

# **COMMONWEALTH GRANTS COMMISSION**

**DISCUSSION PAPER CGC 2002/5**

## **CROSS-BORDER DISABILITIES AND SPECIAL CIRCUMSTANCES OF THE AUSTRALIAN CAPITAL TERRITORY**

Prepared for discussion between Commission staff and the ACT Treasury. Other States and the Commonwealth Treasury will be invited to send representatives to those discussions.

NOVEMBER 2002

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## INTRODUCTION

1. This paper summarises State, mainly ACT, arguments made in 2004 Review submissions on the budgetary impacts of cross-border service use and the special circumstances of the ACT. It outlines recommendations Commission staff are inclined to make to the Commission, subject to further discussions with the ACT<sup>1</sup>. This paper provides a consolidation of the relevant material to facilitate those discussions.

2. In the 1999 Review and subsequent updates, two sources of disability, mainly affecting the ACT, were recognised. These were:

- (i) cross-border effects — that arise when a State provides services to residents of other States without any direct reimbursement from the home State; and
- (ii) special circumstances of the ACT, arising from:
  - national capital influences due to the ACT's status as Australia's capital; and
  - special fiscal needs due to differences in the financial arrangements between the Commonwealth and the ACT, and the Commonwealth the States. These were paid from outside the GST revenue pool.

3. The cross-border and national capital factors were assessed in a number of categories. In instances where these influences have been covered by Discussion Papers released to the States, this paper reproduces the relevant parts from those papers. Where material changes have been made to the reproduced parts of other Discussion Papers, explanatory footnotes have been provided.

4. In the consideration of national capital issues for the 2004 Review, Commission staff believe that it is timely to review whether it is appropriate to continue compensating the ACT for national capital influences through the Horizontal Fiscal Equalisation mechanism. Now that the pool is GST based with no augmentation for such allowances, it may be more appropriate that national capital allowances be funded directly by the Commonwealth under separate arrangements. Accordingly, staff invite comment from States and the Commonwealth on whether disabilities due to national capital influences should continue to be assessed in the current manner or whether they should be phased out of the equalisation process with a view to the fiscal responsibility being transferred to the Commonwealth.

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<sup>1</sup> All States and the Commonwealth Treasury have received a copy of this paper and will be invited to attend the planned discussions on a date to be advised.

## **CROSS-BORDER ASSESSMENT**

5. Cross-border costs are incurred where a State provides services to residents of other States without any direct reimbursement from the home State. While all States experience some such costs, the largest impact is on the ACT. Residents of surrounding New South Wales make use of services provided in the ACT as it is the major centre for the region. This has a substantial impact on the ACT budget.

6. In the 1999 Review, a general method was used to calculate relative needs for New South Wales and the ACT in the Health (community health, public health, and community mental health components), Law and Order, Welfare, and Culture and Recreation categories.

7. The Education categories were adjusted for cross-border flows in different ways.

- (i) For the Pre-School, Primary and compulsory Secondary Education assessments, no special adjustments for cross-border flows were necessary because the actual enrolments of the students in each State were used as the basis of calculation.
- (ii) For post-compulsory Secondary Education and Vocational Education and Training (VET) assessments, cross-border flows were adjusted for separately, using data on student numbers. All States had cross-border effects assessed in the VET category.

8. The factor did not apply to hospital services because, under the Australian Health Care Agreements (AHCA), States reimburse each other for services provided to non-residents.

### **General Method**

#### ***The 1999 Review Methods***

9. The general method recognised:

- (i) the susceptibility to cross-border use of services provided by the ACT; and
- (ii) the extent of use by residents of surrounding areas, based on distance and their likely reasons for visiting the ACT.

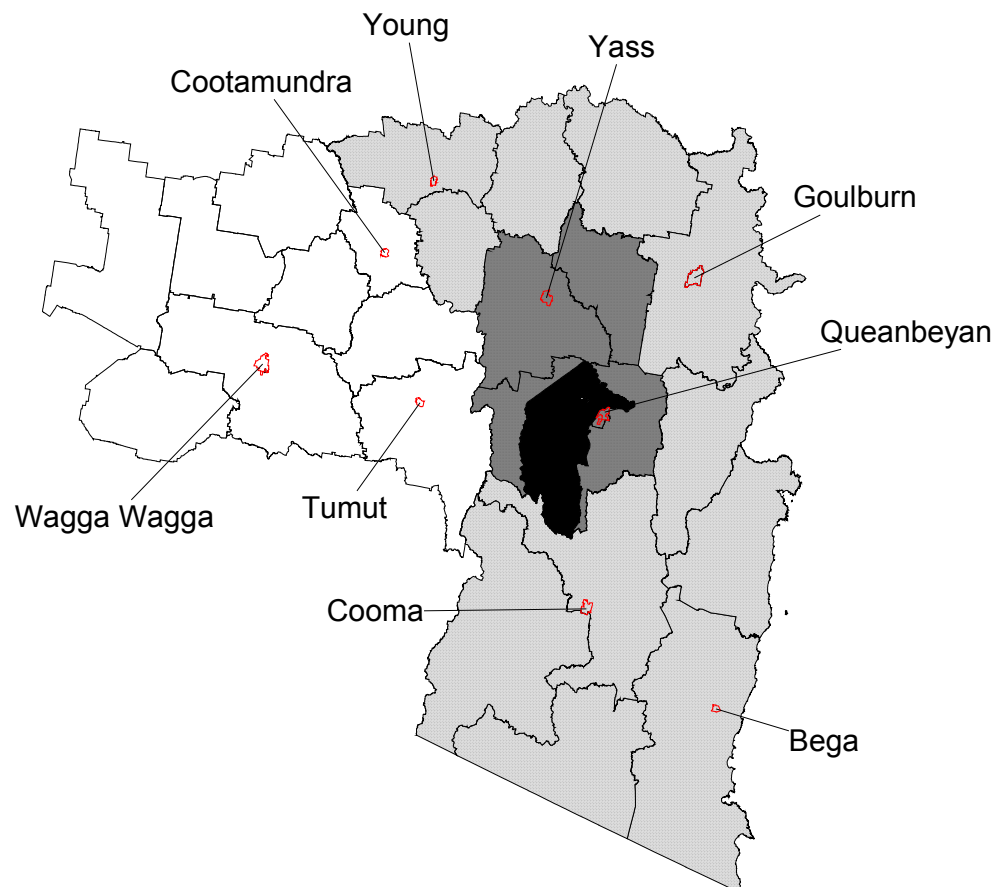
10. It was assumed that there was a general inverse relationship between the distance from place of residence to the location of services (expressed as travelling time) and the extent of average utilisation of the services.

- (i) People who lived in close proximity to the ACT were assumed to be more frequent visitors for purposes such as employment, education and training, and were assumed to have a high impact on services provided in the ACT.
- (ii) People who lived further from the ACT were assumed to be less frequent visitors and were assumed to have a lower impact on services provided in the ACT.

11. To capture the likely frequency of visits to the ACT, the south-eastern region of New South Wales was divided into two groups of Local Government Areas (LGAs) using distance of the LGAs from the ACT as the criterion. Group 1 comprised four Local Government Areas (LGAs) closest to Canberra which were assumed to generate most use of ACT services. Group 2 comprised other areas of the south-eastern region of New South Wales, assumed to generate less use of services.

