of large non-urbanised/unpopulated areas. The SA1 method properly captures the concept of urban areas, hence reflects 'what states do' in providing urban transport services. This is because the population-weighted density under the SA1 method is calculated based on a population-weighted average of the density of all SA1 parcels within each SUA. This means the concentration of a population within the SUA, rather than its area size, effectively determines the need for transport services.

On the other hand, population-weighted density across all SUAs under the square kilometre grid method is calculated by counting the total square kilometre areas for all UCLs within the SUAs. This means large unpopulated land parcels covering substantial urban infrastructure and or surrounding non-urban areas within each UCL[1] is included in the calculation, akin to conventional density measures.

As a result, when compared with the SA1 method, population-weighted density is spread across all SUAs, reducing relative differences in density across states and territories. Given the three largest falls in population-weighted density under the square kilometre grid method are in the Sydney SUA, the Canberra-Queanbeyan SUA and the Melbourne SUA, the square kilometre grid method has resulted in underestimations of population density in urban areas, and hence the demand for transport. This manifestation is what the SA1 method was designed to prevent, and makes the square kilometre grid method unfit for purpose in measuring the true demand for urban transport. In addition, the square kilometre grid method does not exactly align with the CGC's concept of urban areas, particularly due to the inclusion of non-urbanised areas within the grid. The underlying methodology should not aim to reduce volatilities in, nor variabilities of, density between cities as concentrations of population(s) are largely influenced by the nature and topography of the areas.

The ACT supports the other proposals set out by CGC for this assessment, and notes that the temporary increase in the blending ratio from 25 per cent to 35 per cent to account for additional data issues relating to COVID-19 is appropriate.

[1] Urban Centres and Localities | Australian Bureau of Statistics (abs.gov.au). Urban Centres and Localities (UCLs) are defined using Statistical Areas Level 1 (SA1s) that meet density and/or urban infrastructure criteria containing substantial urban infrastructure or land use. Non-urban SA1s with specific criteria may also be included in an Urban Centre.

INVESTMENT

Consistent with the recurrent expenses assessment, the ACT does not support the use of population-weighted density calculated by the square kilometre grid method as user populations for the transport investment assessment. Instead, the ACT proposes that the CGC continue to use population-weighted density calculated by the existing SA1 method for the underlying assessment.

The ACT supports retaining the existing blending ratio of 25 per cent and 75 per cent for the urban transport investment assessment, noting that COVID-19 has a marginal influence on urban transport investment decisions.