



Australian Government

Commonwealth Grants Commission

**COMMONWEALTH
GRANTS COMMISSION**

ANNUAL REPORT

2016-17

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CONTACT US

Inquiries regarding the licence and any use of this document should be directed to:

Director, Corporate Services

Commonwealth Grants Commission

First Floor, Phoenix House

86-88 Northbourne Avenue

BRADDON ACT 2612

Telephone (02) 6229 8825

Facsimile (02) 6229 8821

Email phil.parkins@cgc.gov.au

INTERNET

A copy of this annual report can be obtained from the [Commission's website](http://www.cgc.gov.au): (<http://www.cgc.gov.au>).



Australian Government
Commonwealth Grants Commission

CORRIGENDUM

COMMONWEALTH GRANTS COMMISSION ANNUAL REPORT 2016-17

The letter of transmittal to the Treasurer for the Commonwealth Grants Commission's Annual Report dated 20 September 2017 included the statement 'Section 63 of the *Public Service Act 1999* requires you to cause a copy of the report to be laid before each House of Parliament'. The letter was signed by the Chairman of the Commonwealth Grants Commission.

This is in error and should read 'Section 46 of the *Public Governance, Performance and Accountability Act 2013* states that, after the end of each reporting period for a Commonwealth entity, the accountable authority of the entity must give an annual report to the entity's responsible Minister, for presentation to the Parliament, on the entity's activities during the period'.

Yours sincerely

A handwritten signature in black ink that reads 'Michael Willcock'.

Michael Willcock
Secretary
Accountable Authority

20 October 2017



Australian Government
Commonwealth Grants Commission

Chairperson

First Floor, Phoenix House
86-88 Northbourne Avenue
BRADDON ACT 2612

Telephone: 02 6229 8811
Facsimile: 02 6229 8808
greg.smith@cgc.gov.au
<http://www.cgc.gov.au>

File Ref: 2017/0088

The Hon Scott Morrison MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

As Chairperson of the Commonwealth Grants Commission appointed under the *Commonwealth Grants Commission Act 1973*, I present you with the Commission's Annual Report for 2016-17. The report covers inquiries and other activities undertaken by the Commission during the year ended 30 June 2017.

Section 63 of the *Public Service Act 1999* requires you to cause a copy of the report to be laid before each House of the Parliament.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Greg Smith', with a large, stylized initial 'G' and 'S'.

Greg Smith
20 September 2017

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REVIEW

MAJOR OUTCOMES AND COMMISSION PERFORMANCE — 2016-17

- 1 The Commission's sole outcome under the outcome reporting framework for the 2016-17 Budget was informing government decisions on the distribution of the Goods and Services Tax (GST) so that horizontal fiscal equalisation (HFE) among the States and Territories¹ is achieved.
- 2 The major achievement during the year was the presentation to the Commonwealth Treasurer (and the States) of the *Report on GST Revenue Sharing Relativities 2017 Update* as required on 10 March 2017, with public release on 24 March 2017.
- 3 The terms of reference asked the Commission to report on the per capita relativities for determining the distribution of GST payments among the States in 2017-18 in accordance with the principle of HFE.
- 4 The Commission consulted the States on new assessment issues that arose for the first time in this inquiry. Submissions from all States on these matters were considered by the Commission before it finalised its recommendations on the updated relativities.
- 5 The Commonwealth Treasurer accepted those relativities and used them in the 2017-18 Commonwealth Budget to share the estimated GST for that year among the States.
- 6 The terms of reference, Commission papers, State submissions and the report, with supporting information, are on the [Commission's website](http://www.cgc.gov.au) (<http://www.cgc.gov.au>).
- 7 The Commission also received terms of reference for a review of the methods which should be used to calculate the per capita relativities to distribute the Goods and Services Tax (GST) among the States from 2020-21. This review has commenced. The Commission has settled a work program in consultation with the Commonwealth and State Treasuries and released a Staff Discussion paper on the HFE objective and its implementation. Comments on this paper from interested parties have been sought.
- 8 The Commission's performance criteria, set out in its Performance Budget Statement and Corporate Plan and discussed further in Chapter 1, were met.

¹ In this report, the word State(s) includes the Australian Capital Territory and the Northern Territory, unless the context indicates otherwise.

THE FINANCIAL RESULTS FOR 2016-17

The Commission's financial results are summarised below.

Table 1 Financial result, 2016-17

Outcome	2016-17 Allocation	2016-17 Net cost of services	Variance
	\$000's	\$000's	\$000's
Fiscal equalisation	6 203	5 078	1 125
Total	6 203	5 078	1 125

THE OUTLOOK FOR 2017-18

- 9 The Commission will continue its work on the review of methods to be completed in February 2020. The next step will be the receipt of submissions from State Treasuries and other interested parties on the HFE objective and its implementation. After discussions with State Treasurers and other officials, the Commission will consider all submissions and release its views by the end of September 2017. A Staff Discussion paper on how the objective might be implemented in individual assessments of what States need to spend and on what revenue they can raise if they followed average policy will be published by the end of April 2018. This will be followed by further visits to the States by the Commission and its staff to discuss these assessments and to better understand State service delivery and revenue raising in each State.
- 10 The Commission anticipates receiving terms of reference for an update of GST revenue sharing relativities for the 2018-19 financial year, with a report likely to be required in the first half of 2018. The methods used will be largely those set out in its 2015 Review report. Any changes in methods adopted will be determined by the requirements of the terms of reference or the agreed update principles, consistent with the principle of HFE. The Commonwealth and State Treasuries will be consulted. Commission staff have been collecting data in preparation for this update.
- 11 It is possible that the Government's response to a Productivity Commission Inquiry into the economic impact of HFE may have an influence on both the review of methods and the update of GST revenue sharing relativities.

CHAPTER 1

ANNUAL PERFORMANCE STATEMENT 2016-17

Introductory Statement

The annual performance statement is prepared in response to s39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) for the 2016-2017 financial year. It accurately presents the Commission's performance in accordance with s39(2) of the PGPA Act.

Purpose

The Commission operates under the *Commonwealth Grants Commission Act 1973*. It is a non-corporate Commonwealth entity under the PGPA Act and part of the Department of Treasury portfolio under the Administrative Arrangement Orders.

Its sole function is to provide advice to the Commonwealth Government in response to terms of reference from the Treasurer.

The Commission has a single outcome – Informed Government decisions on horizontal fiscal equalisation (HFE) between the States and Territories through advice and recommendations on the distribution of GST revenue.

HFE requires that State governments should receive funding from the pool of GST revenue such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.

In 2016-17, the outputs relating to the fiscal equalisation outcome were:

- completion of the Report on GST revenue sharing relativities, 2017 Update
- progress of work relating to a 2018 update of GST revenue sharing relativities
- commencement of a review of methods required by February 2020.

These outputs are intended to inform government decisions on the distribution of GST among the States. The distribution of GST among the States changed in 2017-18 as a result of recommendations in the 2017 Update Report.

Results

Performance criteria

The timeliness of reports.

- The Commission provided its advice to the Treasurer in line with the Commission's outcome and the Treasurer's terms of reference as required on 10 March 2017, with public release on 24 March 2017.

The extent to which parties are given opportunities to place their views before the Commission.

- The Commission staff issued papers on New Issues for the 2017 Update, the HFE objective and its implementation and a number of other papers to the States for consultation. These were also placed on the Commission website. Submissions from States and other interested parties on these papers have been sought. They have been received from States in relation to New Issues for the 2017 Update. The Commission considered State views before finalising the State GST shares for the 2017 Update.

The technical quality of the analytical work underlying and supporting the reports.

- The technical quality of the work underlying the report was attested to by external auditors whose consultancy reports are on the [Commission's website](http://www.cgc.gov.au) (<http://www.cgc.gov.au>).

The degree of acceptance of the reports by the Commonwealth and State Governments.

- A high degree of acceptance by governments of the well-established processes by which the Commission discharges its responsibilities and consults with States was achieved. The Commission's recommendations were adopted by the Treasurer and published in the 2017-18 Commonwealth Budget. They will be used to share the GST among the States in 2017-18.
- In reviewing 2017 Update process, the States expressed a high degree of satisfaction with update processes.

The extent to which the Commission operates within its budget.

- The Commission operated within its budget.

Criterion source

Treasury Portfolio Budget Statements (PBS) and Commonwealth Grants Commission Corporate Plan. Reference Treasury 2017-18 PBS-Program 1.1 page-237.