- (i) Group 1: Queanbeyan, Yass, Yarrowlumla and Gunning; and
- (ii) Group 2: Bega Valley, Bombala, Boorowa, Cooma-Monaro, Crookwell, Eurobodalla, Goulburn, Harden, Mulwaree, Snowy River, Tallanganda and Young.

- Outside current region
- Group 1
- Group 2
- ACT



12. Table 1 summarises the estimated proportion of the regional New South Wales population assumed to be using ACT services in the categories listed.

**Table 1** SUMMARY OF CROSS-BORDER ASSESSMENTS, 2002 UPDATE

Category	Additional Population served by the ACT
Mental Health (community mental health component), Community Health (community health component), Police	50 per cent of Group 1 and 20 per cent of Group 2 populations.
Other Welfare (other welfare component)	
Administration of Justice (criminal and civil courts components)	50 per cent of Group 1 and 20 per cent of Group 2 population aged 10 years and over.
Other Welfare (SAAP component)	50 per cent of Group 1 and 20 per cent of Group 2 population aged 11 years and over.
Family and Child Welfare (children's services component)	50 per cent of Group 1 and 20 per cent of Group 2 population aged 0 to 12 years.
Family and Child Welfare (juvenile detention component)	50 per cent of Group 1 population aged 10 to 17 years.
Public Health (childhood immunisation component)	50 per cent of Group 1 population aged 4 to 6 years.
Culture and Recreation	25 per cent of Group 1 and 10 per cent of Group 2 populations.
Public Health (population health component)	
Aged and Disabled Welfare (disability services component)	25 per cent of Group 1 and 10 per cent of Group 2 population aged 0 to 59 years.
Corrective Services (prisons component)	10 per cent of Group 1 and 5 per cent of Group 2 population aged 17 years and over.

Source: Commonwealth Grants Commission, State Revenue Sharing Relativities 2002 Update, Working Papers, Vol. 3.

13. The cross-border adjusted population for the ACT was calculated by adding the population base of the south-eastern region assumed to access ACT services to the ACT population. Cross-border factors for the relevant categories were calculated by taking the ratio of the cross-border adjusted population for the ACT to its usual resident population. An offsetting adjustment was made to the New South Wales population base.

14. For immunisation expenses in Public Health, the gross cross-border factor was weighted to relate it to school based immunisation expenses which were estimated to be 25 per cent of total immunisation expenses.

15. The factors have remained unchanged since the 1999 Review because they were calculated using Census data.

16. Table 2 shows the impact of the cross-border assessments and the overall redistribution of expenditure assessments.

**Table 2** REISTRIBUTION DUE TO CROSS-BORDER FACTOR AND OVERALL EXPENDITURE, 2001 UPDATE

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	AUS
Cross-Borders redistribution <sup>(a)</sup> (\$m)	-39.3	12.2	-0.6	-0.2	0.8	-1.5	28.5	0.0	41.6
Total expenditure assessments redistribution (\$m)	-239.4	-1 384.9	-227.7	565.2	48.3	182.6	1.8	1 054.1	1 851.9

(a) For States other than NSW and the ACT, the redistribution was largely due to the impact of the VET assessment. Source: Commonwealth Grants Commission, *State Revenue Sharing Relativities 2001 Update*, Supporting Information, p337.

Commonwealth Grants Commission, *State Revenue Sharing Relativities 2001 Update Working Papers*, Vol. 3.

### *State Views*

17. The ACT supported the continued assessment of factors in the categories covered in the 1999 Review. However, it argued that an amendment to the general method for calculating the cross-border factor — which it referred to as the *modified general method* — was required because the existing method did not compensate for the full recurrent and capital costs associated with the provision of cross-border services to non-residents.

- (i) It provided data that indicated that the socio-demographic characteristics of its population were different from those of the population of surrounding New South Wales LGAs. It argued that this difference caused higher costs of providing services.
- (ii) It argued that the New South Wales region serviced by the ACT was too narrowly defined. To support this, it provided data for public hospital separations, community care clients and court defendants that showed numbers of people using its services were residents of areas beyond those defined in the 1999 Review.
- (iii) It argued that the estimated proportions of the New South Wales population using its services were too low.
- (iv) It argued that the factors should be updated annually, providing data to show changes in rates of population growth and public hospital separations over a five-year period in the ACT and the surrounding LGAs.

18. It proposed that a cross-border factor be calculated using a weighted average of community health and hospital separation data and that this should be used as a proxy for the cross-border factor for all services.

### *Issues for Assessment*

19. While the characteristics of the population in the ACT and the surrounding New South Wales LGAs are different, the key consideration for assessment is whether the characteristics of the New South Wales population *using* ACT services is socio-demographically different to the ACT population. The ACT did not provide any ready evidence in this regard.

20. To establish if a difference exists, data on use of services by socio-demographic composition of the cross-border population would be required. While this would complicate the assessment process, it is not clear that the outcome would be materially different, or in what direction. However, if the ACT could provide data on the actual utilisation of in-scope services, an assessment method similar to that for education could be used. Subject to materiality, this would lead to an improvement in the method.

21. Regarding the coverage of population beyond the regions defined in the 1999 Review, it is important to keep in context that the basis of the 1999 Review method was to capture the average cross-border effects in a simple manner. While it is possible that people from areas beyond those defined in the 1999 Review use services in the ACT, examination of this would require, as an offset, how representative and stable the data are for all possible regions, including those used in the 1999 Review, and in-scope services. Such data would help determine the population weights by regions.

22. At this stage, Commission staff doubt the soundness of the ACT's proposal to use data on the use of hospital or specialised community care centres by non-residents as the basis of a general factor for use in other services. These services are highly specialised and not readily available elsewhere in the region. This is not the case for more common services such as primary education, child immunisation clinics.

23. Population growth rates for the ACT and some of the surrounding LGAs are substantially different, as shown in Table 3. The proposal to use population growth data for the ACT and the surrounding regions to update the cross-border factors in each Update is worth further consideration, subject to materiality.

**Table 3** POPULATION GROWTH RATES FOR THE ACT, 1996 to 2000

Local Government Area	1996 Census Population	Estimated Resident Population 30 June 2000	change %
ACT	298 847	310 839	4.0
Mulwaree	5 625	6 383	13.5
Queanbeyan	27 414	30 205	10.2
Tallaganda	2 420	2 629	8.6
Yarrowlumla	9 186	9 645	5.1
Yass	9 128	9 486	3.9
Gunning	2 211	2 264	2.4

Source: ACT main submission to the CGC 2004 Review, p.78.

### ***Options for Assessment***

24. With regard to either the existing or the proposed general method, the underlying issue is lack of available data on cross-border use of services.

25. Staff do not propose to recommend that the adjustments for socio-demographic characteristics or the coverage of regions be pursued, unless the ACT can provide more relevant data for a range of services. If additional costs are shown to be material, we would consider an appropriate adjustment.

