




Australian Government

Commonwealth Grants Commission

**2015 REVIEW
DRAFT QUALITY ASSURANCE
STRATEGIC PLAN**

STAFF DISCUSSION PAPER 2013-08-S

October 2013

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Submissions sought by	<p>Submissions should be emailed in Word format to secretary@cgc.gov.au by 31 January 2014</p> <p>Submissions of more than 10 pages in length should include a summary section.</p>
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CONTENTS

INTRODUCTION	1
OBJECTIVES	1
WHAT WE WANT TO ACHIEVE?	1
WHO HAS RESPONSIBILITY?	2
STRATEGIES	2
QA STRATEGIES FOR THE 2015 REVIEW	2
OBJECTIVE 1: CONCEPTUAL VALIDITY, RELIABILITY AND ACCURACY OF COMMISSION RELATIVITIES	3
OBJECTIVE 2: TRANSPARENT AND APPROPRIATE REPORTING OF METHODS, DECISIONS AND RESULTS	5
OBJECTIVE 3: MONITOR AND REPORT ON EFFECTIVENESS OF QA PROCESSES	7
IMPLEMENTATION OF QA STRATEGIES	7
 ATTACHMENTS	
ATTACHMENT A — TERMS OF REFERENCE	7
ATTACHMENT B — QUALITY ASSURANCE ACTION PLAN, 2015 REVIEW	12

INTRODUCTION

- 1 In mid-June 2013, the commission received terms of reference (ToR — a copy is in Attachment A) for a 2015 Review of methods used to distribute the GST (2015 Review). Clause 1c asks the commission to ensure robust quality assurance (QA) processes are in place when preparing its assessments.
- 2 Commission staff have developed this Quality assurance strategic plan for the 2015 Review. It is based on the 2010 Review QA strategic plan, which has been improved following feedback from the commission, commission staff and the States. It documents the processes the commission will put in place to quality assure its work and to demonstrate that these processes have been implemented. It will be translated into actions through annual operational work plans of the commission.
- 3 This plan is a living document that will be updated to reflect developments in the commission's work programs and assessments.
- 4 State views are sought on whether, when implemented, the plan will satisfy the requirements of the terms of reference 'to ensure robust quality assurance processes'. Comments should be provided by 31 January 2014 to secretary@cgc.gov.au. The contact officer for queries is Priscilla Kan (Priscilla.kan@cgc.gov.au or 02 6229 8849).

OBJECTIVES

WHAT WE WANT TO ACHIEVE?

- 5 The aim of the QA strategic plan is to ensure there are strategies in place that will result in reliable and accurate assessments of State fiscal capacities and to strengthen confidence in the processes undertaken in their development.
- 6 There are 3 objectives:
 - to assure our stakeholders of the conceptual validity, reliability and accuracy of the methodologies that will be used to distribute the GST to the States
 - to ensure the reporting of methods, decisions and results are transparent and in appropriate detail for their purposes
 - to report on the effectiveness of QA processes implemented.
- 7 Performance targets for the QA processes are:
 - to ensure commission decisions are evidence based and transparent

- to ensure staff follow commission decisions and the agreed work program in developing assessments
- to ensure data used are as fit for purpose and of as good quality as possible
- to minimise errors in assessment system applications
- to avoid errors in calculations that have material effects on the relativities
- to report on the work of the commission and resulting relativities in a transparent and verifiable manner
- to provide access to commission publications, documentation and supporting material on its website in a manner that will allow a wider audience to better understand the work of the commission.

WHO HAS RESPONSIBILITY?

8 Quality assurance of the assessment of State fiscal capacities is a shared responsibility between the Australian Treasury, State treasuries and the commission. All parties have a role to play in assuring the quality and acceptance of the work of the commission:

- the Australian Treasury, by specifying clearly what is required of the commission in the terms of reference
- the State treasuries, by providing good quality data, supporting evidence and arguments
- commissioners, by making sound decisions based on good quality data and evidence
- commission staff, by producing work that is rigorous, accurate, reliable and within the QA parameters specified by the commission.

STRATEGIES

QA STRATEGIES FOR THE 2015 REVIEW

- 9 The commission has 2 main work cycles:
- a cycle in which calculation methods are reviewed
 - an annual cycle in which the calculations are updated using the latest data (method change might be allowed subject to consultation with Australian and State treasuries).

