

## CHAPTER 26

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# NATIONAL CAPITAL ALLOWANCES

### WHAT IS INCLUDED IN THE NATIONAL CAPITAL ALLOWANCES?

- 1 National capital allowances recognise the unavoidable extra costs incurred by the ACT because of Canberra's status as the national capital or because of legacies inherited from the Commonwealth at self-government.
- 2 In 1989, when the ACT was granted self-government, the Commonwealth established the National Capital Authority (NCA) to manage its continuing interest in the strategic planning and development of Canberra as the nation's capital. It did so, in part, through the development and management of the National Capital Plan. This plan places restrictions on some of the planning and development decisions in the ACT and can lead to higher costs for the ACT Government. These additional costs are not incurred by other States.
- 3 The National capital assessments also allow for additional costs incurred by the ACT as a result of the following cost legacies inherited at self-government.
  - The ACT has no practical alternative but to use the Australian Federal Police (AFP) as the provider of its policing services. This leads to higher costs because the AFP pays above average salaries to its employees.
  - Some of the arterial roads the ACT inherited from the Commonwealth at the time of self-government are wider than those in other States which leads to higher maintenance costs.
- 4 National capital allowances have been assessed in the past when the Commission accepted a conceptual case made by the ACT, supported with quantitative evidence. The allowances were calculated by directly assessing the impact of the national capital circumstances on the costs of providing services in the ACT.

**ASSESSMENT APPROACH**

- 5 In the 2004 Review, the Commission developed guidelines for assessing National capital allowances. In evaluating the merits of a claim, the Commission considered whether:
- the level of service provided and the cost per unit of service were outside the control of the ACT Government. If so, the allowance was based on the actual additional costs incurred by the ACT;
  - the level of service provided was within the control of the ACT Government, but the cost per unit of service was not. In this case, the allowance was based on the national average amount of services and the additional cost per unit of service incurred by the ACT; and
  - the level of service provided was outside the control of the ACT Government, but the cost per unit of service was within its control. In this case, the allowance was based on the standard level of cost per unit of service and the actual level of service.
- 6 The allowances assessed in the 2004 Review are shown in Table 26-1.

**Table 26-1 National capital allowances**

Reason	Amount in 2005-06 \$m
Above average salaries of Australian Federal Police (AFP)	7.464
The additional cost of wider roads, which were a Commonwealth legacy inherited at the time of self-government	2.928
The impact of the National Capital Plan on the ACT's capital works program	1.126
The impact of the National Capital Plan on planning and development activities	1.689
The impact of the National Capital Plan on the costs incurred by the ACT in operating a leasehold land management system	2.816
The additional costs incurred by the ACT in managing and maintaining above average urban open space and land classified as Designated Land Areas under the National Capital Plan	5.485
The above average areas of urban/bush interface under the National Capital Plan	0.563
The impact on ACTION pricing subsidies of the ACT's urban form	1.126
The reduced patronage on ACTION buses due to the Australian Government's policy of not imposing parking fees in the parliamentary triangle	0.563
The additional costs of managing the Canberra Nature Park under the National Capital Plan	0.113
The additional cost associated with employing bush fire fighters in the ACT	1.126
The heightened threat of terrorism on the ACT's national and diplomatic buildings	0.451
<b>Total allowances</b>	<b>25.451</b>

Source: Commission, Working Papers, 2004 Review Volume 7.  
Commission calculation.

- 7 For the 2010 Review, we concluded that undertaking a comprehensive review of national capital allowances was unlikely to identify new areas of disadvantage. However, to ensure the National capital assessments were consistent with all other assessments, the allowances

assessed in the 2004 Review were reviewed in light of the 2010 Review assessment guidelines, with their extra emphasis on simplification, reliability and materiality.