26. Staff propose to recommend to the Commission that, subject to materiality, it update the cross-border factor annually to take into account the differences in population growth between the ACT and the surrounding regions.

27. In the following sections, State arguments and staff views on cross-border factors for particular functions are set out. Because no arguments have been made about the assessment of cross-border factors in the education or welfare categories, staff propose to recommend that the Commission retain the 1999 Review methods.

## **INPATIENT SERVICES<sup>2</sup>**

28. ***Background.*** In the 1999 Review, due to arrangements in the 1998 Australian Health Care Agreements (AHCAs), cross-border costs were not taken into account in the Hospitals assessment.

29. ***State views.*** The ACT argued that cross-border patient flows had a disproportionately large impact on the ACT budget compared with any other State. It believed the significance of this matter justified reconsideration of the treatment of non-resident use of the ACT's hospital system in the 2004 Review. It stated that as a result of the 1998 AHCA, it attempted to negotiate cross-border arrangements with New South Wales. An agreement could not be reached and the matter was referred to arbitration.

30. The main outcome of the arbitration process was that: *'The price paid by NSW to the ACT for treating NSW patients should be based on blended NSW average costs for teaching and major urban hospitals, without a special ACT loading<sup>3</sup>.'*

31. The ACT requested that a cross-border factor be introduced in the Inpatient Services assessment because it was not fully reimbursed by New South Wales for the provision of hospital services to New South Wales residents.

32. The ACT estimated that the costs associated with excess length of stay by cross-border patients to be in the order of \$5 million per annum.

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<sup>2</sup> Refer to *Discussion Paper CGC 2002/29, Inpatient Services Assessment*.

<sup>3</sup> The Australian Capital Territory 2004 Review Submission, p362.

33. It also requested that the Inpatient Services assessment reflect the non-resident use of ACT Ambulance Services. It estimated that *'about 4 per cent of its non-resident customers use the ACT's ambulance services and do not reimburse the Government'*<sup>4</sup>.

34. The ACT also stated that the socio-demographic composition of the region surrounding the ACT is significantly different to that of the ACT. This factor influenced both cost and demand for inpatient services as about 25 per cent of its separations are not ACT residents.

35. **Comments.** Commission staff believe that clear mechanisms exist for the reimbursement of cross-border services and that the introduction of a cross-border assessment is not a preferred option.

36. However, the ACT view that the average DRG costs applied to cross-border inpatients do not capture the additional costs associated with the socio-demographic composition of the New South Wales population surrounding the ACT is of concern. The current arrangement under the AHCA captures the demand for services by New South Wales residents and the average cost per separation (through DRG cost weights).

37. What the AHCA arrangements may not capture, but the Commission's assessments do, are:

- (i) the costs associated with low English fluency;
- (ii) the above average costs associated with Indigeneity; and
- (iii) the costs associated with longer and shorter than average lengths of stay.

38. Commission staff would prefer that these costs be reimbursed through the mechanisms set out in the AHCA. However, we will investigate whether they are or not, and how these factors would affect the ACT's inpatient services expenses.

39. A new round of Australian Health Care Agreements is currently being negotiated and is due to be in place by 30 June 2003. This issue should be re-examined after that date. If cross-border funding arrangements are again dealt with in those agreements, Commission staff propose that no adjustment be made for cross-border inpatient funding, unless the research proposed above finds that the ACT is not receiving a standardised level of expense. If an assessment were to be included, it would cover interstate patients in all States. Materiality would, of course, be an issue in deciding whether such an assessment should be included.

40. In the 1999 Review, the Hospitals assessment took account of the cost of patient transport through the cost of patient transport factor. No assessment was made to compensate for the cost of transporting cross-border patients. The AHCA states that the

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<sup>4</sup> The Australian Capital Territory 2004 Review Submission, p88.

ACT ‘*may enter into a bilateral arrangement with another State or Territory to adjust for costs of non-admitted services of the type covered by this Agreement*<sup>5</sup>.’

41. Commission staff are of the view that it would be appropriate for the ACT to discuss the issue of reimbursement of ambulance costs with New South Wales and enter into a bilateral agreement. If provisions to enter into such an agreement are not available in the next round of AHCA, this matter will be re-examined at that time, but materiality would seem to be an important element of what decision might be taken.

## NON-INPATIENT AND COMMUNITY HEALTH SERVICES<sup>6</sup>

### *Background*

42. ***Emergency department and outpatient services components.*** The Commission did not assess a cross-border factor for emergency and outpatient services during the 1999 Review because of the operation of the AHCA.

43. Clause 62 of the AHCA between the Commonwealth and the ACT allows the ACT to enter into a bilateral arrangement with another State to adjust for costs of non-admitted services (emergency services, outpatient services and other non-admitted patient services). Since 1997-98, an arrangement has been in place for annual payments from New South Wales to the ACT to include \$0.66 million for net cross-border emergency department services and \$1.43 million for net outpatient services, based on survey and other estimates of cross-border presentations at emergency departments and outpatient facilities.

44. ***Community health services component.*** In the 1999 Review, the Commission assessed a cross-border factor for this component to recognise that community health centres provide services to residents within easy travelling distance of the ACT.

### *State Views*

45. The ACT submitted that under the present arrangements for cross-border use of emergency and outpatient services, there was only a tenuous link between levels of payment between jurisdictions and the levels of service provided, as the payment had not been adjusted for indexation or growth.

46. Because of this, the ACT asked that the Commission assess a cross-border factor for the emergency department and outpatient services components, reflecting:

- (i) the underlying principles of the AHCA that a State cannot discriminate in the provision of services on the basis of residential status;

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<sup>5</sup> Australian Health Care Agreement between the Commonwealth of Australia and the Australian Capital Territory, 1998, p16, Clause 62.

<sup>6</sup> Refer to *Discussion Paper CGC 2002/30, Non-inpatient and Community Health Services*.

- (ii) the asymmetrical pattern of cross-border patient flows arising from the regional role of the ACT;
- (iii) the unique significance of cross-border patient flows from New South Wales to the ACT in relation to non-admitted patient services; and
- (iv) the link between cross-border flows for non-admitted patient services and tertiary referral hospital services, including major trauma and emergency department services.

47. The ACT also asserted that an assessment of cross-border demand should take account of the wider scope of demand for ACT trauma and emergency services as a consequence of improvements in transport and accessibility.

48. New South Wales made no comment on the need for a cross-border factor for emergency department and outpatient services. It contended, however, that there appeared to be little evidence that the ACT provided community based services to New South Wales residents to the same extent as it provided acute inpatient care. It asserted that acute hospital admission data used by the Commission overstated the cross-border adjustment necessary for the community health services component and that, until there was firm evidence of flows, the Commission should assume that a flow adjustment for community health was not warranted.

49. The ACT requested that, in addition to the current cross-border factor for the community health services component, a factor be introduced to recognise the non-resident use of the ACT's Queen Elizabeth II Family Centre (QEII) as it had approximately 50 per cent cross-border use, as shown in Table 4. The ACT said this use was not reflected in the current cross-border assessment.

