

National capital

Review outcomes

- The assessment was discontinued because an assessment based on the available data was no longer material and was unlikely to become material before the next review.
- The additional costs required for capital projects to meet the requirements of the National Capital Plan (including the light rail and Canberra Theatre redevelopment projects) were not able to be included in an assessment because of data limitations.
- If robust data on the additional costs for capital projects become available, the Commission will investigate in a future review whether an assessment for national capital expenses can be developed and is material.

Introduction

- 1 On 6 July 2024, the Commission published the [Draft Report](#) for the 2025 Methodology Review.
- 2 The Draft Report included a detailed analysis and response to issues raised by states and territories (states) in their [submissions](#) on the Commission's [consultation paper](#).
- 3 State submissions on the Draft Report can be viewed [here](#).
- 4 This chapter includes:
 - an overview of the issues considered throughout the review
 - the Commission's response and decision on each issue.

Issues considered

Materiality

- 5 The Commission considered whether the assessment should be discontinued on materiality grounds.
- 6 The 2020 Review national capital assessment method captured additional costs related to the operation of the National Capital Plan and for the use of Australian Federal Police. The assessment moves less than \$40 per capita distribution away from an equal per capita distribution and is therefore not material based on the Commission's 2025 Review materiality thresholds. This is largely driven by a decrease in the ACT's actual average police salary, which has fallen below its assessed average

police salary.¹ This resulted in negative assessed expenses for the assessment's police allowance. This allowance was designed to recognise that the wages of Australian Federal Police, whom the ACT must use as its police force, were historically higher than state police wages.

- 7 In the 2024 Update the assessment was suspended because the negative police allowance more than offset the planning allowance. Consistent with the 2020 Review method, the ACT was assessed to have no additional costs related to national capital matters.

State views

- 8 Most states supported discontinuing the assessment, with some noting that it would be consistent with the Commission's materiality thresholds and supporting principles.
- 9 The ACT did not support discontinuing the assessment. It recommended the Commission include the additional costs that some of its capital works projects incur because of the need to meet the National Capital Plan's requirements. It noted the impact the plan had on the Canberra Theatre redevelopment and light rail projects' costs. It said that including these costs would likely make the assessment material.
- 10 The ACT also requested the planning allowance 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.

Commission response

- 11 While Australian Federal Police wages may increase in the future, the Commission does not consider it likely that they would increase faster than state wages such that an assessment would become material before the next review. The ACT's average actual police salary would have to be substantially higher than its average assessed police salary for the assessment to be material.
- 12 While the Commission acknowledges the ACT incurs additional costs in ensuring its capital works projects meet the requirements of the National Capital Plan, it is not aware of any data that would allow it to determine what costs are involved in meeting the plan's requirements. Therefore, the Commission is unable to quantify the impact of the plan on the ACT's capital works projects.
- 13 If suitably robust data on the additional costs involved in the ACT's capital works projects become available, the Commission will investigate in a future review whether an assessment for national capital expenses can be developed and is material.

¹ The ACT's assessed average police salary is calculated as the state average actual police salary multiplied by the ACT's wage cost factor.

Commission decision

- 14 The Commission will discontinue the national capital assessment because an assessment based on the available data is no longer material.
- 15 The additional costs required for capital projects to meet the requirements of the National Capital Plan were not included in any potential assessment because of data limitations.

The ACT's special circumstances

- 16 In response to state comments, the Commission considered the ACT's special circumstance in relation to Commonwealth legislation and concerns about the nature of the national capital assessment in the 2020 Review.

State views

- 17 The ACT raised the issue of its special circumstances in the context of section 59 of the *Australian Capital Territory (Self-Government) Act 1988*. It considered this act provides that the ACT is not liable for certain expenses related to its special circumstances. The ACT said that it would work with the Commission to determine what these additional costs were.
- 18 New South Wales said that the ACT's treatment in the 2020 Review's national capital assessment was not consistent with the methodology for any other state in any other assessment. It held concerns that the assessment treated the ACT as a GST-recipient or GST-neutral state.
- 19 South Australia suggested that any national capital assessment should also consider the cost advantages of Canberra's status as the national capital. It suggested that the assessment should be based on the relative advantages and disadvantages of both planning and police costs.
- 20 During the state visit, ACT officials said that Canberra's status as the national capital brought added amenities but not cost advantages. The ACT noted that there is no mechanism to compensate it for the additional costs associated with its special circumstances other than through the process of horizontal fiscal equalisation.

Commission response

- 21 The Commission interprets the ACT's self-government act 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 needs to consider these special circumstances within the framework of its principles and methodology, including materiality thresholds.
- 22 Given the data limitations mentioned above, the Commission does not have robust data to inform an assessment of national capital expenses that would be fit for purpose and material for this review.

- 23 Regarding national capital cost advantages, the Commission had recognised some cost advantages in the assessment for the ACT in the 1980s and early 1990s. For example, the state-type services offered by the Australian National Botanic Gardens previously reduced the ACT's national capital allowances. However, the Commission has found defining and quantifying cost advantages to be both practically and conceptually difficult.
- 24 An assessment of national capital costs based on the available data would not be material even if the Commission chose to recognise negative assessed GST needs for the ACT. For this reason, the Commission did not need to develop an assessment to address any national capital costs (or potential advantages) in this review.

Commission decision

- 25 The Commission will discontinue the assessment to address national capital cost disadvantages because it is no longer material. The Commission will not develop an assessment to address cost advantages because of data limitations.

GST impacts of method changes

- 26 The national capital assessment was suspended in the 2024 Update. Therefore, there are no GST impacts of discontinuing the assessment.