




Australian Government
Commonwealth Grants Commission

2025 Methodology Review

National capital consultation paper

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Overview of category¹

- 1 The national capital assessment covers 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.

Current assessment method – 2020 Review

- 2 The national capital allowances are assessed as part of the other expenses and justice categories. The 2 allowances are:
- planning
 - police.
- 3 Table 1 shows the structure of the national capital assessment.

Table 1 Structure of the national capital assessment

Driver	Influence measured by driver
Planning	Recognises the additional costs due to the impact of the National Capital Plan on planning and development activities, the administrative costs of capital works and maintenance of the leasehold system.
Police	Recognises the additional costs to the ACT from using the Australian Federal Police to provide police services.

Source: Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities, 2020 Review*.

- 4 To calculate the ACT’s additional costs that are the result of the National Capital Plan and leasehold system, the Commission multiplies the data submitted in 2017–18 (Table 2) by the State and Local Government Final Consumption Expenditure chain price index.

Table 2 Submitted planning costs, 2020 Review

	2017-18
	\$m
Additional costs imposed by the National Capital Plan in relation to planning and development activities	1.8
Additional costs imposed by the National Capital Plan in relation to capital works program administration	2.2
Additional costs incurred by the ACT in operating a leasehold system	2.5

Source: Commission calculation and ACT Rejoinder submission, 2020 Review.

- 5 The Commission also recognises that the ACT Government is required to use the Australian Federal Police for its policing services.² At the time of the 2020 Review this resulted in additional costs for the ACT because the Australian Federal Police paid above-average salaries to its employees.

¹ National capital expenses are assessed as a component of the other expenses category and as a subcomponent of the police component within the justice category.

² *Australian Capital Territory (Self-Government) Act 1988*, subsection 23(1)(c).

- 6 The Commission determines the additional policing costs in 3 steps (Table 3).
- First, it derives a notional level of ACT police staffing by applying the national average per capita number of police staff (sworn and unsworn staff combined) to the ACT's population.
 - Second, it determines the difference between the average ACT police salary and the average salary of police staff (sworn and unsworn staff combined) across all states.
 - Third, it calculates the police allowance by multiplying the notional level of ACT police staffing by the difference in salaries.

Table 3 Calculating the police allowance, 2023 Update

	Unit	2019-20	2020-21	2021-22 ^(a)
Calculate notional ACT staffing				
Total staff [A]	no.	78,350	79,922	79,922
Total population [B]	'000	25,522	25,634	25,762
Average staff [C = A / B]	no.	0.003	0.003	0.003
ACT population [D]	'000	446	451	453
Assessed staff [E = C * D]	no.	1,369	1,407	1,406
ACT socio-demographic characteristics factor [F] ^(b)		0.761	0.760	0.760
Adjusted assessed staff [G = E * F]	no.	1,041	1,070	1,068
Calculate difference in salaries				
All state average actual police salary [H] ^(c)	\$	132,696	135,802	135,802
ACT wage costs factor [I]		1.046	1.029	1.058
Assessed ACT police salary [J = H * I]	\$	138,734	139,788	143,715
ACT average actual police salary [K] ^(c)	\$	139,640	131,175	131,175
Difference [L = K - J]	\$	906	-8,613	-12,540
Labour price index adjustment [M]		1.000	1.000	1.021
Difference in salaries [N = L * M]	\$	906	-8,613	-12,801
Calculate police allowance				
Assessed allowance [O = G * N]	\$m	0.9	-9.2	-13.7

(a) For the most recent assessment year, the Commission uses the previous year's policing data as a placeholder because the Productivity Commission does not release its *Report on Government Services* in time for use in calculating the annual GST relativities.

(b) The socio-demographic characteristics factor is calculated within the justice assessment by dividing the ACT's police socio-demographic assessed expenses by its population share of total state police socio-demographic assessed expenses.

(c) Excludes payroll tax because the Australian Federal Police are exempt from paying payroll tax.

Source: Productivity Commission, '6 Police Services' [data set], [Report on Government Services 2022](#), Productivity Commission website, 2022, accessed 19 April 2023.

Australian Bureau of Statistics (ABS), 'Table 4a. Total Hourly Rates of Pay Excluding Bonuses: Public Sector by State, Original (Financial Year Index Numbers for year ended June quarter)' [time series spreadsheet], [Wage Price Index, Australia](#), ABS website, 2022, accessed 19 April 2023.

- 7 It is anticipated that the assessment of national capital expenses will result in negative assessed GST needs for the ACT in the 2024 Update. The issue is discussed in the [New Issues paper for the 2024 Update](#), where it is proposed that the national capital assessment be suspended for the 2024 Update. As the national capital assessment is designed to recognise only the additional costs incurred by the ACT,

the ACT having negative assessed GST needs would be inconsistent with the 2020 Review method.

Data used in the assessment

- 8 Data that inform the assessment of the additional costs resulting from the National Capital Plan and the leasehold system are found in the Commonwealth Grants Commission’s 2020 Review and ABS’s *Australian National Accounts: National Income, Expenditure and Product*.
- 9 Data that inform the assessment of the additional policing expenses are sourced from the Productivity Commission’s annual *Report on Government Services* and ABS’s *Wage Price Index*.

Category and component expenses

- 10 Table 4 shows the total expenses captured in the national capital assessment.

Table 4 Total national capital expenses, 2023 Update

	2018-19	2019-20	2020-21	2021-22
Total expenses (\$m)	17	8	-2	-6
Proportion of total expenditure (%)	0.0	0.0	0.0	0.0

Source: Commission calculation, 2023 Update.

GST distribution in the 2023 Update

- 11 Table 5 shows the total effect of the national capital assessment on GST distribution. The category distributed \$1 million (\$0 per capita after rounding) away from an equal per capita distribution in the 2023 Update.