**Table 4** CROSS-BORDER CLIENTS OF THE QE II FACILITY, 2000-01

	ACT	Non-ACT	Total
Number of clients	808	788	1596
Recurrent costs	\$707 000	\$689 500	\$1 396 500

Source: ACT Department of Health and Community Care, 2002.

### ***Comments***

50. Commission staff believe that clear mechanisms exist for the reimbursement of the costs of cross-border emergency and outpatient services, including the availability of an independent arbiter. We consider that, under the AHCA umbrella, the ACT and New South Wales are in a position to reach a satisfactory outcome. It is not clear that the provisions with ACHA should be bypassed in favour of an assessment by the Commission.

51. It is likely that the current cross-border assessment in the community health component does not capture the use of the QEII facilities. The assessment was never

intended to capture costs relating to specific facilities. Instead, it aimed to capture the average use of all community health services. This implies that some services may be used more or less than the average recognised in the assessment, but that in total, cross-border service use would be near the average recognised in the current assessment.

### ***Proposals***

52. Commission staff intend to recommend that no cross-border factor be assessed for the emergency department and outpatient services components.

53. We intend to recommend that the cross-border factor for the community health services component be retained, unless the ACT and/or New South Wales provide data relating to services other than those provided by the QEII centre, which indicate that the current assessment is inadequate.

## **POPULATION HEALTH COMPONENT<sup>7</sup>**

54. ***Background.*** During the 1999 Review, the ACT suggested that the costs of some public health services, such as communicable disease surveillance, nutrition services, pharmaceuticals provided outside hospitals, and aids and appliances used for health purposes, were responsive to population size. The Commission decided that a cross-border factor was justified for expenditure on Public Health, but the impact on the ACT's grant share in the 1999 Review was very small.

55. The Commission decided that cross-border factors were justified for expenditure on immunisation services provided to cross-border school students, kindergarten students and pre-schoolers. A cross-border factor was applied to the childhood immunisation part of the Public Health category.

56. ***State views.*** New South Wales argued that there was no firm evidence of cross-border flows for population health services and that the factor was therefore not warranted.

57. New South Wales provided data on child immunisation from the Australian Childhood Immunisation Register which indicated that only 15.4 per cent of children from the Queanbeyan, Yass, Yarrowlumla and Gunning local government areas were immunised by ACT Government providers in 2000-01, instead of the 50 per cent currently assumed in the assessment. On that basis, New South Wales concluded that the adjustment was overstated and should be reduced.

58. The ACT claimed that the allowance provided by this factor did not meet a reasonable test of materiality. The outcome was anomalous given that the present general method made no allowance for costs associated with the differences in socio-economic composition of the ACT and regional population.

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<sup>7</sup> Refer to *Discussion Paper CGC 2002/3, Population and Preventive Health*.

59. The ACT considered that a cross-border factor based on the proportion of total hospital separations would represent a reasonable proxy of the costs arising from the cross-border use of the ACT health system which were not recognised by other assessments. The ACT asked that the Territory's proposed modified general method (which is predominantly based on hospital separations) be applied to the Population Health component as it more accurately reflected the costs faced by the ACT than the application of broad judgment.

60. ***Comments and proposal.*** Socio-economic factors are unlikely to influence the costs of immunisation.

61. It has been proposed that immunisation expenditure no longer be separately assessed, as most of the population is now targeted by at least one immunisation program. Therefore, the number of children being immunised will no longer be relevant to the assessment. Immunisation expenditure will be merged with other public health expenditure, for which a single cross-border factor will be assessed. It has not yet been decided how this factor will be assessed, but it is likely that the general cross-border method will be applied. Cross-border use of immunisation services will therefore be picked up in this general factor. In order to determine if the general cross-border method is appropriate, we would like more evidence from New South Wales and the ACT about cross-border flows for public health activities.

## **NATIONAL PARKS AND WILDLIFE SERVICES<sup>8</sup>**

62. In the 1999 Review, a cross-border factor was not assessed.

### ***State Views***

63. The ACT proposed the assessment of a cross-border factor to reflect the cost of controlling feral species originating from New South Wales (using the ACT's proposed modified general method). It claimed that these species were previously eradicated or significantly reduced within the ACT as a result of intensive control programs. It is currently spending about \$130 000 per annum to prevent these species re-establishing themselves in the ACT.

### ***Issues and Options for Assessment***

64. All States face similar problems of controlling feral species, and many of larger magnitudes than those of the ACT. It is also difficult to accept that the assessment of an allowance for the ACT would be sufficiently material. For these reasons, staff propose to recommend that a cross-border factor not be assessed.

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<sup>8</sup> Refer to *Discussion Paper CGC 2002/42, National Parks and Wildlife Services*.

## POLICE SERVICES<sup>9</sup>

65. In the 1999 Review, a cross-border factor was applied to the Police Services component.

### *State Views*

66. The ACT submitted that its assessed cross-border disability should be increased from 16 to 18 per cent. It supported its argument with data on cross-border offenders, by State.

67. It also requested reimbursement of the cost associated with ACT police involvement in the recovery of unpaid traffic infringements and parking fines from New South Wales residents, estimated to be \$50 000.

### *Issues and Options for Assessment*

68. The data provided by the ACT are potentially policy contaminated and the impact of the suggested changes would be small. Assessing a policy-neutral cross-border effect is difficult and the current method, which treats the ACT as a regional centre and in effect inflates its population<sup>10</sup>, passes the test of policy neutrality. Staff are inclined to recommend that the common factor approach be retained in the 2004 Review.

69. Staff are inclined not to support the argument for the reimbursement of the cost associated with the recovery of unpaid traffic infringements and parking fines on the grounds that it would be very small and, if calculated, should be on a net basis.

## CORRECTIVE SERVICES

70. A cross-border factor was assessed for the Prisons component in the 1999 Review, using the general method.

### *State Views*

71. The ACT argued for a 'more accurate' cross-border factor which accounted for the greater proportion of New South Wales residents who came in contact with, and imposed costs on, ACT corrective services.

72. In particular, the ACT argued that the cross-border effect for community-based corrections, which was not assessed in the 1999 Review, could be

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<sup>9</sup> Refer to *Discussion Paper CGC 2002/36, Law and Order*.

<sup>10</sup> As an offsetting measure, the assessment deflates the population of New South Wales.

different from that for the prison component. It provided some data quantifying the impacts of cross-border effects for prisons, remand centres and periodic detention centres.

73. With the increasing use of community-based corrections as a low-cost alternative to imprisonment, the ACT requested the consideration of a separate cross-border factor for the community-based corrections component if that were introduced.

### ***Options for Assessment***

74. Introduction of a separate community-based corrections component is under consideration within the corrective services category.

75. The data presented by the ACT appears to establish a prima-facie case for a modification to the weights used in the general method to quantify the cross-border effect for the community-based corrections component if Canberra, as a regional centre, leads to more cross-border population coming in contact with its correction system. Staff are inclined to further examine the data and, subject to discussions, recommend that a cross-border assessment be made in the proposed separate community-based corrections component.

## **DEPRECIATION AND DEBT CHARGES**

76. In the 1999 Review, a cross-border factor was not assessed in relation to additional infrastructure costs.

### ***State views***

77. The ACT requested the introduction of a cross-border factor for Depreciation and Debt Charges to compensate for the additional costs to the ACT resulting from the provision of services to New South Wales residents. The ACT indicated that it was reviewing the assessment of these components and would provide further information to the Commission in due course.

