



# **COMMONWEALTH GRANTS COMMISSION**

**DRAFT ASSESSMENT PAPER CGC 2003/12**

## **ASSESSMENT GUIDELINES**

Prepared for the Commission's 2003 Conferences on Draft Assessments

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## INTRODUCTION

1. At the Priorities Issues Conference in October 2001, and in more recent submissions, some States were critical of:

- (i) a lack of transparency in the Commission's assessment methods;
- (ii) the complexity of many assessments, although no uniform approach to simplify methods was suggested; and
- (iii) the use of judgement in assessments without supporting evidence.

2. Other States said that the use of judgement by the Commission was an inescapable aspect of the processes because data were often not available or of low quality.

3. In response to these views, the Commission developed a set of assessment guidelines to assist in making assessment decisions for the 2004 Review. The guidelines were based on those set out for the October 2001 Priorities Issues Conference in *Discussion Paper CGC 2001/9 Developing Simpler Assessments*, and later in *Discussion Paper CGC 2002/21 Socio-Demographic Composition and Information Paper CGC 2002/1 Guidelines for implementing Horizontal Fiscal Equalisation*.

4. The States generally supported the broad guidelines in the context of the assessment of socio-demographic composition disabilities. They emphasised that assessments should be generally supported by evidence. Victoria, in particular, has encouraged the Commission to apply a 'consistent burden of proof test' in making assessment decisions. However, most States also said the Commission should continue to exercise judgement where that was necessary, in the interests of achieving, or improving, equalisation.

5. The Commission acknowledges the necessity for transparency and consistency in its assessment decisions, especially when it has used judgement. Throughout the review it has emphasised the need for evidence to justify arguments for the existence of disabilities and for quantitative information to help it measure the impact on State revenues and expenses of the influences that States seek to have assessed as disabilities.

6. These assessment guidelines were developed to give guidance to assessment decisions. They were initially prepared to guide our thinking on assessing disability factors for expense categories, but the guidelines also apply to assessing revenue raising capacities.

7. The assessment guidelines have been applied as consistently as possible across assessment categories with a view to providing a structured framework aimed at improving transparency and consistency.

## ASSESSMENT GUIDELINES

### *What are they?*

8. In concept, the assessment guidelines are a pathway leading to an assessment decision. In practice, they are a logical sequence of decision points designed to assist the Commission in deciding whether a differential assessment should be made or not. They require the Commission to explain how it has come to a decision by making explicit the case it has accepted, the data it has to quantify the impact on State costs or State revenue raising capacity and whether it has used judgement. They also require the Commission to consider how important an assessment is, and whether it is sufficiently confident that proceeding with the assessment will improve the equalisation outcome.

9. The assessment guidelines cover concept, data, materiality, margin of error, and reality checking.

10. The assessment guidelines are as follows.

*The Commission will make an assessment when:*

- (i) a conceptual basis for the existence of the assessment is established – for example, it has been established that States experience different use and cost imposts when they apply the standard policy; and*
- (ii) either*
  - (a) there is empirical evidence that differences exist between States in the levels of use and/or unit costs in providing services or in their capacities to raise revenues; or*
  - (b) there is incomplete evidence that the identified influence is causing a difference between States, but the ‘in-principle’ case is strong, and we judge that sufficient evidence exists and that including the assessment improves the equalisation outcome;*
- (iii) the assessment is material; and*
- (iv) the margin of error associated with the assessment is acceptably small.*

11. If the application of the guidelines leads to a decision that an assessment should be made, the Commission will undertake a reality check of the results.

12. In addition to the above guidelines, the Commission has worked on the premise that it will lean towards, but not be bound by, developing assessment methods that are:

- as simple as possible, while not materially reducing equalisation; and

- updateable, so that equalisation continues to be achieved in subsequent updates.

13. The guidelines have been applied continuously by the Commission in making its assessment decisions and formulating assessment methods for the draft assessments.

14. The application of guidelines has caused the Commission to closely re-examine disabilities or revenue base measures applied under 1999 Review methods that rely on incomplete data — for example, where there was incomplete data on population, use of services and the impact of certain influences on the cost of providing services. As a result, there have been instances when we have concluded that use or cost weights could not be calculated or estimated with sufficient confidence for us to continue to assess the disabilities.

15. We emphasise that application of the guidelines does not mean that we have ceased to use judgement or to make assessments when complete data are not available. There continue to be many cases when we have concluded that there is a strong conceptual case for assessing a disability (or adopting a particular approach to measuring a revenue base) and that doing so will materially improve the equalisation outcome.

16. In those cases, we have often proceeded to make an assessment using judgement informed by the qualitative and quantitative information available to us, provided we were confident about the basis of the judgement and that it would provide a better equalisation outcome. The guidelines do however require us to be transparent about the use of judgement and to provide as much information as possible about its basis.