Table 5 GST impact of the national capital assessment, 2023 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
Planning (\$m)	-3	-2	-2	-1	-1	0	9	0	9
Police (\$m)	3	2	2	1	1	0	-8	0	8
Total (\$m)	0	0	0	0	0	0	1	0	1
Total (\$pc)^(a)	0	0	0	0	0	0	1	1	0

(a) The Northern Territory’s per capita distribution in the 2023 Update was the result of an issue with the police allowance discussed below.

Source: Commission calculation, 2023 Update.

- 12 Further detail on service provision arrangements and the underlying conceptual cases for the assessment methods are explained in volume 2, chapter 29, [Report on GST Revenue Sharing Relativities, 2020 Review](#).

What has changed since the 2020 Review?

The expenses recognised by the assessment are decreasing

13 While the Commission recognises that the ACT continues to incur additional costs because of Canberra’s status as the national capital, these expenses are well below the materiality threshold. In the 2020 Review, the assessment distributed \$35 per capita to the ACT. This fell to \$1 per capita for the ACT in the 2023 Update.

ACT police salaries are now below average

14 Historically the Australian Federal Police has offered actual salaries above the ACT’s assessed police salary (Table 6).³ However, since 2020–21, the average ACT actual police salary (calculated as actual police wages divided by the number of full-time equivalent police staff) has fallen below the ACT’s assessed police salary (calculated as the all state average actual police cost multiplied by the ACT wage costs factor). As the difference between the ACT’s actual and assessed salaries forms the basis of the police allowance (see Table 3), the higher assessed salary has resulted in negative assessed expenses for the ACT. This has increased the assessed GST needs of all other states.

15 In the 2024 Update, it is likely that the negative assessed expenses from the police allowance will more than offset the assessed expenses from the planning allowance. This may result in negative assessed GST needs for the ACT in the national capital assessment.

Table 6 Difference between assessed ACT police salary and average actual ACT police salary, 2023 Update

	Unit	2017-18	2018-19	2019-20	2020-21	2021-22 ^(a)
Assessed salary ^(b)	\$	129,234	134,086	138,734	139,788	143,715
Average actual salary ^(b)	\$	135,011	144,109	139,640	131,175	131,175
Difference	\$	5,777	10,023	906	-8,613	-12,540

(a) For the most recent assessment year, the Commission uses the previous year’s policing data as a placeholder because the Productivity Commission does not release its *Report on Government Services* in time for use in calculating the annual GST relativities.

(b) Excludes payroll tax because the Australian Federal Police are exempt from paying payroll tax.

Source: Productivity Commission, ‘6 Police Services’ [data set], [Report on Government Services 2022](#), Productivity Commission website, 2022, accessed 19 April 2023.

Australian Bureau of Statistics (ABS), ‘Table 4a. Total Hourly Rates of Pay Excluding Bonuses: Public Sector by State, Original (Financial Year Index Numbers for year ended June quarter)’ [time series spreadsheet], [Wage Price Index, Australia](#), ABS website, 2022, accessed 19 April 2023.

Implications for assessment

- 16 The Commission has identified a single issue for consideration.
- Should the national capital assessment be discontinued if it remains immaterial?

³ ACT’s assessed police salary is the average police salary of all states adjusted by the ACT’s wage cost factor.

Should the national capital assessment be discontinued?

- 17 In the 2004 Review the Commission determined that the police allowance was appropriate while Australian Federal Police salary levels remained above those of their state colleagues.⁴ However, the ACT’s average actual salary was well below the state average in 2020–21 and 2021–22 (Table 7).

Table 7 Average actual state police salaries, 2017–18 to 2021–22

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
2017-18	144,286	118,944	128,747	135,339	131,401	122,129	145,522	155,082	132,037
2018-19	150,852	120,100	128,799	135,798	128,425	123,362	146,828	155,905	133,877
2019-20	145,873	127,360	130,458	129,828	142,584	122,934	142,242	152,648	135,165
2020-21	151,145	134,332	135,379	129,487	133,146	123,073	133,950	153,605	138,716
2021-22	167,149	137,888	129,947	138,966	128,063	126,357	135,316	153,270	143,410

Source: Commission calculation based on Table 6A.1 and Table 6A.2 of the Productivity Commission’s *Report on Government Services 2023*.

- 18 If the police allowance were discontinued, additional planning costs would be the only expense covered in the national capital assessment. The planning allowance moved \$18 per capita for the ACT in the 2023 Update, which is below the \$40 per capita materiality threshold for a driver in the 2025 Review.
- 19 During the consultation process for the 2020 Review, the ACT argued that the Commission was required to assess the ACT’s special circumstances under the *Commonwealth Grants Commission Act 1973* regardless of immateriality.⁵ For the 2025 Review, the Commission has received legal advice that this is not the case.
- 20 The Commission will test materiality prior to finalising the 2025 Review. If the assessment continues to be immaterial, the Commission’s preliminary view is to discontinue the assessment of national capital costs incurred by the ACT.

Consultation question

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

⁴ Commonwealth Grants Commission, *Report on State Revenue Sharing Relativities – 2004 Review*, CGC, 2004, p 78.

⁵ ACT Government, [Rejoinder Submission to Workplace Discussions](#), ACT Government, 2018, pp 7–9.

Proposed assessment

- 21 Subject to state views, the Commission proposes to not assess the national capital allowances for planning and police in the 2025 Review.

Consultation

- 22 The Commission welcomes state views on the consultation question identified in this paper (outlined below) and the proposed assessment. State submissions should accord with the 2025 Review framework. States are welcome to raise other relevant issues with the Commission.

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