### ***Issues and Options for Assessment***

78. Staff are inclined to accept that cross-border use of ACT services is likely to have some impact on infrastructure requirements and therefore on depreciation and debt charges expenses. Because of the lumpy nature of capital purchases, it is difficult to judge whether the cross-border population result in additional units of infrastructure or whether existing infrastructure can be used in a more economic way (reduced service delivery scale effects). Staff will explore the impact of cross-border use of services on the need for infrastructure, and are inclined to recommend that some allowance be made.

## **SPECIAL CIRCUMSTANCES OF THE ACT**

79. As in the 1999 Review, the Commission recognised in the 2002 Update that the ACT incurred additional costs because of the special circumstances it faced. These were because of:

- (i) national capital influences — factors were assessed because Canberra's status as the national capital increased the costs of providing normal State-type services in the ACT; and
- (ii) special fiscal needs paid from outside the GST revenue pool — these arose because of differences in the financial arrangements between the Commonwealth and the ACT, and the Commonwealth and the States, and related to:
  - corporate affairs compensation – the ACT is excluded from the arrangements agreed between the Commonwealth and the States for payments for revenue foregone following the establishment of the National Scheme of Companies Regulations; and
  - police services – the ACT does not have control over the terms and conditions of Australian Federal Police officers employed in ACT policing (prior to the 2001 Update, this was assessed as a transitional allowance).

## **NATIONAL CAPITAL FACTORS**

### ***The 1999 Review Approach***

80. The Commission assessed national capital factors in a number of categories. The amount assessed for each category and the claims made by the ACT in its 2004 Review submission, are shown in Table 5.

**Table 5** NATIONAL CAPITAL ALLOWANCES

Category	1999 Review	2004 Review
	Assessed Allowances	ACT Revised Claim
	\$m	\$m
Education	4.000	4.000
Regulatory and Other Services [General Public Services]	3.400	11.300
Administration of Justice	0.200	0.000
Culture and Recreation	1.385	3.200
Urban Transit	1.500	2.800
Public Safety and Emergency Services	0.615	3.300
Housing	0.000	13.000
National Parks and Wildlife Services	0.000	0.500
Transport — Roads	0.000	4.700
Tourism	0.000	5.700
Primary Industry	0.000	0.300
<b>Total Claims</b>	<b>11.100</b>	<b>48.800</b>

Source: ACT Submission.

81. New claims for Housing, Roads, Tourism, Primary Industry, and National Parks and Wildlife Services accounted for about \$24 million.

82. The assessed amounts were largely based on judgement.

### ***Education***

83. The Commission's assessment of the national capital factor accounted for the extra costs, not taken into account through the inclusion of the number of children of diplomats in the Schools Census, which result from providing education to these children. The ACT has a disproportionate number of children of diplomats relative to other States and these children have greater needs because of their relative lack of proficiency in English. Hence, the assessment of national capital allowances for the Education categories reflected the additional costs of educating children of diplomats in the ACT.

84. Three extra cost items for children of diplomats were identified. They were:

- (i) the additional cost of mainstream schooling — calculated as the difference between standardised and actual per student costs of mainstream schooling in ACT primary and secondary government schools by the relevant numbers of children from diplomatic families;
- (ii) English as a Second Language (ESL) costs — additional costs of providing ESL teaching to temporary residents for whom no Commonwealth ESL funding is made available; and
- (iii) Introductory English Centre (IEC) costs — additional IEC costs.

85. A summary of the estimated additional costs of diplomat students is shown in Table 6.

**Table 6** SUMMARY OF ADDITIONAL COSTS ATTRIBUTABLE TO DIPLOMATIC STUDENTS

Institution	Mainstream type costs	ESL type costs	IEC type costs	Total additional costs
	\$'000	\$'000	\$'000	\$'000
Primary schools	1 025	545	150	1 720
High schools	842	181	41	1 064
College	772	128	22	922
Special	165	8		173
Total	2 804	862	213	3 879

Source: Commonwealth Grants Commission, 2002 Update Working Papers, Volume 3.

86. The amount of \$4 million was split equally between Primary and Secondary Education categories, since the number of diplomatic students was approximately the same in each category.

87. **State views.** The ACT requested continuation of the assessment of a national capital allowance for the extra costs associated with teaching English to children of diplomats, at the level of \$4.0 million per annum.

88. Victoria argued that the assessed amount for the education of school-aged children of the Diplomatic Corps was excessive. It also called for the abolition of the IEC cost item and argued that IEC costs should be incorporated into the socio-demographic factor. It further proposed that the calculation of the assessment should be based on actual rather than estimated data.

89. Western Australia and South Australia queried whether there was double counting of diplomatic students — once in national capital allowances and once in the ACT student population.

90. **Issues for assessment.** The key issues for the 2004 Review are whether:

- (i) the type and magnitude of extra costs used in the 1999 Review remain appropriate; and
- (ii) IEC costs should be incorporated into the ESL cost item.

91. There is no double counting of the number of diplomatic corps children who are accounted for in the enrolment data for education categories. The mainstream cost component in Table 6 represents expenses that reflect the difference between the actual and the standardised level of costs of providing education services for diplomatic corps children in the ACT. However, staff think that, to maintain consistency with the general principles for assessments, only the standardised level of costs should be reflected in the assessment. The ACT has policy control over the standard of service it provides.

92. **Options for assessments.** Staff are inclined to recommend that the national capital allowance for the Education categories should continue in the 2004 Review for the English language components. To assist in this, we seek data from the ACT on the number of diplomatic students attending government schools, the number of children of diplomats requiring assistance with English, and the associated costs.

93. Staff are inclined to recommend that the two specific English language cost components be merged.

94. However, staff plan to reconsider whether the mainstream cost component for the students from diplomatic families should continue. Staff will review the current assessment and ensure that the assessment process captures only the standardised costs for the ACT of educating children from diplomatic families.

### ***Regulatory and Other Services***

95. The Commission assessed an amount of \$3.4 million in the 1999 Review and subsequent updates to compensate the ACT for:

- (i) capital costs imposed as a result of building controls imposed by the National Capital Plan, and additional requirements in relation to provision of infrastructure — an amount of \$1 million;
- (ii) the leasehold land management system in the ACT, which increased the costs by \$2 million; and
- (iii) costs of planning functions because the ACT had to consider integration of its services with those provided in the contiguous areas in New South Wales — an amount of \$0.4 million.

96. **State views.** The ACT requested an increase in the assessed amount from \$3.4 million to \$11.3 million to compensate it in relation to a range of issues surrounding national capital planning, development and land management.

97. One of the ACT's major claims (\$5.5 million) related to additional planning costs for:

- (i) the additional cost burden on its capital works program (\$1 million) reflecting project redesign costs, above standard amenity and uneconomic design features;
- (ii) the additional 'layers' of planning and negotiation (\$2 million) necessary to implement its urban planning policies and development projects, excluding standard residential, affected by National Capital influences; and
- (iii) the impact on the ACT of maintaining the ACT Leasehold System which has administration imposts (\$2.5 million).

