

NATIONAL CAPITAL — ASSESSMENT RESULTS

- 1 This working paper describes the assessment of national capital factors and the results in the 2008 Update. The development of the assessment method in the 2004 Review is discussed in Volume 7 of the 2004 Review Working Papers.

Description of the factor

- 2 National capital factors allow for the extra costs incurred by the ACT resulting directly from influences that were unavoidable consequences of Canberra's status as the national capital and the seat of the Australian government. They have been a feature of the Commission's assessments of ACT finances since 1984.

ASSESSMENT METHOD

Description of the assessment

- 3 In the 2004 Review, the Commission assessed national capital allowances as separate expense components in relevant categories. The allowances were calculated by direct assessment of the impacts of national capital circumstances on the costs of providing services in the ACT. The same allowances were assessed in each of the five years of the review. National capital assessments were made in the following categories:
 - Public Safety;
 - Culture and Recreation;
 - National Parks and Wildlife Services;
 - Urban Transit; and
 - General Public Services.
- 4 In the 2008 Update, for these five categories, the allowances assessed for 2000-01 to 2002-03 have been maintained at their 2004 Review levels while the allowances for the years after 2002-03 have been derived by escalating the 2002-03 amounts by the movement in the Consumer Price Index (CPI). This method of updating the national capital allowances for these categories, will continue until the 2010 Review.

5 Under the Commission’s expenses assessment framework, the assessed allowances for the affected categories were used to derive national capital component weights and national capital factors for all years of the 2008Update. The national capital assessment for each year of the update, for each affected category, was based on the combination of the national capital component weight and factor for each year. The component weights are updated annually to reflect changes in the average expenses, and the size of the allowances assessed.

RESULTS FOR 2006-07

6 Table 1 sets out the national capital allowances assessed for each year of the 2008 Update. The larger increase in the assessed allowance for Police in 2005-06 was the result of using updated data published by the Productivity Commission, while all other increases are in line with the movement of CPI.

Table 1 National capital allowances assessed for the ACT, 2008 Update

Category	For 2000-01 to 2002-03	2003-04	2004-05	2005-06	2006-07
	\$m	\$m	\$m	\$m	\$m
4440 Police	5.221	7.291	9.752	8.491	8.737
4470 Public Safety	1.900	1.945	1.992	2.056	2.115
4710 Culture and Recreation	4.870	4.985	5.106	5.269	5.422
4720 National Parks and Wildlife Services	0.100	0.102	0.105	0.108	0.111
5430 Roads	2.600	2.661	2.726	2.813	2.895
5435 Urban Transit	1.500	1.535	1.573	1.623	1.670
5525 General Public Services	5.000	5.118	5.243	5.410	5.567
Total allowances	21.191	23.636	26.497	25.771	26.518

7 **National capital factors.** For each category with a national capital assessment, national capital factors were assessed by dividing each State’s per capita allowance by the Australian per capita allowance. As national capital allowances are not assessed for other States, the total allowances are the same as those assessed for the ACT. So, its factor is equivalent to dividing the Australian mean resident population by its mean resident population. For 2006-07, this produced an ACT factor of 61.95227 for each category listed in Table 1. The factor for other States was zero.

8 **National capital component weights.** For each category with a national capital assessment, a national component weight was assessed for each year of the update by dividing the total allowances by the total category expense. This gave the proportion of total expenses to which the factor was applied. The component weights for 2006-07 for each affected category are shown in Table 2.

Table 2 National capital, component weights, 2006-07, 2008 Update

Category	2006-07 allowance	Category expenses	Component weight
	\$m	\$m	Per cent
4440 Police	8.737	5 895.2	0.15
4470 Public Safety	2.115	1 789.5	0.12
4710 Culture and Recreation	5.422	2 455.5	0.22
4720 National Parks and Wildlife Services	0.111	680.0	0.02
5430 Roads	2.895	7 310.3	0.04
5435 Urban Transit	1.670	5 234.7	0.03
5525 General Public Services	5.567	5 799.4	0.10

CONTRIBUTION TO GST REVENUE DISTRIBUTION

- 9 Table 3 shows the redistribution of GST revenue and Health Care Grants (hereafter described as GST revenue) caused by the national capital assessment in the 2007 Update and the 2008 Update.
- 10 Compared with an equal per capita assessment, the 2008 Update redistributed \$28.0 million to the ACT from the other States, \$1.3 million less than in the 2007 Update. The decrease in the 2008 Update was to be expected, as most expenses are indexed to CPI which has grown more slowly than the pool over the years 2002-03 to 2006-07.
- 11 The assessment for the Police category is based on the assessed number of staff (both 'sworn' and 'unsworn' staff), the average salaries paid to Police staff in all States and the average salary paid by the ACT government. In the 2004 Review, the Commission accepted the Australian Government, not the ACT government, was responsible for determining the terms and conditions of employment of AFP employees involved in the provision of police services to the ACT.

Table 3 National capital, effect of assessment on GST revenue distribution, 2007 Update and 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Redistribution from EPC resulting from the 2007 Update assessment (a)	-9.9	-7.4	-5.9	-3.0	-2.2	-0.7	29.3	-0.3	29.3
Redistribution from EPC resulting from the 2008 Update assessment (a)	-9.3	-7.1	-5.7	-2.9	-2.1	-0.7	28.1	-0.3	28.1
Total effect of revisions and updating^(b)	0.5	0.3	0.2	0.1	0.1	0.0	-1.2	0.0	1.2

(a) Assuming the same pool and a constant population as those used in the 2007 Update.

(b) This figure shows the change in the amount redistributed among the States between the 2007 Update and the 2008 Update. It does not necessarily equal the difference in the total redistribution from EPC between the two inquiries.

This chapter was prepared by the Expense — Education section of the Commonwealth Grants Commission. If you have any questions about its content please contact Nick Reddan on (02) 6229 8869 or Nick.Reddan@cgc.gov.au.



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