NOTES TO THE PERFORMANCE STATEMENT

2017 Update of State revenue sharing relativities

- 1 The main activity during the year was the presentation to the Treasurer of the *Report on GST Revenue Sharing Relativities 2017 Update*, as requested in terms of reference (Attachment A). The report was presented to the Commonwealth and the States as required on 10 March 2017 and released publically on 24 March 2017. This satisfied the requirements of the terms of reference and the timeliness performance criterion.
- 2 State relativities are updated annually using the methods established in the most recent review of methods and the latest available data. The terms of reference asked the Commission to report on the per capita relativities for determining the distribution of GST payments among the States in 2017-18 in accordance with the principle of HFE. They asked that the Commission's assessments:
 - be based on the application of the same principles, categories and methods of assessment that the Commission used to calculate the per capita relativities in its *Report on GST Revenue Sharing Relativities – 2016 Update* (see a copy of that report on the [Commission's website](http://www.cgc.gov.au) (<http://www.cgc.gov.au>)).
 - use the latest available reliable data for 2013-14 to 2015-16
 - follow the guidance on the treatment of Commonwealth payments and direction on how some payments should be treated.
- 3 The Commission consulted States on other new assessment issues relevant to their fiscal capacities that arose during the year. These included the treatment of new Commonwealth payments to the States, issues which arose in relation to the wages cost assessment and a number of data issues, including the provision of new distribution of land values by Queensland and revised National Disability Insurance Scheme (NDIS) data for the ACT.
- 4 Submissions from all States on these matters were considered by the Commission before it finalised its decisions on State GST shares. A list of the papers issued by the Commission is in Attachment C and State submissions can be found on the [Commission's website](http://www.cgc.gov.au) (<http://www.cgc.gov.au>). With this process, the Commission satisfied its performance criterion relating to consultation.
- 5 The Commission concluded in the 2017 Update report that the States' assessed fiscal capacities continued to reflect trends in their economies and other key influences on their circumstances. It found that the assessed fiscal capacities of New South Wales and the Northern Territory had improved, reducing those States' GST shares. New South Wales' stronger fiscal capacity was driven by an increased revenue capacity, principally because of its strong property market. The stronger fiscal capacity of the Northern Territory was driven by a fall in its costs of providing services resulting from a fall in its relative population growth, which reduced its need to invest in new

infrastructure, and declining relative costs in remote areas, mainly in community health and education services.

- 6 It also found that the assessed fiscal capacities of the other States had fallen, increasing those States' GST shares. For Queensland, South Australia, Tasmania and the ACT, this fall was marginal. Queensland's fall was due mainly to deterioration in its assessed revenue raising capacity and an increase in wages costs beyond its control. The fall in South Australia and Tasmania was due to the below average growth in their property markets and relative increases in population growth. The fall in the ACT's fiscal capacity was mainly due to weak growth in taxable private sector payrolls and an increase in the estimated numbers of NDIS participants.
- 7 Western Australia's share of GST revenue increased from 3.3 per cent to 3.8 per cent. While falls in commodity prices, particularly for iron ore, have reduced its capacity to raise mining royalties and increased its GST share, this was partially offset by a fall in its share of national population growth, reducing its need to invest in new infrastructure.
- 8 These findings were reflected in the recommended relativities which were published in the 2017-18 Commonwealth Budget and which will be used to share the GST among the States in 2017-18. This satisfies the performance criterion related to acceptance of the Commission's reports.
- 9 Following the update, the Commission sought feedback from the States on the following processes:
 - new issues
 - data requests
 - content of the report and supporting information
 - arrangements for accessing the report and assessment system online.
- 10 Comments were received from all States, expressing a high degree of satisfaction with the well-established processes by which the Commission discharges its responsibilities and consults with the States.

2018 Update of State revenue sharing relativities

- 11 The Commission expects terms of reference asking it to provide advice on State shares of the GST revenue for 2018-19. Therefore, the Commission has commenced its consultation processes relating to this update involving the collection of the latest data and the treatment of new developments relevant to State fiscal capacities. This will assist the Commission in satisfying its effectiveness indicators relating to consultation, timeliness and quality of the work underlying its recommendations.

2020 Review of methods

- 12 On 28 November 2016 the Treasurer gave the Commission terms of reference for a 2020 methodology review, requiring it to undertake a comprehensive review of all the methods underpinning its calculation of the GST relativities. The Commission has been asked to report to the Commonwealth and the States by 28 February 2020 (Attachment B).
- 13 Clauses 3 and 12 of the terms of reference direct the Commission to consult with the Commonwealth and the States, both in developing a work program to guide the review as well as throughout the review process. Accordingly, in consultation with the Commonwealth and the States, the Commission has developed a work program for the review. This can be seen in **Figure 1-1**.
- 14 Consistent with the work program, the Officer Working Party met in April as required and a Staff Discussion Paper on the principle of HFE and its implementation was issued in May 2017. The views of the States and other interested parties have been sought by the end of July. The Commission will then visit each State and discuss these views with State Treasurers and Treasury officials.
- 15 Again, parties are being given every opportunity to place their views before the Commission.
- 16 The Commonwealth Government has asked the Productivity Commission to undertake an inquiry into Australia's system of HFE, which underpins the distribution of GST revenue to the States. The Commission has made a submission to this inquiry and has undertaken to assist the Productivity Commission in its work. While the PC inquiry is independent of the 2020 Review of methods, the response to the PC inquiry by the Commonwealth Government may affect the work of the Commission.

Information dissemination

Details of reports and discussion papers issued, papers presented to conferences by Commission representatives, and visitors to the Commission during 2016-17 are in Attachment C. To make its work more transparent to parties and the public, all Commission reports (subject to the approval of the minister) and discussion papers, submissions and other material about how the Commission operates can be found on the [Commission's website](http://www.cgc.gov.au) (<http://www.cgc.gov.au>).

Figure 1-1 Indicative work program for 2020 Review

Date (a)	Event
2016	
28 November	Terms of reference received.
1 December	State views on work program processes sought.
2017	
February-March	States and Commonwealth consulted and work program finalised.
April	Officer Working Party (OWP) of Commission and State officials commence examination of specific issues (Canberra). Work program agreed and work started.
Mid May	Initial staff paper on approach to review, HFE, supporting principles and their implementation, including assessment guidelines, released. Supported by research/background papers.
End July	State submissions on staff paper on approach to review, HFE, supporting principles and their implementation, including assessment guidelines due. Remaining 'What States do' Papers to be placed on cloud. Comments welcome but optional – most useful prior to telepresences held to discuss the relevant category.
Late August/Sept	Bilateral discussions between the Commission and States on submissions.
End September	Commission paper sent to States on approach to review, HFE, supporting principles and their implementation, including assessment guidelines.
October-November	Telepresences – staff and Treasury officer discussions on changes to 2015 Review assessment methods based on alternative HFE approaches, what States do papers and other concerns.
2018	
End Feb?	State submissions on approach to review, the objective(s), supporting principles and their implementation.
March to June	Officers Working party meetings to discuss/report on specific issues. Third party experts could be included.
April	Preliminary staff paper released to States on scope and structure, treatment of Commonwealth payments, category and factor assessments (not OWP issues). Any changes to Commission views on HFE and principles would also be covered at this time.
May to August	Commission visits to States for discussions on assessment issues, including service delivery needs. Bilateral meetings with Treasurers/HoTs to cover key issues, if required.
End August	State submissions on scope and structure, treatment of Commonwealth payments, category and factor assessments.
Early December	Last date for OWP reports.
2019	
End February	Optional State submissions on OWP reports due.
End April/May	Commission provides draft report to Commonwealth and States.
June/July	Commission staff visit States to discuss the draft report.
July/Aug	Possible multilateral meeting between Commission and HoTs to discuss draft report.
End August	State submissions on draft report due.
End August	New issues paper issued by Commission staff.
End September	State submissions on new issues due.
Mid November	Commission paper sent to States on significant changes since the draft report.
Mid December	Final State comments due on proposed changes to draft report.
2020	
28 February	Commission provides final report to the Commonwealth and States.

Note: Indicative timing only. Dates in 2017 are firmer than those in 2019.

Resources

- 17 **Table 1-1** and **Table 1-2** show the financial and human resources used in producing the Commission's outputs. They show an operating surplus of \$1 125 for the 2016-17 financial year. A surplus occurred this year mainly because of a reduction in employee expenses and efficiencies made in administrative expenses. The Commission operated within its budget, satisfying the financial performance indicator.
- 18 The Commission received audit resources free of charge valued at \$45 000 from ANAO in 2016-17.

Table 1-1 Financial resources for outcome — fiscal equalisation

Price of Departmental outputs	Budget(a) 2016-17	Net Cost of Services 2016-17	Variation	Budget 2017-18
	\$'000	\$'000	\$'000	\$'000
Output 1.1 - Reports on fiscal equalisation				
Revenue from Government (Appropriations) for departmental outputs	6 203	5 078	1 125	6 126
Revenue from other sources	45	45	-	34
Total price of outputs				
TOTAL FOR OUTCOME 1	6 248	5 123	1 125	6 160

(a) Budget allocation to the Commission.

Table 1-2 Staffing resources

	2016-17	2017-18
Average staffing level	27	30

Financial results

- 19 The Commission's audited financial statements for the year ended 30 June 2017 are in Attachment I.