98. The other major claim (\$5 million) related to foregone economic opportunities and associated costs. These were for:

- (i) revenue losses through a reduced capacity to lease land for residential and/or commercial uses;
- (ii) the under-utilisation of infrastructure necessary to support urban populations in the townships; and
- (iii) economic losses arising from the delays in negotiating and finalising development proposals that require involvement of the Commonwealth.

99. A minor claim (\$0.8 million) related to planning for the local region.

100. *Options for assessments.* Because of the proposed abolition of the Regulatory and Other Services category, staff propose to recommend that these national capital costs be considered in relation to the General Public Services and Community Development categories.

101. Because there are few policy neutral data and we must rely on ACT estimates, staff are inclined to recommend that the following approach to the claims be adopted.

- (i) Recognise additional planning costs (\$4.5 million) associated with:
  - The ACT's capital works program, reflecting project redesign costs, above standard amenity and uneconomic design features (\$1.0 million);
  - managing additional 'layers' of planning and negotiation necessary to implement its urban planning policies and development projects (excluding standard residential) affected by the National Capital Plan (\$1.0 million, unchanged from the 1999 Review); and
  - leasehold system (\$2.5 million), an increase of \$0.5 million from the 1999 Review.
- (ii) Do not make an allowance for foregone economic opportunities and associated costs due to:
  - lost revenue components and economic losses because the assessed revenue capacity of the ACT, such as for land-based revenue, already excludes the enhanced capacity that would have resulted if the opportunities were not 'lost'; and
  - under-utilisation of infrastructure — arising from, as stated by the ACT, relocation of Commonwealth offices — because such relocations also happen in other States.

- (iii) Recognise the additional planning for the local region (\$0.4 million) as in the 1999 Review.

### ***Administration of Justice<sup>11</sup>***

102. In the 1999 Review and subsequent updates, the Commission assessed an amount of \$0.2 million for this category to compensate the ACT for criminal injuries compensation claims arising out of Commonwealth matters.

103. ***State views.*** The ACT requested the cessation of this factor because it has introduced new criminal injuries compensation legislation that has reduced the amount of payments made by the ACT for Commonwealth matters.

104. ***Options for assessments.*** Staff propose to recommend that no national capital allowance for this category be assessed in the 2004 Review.

### ***Culture and Recreation***

105. In the 1999 Review, a national capital factor compensated the ACT for the above standard level of open space and sportsgrounds in Canberra under the National Capital Plan.

106. ***State views.*** The ACT requested an increase in the assessment for Culture and Recreation from \$1.39 million to \$2.2 million to compensate for the above standard area of urban open space and sportsgrounds. The revised figure is based on the area of sportsgrounds and urban open space managed by the ACT, comprising 5 736.4 hectares as urban open space and 404 hectares as sportsgrounds. In the 1999 Review, the ACT had advised that it had 4 379.75 hectares of urban open space and sportsgrounds.

107. The claim by the ACT was based on the assumption that Canberra's sportsgrounds and urban open space areas were 50 per cent above standard. The ACT had some 14.2 hectares per 1000 population compared to an average of 9.6 hectares of such facilities per 1000 population for a number of similar sized communities.

108. Victoria argued that the above-average level of open space and sportsgrounds should not be assessed because it represented the combined result of policy decisions and Commonwealth-imposed requirements. It further argued that the associated costs should be viewed in relation to the benefits to the community.

109. The ACT also claimed an additional \$1.0 million for managing and maintaining Commonwealth Designated Areas. No data were provided.

110. ***Options for assessments.*** Staff would like the ACT to clarify that:

- (i) the specified areas of open space and sportsgrounds are over and above the standard level of similar areas in other cities or States, how

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<sup>11</sup> Refer to *Discussion Paper CGC 2002/36, Law and Order*.

the areas were calculated and the extent of the influence of the National Capital Plan on the increased area;

- (ii) it has no option but to manage Commonwealth Designated Areas; and
- (iii) the ACT is not reimbursed for (i) and (ii) by the SPP for municipal services from the Commonwealth, or through other arrangements.

### ***Urban Transit***<sup>12</sup>

111. The 1999 Review provided a national capital allowance for the ACT of \$1.5 million because of reduced bus patronage due to Commonwealth policies which prohibited parking fees being charged on Commonwealth land.

112. ***State views.*** The ACT argued that the national capital allowance should be increased to \$2.8 million based on an estimate from Action Bus Services. It calculated that the number of full fare paying passengers could be increased by 20 per cent if pay parking were introduced on Commonwealth land.

113. Victoria considered that the national capital factor should be removed from the assessment on the basis that many local governments have the authority to make decisions about parking charges without consulting State governments.

114. ***Options for assessments.*** The ACT has no scope to charge for parking on Commonwealth land, and this would have some negative impact on its bus patronage. However, there are now moves to introduce pay parking in these areas.

115. Commission staff intend to recommend the continuation of a National Capital Allowance unless the Commonwealth allows the introduction of pay parking in the Parliamentary triangle. Staff need to discuss the size of the allowance with the ACT.

### ***Public Safety and Emergency Services***<sup>13</sup>

116. In 1999, a national capital allowance of \$2 per capita was assessed to recognise the difficulties faced by the ACT in recruiting volunteer fire fighters for bush fire protection in the large areas of open space around the city<sup>14</sup>. In the 2002 Update, the total allowance assessed for the ACT was \$0.615 million.

117. ***State views.*** The ACT argued for an increase in the assessment for national capital influences to \$3.3 million. Of that, \$2.9 million would account for the additional costs due to its reduced capacity to recruit volunteer bush fire fighters, the high urban/bush interface and an inability to collect fire insurance levies on Commonwealth property.

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<sup>12</sup> Refer to *Discussion Paper CGC 2002/27, Urban Transit*.

<sup>13</sup> For further information, refer to *Discussion Paper CGC 2002/41: Public Safety*.

<sup>14</sup> In the 1999 Review, an allowance of \$1 per capita was assessed by judgement to account for the ACT's disability in recruiting volunteer fire fighters and another \$1 per capita for greater urban/rural interface in ACT.

118. The ACT presented evidence that its volunteer numbers were low on a per capita basis compared with those in other States, as shown in Table 7. It argued that the ACT, as the most highly urbanised jurisdiction, with over 99 per cent of its population resident in the capital city compared with an Australian average of 62.8 per cent, had little scope for recruiting volunteer bush fire fighters from less than one per cent of its population. Thus, it has to have a larger paid fire fighter workforce. The ACT also argued that its inability to collect fire insurance levies on Commonwealth property was not adequately reflected in the assessment. Commission staff note press reports that 100 additional volunteers are being trained for the 2002-03 fire season.

**Table 7** VOLUNTEER FIRE FIGHTERS BY STATE, 1999-2000

Volunteer Fire fighters	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Number	69 000	61 657	45 294	18 224	24 000	5 000	450	2 206	225 831
Persons per volunteer	93	77	78	103	62	94	689	88	80

Source: Compiled by ACT Emergency Services Bureau from information provided by jurisdictions.

