

National capital

Overview

- 1 On 6 October 2023, the Commission issued a [consultation paper](#) on the draft national capital assessment. The Commission considered changes since the 2020 Review and their implications for the assessment method.
- 2 The Commission proposed to discontinue the national capital assessment if it is immaterial.
- 3 A summary of state and territory (state) responses to each consultation question is included below, as well as the Commission's draft position and the draft 2025 Review assessment method.
- 4 State submissions can be viewed [here](#).

Consultation questions

Q1. Do states support discontinuing the national capital assessment if the assessment is immaterial?

State views

- 5 Most states supported discontinuing the national capital assessment if it is immaterial. Western Australia and Tasmania noted that this would be consistent with the Commission's materiality thresholds and supporting principles.
- 6 The ACT did not support discontinuing the assessment. It recommended the Commission include in the planning allowance the additional investment costs incurred because of the National Capital Plan's impact on capital works, including the Canberra Theatre redevelopment and light rail projects. It noted that adding these costs would likely make the assessment material. At the state visit, ACT officials elaborated on the additional costs for the light rail project, noting the need for wire-free running, grass tracks and 'barrier free' design in the parliamentary zone.
- 7 The ACT also said the planning allowance should be continued and the police allowance suspended temporarily. The ACT expected its average actual police salary to revert to being higher than its average assessed police salary in the future.
- 8 Victoria said it would not support continuing an immaterial assessment on the basis that it may be material in the future. It suggested the Commission could test the materiality of the assessment in the next review.

Commission response

- 9 The Commission agrees that discontinuing the national capital assessment would be consistent with its materiality thresholds and supporting principles.
- 10 The Commission notes that judgement is required if a driver may become material in the future. However, while Australian Federal Police wage levels may increase in the future, the increase to ACT's average actual police salary would have to be significant for an assessment to become material. The last time that the national capital assessment was material in an annual update was in the 2020 Review.¹ This was when the ACT's actual average police salary was well above its assessed average police salary.² Even if Australian Federal Police salaries increase faster than state police salaries, the Commission does not anticipate the ACT's actual average police salary returning to this level before the next review. The Commission will consider relevant cost drivers for its assessments at that time.
- 11 In regard to including capital works costs in the planning allowance, the Commission has previously considered this proposal in the 2020 Review. It found that assessing these costs posed significant data issues. The Commission is not aware of any changes since this time that would have resolved these issues.
- 12 The Commission faces considerable challenges in calculating the unavoidable extra costs faced by the ACT because of the higher quality materials and design needed to satisfy the National Capital Plan's requirements. There are no explicit standards for the quality of materials and design used to meet these requirements. During the 2020 Review, the ACT's consultant suggested that any interpretation of these standards is subjective.³ Furthermore, as the consultant concluded in its report on Canberra parks, there is no means of determining whether infrastructure projects 'merely met the required standards, or exceeded them, and if so, to what extent'. The Commission therefore currently has no robust data on which to base an assessment of ACT's additional capital works costs that result from the National Capital Plan's requirements.

Commission draft position

- 13 The Commission acknowledges that the ACT faces additional costs because of the National Capital Plan's impact on its capital works projects, however an assessment of these costs cannot be made at this stage given data limitations.
- 14 The Commission proposes to discontinue the national capital assessment if it is immaterial.

¹ In the 2020 Review the national capital assessment increased the ACT's assessed GST needs by \$35 per capita. The materiality threshold at the time was \$35 per capita.

² The ACT's assessed average police salary is calculated as the state average actual police salary multiplied by the ACT's wage costs factor.

³ M Chappé, [Territory Design and Materials Standards Against NCA Standards](#), Rider Levett Bucknall, 2018, p 2.

Other issues raised by states

Cost advantages in the national capital assessment

- 15 New South Wales and South Australia raised concerns that the 2020 Review method for national capital only recognised the additional costs incurred by the ACT because of Canberra's status as the national capital.
- 16 New South Wales said that this is not consistent with the methodology for any other state in any other assessment.
- 17 South Australia suggested that any national capital assessment should also consider the cost advantages of Canberra's status as the national capital.
- 18 During the state visit, ACT officials said that Canberra's status as the national capital brought added amenities, but not cost advantages.

Commission response

- 19 The Commission acknowledges that the basis of the national capital assessment in the 2020 Review was to only assess additional costs incurred by the ACT. It did not anticipate that Australian Federal Police wage levels would fall below state police wages to such an extent that the police allowance would more than offset the planning allowance.
- 20 The Commission has previously recognised some cost advantages in the national capital assessment for the ACT, particularly prior to the territory first gaining self-government. For example, the state-type services offered by the Australian National Botanic Gardens previously reduced the ACT's national capital allowances. However, the Commission found defining and quantifying cost advantages to be both practically and conceptually difficult.
- 21 Given that national capital costs are likely to be immaterial even after accounting for police wage differences, the Commission does not need to develop an assessment to address any national capital costs (or potential advantages) in this review.⁴

Commission draft position

- 22 The Commission proposes not to assess any cost advantages or disadvantages relating to national capital status in the 2025 Review.

ACT's special circumstances

- 23 The ACT considered that the *Australian Capital Territory (Self-Government) Act 1988* Section 59(2) provides that the ACT is not liable for certain expenses related to its

⁴ Had the Commission not suspended the national capital assessment in the 2024 Update, the assessment would have reduced ACT's assessed GST needs by \$14 per capita.

special circumstances. The ACT said it would work with the Commission to determine these additional costs.

- 24 During the ACT state visit, officials noted that there was no mechanism to compensate the ACT for these additional costs other than through the process of horizontal fiscal equalisation.

Commission response

- 25 The Commission also interprets the *Australian Capital Territory (Self-Government) Act 1988* Section 59 as providing measures to ensure that its special circumstances are considered as part of federal financial relations. However, for its purpose of undertaking horizontal fiscal equalisation, the Commission must consider these special circumstances within the framework of its principles and methodology, including materiality thresholds.
- 26 If it is the case that national capital costs are not addressed within the process of horizontal fiscal equalisation, the Commission considers such an outcome would not be inconsistent with the *Australian Capital Territory (Self-Government) Act 1988*.
- 27 The Commission would welcome the opportunity to work with the ACT to determine any additional costs it incurs because of its special circumstances. However, addressing these costs through the horizontal fiscal equalisation process may prove difficult given data constraints. The Commission would need reliable evidence of the extent to which capital work costs are increased by the operation of the National Capital Plan.
- 28 As the Commission does not have robust data to inform an assessment of national capital costs that is fit for purpose and material, it proposes to not assess these costs for the 2025 Review.

Commission draft position

- 29 The Commission is open to working with the ACT as part of the next review process, to determine whether an assessment that captures the expenses incurred because of the ACT's special circumstances can be developed and is material.

Draft 2025 Review assessment method

- 30 The Commission proposes to discontinue the national capital assessment.

Indicative distribution impacts

- 31 Discontinuing the national capital assessment will have no change on GST distribution compared with the 2024 Update because the assessment was suspended for that update.