CHAPTER 2

MANAGEMENT AND ACCOUNTABILITY

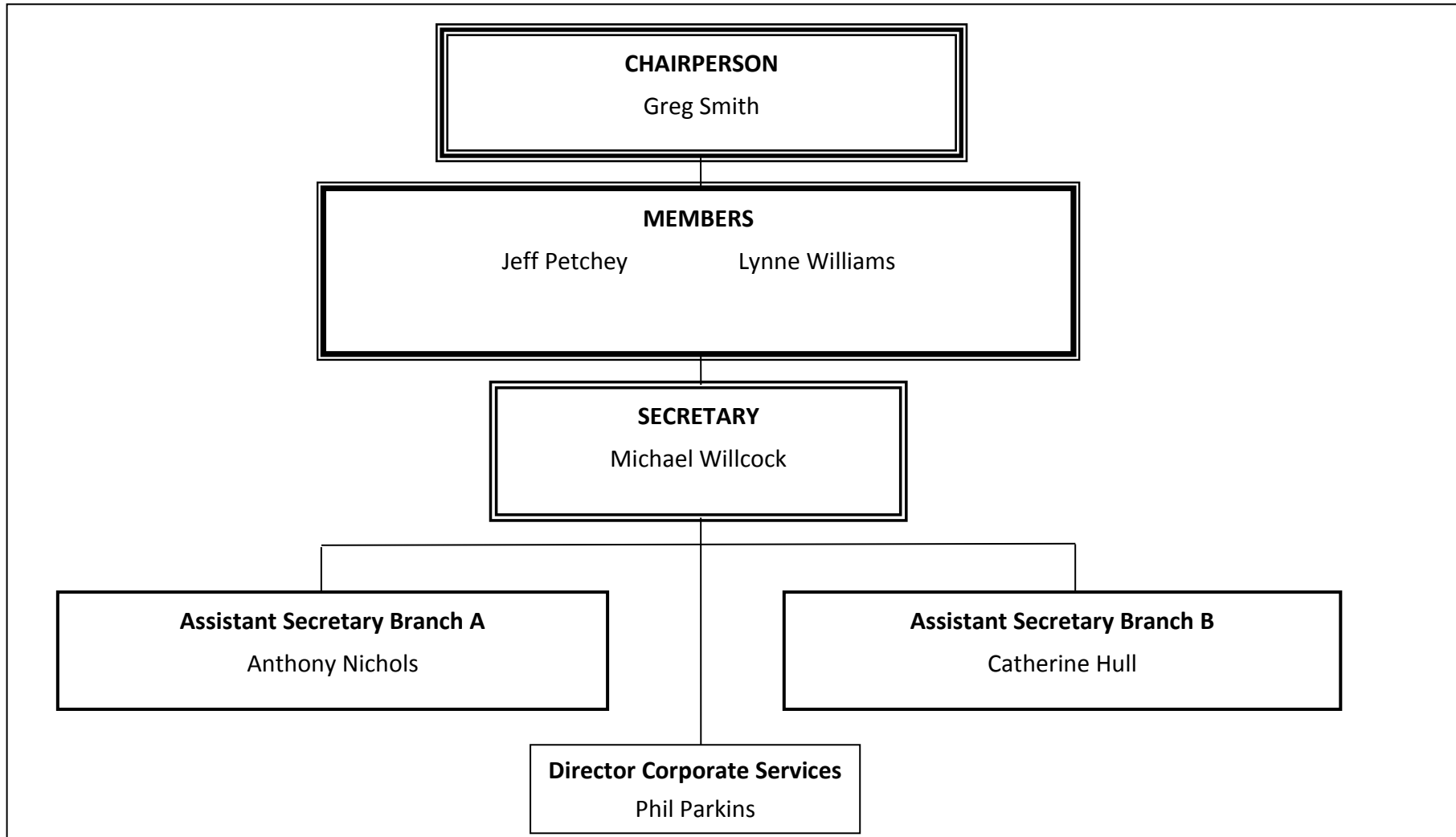
CORPORATE GOVERNANCE

The Commission and its employees

- 1 The Commission is led by a Chairperson. Section 15(1) of the *Commonwealth Grants Commission Act 1973* states the Chairperson's role is to 'ensure the efficient and orderly conduct of the business of the Commission; determine the form of the record of meetings; decide which members shall take part in a particular inquiry; and direct and control the travel by members'.
2. During 2016-17, the members of the Commission were:

Chairperson (part-time):	Mr Greg Smith, until 30 June 2018 inclusive
Members (part-time):	Professor Jeff Petchey, until 31 August 2021 inclusive
	Ms Lynne Williams until 31 August 2021 inclusive
- 3 Seven Commission meetings were held during the year which all eligible Commissioners either attended personally or via teleconference.
- 4 The employees who support the Commission are engaged under the *Public Service Act 1999*. The *Commonwealth Grants Commission Act 1973* gives the Chairperson the responsibility for controlling the use of the Australian Public Service (APS) employees made available to the Commission. In practice, the direction of their work is determined through meetings of the Commission. Employees are headed by a Secretary who, as the Chief Executive Officer and Accountable Authority, is responsible for their day-to-day activities.
- 5 During 2016-17, the average staffing level was 27.0 people compared to 29 in 2015-16. Staff were organised in 2 branches, each headed by an Assistant Secretary. A separate Corporate Services Section reported direct to the Secretary. For some projects, employees worked in small teams with representatives from several sections and, where appropriate, across branches. **Figure 2-1** shows the Commission's organisation structure at 30 June 2017.

Figure 2-1 Commonwealth Grants Commission — organisation structure as at 30 June 2017



Relationship with the Department of the Treasury

- 6 The Commission is part of the Department of the Treasury portfolio under the Administrative Arrangement Orders.

Governance framework

- 7 The Commission is a non-corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013*. This imposes accountability requirements similar to those of a department but gives the Commission independence from the policies of the Department of the Treasury. The *Commonwealth Grants Commission Act 1973* appoints the Secretary of the Commission as the Accountable Authority.
- 8 The powers and functions of an Agency Head under the *Public Service Act 1999* are delegated to the Chairperson of the Commission by the portfolio head. The Chairperson has delegated these powers to the Secretary. Other senior executives and some employees also have delegated powers for financial and employee management purposes.

Corporate plan

- 9 A copy of the current corporate plan is in Attachment D.

Other enabling plans

- 10 Operational plans for the branches and sections are established for each inquiry and reviewed each year. The strategic planning program also calls for the periodic review of the Commission's human resources management plan, information management plan, and IT contingency and work plans.

Committees

- 11 There are several standing committees to assist in the management of the organisation. Other committees or working groups are established as tasks arise.
- 12 **Senior executive committee.** This committee consists of the members of the senior executive with support provided by the Director of Corporate Services. The role of the senior executive committee, which generally meets as required, is to:
 - advise the Secretary on matters of corporate management, governance and resource allocation, including strategic Information Technology matters
 - monitor and control the use of resources
 - act as the Fraud Committee

- provide strategic advice to the Commission on the conduct of inquiries and methods to be adopted
 - provide strategic direction to Commission employees.
- 13 **Audit committee.** This committee is established under the provisions of the *Public Governance, Performance and Accountability Act 2013*. It consists of two external members and a member of the senior executive, with support provided by the Director of Corporate Services. The audit committee, which is chaired by an external member, provides independent assurance and assistance to the Secretary on the Commission’s risk, control and compliance framework, and its financial statement responsibilities. It reviews the monthly financial report and ensures that any discrepancies are investigated and that a quality assurance audit is regularly completed for accounts payable. The committee also monitors and considers the Commission’s risk management processes and important risk management issues.
- 14 **Fraud control committee.** This committee, which meets as required, advises the Secretary on matters of fraud. Its main task is to review and monitor the fraud control policy. During the 2016-17 financial year, the Commission carried out a fraud risk assessment and reviewed its fraud control plan.
- 15 **Workplace Representative Committee.** This is established under the Commonwealth Grants Commission Enterprise Agreement 2015-2018 to monitor matters concerning the implementation and interpretation of the Agreement and general workplace issues and to coordinate employee involvement in the development and ratification of policies or guidelines that impact on the terms and conditions of employment. It comprises the Secretary, the Director of Corporate Services and three employee representatives.
- 16 **Remuneration committee.** The remuneration committee provides advice to the Secretary on remuneration policy and salary issues related to the Commonwealth Grants Commission Enterprise Agreement 2015-2018. It comprises the Branch Heads and the Director of Corporate Services.
- 17 **Learning and development committee.** The committee makes decisions about training for individuals and groups of Commission employees, ensuring that training is provided in cost effective ways. Members are a Branch Head, Director of Corporate Services, HR Manager and a staff member.
- 18 **Information Governance Committee.** This committee is responsible for the management of information and data and coordinates information and data management frameworks, strategies and policies. It comprises the Branch Heads, the Director of Corporate Services and the Records Manager.

Internal and external scrutiny and compliance

- 19 The operations of the Commission are subject to scrutiny at several levels.

- **Stakeholders.** Advice provided by the Commission influences the budgets of the States. The advice is considered by the Council on Federal Financial Relations, following detailed scrutiny by Commonwealth Government and State Treasury officials
- **External administrative bodies.** The Commission is subject to external scrutiny by bodies such as Parliamentary Committees, the Ombudsman, and the Administrative Appeals Tribunal
- **Audit.** The Audit Committee monitors the Commission's administrative activities. The annual financial statements of the Commission are audited by the Australian National Audit Office. A copy of the statements for 2016-17 is at Attachment I
- **Performance audits.** During 2016-17 there were no performance audits conducted on the Commission
- **Compliance.** There were no significant instances of non-compliance with the finance law related to the Commission during the current reporting period.