119. The remaining \$0.4 million represented additional costs the ACT incurred in providing 'Level 3 responses' to Federal Government institutions, such as Parliament House, Commonwealth Government Departments and diplomatic missions, since 11 September 2001. There was also a claimed need for a greater response capacity in the ACT to enable its public safety and emergency services to prepare for the threat of terrorist attacks. The threat in the ACT is said to be larger than elsewhere because of the location of Commonwealth Government Departments and the diplomatic corps.

120. **Options for assessment.** Staff are inclined to recommend that the allowance of \$2 per capita for volunteer fire fighters and the greater urban/rural interface due to the national capital plan, be retained. An allowance for the ACT's inability to collect fire insurance levies on Commonwealth properties is recognised in the user charges assessment in which no capacity is attributed to the ACT in relation to Commonwealth properties.

121. However, staff are reconsidering the inclination set out in *Discussion Paper CGC 2002/41: Public Safety* to recognise the ACT's claim that the location of Commonwealth Government Departments and the diplomatic corps in the ACT lead to additional costs (at a cost of \$0.4 million). The payment by the Commonwealth of one-third (or approximately \$4.5 million in 2001-02) of the operating costs of the ACT fire brigade is intended to meet the cost of providing services for Commonwealth properties. That this payment was available was recognised in the way the economic environment factor was calculated — no Commonwealth activities were included in either the insurance claims data or the land valuation data. Whether the payment is also intended to cover the costs relating to 'level 3' responses to terrorism is unknown. Staff are endeavouring to clarify this.

## *Housing*<sup>15</sup>

122. In the 1999 Review, the Commission concluded that there were no grounds for assessing a national capital factor for the Housing category and that any budget inflexibility would have been addressed via a transitional allowance.

123. **State views.** The ACT sought a new assessment for housing to the value of \$13.0 million to compensate it for the costs of managing the portfolio of public rental properties it inherited from the Commonwealth. The costs take into account the physical attributes of the housing stock, the interest on debt, the unfunded maintenance liability, and the lack of alternative affordable rental housing arrangements that result in an increase for demand on the public rental housing system. Specifically, the arguments related to:

- (i) the deficiencies arising from past Commonwealth policies in relation to the provision of housing for public servants, inadequate maintenance of stock and a stock level twice the national average;
- (ii) the shift over time from public housing to welfare-based housing allocations which, together with national rent rebate policies, has contributed to the reduction in rent receipts and hence viability of rental portfolios;
- (iii) the ACT inheriting a substantial debt burden (\$130.1 million for the rental portfolio and \$189.2 million for the home loans portfolio) when the rental housing portfolio was transferred to ACT administration, which has added to the operating costs of the Territory's housing authority;
- (iv) the constraints imposed by the CSHA on managing a commercial operation (tenancy and property services); and
- (v) the requirement that receipts derived from asset sales (housing stock) be re-invested to provide public housing.

124. In particular, the ACT contended that:

- (i) it was not a party to the original negotiations to transfer stock and debt;
- (ii) contrary to the Commission's position in the 1999 Review, the Territory did not receive a transitional allowance for housing to address unfunded or delayed works; and
- (iii) the debt charges assessment may not have recognised the extent of the transfer of debt.

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<sup>15</sup> Refer to *Discussion Paper CGC 2002/33: Housing*.

125. **Issues and options for assessment.** The arguments are similar to those made in the 1999 Review. They were considered in depth at that time. Although the argument has been included under ‘national capital’, the argument is in effect about a transitional allowance because it arises from the ACT’s transition to self-governance.

126. While restructuring to reduce public housing stock takes time, it is not clear that the ACT has not already had sufficient time since self-government to do so. Thus, staff do not accept that the ACT still has needs relating to Commonwealth past policies in this area.

127. Staff are inclined to recommend to the Commission that it not assess a national capital allowance for Housing because:

- (i) the ACT has had adequate time to deal with transitional costs due to Commonwealth policies; and
- (ii) while the terms of the CSHA may constrain the budgeting options of the ACT (and the other States), the ACT accepted those conditions when it accepted the most recent agreement.

### ***National Parks and Wildlife Services***<sup>16</sup>

128. **State views.** The ACT argued that it faces additional costs in the production of a management plan for the Canberra Nature Park because:

- (i) the reserve system is very complex;
- (ii) the plan must find a balance between the conservation values of the park required by the National Capital Plan and recreation uses which meet community expectations;
- (iii) extensive consultation with the National Capital Authority (NCA) and the general public is required; and
- (iv) all works proposals must be approved by the NCA.

The ACT suggested that an allowance of \$0.5 million would reimburse it for national capital costs relating to the management (as opposed to the operating costs) of the Canberra Nature Park.

129. **Options for assessment.** Staff think the ACT may have an argument in relation to the additional planning requirements it faces under the National Capital Plan and the NCA. Additional evidence will be required, however, to show that the whole of the annualised costs should be recognised as a disability.

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<sup>16</sup> Refer to *Discussion Paper CGC 2002/42, National Parks and Wildlife Services*.

## ***Transport — Roads***<sup>17</sup>

130. ***State views.*** The ACT requested a National Capital allowance of \$4.7 million per annum comprising:

- (i) \$3.8 million for the shorter lifespan (earlier rehabilitation and maintenance) of a significant portion of the road network, resulting from the Commonwealth's:
  - sub-standard design and poor supervision of road construction; and
  - poor heavy vehicle controls with respect to dimensions and mass, resulting in the overloading of heavy commercial vehicles; and
- (ii) \$0.9 million for excessively wide roads built by the Commonwealth.

131. In 2001, the Australian Roads Research Board (ARRB) transport research group conducted a sample survey of ACT roads for roughness, rutting and deflection. It claimed that almost a third of the ACT's roads were in a poor to unsatisfactory, or very poor, condition. The ARRB transport research group also found that some roads required maintenance earlier than would be expected and attributed this to Commonwealth policies.

132. The ACT noted that many problems experienced with their roads were reported to the National Capital Development Commission in a 1981 report<sup>18</sup> but no subsequent action was taken by the Commonwealth to repair them prior to self government.

133. ***Options for assessment.*** Without disregarding the possible impacts of Commonwealth policy, staff note that the road system inherited by the ACT may cost less to maintain because:

- (i) the road infrastructure is relatively new when compared with that of other States;
- (ii) the decentralised nature of the town plan reduces intensive road use; and
- (iii) the relative lack of manufacturing industry leads to low use by heavy vehicles.

134. Austroads publishes data on the roughness of urban arterials in the States using the 'National Association of Australian States Road Authorities Roughness Meter' (NRM). On this scale, an NRM count of 40 is considered very comfortable while a count of 140 is considered uncomfortable by most drivers. Table 8 shows that urban arterials in the

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<sup>17</sup> Refer to *Discussion Paper CGC 2002/34, The Roads Assessment*.

<sup>18</sup> Martin, Teo and Ryan, 1981, *Investigations into existing Road Pavements and Subgrades in the ACT*, ARRB, Canberra.

ACT are not as rough as those in most other States (although data for the ACT lagged one year behind the others).