- 8 Those investigations indicate there is a strong conceptual case that the following national capital influences impose additional costs on the ACT, they can be measured reliably and have material effects. Consequently, the allowances have continued to be assessed.
- We accept that the ACT has no power to influence the terms and conditions of AFP employees and has no practical alternative but to use the AFP as the provider of its policing services. The allowance for the above average salaries for an assessed staffing level is assessed in the Justice services category.
  - We accept that the wider roads inherited from the Commonwealth at the time of self-government result in higher maintenance costs for the ACT. The allowance for wider roads will continue to be assessed in the Roads category until 2017-18 by which time roads existing at the time of self-government will have reached the end of their useful life.
  - We accept that the National Capital Plan does constrain planning and development decisions in the ACT and, as a result, imposes higher costs on the ACT. The allowances that relate to the influence of the National Capital Plan (excluding the management of the Canberra Nature Park) have been combined and are assessed in the Other expenses category.
- 9 We conclude that four allowances should be removed.
- The allowance for the additional costs of managing the Canberra Nature Park under the National Capital Plan has been discontinued because the costs of all national parks are to be assessed equal per capita (EPC) in the 2010 Review.
  - The allowance for the effects on the subsidy to ACTION of the free parking in the parliamentary triangle has been discontinued because, while free parking may lead to lower bus patronage and lower fare revenue, the ACT has not shown that it continues to affect the level of subsidy it must provide. This would be the case only if there were unused capacity on parliamentary triangle services during peak hours. Increased patronage resulting from the removal of free parking may in fact increase the level of subsidy required if additional services were required.
  - The allowance for the additional costs due to the low volunteer fire fighter numbers has been discontinued because all States are now experiencing difficulty in maintaining the levels of volunteer fire fighters. In addition, the number of volunteer fire fighters appears to be highly policy-influenced and is no longer related to the urban/rural characteristics of the States.
  - The allowance for the additional costs due to the influence of counter-terrorism has been discontinued because all States now have a responsibility to address this issue.
- 10 Most States acknowledge that the ACT faces additional costs because of its role as the National capital and accept that some assessments should be made. New South Wales is

concerned that the ACT has not made sufficient effort to control AFP costs and that it may be being compensated inappropriately for costs associated with the National Capital Plan. We are satisfied that the ACT cannot influence salary levels of AFP staff and that it is not compensated by the Commonwealth for the additional costs it incurs in association with the National Capital Plan.

- 11 The ACT considers that the allowances assessed in the 2004 Review provided appropriate levels of funding and that the allowances for the impact of free parking on bus revenue and its low volunteer fire fighter numbers should continue. However, we are not convinced that these impacts continued or are unique to the ACT.

## THE ASSESSMENT METHOD

### Police services

- 12 We consider the above average wages paid by the AFP have increased the costs of providing the assessed level of policing services in the ACT by \$11.428 million. As shown in Table 26-2, that amount has been calculated by:
- deriving a nominal level of ACT police staffing by applying an adjusted national average per capita level of police staff (sworn and unsworn officers combined<sup>1</sup>) to the ACT population; and
  - multiplying by the difference between average AFP and average State police staff salaries (sworn and unsworn officers combined) discounted for the interstate wages location factor to avoid double counting the higher underlying wage levels in the ACT<sup>2</sup>.
- 13 We adjusted the national average staffing level because in the Justice services assessment we assess the ACT as needing less than the average police staff to population ratio as a result of its demographic characteristics. The ACT staffing level is calculated by multiplying the national average per capita level of police staff by the ACT's justice services socio-demographic composition factor and its population.
- 14 Data used in the assessment are taken from the Productivity Commission's *Report on Government Services*, which is considered to be a reliable and comparable third party source. As these data will be available annually, we will use them to update the assessment. However, due to the time lag in production and availability of these data, we have indexed the most recently calculated allowance using the labour price index (since the allowance is for salaries).

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<sup>1</sup> In the 2004 Review, separate calculations were made for sworn and unsworn staff. However, a single calculation for total staff is simpler and produces results that are not materially different.

<sup>2</sup> The effect of the higher underlying wage levels is included in the location allowance. A similar adjustment was made in the 2004 Review assessment of Police national capital allowances.

**Table 26-2 National capital allowance — Police services**

	2005-06	2006-07	2007-08	2008-09
A. Total staff	59 587	61 382	62 455	
B. Total population	20 541 680	20 871 277	21 235 505	
C. Average staff [C = A / B]	0.00290	0.00294	0.00294	
D. ACT population	332 380	337 077	342 074	
E. Assessed staff [E = C * D]	964	991	1 006	
F. ACT socio-demographic composition factor	0.88924	0.88626	0.88540	
G. Adjusted assessed staff [G = E * F]	857	879	891	
H. Average State salary (a) \$	77 375	80 372	86 045	
I. ACT labour factor	1.03878	1.03608	1.02994	
J. Adjusted State salary [J = H * I] \$	80 375	83 272	88 621	
K. Average ACT salary (a) \$	89 081	93 414	100 938	
L. Difference [L = K - J] \$	8 706	10 142	12 317	
M. Assessed allowance [M = G * L] \$	7 463 886	8 910 826	10 971 297	11 428 434

(a) Excludes payroll taxation because the AFP is exempt from paying payroll tax.

Source: Productivity Commission, *Report on Government Services 2009, Justice*, statistical attachment.