These cycles are concurrent.

- 10 The commission's work involves:
- research, consultation and decision making on methods
 - calculations that implement those methods, using the latest available data
 - production of publications that explain the results, methods and decision making processes.
- 11 The commission will implement the following strategies in its work program for the 2015 Review (some will also apply to updates during and following the review) to achieve the objectives of this plan. Some strategies had already been implemented before we received the ToR in June 2013.

OBJECTIVE 1: CONCEPTUAL VALIDITY, RELIABILITY AND ACCURACY OF COMMISSION RELATIVITIES

- 12 The commission will apply the following strategies in developing its assessments to ensure they meet the requirements of the ToR, are conceptually sound, are based on the best evidence available, use the best quality data and are implemented accurately in its calculations.
- **Develop and implement a sound work program.** The commission will develop and circulate a work program to the States after receipt of ToR. States will be given the opportunity to comment on the program and, once agreed, it will be implemented.
 - **Develop equalisation principles consistent with the terms of reference.** The commission will develop principles of equalisation based on the ToR. Those principles will guide the commission when considering options for developing assessment methods.
 - **Develop assessment guidelines.** The commission will develop assessment guidelines to assist the development of reliable and material assessments. Commission staff will use these guidelines to recommend appropriate assessment methods, the States will use them to advance their arguments and the commission will use them in its decision making.
 - **Improve quality of data.** A Data Working Party (members include commission and State treasury staff) was established in August 2010 to improve the quality of data to be used in the 2015 Review. The Party reviews the data use and collection guidelines to ensure that suitable data are used in assessments, considers the need for a State data review process and identifies the data the commission will seek from the States. The Party reports to the commission on its projects.
 - **Use internal expertise to review assessments.** The commission will use its internal expertise and subject specialists to review methods and calculations to ensure that a consistent approach is taken and errors minimised. This includes

ensuring that the assessment guidelines have been followed, commission decisions recorded in minutes have been implemented correctly and the level of documentation provides an adequate explanation of decisions.

- **Engage external consultants to validate assessments.** The commission will engage external consultants to validate proposed methods (including econometric work) for complex assessments and to provide additional research in problematic or major assessments.

Provide the States with opportunities to provide input to commission work.

States will provide input through submissions, conferences and staff meetings on all aspects of the work program and development of assessments. We will develop systems to ensure issues raised by States are considered.

The States will play a vital role in improving data quality and in developing assessments through participation in assessment working parties.

To enable the States to provide more focused information to the commission, commission staff will provide templates and/or guidance to the States on what material the commission seeks in State submissions and meetings. Commission staff will also provide information sessions to State treasuries on assessments, if required.

- **Design a reliable and efficient calculation system.** An internal calculation system (the assessment system) has been developed and used by commission staff for the calculation of relativities. The system is designed to minimise human error — most staff are allowed to enter data only into the system and are not allowed to change the calculation formulae.

Workbooks are built in the system using a consistent format specified in the workbook guidelines. Automated checks are also built in the calculations. Commission staff will continuously review and improve the assessment system. The system will be audited if substantial changes are made to the underlying programming codes.

- **Provide training and clear guidelines to commission staff.** Commission staff will receive appropriate training in their assessment work and will follow a detailed work program showing tasks, responsibilities and deadlines.

Clear guidelines will be provided to staff to enable them to produce high quality work. Those guidelines will assist staff to:

- establish conceptually sound assessments and use good quality data
- build all calculations consistently in the assessment system as far as possible
- write high quality agenda papers, discussion papers and information papers.

Staff are required to follow guidelines to perform their tasks. These guidelines will be reviewed continuously to make them more helpful.

- **Audit calculations.** The commission will implement internal and external audits of calculations to minimise errors in the relativities. Different levels of audits will be made in a review and an update.
 - In an update, audits will be made on the implementation of commission decisions on new issues, the accuracy of calculation formulae and verification of data to their sources.
 - In a review, audits will also be made on the implementation of commission decisions on all assessments.
- Internal audits.** Processes will include:
- staff present and explain the results of their assessments to the Executive
 - self and cross-Section checks of all calculations
 - in a review, also check methods and implementation of commission decisions on all assessments.
- External audits.** External auditors will be engaged:
- in each update, to audit a proportion (around 25%) of all assessment calculations, including the assessment where method has changed
 - in a review, to validate proposed methods for complex assessments and whether the assessment guidelines have been used consistently in decision making for all calculations.
- **Audit of staff compliance with QA processes.** The commission will engage external auditors to audit staff compliance with QA processes in a review, and once every 2 years in updates.