20 Information on freedom of information is provided at Attachment E.

Risk management and fraud control

- 21 The risk management framework is an important part of the Commission's corporate governance responsibilities and risk management is overseen by the internal audit committee. The Director of Corporate Services is responsible to the senior executive for ensuring that risk management is aligned with overall business strategy.
- 22 As part of its risk management plan, the Commission has prepared fraud risk assessments and a fraud control plan. The Commission is satisfied that it has in place appropriate fraud prevention, detection, investigation, reporting and data collection procedures and processes to meet its specific needs. These processes fully comply with the Commonwealth Fraud Control Guidelines. Annual fraud data has been submitted to Australian Institute of Criminology.
- 23 There are no personnel in the Commission who are required to hold a top secret, secret, or highly protected level security clearance. The Commission does not store or process national security classified information on its networked electronic information system or hold paper files classified above the in-confidence level.

Managing and Developing Human Resources

24 **Table 2-1** contains details of APS employees at the Commission at 30 June 2017.

Table 2-1 Commission employees, by classification and gender, 30 June 2017

Classification	Persons	Full time	Part time	Full-time equivalents		
				Male	Female	Total
Persons employed under <i>Public Service Act, 1999</i>						
Senior executive service Band 3	1	1	-	1.00	-	1.00
Senior executive service Band 1	2	2	-	1.00	1.00	2.00
Executive Level 2	6	4	2	3.00	2.40	5.40
Executive Level 1(a)	11	8	3	6.60	3.12	9.72
APS 6(a)	8	5	3	2.00	5.20	7.20
APS 4	2	1	1	-	1.60	1.60
Total — employees	30	21	9	13.60	13.32	26.92

(a) Non-ongoing part-time staff – 1 male EL2, 1 male EL1, 1 female EL1, 1 female APS6

- 25 At 30 June 2017, the Commission consisted of a Chairperson and 2 members who were statutory appointees. They were all remunerated on a part-time basis. The Commission employed 30 people under the *Public Service Act 1999*, 21 of whom were full-time, and 15 of whom were female.
- 26 **Table 2-2** summarises Commission and employee movements during 2016-17. For the year ended 30 June 2017, female staff comprised 50 per cent of total employees (53.6 per cent at 30 June 2016).
- 27 In the Executive level classifications, at 30 June 2017, 35.3 per cent of employees were female (37.5 per cent at June 2016). In the APS 5 and 6 group, 75 per cent were female (85.7 per cent at June 2016).

Table 2-2 Commission APS employee movements during 2016-17

	In	Out	Total
1 July 2016			28
Appointments	4	-	4
Promotions/transfers	3	-2	1
Resignations/retirements	-	-1	-1
Appointment ended	-	-2	-2
Deaths	-	-	-
Dismissals	-	-	-
30 June 2017	7	-5	30

9Source: Commission establishment records.

Enterprise agreement

- 28 Conditions of employment for non-senior executive employees in 2016-17 were specified in the *Commonwealth Grants Commission Enterprise Agreement 2015-2018*. This agreement was certified on 23 December 2015 and has a nominal expiry date of 30 December 2018.

Section 24(1) determinations

- 29 During 2016-17, conditions of employment for senior executive service employees at the Commission were specified in determinations under section 24(1) of the *Public Service Act 1999*.

Salary ranges

- 30 **Table 2-3** shows the salary ranges payable at 30 June 2017 under the *Commonwealth Grants Commission Enterprise Agreement 2015-2018 and Individual Flexibility Agreements*.

Table 2-3 Salary ranges payable

Classification	As at 30 June 2017
	\$
APS 1	43 430 – 48 639
APS 2	52 559 – 56 215
APS 3	57 114 – 61 740
APS 4	66 132 – 74 841
APS 5	72 832 – 76 200
APS 6	82 767 – 87 347
Executive Level 1	105 011 – 115 457
Executive Level 2	129 975 – 146 863

Performance pay

- 31 Under the terms of the Commonwealth Grants Commission Enterprise Agreement 2015-2018 and section 24(1) Determinations and the Performance Feedback Scheme, employees who were assessed as ‘meets requirements’ or better may be eligible for lump sum performance bonuses.
- 32 **Table 2-4** shows lump sum bonus payments to eligible employees during 2016-17. The total amount of lump sum payments was \$65 293.

Table 2-4 Lump sum bonus payments to employees, 2016-17

Classification	Number of employees	Average bonus paid	Range of bonuses paid
		\$	\$
APS 4/5/6 (a)	7	1 585	409 – 3 494
Executive Level 1	10	2 970	1 206 – 4 416
Executive Level 2	5	4 900	2 164 – 5 584

(a) Combined for confidentiality.

- 33 All senior executives were assessed under the Commission’s performance feedback scheme. Lump sum bonus payments totalling \$39 288 were paid during 2016-17.

Retention bonus payments to employees, 2016-17

- 34 No retention bonuses were paid in 2016-17.

Remuneration of senior executives

- 35 The aggregate remuneration expensed for all senior executives during 2016-17 was \$905 575. Full details of the components of senior executive remuneration are in Attachment I — Financial Statements.

Training and development strategies

- 36 During 2016-17, a number of training activities were conducted for Commission employees and notices were circulated to keep employees aware of training and development opportunities. Because of the unique nature of the Commission's operations, there has been a strong focus on internal and on-the-job training. The performance feedback scheme is used to identify employees' training needs and this information forms the basis of a training and development program.
- 37 The main categories of training undertaken during the year were:
- professional/technical training
 - induction
 - Internal training

Studies assistance

- 38 The Commission encourages and assists employees undertaking tertiary studies relevant to their employment at the Commission. No employees received study assistance during 2016-17.

Induction

- 39 Employees new to the Commission undergo an induction program. The program introduces new employees to the APS, the Commission, and their task. It has several layers of information and training, including information on: the structure, history, culture and work program of the Commission; the general APS environment; and the necessary operational skills and tools, for example Word and Excel.

Other policies

- 40 The Commission maintains workplace diversity and workplace health and safety policies. Details of the latter are contained in Attachment F.

Other Resource Management Matters

Purchasing

- 41 Purchasing activities undertaken by Commission employees meet the requirements of the *Commonwealth Procurement Rules* released by the Minister for Finance in March 2017. Relevant employees are aware of the requirements and expectations when undertaking procurement activities and are guided by the Commission's own internal purchasing policy and the Commission's *Accountable Authority Instructions*.
- 42 The principles contained in the *Commonwealth Procurement Rules* — 1 March 2017 have been incorporated into Commission operations and relevant employees have attended appropriate training.
- 43 The Commission supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprise statistics are available on the Department of Finance's website. The Commission is a small agency and all of its purchasing, other than that under Whole of Government arrangements, is undertaken with small or medium sized enterprises.

Asset management

- 44 The net written down value of non-current assets recorded in the Commission's Assets Register at 30 June 2017 was \$552 515. These assets include office fitout, furniture, computing equipment and other office machines.

Use of consultants

- 45 The Commission engages consultants when specialist knowledge or skills outside the capacities of the employees are needed to complete a task, or when it is more cost effective to do so. Decisions to engage consultants are taken after considering the importance of the task and possible in-house options. The procedures adopted to identify potential consultants vary according to the nature of the task. The successful consultant is chosen on the basis of specified selection criteria, and on the principle of 'buying for better value'.

46 During 2016-17, 4 new consultancy services contracts were entered into. Total actual expenditure of \$52,602 was incurred for 3 of these consultancies. There was 1 consultancy contract which did not incur any expenditure as at 30 June 2017. The details of consultancies and contracts that cost \$10 000 or more are reported regularly in AusTender, as required by section 7.16 of the *Commonwealth Procurement Rules*, 1 March 2017, issued by the Department of Finance. There were 2 consultancies in 2016-17 valued at more than \$10 000.
[Austender website](http://www.tenders.gov.au) (<http://www.tenders.gov.au>).

Table 2-5 provides a summary of consultancy contracts that were active in 2016-17.

Table 2-5 Summary of consultancy contracts active in 2016-17

New consultancy service contracts let	4
Total actual expenditure on 3 new consultancy contracts let (GST included)	\$52 602
Total actual expenditure on 1 new consultancy contract let (GST Included)	0
Active, ongoing consultancy contracts, from 2016-2017	2
Total actual expenditure on ongoing consultancy contracts (GST included)	\$44 000

Competitive tendering and contracting

47 There were no competitive tendering activities at the Commission during 2016-17.

48 **Table 2-6** shows the services received from outsourced providers during 2016-17.