**Table 8** ROAD PAVEMENT SURFACE CONDITION – URBAN ARTERIALS, 1998-99

State	Roughness less than 110 NRM	Roughness less than 140 NRM
	%	%
New South Wales	83	93
Victoria	89	96
Queensland	91	97
Western Australia	99	100
South Australia	85	95
Tasmania	na	na
ACT	95 <sup>(a)</sup>	100 <sup>(a)</sup>
Northern Territory	97	99

Note na means not available.

(a) 1997-98 figures.

Source Roadfacts 2000, Austroads Table 2.11 p30.

135. The ACT's claim for an allowance for wider than average road lanes deserves consideration. Although the Commission does not specify an 'average' road width, the ACT has used the Australian Roads Research Board's report to the Commission in the 1999 Review to calculate an Australian average width of 3.0 metres. The ACT has determined its average arterial road lane width to be 3.96 metres. Using the maintenance cost per lane kilometre adopted in the 1999 review, an estimate of additional cost of \$0.9 million was made.

136. Given that 90 per cent of the ACT's arterial roads were inherited from the Commonwealth, it seems realistic that extra costs are incurred to maintain these roads at similar standards.

137. Staff note that Tasmania advanced a claim (with similar logic) on its workplace visit — that is, that it experienced higher road maintenance costs because it had to maintain edges and verges on its narrow roads more frequently. It claimed that the narrowness of its roads were due to its mountainous terrain rather than policy. In this context we note that all governments inherit structures from the past, the only difference with the ACT is the influence of Commonwealth policy.

138. Staff do not propose to recommend that an allowance be assessed for deteriorating roads due to poor design or lack of load controls on heavy vehicles because we are not convinced that the roads in the ACT are in demonstrably worse condition than in other States. Staff also feel that although there may be some damage due to overloading, this damage is relatively small and could be controlled by ACT policy. It is intended that an allowance of \$0.9 million to assist the ACT to maintain roads of more than average width inherited from the Commonwealth be proposed.

139. Staff ask the ACT to clarify whether the \$0.9 million claimed for excessively wide roads built by the Commonwealth relates only to arterial roads.

### ***Tourism***<sup>19</sup>

140. ***State views.*** The ACT proposed that the Commission assess a National Capital allowance of \$5.7 million to recognise the impact of Commonwealth regulations and obligations imposed on the Canberra Tourism and Events Corporation (CTEC) regarding the staging of events within the Parliamentary triangle.

141. ***Issues and options for assessment.*** The issue is whether the Commission should consider that an unavoidable expense is incurred by the ACT Government because events are staged within the Parliamentary triangle. Commission staff think that the events are the results of the ACT Government's policy decisions and are commercially motivated. As such, they may be seen as economic development expenses which are discussed in *Discussion Paper CGC 2002/6: Economic Development*.

142. At present, similar promotional expenses incurred by the States are assessed by the equal per capita approach. Staff propose to recommend that the ACT's claim for a national capital allowance for expenses incurred by CTEC be assessed in the same way as other similar economic development expenses.

### ***Primary Industry***<sup>20</sup>

143. ***State views.*** The ACT argued that the Commission should assess a national capital allowance of \$0.3 million in Primary Industry, to recognise the extra costs of adhering to the National Capital Plan for forestry operations.

144. ***Issues and options for assessment.*** Staff are inclined to agree that the special requirements imposed by the Commonwealth on the ACT's forestry management — such as proximity of plantations to urban populations — under the National Capital Plan and the high level of recreational use of forest areas add to the costs of services provided to the forestry industry by the ACT. Therefore, subject to the outcome of the discussions, staff are inclined to recommend that a national capital allowance be assessed in Primary Industry for the 2004 Review.

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<sup>19</sup> Refer to *Discussion Paper CGC 2002/38: Services to Industry*.

<sup>20</sup> Refer to *Discussion Paper CGC 2002/38: Services to Industry*.

## SPECIAL FISCAL NEEDS

### *The 2002 Update Assessment Approach*

145. In the 2002 Update, the special fiscal needs of the ACT were assessed to take account of differences between Commonwealth-ACT financial arrangements and Commonwealth-State arrangements. These allowances were for:

- (i) corporate affairs compensation — this arose because the ACT was excluded from the arrangements agreed between the Commonwealth and the States for payments for revenue foregone following the establishment of the National Scheme of Companies Regulations; and
- (ii) police — this arose because the ACT did not have control over the terms and conditions of Australian Federal Police officers employed in ACT policing in the ACT.

146. The assessment of an allowance for family law matters was discontinued in the 2002 Update following the introduction of the Federal Magistrates Service in mid-2000. Although some matters lodged under the previous arrangements are still being finalised, the ACT's involvement in this service will be minimal from 2002-03. Consequently, special fiscal needs relating to this will not be required in the 2004 Review.

147. **Corporate affairs compensation.** This was estimated by inflating expenses incurred in 1989-90 using relative 1998-99 prices<sup>21</sup>. The amount assessed for 2002-03 was \$4.0 million.

148. **Police.** The allowance was calculated as the current value of:

- (i) the estimated salary costs for a notional ACT police force based on the 1995-96 Australian average number of police per 100 000 people, multiplied by the actual ACT salary cost per police officer; less
- (ii) the estimated salary costs for the same sized notional ACT police force based on the Australian average salary per officer, adjusted for some disabilities<sup>22</sup>.

This gave an assessment of \$9.3 million for 1999-2000 that was inflated to \$10.7 million in 2002-03 using inflation rates provided by the Commonwealth Treasury.

149. An allowance was also made for consequential increases in superannuation and debt charges.

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<sup>21</sup> For this, the CPI excluding the effects of the GST was used following the practice of the Commonwealth Treasury.

<sup>22</sup> For example, input costs.

150. Table 9 summarises the assessed Special Fiscal Needs assessed in the 2002 Update.

**Table 9** SPECIAL FISCAL NEEDS ASSESSED FOR THE ACT, 2002 UPDATE

Special Needs	For 2002-03
	\$m
Corporate affairs	4.0
Police	10.7
Total	14.7

Source: Commonwealth Grants Commission, *Report on State Revenue Sharing Relativities 2002 Update*, p34.

### ***State Views***

151. The ACT supported a continuation of the assessment of special fiscal needs in the 2004 Review.

### ***Issues and options for assessment***

152. If the differences in Commonwealth-ACT arrangements relating to corporate affairs compensation and police operations were to persist, staff recommend that the Commission continue to assess special fiscal needs for the ACT in the 2004 Review, using similar approaches to those in the 2002 Update. The allowance for police services would need to be recalculated based on updated data on:

- (i) Australian average number of police per 100 000 people;
- (ii) actual salary cost per police officer in the ACT;
- (iii) Australian average salary cost per police officer; and
- (iv) the disabilities used for adjustments.

153. However, we ask the ACT to explain the outcome of the Commonwealth-ACT review into policing servicing that has taken place since the 1999 Review. The review was expected to provide the ACT with greater accountability and capacity in providing policy directions. Similarly, we understand that some negotiations have taken place with the Attorney General's Department in relation to Corporate Affairs Compensation. Information on progress with these would be appreciated.