OBJECTIVE 2: TRANSPARENT AND APPROPRIATE REPORTING OF METHODS, DECISIONS AND RESULTS

- 13 The commission will apply the following strategies to ensure the transparent and appropriate reporting of methods, decisions and results.
- **Inform the States on assessment development and decisions.** The commission will inform the States on progress of assessment developments and ask for their comments. This is done through the following mechanisms:
 - provide written papers to the States
 - hold bilateral and multi-lateral meetings between commissioners and senior officials in State Treasuries to discuss principles and conceptual issues

- hold meetings between commission and State staff to discuss problematic or difficult assessments and progress of developing assessments
- provide a draft report to the States on the commission’s preliminary decisions on assessments
- provide advice to the States on any major method changes in assessments between the draft report and the final report.
- **Provide adequate documentation in commission papers, reports, assessment system and website.** The commission will provide clear explanations of the development and justification of assessment methods in its papers, reports, the assessment system and website material. It will do this by:
 - explaining the method chosen in its papers
 - providing step by step explanation of the calculation process in the assessment system
 - providing a simple presentation of assessment material on the website.
- **Implement good information management practices.** The commission will implement good information management practices to ensure that all data and supporting materials are properly recorded and stored, and readily retrievable. Commission decisions will be recorded in minutes which will be written according to guidelines.

We will include a confidentiality statement in our data requests and papers to identify the confidential information in these materials to ensure that no confidential data will be published.
- **Publish commission papers and State submissions on the commission’s website.** The commission will publish its discussion and information papers and State submissions on the commission’s website during the review. We will publish a list of commission agenda papers and its final review report on the commission’s website after the review has finished.

We will provide different types and levels of information on the web for other audiences, to promote better understanding of equalisation and the work of the commission.
- **Provide commission calculations to State treasuries.** The commission will provide all its calculations including the raw data (except confidential data) to the States via the secured Assessment system online connection after the review/update has finished. Commission staff will provide training to State Treasury officers on how to use the assessment system, if required.

OBJECTIVE 3: MONITOR AND REPORT ON EFFECTIVENESS OF QA PROCESSES

- 14 The commission has designated staff to do the QA work. These staff setup guidelines, QA plan and monitor the quality assurance processes. The following strategies will be applied.
- setup guidelines and templates for staff to follow
 - prepare a QA action plan and circulate to all staff
 - monitor whether staff comply with the requirements listed in the plan
 - report on QA achievements in the commission's update and review reports.

IMPLEMENTATION OF QA STRATEGIES

QA ACTION PLAN

- 15 Commission staff has prepared a QA action plan to implement the strategies identified in this strategic plan (Attachment B). The QA action plan will be implemented through annual operational work plan.

ATTACHMENT A – 2015 TERMS OF REFERENCE



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Mr Alan Henderson AM
Chairperson
Commonwealth Grants Commission
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15 JUN 2013

Dear Mr Henderson

I am writing to you to convey the enclosed terms of reference for the Commission's 2015 *Methodology Review of GST Revenue Sharing Relativities*.

As you know, on 30 March 2011, the Government appointed the Hon John Brumby, Mr Bruce Carter and the Hon Nick Greiner AC to review Australia's system of distributing the GST amongst the States and Territories. The final report of the *GST Distribution Review* (Review) was released publicly on 30 November 2012. I discussed the recommendations of the Review with my State colleagues at the Standing Council on Federal Financial Relations meeting of 3 April 2013. The Standing Council agreed to initiate an expedited methodology review, including asking the Commission to take into account certain recommendations from Chapters 3, 6 and 7 from the Review.

The terms of reference also ask the Commission to consider the appropriate treatment of disability services during the transition to DisabilityCare Australia and once the full scheme is operating nationally and school education funding under the National Education Reform Agreement funding arrangements.

This review will require close and regular engagement with the Commonwealth and States. The terms of reference require the Commission to provide a draft report within 12 months of receipt of the terms of reference. The final report is due by 28 February 2015, in order to inform consideration of the 2015-16 GST revenue sharing relativities.