Table 2-6 Services received under outsource arrangements

Service	Service Provider
Travel arrangements	Qantas Business Travel
Telecommunications	TransACT and Data Voice
Personnel services	Aurion Corporation
Office requisites	Complete Office Supplies
Rehabilitation case management	SRC Solutions
Secure Internet Gateway Services	MacQuarie Telecom
Energy	ActewAGL Retail

Discretionary grants

49 The Commission does not administer any discretionary grants programs.

Advertising and market research

- 50 The Commission did not conduct any advertising or market research during 2016-17.
- 51 During 2016-17, the Commission used the services of the Australian Public Service Commission for the purpose of recruitment advertising in the Public Service Gazette. Payments totalling \$5,480 were made for Gazette and e-advertising.

Ecologically sustainable development and environmental performance

- 52 The Commission does not have any direct responsibilities in relation to the administration of environmental sustainability legislation. However, it is mindful of its responsibilities to minimise negative impacts on the environment. Measures are in place to monitor the use of non-renewable energy sources and to minimise that use.
- 53 The Commission has developed an environmental management system to conform with AS/NZS ISO 14001. It aims to minimise environmental impacts by:
- implementing efficient environmental management practices
 - complying with government policies relating to waste and energy
 - reducing energy and water usage
 - reducing, reusing, repairing and recycling resources to minimise waste
 - regularly monitoring and reporting (internally and externally) progress.

Contact officer

54

Phil Parkins
Director, Corporate Services
Telephone (02) 6229 8825
Facsimile (02) 6229 8821
Email phil.parkins@cgc.gov.au

Postal address

First Floor, Phoenix House
86-88 Northbourne Avenue
BRADDON ACT 2612

Internet address

[Commission's website](http://www.cgc.gov.au) (<http://www.cgc.gov.au>).

ATTACHMENT A

TERMS OF REFERENCE FOR THE 2017 UPDATE



TREASURER

Mr Greg Smith
Chairperson
Commonwealth Grants Commission
86-88 Northbourne Ave
BRADDON ACT 2612

Dear Mr Smith

I am writing to you to convey the enclosed terms of reference for the Commonwealth Grants Commission's *2017 Update of GST Revenue Sharing Relativities* (2017 Update) and *2020 Methodology Review of GST Revenue Sharing Relativities* (2020 Methodology Review).

The terms of reference for the 2017 Update require the Commission to report by 24 March 2017, with an advance copy of the report to be provided to the Commonwealth and the States and Territories, under embargo, by 10 March 2017.

The terms of reference for the 2020 Methodology Review require the Commission to undertake a comprehensive review of all of the methodologies underpinning its calculation of the GST relativities. The final report for the review should be provided to the Commonwealth and the States and Territories by 28 February 2020. This will give the Commission more than three years to complete a wide-ranging review of its methods.

I expect the Commission to consult closely with the Commonwealth and the States and Territories, both in developing a work program to guide your methodology review as well as throughout the review process.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Scott Morrison'.

The Hon Scott Morrison MP

11/11/2016

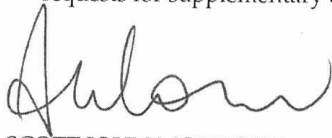
Terms of Reference for the 2017 Update of GST Revenue Sharing Relativities

COMMONWEALTH GRANTS COMMISSION ACT 1973

I, Scott John Morrison, Treasurer, pursuant to sections 16, 16A and 16AA of the *Commonwealth Grants Commission Act 1973*, refer to the Commission for inquiry into and report upon, by 24 March 2017, the recommended per capita relativities to be used to distribute GST revenue among the States, the Northern Territory and the Australian Capital Territory (collectively referred to as the States) in 2017-18. The Commission should provide an advance copy of its report, under embargo, to the Commonwealth and the State Treasuries by 10 March 2017.

2. The Commission should undertake an assessment of the per capita relativities recommended to be used to distribute GST revenue among the States in 2017-18 (the GST relativities).
3. The Commission's assessment should take into account the *Intergovernmental Agreement on Federal Financial Relations* (as amended), which provides that GST revenue will be distributed among the States in accordance with the principle of horizontal fiscal equalisation.
4. The Commission's assessment should be based on the review period 2013-14 to 2015-16 inclusive. Where possible, the Commission should use the latest available data.
5. Subject to paragraphs 6 – 7, the Commission's assessment should be based on the application of the same principles, categories and methods of assessment that the Commission used to calculate the per capita relativities in its *Report on GST Revenue Sharing Relativities – 2016 Update*.
6. The Commission's assessment should treat Commonwealth payments to the States as follows:
 - (a) National Specific Purpose Payments (NSPPs), National Health Reform (NHR) funding, Students First funding (for government schools) and National Partnership project payments should affect the relativities, recognising that these payments provide the States with budget support for providing standard state 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) National Partnership 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.

- (d) Notwithstanding subparagraphs 6(a) – (c), 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 State governments in providing particular services.
 - (e) Those payments which the Commission has previously been directed to treat as having no direct influence on the relativities, including payments for which the Commission has been directed to apply a 50 per cent discount, should continue to be treated in that way. Where those payments are replaced, the treatment of the new payment should be guided by subparagraphs 6(a) – (d), unless otherwise directed.
7. If data problems necessitate changes, the Commission should proceed on the basis that:
- (a) new, more reliable data would be used in the first possible update, if method changes were not required; or
 - (b) if overcoming the data problems necessitated method changes, revised methods would be used in the first possible update, subject to consultation with the States during that update.
8. The Commission should consult the Commonwealth and the States before deciding on any changes in methods that arise as a result of a significant change in arrangements which govern Commonwealth-State relations and which are considered appropriate for the Commission to fulfil its obligations in respect of these terms of reference.
9. To the extent possible, the Commission should, upon reporting, provide all parties with details underpinning its calculations and assessments, and endeavour to meet requests for supplementary calculations.



SCOTT JOHN MORRISON

ATTACHMENT B

TERMS OF REFERENCE FOR THE 2020 REVIEW

Terms of Reference for the 2020 Methodology Review

COMMONWEALTH GRANTS COMMISSION ACT 1973

I, Scott John Morrison, Treasurer, pursuant to sections 16, 16A and 16AA of the *Commonwealth Grants Commission Act 1973*, refer to the Commission for inquiry into and report upon:

- a) the methodological approach used to calculate the per capita relativities 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 2020-21 (*Methodology Review*); and
- b) the per capita relativities recommended to be used to distribute GST revenue among the States in 2020-21 (*GST relativities for 2020-21*).

Methodology Review

2. The Commission should undertake a comprehensive review of all the methods that underlie its assessments to calculate the per capita relativities used to distribute GST revenue among the States (the GST relativities).
3. The Commission will consult with the Commonwealth and the States on:
 - a) the development of a work program for the methodology review, including the provision of a draft report in 2019; and
 - b) any substantive changes to the revised methodology following the draft report.
4. The outcome of the review will be a revised methodology for calculating the GST relativities, which the Commission will apply to its assessments of GST relativities from 2020-21. The revised methodology should be described in the final report for this inquiry.
5. In undertaking the review, the Commission should take into account the *Intergovernmental Agreement on Federal Financial Relations* (as amended), which provides that GST revenue will be distributed among the States in accordance with the principle of horizontal fiscal equalisation.
6. The Commission should also consider whether the supporting principles it uses to guide its work remain appropriate, including whether different weights should be given to different supporting principles. State views should be sought on the importance of each existing principle and any others considered important to the States and the appropriate balance between them.
7. In reviewing the methodology underlying its assessments, the Commission should:
 - a) aim to have assessments that are simple and consistent with the quality and fitness for purpose of the available data;
 - c) use the latest available data consistent with this; and
 - d) ensure robust quality assurance processes.

8. In reviewing the methodology underlying its assessments, the Commission should treat Commonwealth payments to the States as follows:
- a) National Specific Purpose Payments (NSPPs), National Health Reform (NHR) funding, Students First funding (for government schools) and National Partnership project payments should affect the relativities, recognising that these payments provide the States with budget support for providing standard state services.
 - b) National Partnership 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.
 - d) Notwithstanding subparagraphs 8(a) – (c), 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.
 - e) Those payments which, prior to its assessment of the 2020-21 relativities, the Commission had been directed to treat as having no direct influence on the relativities, including payments for which the Commission has been directed to apply a 50 per cent discount, should continue to be treated in that way. Where those payments are replaced, the treatment of the new payment should be guided by subparagraphs 8(a) – (d), unless otherwise directed.

GST relativities for 2020-21

9. The Commission should undertake an assessment of the per capita relativities to be used to distribute GST revenue among the States in 2020-21.
10. This assessment should be made on the basis of the revised methodology from the Commission's review of its methodological approach.

The Report

11. The Commission will provide the final report for this inquiry, including both the revised methodology and the recommended relativities for 2020-21, to the Commonwealth and the States by 28 February 2020.
12. The Commission will consult regularly with the Commonwealth and the States as it considers these terms of reference.
13. Supplementary terms of reference may be provided prior to finalisation of the inquiry outcomes.