ABS, Labour Price Index, Australia, 2009, Cat. No. 6345.0, Table 4a.

### Roads and planning allowances

- 15 In the 2004 Review, a comprehensive exercise was undertaken by the ACT Treasury to estimate the additional maintenance costs (in 2002-03 dollars) arising from the wider arterial roads and the additional costs arising from the National Capital Plan. We believe those estimates are robust and reliable and, when appropriately indexed, remain acceptable.
- 16 The allowances for the impact of the National Capital Plan and for Roads are in part labour related and should be indexed using a price index that takes account of both labour and non-labour costs. We have used the State and local general government final consumption expenditure implicit price deflator for this purpose and will continue to use this approach in updates. This is the national accounts aggregate that best reflects the expenditures of States<sup>3</sup>.

### Bringing the assessments together

- 17 Table 26-3 shows the National capital allowances assessed for 2008-09.

<sup>3</sup> The influence of local government final expenditure on this measure is estimated at only 5-10 per cent.

**Table 26-3 National capital assessment, 2008-09**

Category	Allowance assessed for 2005-06	Indexation (a)	Allowances assessed for 2008-09
	\$m	%	\$m
Justice services (AFP salary effect)	7.464	na	11.428
Roads	2.928	12.288	3.288
Other expenses (National Capital Plan effect)	12.806	12.288	14.380
Discontinued allowances	2.253	na	0.000
<b>Total</b>	<b>25.451</b>		<b>29.096</b>

(a) The allowance is updated for movements in the State and local general government final consumption expenditure implicit price deflator.

Source: ABS, Australian National Accounts: *National Income, Expenditure and Product, 2009, Cat. No. 5206.0*, Table 4 Expenditure on Gross Domestic Product (GDP), Chain price indexes.

### WHAT IS THE IMPACT ON THE GST DISTRIBUTION?

18 Table 26-4 shows the extent to which the assessment moves the distribution of the GST away from an EPC distribution. As the ACT is the only State that is assessed to incur national capital expenses, GST is redistributed to the ACT from the other States.

**Table 26-4 Impact on the GST redistribution of the National capital assessment**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
Dollars million	-9.1	-7.0	-5.7	-2.9	-2.1	-0.6	27.7	-0.3	27.7
Dollars per capita	-1.28	-1.28	-1.28	-1.28	-1.28	-1.28	78.46	-1.28	1.26

Note: The difference from an equal per capita assessment derived using 2006-07 to 2008-09 assessed revenue and 2009-10 GST.

Source: Commission calculation.

19 Table 26-5 provides a summary of the change since the 2009 Update.

**Table 26-5 Change since the 2009 Update, National capital assessment**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Shortening the review period	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Method changes	1.1	0.9	0.7	0.4	0.3	0.1	-3.4	0.0	3.4
State circumstances	-0.4	-0.3	-0.2	-0.1	-0.1	0.0	1.2	0.0	1.2
<b>Total</b>	<b>0.7</b>	<b>0.5</b>	<b>0.4</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>-2.2</b>	<b>0.0</b>	<b>2.2</b>

Source: Commission calculation.

20 The main changes in the GST distribution since the 2009 Update are due to:

- removing four allowances from the assessment;
- introducing a new indexing method to update the national capital expenses in the Roads and Other expenses categories; and

- adjusting the national average police staffing level, because we assess the ACT as needing less than the average police staff to population ratio due to its demographic characteristics.

## UPDATE PROCESS

- 21 We recommend that data used in these assessments be updated annually to ensure the relativities remain contemporary and consistent with the circumstances of the States.
- Justice services — police average staffing levels and salaries should be updated using data from the Productivity Commission’s Report on Government Services.
  - Roads and planning — the allowances should be updated using the State and local general government final consumption expenditure implicit price deflator from the ABS national accounts.

## SIMPLIFICATION

- 22 In the National capital assessment, simplification has been achieved by:
- combining the allowances that relate to the influence of the National Capital Plan. This removes the need to assess relatively small national capital allowances in a number of categories; and
  - combining the measure of sworn and unsworn staffing and salaries to estimate the police services allowance. In the 2004 Review, two calculations were undertaken, one for sworn staff and the other for unsworn staff.

## FURTHER INFORMATION

- 23 Background material in support of this assessment is published on the Commission’s website. That material includes the following documents, released for comment in the development of this assessment, together with State submissions responding to those documents:
- Staff discussion paper *2007/01-S Disabilities mainly affecting the ACT — cross-border and national capital*;
  - Commission position paper *2008/13 Disabilities mainly affecting the ACT*; and
  - *2010 Review Draft Report*.