I appreciate that this will be a challenging task for the Commission, however I have every confidence that you can deliver within these timeframes.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Wayne Swan'.

WAYNE SWAN
enc

Terms of Reference

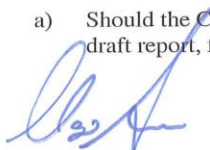
Commonwealth Grants Commission 2015 Methodology Review

I, Wayne Maxwell Swan, Deputy Prime Minister and Treasurer, pursuant to sections 16, 16A and 16AA of the *Commonwealth Grants Commission Act 1973*, refer to the Commission for inquiry into the methodological approach to determining the per capita relativities to be used to distribute Goods and Services Tax (GST) revenue among the States, the Northern Territory and the Australian Capital Territory (collectively referred to as the States) from 2015-16. The Commission should provide its final report to the Commonwealth and States by 28 February 2015.

1. In preparing its assessments the Commission should:
 - a) take into account the Intergovernmental Agreement on Federal Financial Relations (as amended), which provides that the GST revenue will be distributed among the States in accordance with the principle of horizontal fiscal equalisation;
 - b) aim to have assessments that are simple and consistent with the quality and fitness for purpose of the available data;
 - c) ensure robust quality assurance processes; and
 - d) develop methods to appropriately capture the changing characteristics of the Indigenous population.
2. In undertaking its assessments, the Commission should also have regard to the recommendations of the final report of the *GST Distribution Review* (October 2012) to:
 - a) consider the appropriateness of the current materiality thresholds (Recommendation 3.1);
 - b) consider the appropriateness of continuing to round relativities to five decimal places (Recommendation 3.2);
 - c) develop a new transport infrastructure assessment. This should include, if appropriate, a framework to identify payments for nationally significant transport infrastructure projects which should affect the relativities only in part and options for providing that treatment (Recommendation 6.1);
 - d) consider the use of data which is updated or released annually with a lag, or updated or released less frequently than annually (Recommendation 6.2);
 - e) examine the merits of adopting a simplified and integrated assessment framework (Recommendation 6.3);
 - f) investigate whether it is appropriate and feasible to equalise interstate costs on a 'spend gradient' basis (Recommendation 6.4);
 - g) develop a new mining revenue assessment (Recommendations 7.1 and 7.2); and
 - h) consider the appropriate treatment of mining related expenditure (Recommendation 7.3).

3. The Commission should prepare its assessments on the basis that:
 - a) National Specific Purpose Payments (NSPPs), National Health Reform (NHR) funding and National Partnership (NP) project payments should affect the relativities, recognising that these payments provide the States with budget support for providing standard state and territory services;
 - i. NHR funding and corresponding expenditure relating to the provision of cross-border services to the residents of other States should be allocated to States on the basis of residence.
 - b) NP facilitation and reward payments should not affect the relativities, so that any benefit to a State from achieving specified outputs sought by the Commonwealth, or through implementing reforms, will not be redistributed to other States through the horizontal fiscal equalisation process;
 - c) general revenue assistance, excluding GST payments, will affect the relativities, recognising that these payments are available to provide untied general budget support to a State or Territory;
 - d) those payments which the Commission has previously been directed to treat as having no direct influence on the relativities continue to be treated in that way. Where those payments are replaced, the treatment of the new payment should be guided by subparagraphs 3(a) – (c) and paragraph 4, unless otherwise directed; and
 - e) where responsibilities for funding and delivering aged care and disability services has not been transferred to the Commonwealth by a State under the NHR Agreement, these responsibilities will continue to be assessed as State services for that State.
4. Notwithstanding subparagraphs 3(a) – (c), with the exception of reward payments under NPs, the Commission may determine that it is appropriate for particular payments to be treated differently, reflecting the nature of the particular payment and the role of the State governments in providing particular services.
5. The Commission should consider the most appropriate treatment of disability services during the transition to DisabilityCare Australia (the National Disability Insurance Scheme) and once the full scheme is operating nationally.
6. The Commission will ensure that the GST distribution process will not have the effect of unwinding the recognition of educational disadvantage embedded in the National Education Reform Agreement (NERA) funding arrangements. The Commission will also ensure that no State or Territory receives a windfall gain through the GST distribution from non-participation in NERA funding arrangements.