SCOTT JOHN MORRISON

ATTACHMENT C

INFORMATION DISSEMINATION

- 1 At the conclusion of each inquiry, a report is produced and presented to the responsible Minister. After presentation, and subject to the approval of the Minister, copies of the report are provided to the parties to the inquiry. Reports may be accompanied by a volume of supporting information and/or working papers that have a more limited distribution.
- 2 During inquiries, the Commission issues discussion papers to ensure that the parties to the inquiry and interested members of the public are aware of the major issues to be considered and that all relevant matters receive adequate consideration.
- 3 Commission reports are published on the internet at the [Commission's website](http://www.cgc.gov.au) (<http://www.cgc.gov.au>). The website also contains the discussion papers issued by the Commission, most submissions received by the Commission, working papers and some transcripts of meetings between the Commission and interested parties.
- 4 There has been a continuing interest in the Commission and its work by academics and authorities in Australia and other countries. This has resulted in:
 - the Chairperson and Commission employees presenting papers to seminars and conferences
 - international delegations or academics visiting the Commission for discussions with the Chairperson and senior employees.
- 5 This attachment contains details of reports and other publications issued by the Commission, papers presented to conferences and seminars by Commission representatives, and visitors to the Commission during 2015-16.

Activities

- 6 **2017 Update.** The Commission received terms of reference for the Update on 28 November 2016.
- 7 **2020 Review.** The Commission received terms of reference for the Review on 28 November 2016.

Reports

- 8 The reports produced during 2016-17 were the:

- Annual Report 2015-16
- Report on GST Revenue Sharing Relativities 2017 Update

Discussion and information papers

- 9 The purpose of the Commission's issuing of discussion, position and information papers is to inform States and interested parties of the progress the Commission has made on various matters and to invite their views on the issues. They also ensure that the work of the Commission is transparent and accessible.
- 10 In 2016-17 the Commission issued the following papers:
- CGC 2016-12 – Changes in State budgets 2000-01 to 2010-11 (Information paper)
 - CGC 2016-18-S – New Issues Paper for the 2017 Update – Wage costs assessment (Commission staff discussion paper)
 - CGC 2017-01-S – An additional New Issue for the 2017 Update – Land tax assessment (Commission staff discussion paper)
 - CGC 2017-02-S – HFE, supporting principles and their implementation (Commission staff discussion paper)
 - CGC 2017-03-S – Achieving HFE – other approaches to distributing the GST (Staff research paper)
 - CGC 2017-04-S – State Mining policies (Staff research paper)
 - CGC 2017-05-S – Options for improving Contemporaneity (Staff research paper)
 - CGC 2017-6-S – Proposed approach to estimating Administrative Scale costs for the 2020 Review (Commission staff discussion paper).

Participation in interdepartmental committees

- 11 During 2016-17, Commission staff participated in the following working groups:
- Indigenous Expenditure Report Working Group for the Council of Australian Governments.

Visitors to the Commission

- 12 International, academic and official visitors to the Commission included:
- CEO, National Economic and Fiscal Commission (NEFC), PNG, 9 December 2016
 - Ambassador to Argentina, 1 May 2017.

Compliance with Senate Orders

- 13 The Commission complies with the following Senate Orders associated with the disclosure of information:
- Senate Order on Government Agency Contracts. The information required to comply with this order is available through the Commission's website: [statutory-obligations](http://www.cgc.gov.au/statutory-obligations) (<http://www.cgc.gov.au>)
 - Senate Continuing Order No 12 for the Production of Departmental File Lists. The information required to comply with this order is available through the Commission's website: [statutory-obligations](http://www.cgc.gov.au/statutory-obligations) (<http://www.cgc.gov.au>).

ATTACHMENT D

CORPORATE PLAN

INTRODUCTION

I, as the Accountable Authority of the Commonwealth Grants Commission, present the 2016 Commonwealth Grants Commission corporate plan, which covers the period of 2016-2020, as required under paragraph 35(1)(b) of the *Public Governance, Performance and Accountability Act 2013*.



M Willcock

Secretary

Commonwealth Grants Commission

16 August 2016

PURPOSES

The Commission operates under the *Commonwealth Grants Commission Act 1973*. It is a non-corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* and part of the Department of the Treasury portfolio under the Administrative Arrangement Orders.

Its sole function is to provide advice to the Commonwealth Government in response to terms of reference from the Treasurer.

The main subject on which advice is sought is the allocation among the States of the revenue from the GST. However, from time to time, the Commission is also asked to report

on the finances of Australia's external territories, local government matters and the financing of services for Indigenous people. Terms of reference for those inquiries are developed by relevant Commonwealth Government agencies and sent to the Commission by the Treasurer, to whom the Commission provides any required reports.

The Commission has a single outcome — informed Government decisions on fiscal equalisation between the States and Territories through advice and recommendation on the distribution of GST revenue. State and Territory inquiries are conducted under the terms of the Intergovernmental Agreement on Federal Financial Relations 2008 (and updates).

ROLE AND FUNCTIONS

The Commission's primary role is to provide government with advice, consistent with the principle of horizontal fiscal equalisation (HFE), on the distribution of the GST revenue to the States. This normally consists of a full review of the distribution methodology, conducted every five years, and annual updates.

Terms of reference usually require reports on the results of reviews and updates to be presented to government at the end of February each year.

The Commission can be tasked by the Treasurer to undertake other Inquiries (for example, into government funding of Norfolk Island, Christmas and Cocos-Keeling Islands or Local Government).

These other reports are presented as required by terms of reference.

For ease of understanding, the Commission can best be described as consisting of two parts – the Commission members and the Secretariat – which have different but mutually dependent roles:

- The Commission members consider the advice they receive from all parties including the Secretariat, decide policy issues and direct the work of the Secretariat
- The Secretariat consults with stakeholders at officer level, collects and assesses data, and undertakes research to prepare recommendations and draft reports for the consideration of the Commission members
- The Secretariat also deals with administrative, financial and human resource management issues.

The Commission is committed to maintaining strong working relationships with the Commonwealth and State governments and to providing a flexible and fair working environment for its staff.

The Commission seeks to understand the differences in the fiscal capacity of the States and Territories and to recommend shares of the GST revenue that will result in these fiscal capacities being equalised, that is:

State governments should receive funding from the pool of goods and services tax such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.

Staff develop methods under the guidance of the Commission to enable these fiscal differences to be quantified across all State government activities – revenue raising activities, such as through payroll tax and the imposition of mining royalties, and service provision, such as health and education services. Considerable research and analysis is undertaken in each area of activity to identify the material factors which cause State fiscal capacities to differ. These are aggregated to derive the ‘relativities’ requested by the Commonwealth Treasurer to be used to determine State GST shares. The final report to the Treasurer includes those relativities, an explanation of the methods used by the Commission, including any changes, to derive them and an analysis of the drivers of differences in State fiscal capacities and any changes in them.

VALUES

In common with the APS, the Commission is committed to being:

Impartial

- the Commission is apolitical and provides the Government with advice that is frank, honest, timely and based on the best available evidence

Committed to Service

- the Commission is professional, objective, innovative and efficient, and works collaboratively to achieve the best results for the Australian community and the Government

Accountable

- the Commission is open and accountable to the Australian community under the law and within the framework of Ministerial responsibility

Respectful

- the Commission respects all people, including their rights and their heritage

Ethical

- the Commission demonstrates leadership, is trustworthy, and acts with integrity, in all that it does.

THE OUTLOOK FOR 2016-20

The Commission expects to receive terms of reference for an update of GST revenue sharing relativities for each of the years 2017 to 2020. The methods used will be largely those set out in the 2015 Review report. Any changes in methods adopted will be determined by the requirements of the terms of reference or the agreed update principles, consistent with the principle of HFE. The Commonwealth and State Treasuries will be consulted.

The Commission has commenced its consultation processes relating to the 2017 Update. This includes the collection of the latest data and the treatment of new developments relevant to State fiscal capacities. These processes assist the Commission in satisfying its performance indicators relating to consultation, timeliness and quality of the work underlying its recommendations. This process will be repeated in each future inquiry.

In the 2015 Review report, the Commission identified a number of areas of State activity that will require monitoring, any observations being reflected as appropriate in any subsequent updates of relativities. These included developments in State mining policies, projects on the national road and rail networks and any changes in the Commonwealth's Natural Disasters Relief and Recovery Arrangements.

The Commission expects terms of reference asking it to conduct a review of the methodology on State shares of the GST revenue to be delivered to Government in 2020 or subsequently.

ENVIRONMENT

External factors which would significantly affect the Commission are the nature, contents and frequency of terms of reference. The Commission's work may also be affected by any changes relating to Australia's fiscal federalism arrangements, especially changes relating to the taxation powers or expenditure responsibilities of the States.

Providing impartial advice on the appropriate distribution of GST revenue requires the Commission to have good working relations with the States. The Commission deals with States in a transparent manner, consulting them bilaterally and multilaterally through the course of its work.

Internally, the Commission has robust processes and good management structures which ensure that staff provide well-argued analysis and accurate assessments. In a data rich environment, the Commission needs to maintain strong data and information management systems and quality assurance processes.

The Commission depends on reliable, timely data from many Federal and State bodies. Sources of data are always in flux and contribute significantly to changes in the Commission's work environment.

PERFORMANCE MEASURES

Outcomes

The Commission has a single outcome — informed Government decisions on fiscal equalisation between the States and Territories through advice and recommendation on the distribution of GST revenue. The Commission provides advice to the Commonwealth Treasurer to assist in the achievement of this outcome.

Outputs relating to the fiscal equalisation outcome are:

- completion of the reports on GST revenue sharing relativities, including methodology reviews and annual update reports
- completion of other reports as required by terms of reference.

Performance indicators

The effectiveness of the Commission's outputs is judged against the indicators set out in the Portfolio Budget Statements 2016-17. These are:

- the timeliness of reports
- the extent to which parties are given opportunities to place their views before the Commission
- the technical quality of the analytical work underlying and supporting the reports
- the degree of acceptance of the reports by the Commonwealth and State Governments
- the extent to which the Commission operates within its budget.

These indicators are expected to remain constant for the duration of this Corporate Plan.

Delivery strategies, performance assessment and measurement

To meet the respective performance indicators:

- The Commission will coordinate business plans and processes and consultation mechanisms to meet the dates specified in terms of reference
- The Commission will undertake, to the greatest extent possible, consultation with States and other stakeholders
- The Commission will continue to pursue quality assurance and independent audit of its calculations
- The Commission will continue to seek formal feedback from the Commonwealth and the States' Treasuries/governments
- The Commission will ensure that its financial position is monitored through monthly reports to the Executive and the Audit Committee. Annual financial statements are audited by the ANAO.

CAPABILITY

Workforce planning

The Commission work not only requires an economic or statistical capability but the ability to analyse and articulate results in the context of federal financial relations. It is highly specialised and the training strategy consists mainly of in-house and on-the job-training.

This specialised nature of work and workforce dictates:

- recruitment of a skilled workforce
- succession planning and
- nurturing of the home grown talent.

Of necessity, recruitment of staff with the appropriate qualifications and experience comes from a small pool.

The cyclical nature of the Commission's work permits workforce flexibility to be achieved through part time and/or seasonal employment.

Depending on the size, nature and timing, additional tasking for terms of reference other than GST matters can be met by additional funding from government, be undertaken on a cost recovery basis, or be absorbed partly or wholly by existing staff.

Generally, however, staff levels are managed within appropriations.

Capital investment strategy

The Commission's operations are designed to provide intellectual rigour to a sensitive and complex subject. Research, analysis and the articulation of the results are required to inform Commission decisions. Given the amount of data, the need to manage and manipulate it, and the requirement to complete detailed mathematical assessments, it follows that the great majority of capital expenditure will be in the provision of IT infrastructure and services.

Changes to the Commission IT infrastructure architecture, particularly in the form of hardware and software, will be evolutionary. One major upgrade of standard software and one major upgrade of hardware are anticipated during the period 2016-2020.

The prospective move to a shared services environment will be factored into any capital investment decisions.

IT capability

The purpose of the IT capability is to provide ICT support and services for administration and general office activities, but especially for data management and manipulation.

Strategies that will support this objective include:

- maintenance of an understanding of horizontal fiscal equalisation and the Commission's approach to its implementation
- responding rapidly to ICT issues especially with regard to core business applications such as the Assessment system
- standardisation of hardware and software wherever possible
- maintaining a high degree of self-sufficiency
- technical and user friendly documentation
- professional development and
- planning, particularly for staffing and for hardware and software requirements.

Individual Commission members may be located across Australia and its consultation processes necessarily involve all States and Territories. To reduce travel costs, both the Commission and the States are making greater use of video conferencing technology, such as the dedicated Commonwealth-State Telepresence network. The Commission also needs to retain a minimum video conferencing capability for when Commission members are not able to travel to Canberra for meetings, as well as to host officer level discussions on specific topics.

RISK OVERSIGHT AND MANAGEMENT

An effective risk management framework is maintained by the Commission. Risks identified include:

- Financial/budgetary risk
- Business risk
- Reputational risk.

Financial/budgetary risk

A Fraud Control Plan is maintained and reviewed annually. Residual risks for the financial management in the Commission are assessed as minimal.

Business risk

The prime business risk is loss of corporate knowledge, which is countered by the workforce strategies of recruitment, succession planning and nurturing of current staff.

Risks for the Horizontal Fiscal Equalisation process and the Assessment system have been identified and mitigated through defined processes and a rigorous Quality Assurance system.

Risks for IT have been addressed in a separate IT risk assessment.

Reputational risk

Given the sensitivity of the distribution of GST revenue, there is a reputational risk, which although partly out of the Commission's control, will be mitigated by the continued achievement of the performance indicators described earlier and rigorous quality assurance processes.

FINANCIAL/BUDGETARY OUTLOOK

Projected Appropriations - Departmental Appropriation Only (\$'000)

2016-17 Actual	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-2021 Estimate
6,203	6,126	6,086	6,083	6,106

Note 1. Any efficiency dividend not included.

Note 2. For single outcome

For the next four years the Commission anticipates no significant increase in revenue. Small surpluses are forecast, but, they will be contingent upon government requirements and detailed integration with the Commission work cycle.

In the event of any imposed additional resource requirements the Commission will tailor its staffing, as well as continuing to manage its operational expenses, to available funding.

ATTACHMENT E

FREEDOM OF INFORMATION ACT 1982 SECTION 8 **STATEMENT**

Establishment

- 4 The Commission was established under the *Commonwealth Grants Commission Act 1933*, which was replaced by the *Commonwealth Grants Commission Act 1973*.

Organisation

- 5 The Chairperson and other members of the Commission may be appointed in full-time or part-time capacities. The membership of the Commission during 2016-17 consisted of a part-time Chairperson and 2 part-time members. The Secretary has responsibility for providing advice to the Chairperson and members on matters relating to the Commission's functions. The Commission had 2 branches and a corporate services section in 2016-17. The organisation structure and senior personnel are shown in Chapter 2 of this report. There are no State or regional offices.

Functions

- 6 The Commission is an independent statutory authority. It is required to inquire into and report upon matters referred to it by the Treasurer under the provisions of the *Commonwealth Grants Commission Act 1973*.

Arrangements for outside participation

- 7 The Act allows the Commission to inform itself 'in such ... manner as it sees fit'. The Commonwealth and State Governments and other parties involved in inquiries are invited to make written submissions and, where necessary, to discuss those submissions at public conferences. Submissions tabled at the conferences are generally public documents, although sensitive information may be received in confidence and treated accordingly.

Categories of documents

- 8 Reports issued by the Commission are those that relate to specific inquiries, research reports, and annual reports. Once released, copies of reports are available for inspection in the National Library and State Reference Libraries.
- 9 Commission reports are published on the internet at the [Commission's website](http://www.cgc.gov.au) (<http://www.cgc.gov.au>). The website also contains discussion papers and most of the State submissions received in response, working papers prepared by the Commission, some consultancy reports and some transcripts of meetings between the Commission and interested parties. The documents are uploaded to, and remain on, the website as determined by the needs of the inquiry to which they relate.
- 10 From 1 May 2011 agencies subject to the *Freedom of Information Act 1982* (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a Section 8 statement in an annual report. An agency statement showing what information is published in accordance with IPS requirements is accessible from the Commission's website.
- 11 Other documents held by the Commission include:
 - submissions from interested parties (including the States, the Treasury, Australian Government agencies, the Norfolk Island Government, local government authorities, individuals and private organisations)
 - discussion papers issued by the Commission as part of its inquiries
 - agendas, papers and minutes of Commission meetings and conferences
 - registry files on information and data requests and other matters relating to the conduct of inquiries
 - documents concerned with daily internal administration and management, including files on employees, personnel, finance, budgets, stores, and assets.
- 12 The Commission also holds:
 - manuals on IT and records management procedures (prepared by employees of the Commission)
 - a manual on document styles and procedures for the preparation of Commission reports (prepared by employees of the Commission)
 - manuals on accounting, delegations, finance, organisation management, personnel management, rates of pay, superannuation and records management (prepared by other agencies).

Facilities for access

- 13 Facilities are provided in the Commission's offices in Canberra to enable people to consult documents. Preferably, an appointment to inspect such documents should be made in advance.

FOI procedures and initial contact points

- 14 Inquiries concerning access to documents or other matters relating to freedom of information should be directed to the Commission's FOI Co-ordinator, as follows:

FOI Co-ordinator
Commonwealth Grants Commission
First Floor, Phoenix House
86-88 Northbourne Avenue
BRADDON ACT 2612

Telephone (02) 6229 8800
Facsimile (02) 6229 8821

- 15 Business hours are 8.30 am to 5.00 pm, Monday to Friday.
- 16 There were no requests for access to documents under the *Freedom of Information Act 1982* during 2016-17.