7. The Commission will consult regularly with the Commonwealth and States as it considers these terms of reference.
8. The Commission will develop a work program, in consultation with the Commonwealth and States, which sees the matters outlined in paragraphs 1(d), 2(c), 2(g), 2 (h), 5 and 6 being progressed as a priority and subject to early consultation (including multilateral discussions) with the Commonwealth and States.
9. The Commission should provide a draft report for consideration by the Standing Council on Federal Financial Relations within 12 months from receipt of these terms of reference.
 - a) Should the Commission expect to make significant changes following consultation on the draft report, further consultation with the States on those changes will be required.



WAYNE SWAN

ATTACHMENT B — QUALITY ASSURANCE ACTION PLAN, 2015 REVIEW

Strategy	Responsibility	Deadline	Done?
Commission received 2015 Review terms of reference in mid-June 2013, ToR require draft report by June 2014 and final report by February 2015.			
OBJECTIVE 1: Conceptual validity, reliability and accuracy of commission relativities			
Provide clear terms of reference, including advice on how individual clauses should be interpreted	Australian Treasury	As needed through review period	
Develop the 2015 Review work program	Commission and staff	June 2013	
Seek input from the States on development of principles, priority issues and assessments through submissions, conferences and meetings (provide guidance to the States on what material the commission seeks)	Staff	As needed through review period	
Provide rigorous evidence-based advice to CGC on principles, priority issues and assessments	States	Majority before draft report	
Develop equalisation principles consistent with the terms of reference	Commission	Draft report	
Develop assessment guidelines based on 2010 Review version	Commission	October 2013	
Develop assessment methods consistent with terms of reference	Commission and staff	Majority before draft report	
Establish a Data Working Party (DWP) with States to consider data quality issues and report to commission (DWP established in August 2010)	Staff	As needed through review period	
Provide quality data to CGC	States	Before final report	
Develop systems to ensure issues raised by States are considered – submissions, meetings, other	Staff	As needed through review period	

Strategy	Responsibility	Deadline	Done?
Use internal expertise to review assessments — evaluate methods and calculations against assessment guidelines and commission decisions	Staff	Before draft report	
Engage external consultants to validate proposed methods (including econometric work) for complex or major assessments	Staff and external consultant	Before draft report	
Build calculations in Assessment system using a consistent format specified in the Workbook guidelines. Continuously review and improve and Assessment system (audits Assessment system underlying codes if major changes have been made)	Staff	Before draft report	
Provide training and clear guidance to commission staff on their assessment work and QA requirements, through <ul style="list-style-type: none"> clearly defined work programs, tasks and responsibilities guidelines and templates on writing papers and reports training on assessments, internal calculation system and quality checks on assessments 	Staff	On-going	
Conduct annual internal audits, through <ul style="list-style-type: none"> explaining results of assessments to the Executive checking own and colleagues' calculations 	Staff	Annual	
Engage external consultants to audit calculations (audit all calculations in a Review and around 25% of all calculations in each Update)	Staff and external consultants	Annual	
Engage external consultants to audit staff compliance with QA processes	Staff and external consultants	In a review and every 2nd Update	
Engage external consultants to ensure assessment guidelines have been followed consistently in decision making	Staff and external consultants	In a review	
OBJECTIVE 2: Transparent and appropriate reporting of methods, decisions and results			
Inform the States on progress of assessment developments and ask for their input, through commission and staff papers, meetings and draft report.	Commission and staff	As needed through review period	

Strategy	Responsibility	Deadline	Done?
Advise the States of major method changes between draft and final reports that result in material differences to assessments	Commission and staff	Between draft and final reports	
Provide clear explanation and verification of assessment methods and results in commission documentation, the assessment system and in website material	Staff	Till final report	
Offer on-going training to Treasury officers in assessment methods and the assessment system, if required	Staff	On-going	
Implement good information management practices to track all data and supporting material held by the commission	Staff	On-going	
Review and improve all guidelines, including the style manual, based on commission and staff feedbacks, and auditor recommendations	Staff	On-going	
Provide user-friendly material on the commission website, including simple explanations of equalisation and State fiscal positions	Staff	On-going	
Provide commission calculations to State treasuries through a secured connection	Staff	Annual	
OBJECTIVE 3: Monitor and report on effectiveness of QA processes			
Monitor whether staff comply with the requirements listed in the QA action plan and Review/Update work programs	QA staff	Annual	
Report on QA achievements in the commission's update and review reports	QA staff	Annual	