ATTACHMENT F

WORKPLACE HEALTH AND SAFETY

- 1 The Commission maintains a workplace health and safety (WH&S) policy and *Work Health and Safety Act 2011* compliant health and safety management arrangements.
- 2 The Commission maintains a rehabilitation policy with Comcare for employees injured at work. The Commission continues to use the specialist services of SRC Solutions, the outsourced service provider, to administer its compensation cases.
- 3 The Commission is a Designated Work Group under the *Work and Safety Act 2011*.
- 4 The Commission, in conjunction with the service provider's representative, provides advice to employees on methods of minimising or avoiding workplace health problems, particularly those associated with the use of computing equipment. They also monitor the work environment and provide advice to management on matters of health and safety. To minimise the risk of accident or injury, management responds as soon as possible to matters raised.
- 5 In compliance with the WH&S requirements for the use of computers in the workplace, the Commission provides all employees with ergonomic furniture such as desks, chairs, and monitor stands. Employees are given regular advice on the correct posture and keyboard techniques to reduce fatigue.
- 6 An appropriately trained employee is appointed as first aid officer. The required number of fire wardens appointed and training provided where appropriate.
- 7 There were no accidents or dangerous events at the Commission's offices during the year. The Commission received no directions or notices under part 10, 11, 12, or 13 of the *Work Health and Safety Act 2011*.

ATTACHMENT G

CONSULTANCY CONTRACTS LET DURING 2016-17

- 1 The Commission's policy on the selection and engagement of consultants, its selection procedures and the main categories of purposes for which consultants were engaged are set out below.

Policy on selection and engagement of consultants

- 2 Price alone is not always a reliable indicator of value for money. Best value for money means the best available outcome when all relevant costs and benefits over the purchasing cycle are considered. This core principle is also underpinned by the following supporting principles:
 - efficient, effective and ethical use of resources
 - accountability and transparency
 - encouraging competition.

Selection procedures

- 3 The Commission is aware of the strategic role that government procurement plays within the Australian economy. Employees who undertake the purchasing of goods or services are required to familiarise themselves with the *Commonwealth Procurement Rules 1 March 2017* and the Commission's *Accountable Authority Instructions*. The Commission's own purchasing policy also sets out the internal requirements for the purchase of goods and services. Employees are required to follow these guidelines, which cover a number of procurement methods ranging from sole suppliers to approaching the open market. The most suitable method is determined for the purchase, which is subsequently approved by the appropriate delegate, taking into consideration the policy requirements.
- 4 Consultants were engaged for the following purposes:
 - supply of external quality assurance processes for auditing purposes
 - to review its assessments of state urban transport recurrent and infrastructure expenditure requirements
 - HFE tax elasticity scoping study.
- 5 There were two consultancy contracts let by the Commission during 2016-17 at a cost of more than \$10 000.

ATTACHMENT H

AGENCY RESOURCE STATEMENT 2016-17

1 Table H-1 provides information on the Commission's relative funding sources in cash terms.

Table H-1 Agency Resource Statement, 2016-17

	Actual Available Appropriations for 2016-17 \$'000	Payments Made 2016-17 \$'000	Balance Remaining \$'000
	(a)	(b)	(a-b)
Ordinary Annual Services ² Departmental appropriation	\$11 217	5 225	\$5 992
Total ordinary annual services	\$11 217	\$5 225	\$5 992
Total Resourcing and Payments	\$11 217	\$5 225	

² Appropriation Bill (No.1) 2016-17. This may include prior year Departmental appropriation and Section 74 retained revenue receipts.

ATTACHMENT I

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

- 1 This attachment contains the:
 - Independent Auditors Report
 - Statement by the Accountable Authority and Chief Financial Officer
 - Statement of Comprehensive Income
 - Statement of Financial Position
 - Statement of Changes in Equity
 - Cash Flow Statement
 - Notes to and forming part of the Financial Statements.



INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Opinion

In my opinion, the financial statements of the Commonwealth Grants Commission for the year ended 30 June 2017:

- (a) comply with Australian Accounting Standards – Reduced Disclosure Requirements and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- (b) present fairly the financial position of the Commonwealth Grants Commission as at 30 June 2017 and its financial performance and cash flows for the year then ended.

The financial statements of the Commonwealth Grants Commission, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended:

- Statement by the Accountable Authority and Chief Financial Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- Notes to the financial statements, comprising a Summary of Significant Accounting Policies and other explanatory information.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Commonwealth Grants Commission in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* to the extent that they are not in conflict with the *Auditor-General Act 1997* (the Code). I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Accountable Authority's Responsibility for the Financial Statements

As the Accountable Authority of the Commonwealth Grants Commission the Secretary is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards – Reduced Disclosure Requirements and the rules made under that Act. The Secretary is also responsible for such internal control as the Secretary determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Secretary is responsible for assessing the Commonwealth Grants Commission's ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Secretary is also responsible for disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office




Kristian Gage
Executive Director
Delegate of the Auditor-General
Canberra
13 September 2017

Commonwealth Grants Commission

Statement by the Accountable Authority and Chief Financial Officer

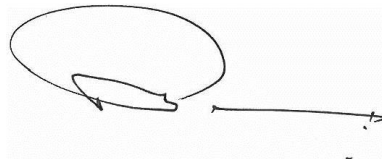
In our opinion, the attached financial statements for the year ended 30 June 2017 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Commonwealth Grants Commission will be able to pay its debts as and when they fall due.



M Willcock
Accountable Authority

13 September 2017



P Parkins
Chief Financial Officer

13 September 2017

Commonwealth Grants Commission

Statement of Comprehensive Income

for the period ended 30 June 2017

		2017	2016	Original Budget
	Notes	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
NET COST OF SERVICES				
Expenses				
Employee benefits	1.1A	4196	4 459	4 700
Suppliers	1.1B	802	751	1 540
Depreciation	2.2A	125	131	65
Total Expenses		<u>5 123</u>	<u>5 341</u>	<u>6 305</u>
Own-Source Income				
Own-source revenue				
Resources received free of charge	1.2A	45	34	33
Total own-source revenue		<u>45</u>	<u>34</u>	<u>33</u>
Gains				
Other gains-decommission of assets	1.2B	-	58	-
Total gains		<u>-</u>	<u>58</u>	<u>-</u>
Total own-source income		<u>45</u>	<u>92</u>	<u>33</u>
Net cost of services		<u>5 078</u>	<u>5 249</u>	<u>6 272</u>
Revenue from Government	1.2C	6 203	6 241	6 207
Surplus/(Deficit) attributable to the Australian Government		<u>1 125</u>	<u>992</u>	<u>(65)</u>
OTHER COMPREHENSIVE INCOME				
Changes in asset revaluation surplus		-	209	-
Total other comprehensive income		<u>-</u>	<u>209</u>	<u>-</u>
Total comprehensive income/(Loss)		<u>1 125</u>	<u>1 201</u>	<u>(65)</u>

The above statement should be read in conjunction with the accompanying notes.

Commonwealth Grants Commission

Statement of Comprehensive Income (Cont.)

for the period ended 30 June 2017

Budget Variances Commentary

Employee benefits

Employee benefits were less than anticipated as a result of planned delays in recruitment.

Expenses were also reduced as a result of staff taking more annual leave than budgeted plus staff on extended maternity leave without pay.

Suppliers

Supplier expenses were less than anticipated because of continued internal efforts and deliberate savings measures.

Depreciation

The variance in depreciation expense is attributed to higher than anticipated asset acquisitions due to increased server requirements.

Revenue from Government

The variance in the revenue is as a result of \$4K being quarantined by the Department of Finance.

Commonwealth Grants Commission

Statement of Financial Position

as at 30 June 2017

	Notes	2017 \$'000	2016 \$'000	Original Budget \$'000
ASSETS				
Financial assets				
Cash and cash equivalents	2.1A	112	112	116
Trade and other receivables	2.1B	5 890	4 734	3 788
Total financial assets		6 002	4 846	3 904
Non-financial assets				
Buildings-leasehold improvements	2.2A	353	423	142
Property, plant and equipment	2.2A	200	126	86
Other non-financial assets	2.2B	36	38	6
Total non-financial assets		589	587	234
Total assets		6 591	5 433	4 138
LIABILITIES				
Payables				
Suppliers	2.3A	23	30	130
Other payables	2.3B	230	216	212
Total payables		253	246	342
Provisions				
Employee provisions	4.1A	1 573	1 610	1 645
Provision for restoration	2.4A	85	85	-
Total provisions		1 658	1 695	1 645
Total liabilities		1 911	1 941	1 987
Net assets		4 680	3 492	2 151
EQUITY				
Contributed equity		190	127	190
Reserves		552	552	343
Retained surpluses		3 938	2 813	1 618
Total equity		4 680	3 492	2 151

The above statement should be read in conjunction with the accompanying notes.

Commonwealth Grants Commission

Statement of Financial Position (Cont.)

as at 30 June 2017

Budget Variances Commentary

Receivables

Increase in appropriation receivable was due to operating surplus and transfer of excess cash to the Official Public Account of \$1.151m. The operating surplus was also partly due to increased s74 receipts received in the current financial year and as a result of planned savings initiatives.

Supplier payables

Supplier payables reduced because of straight line lease costs under the new leasing arrangement being attributed to other payables in lieu of supplier payables.

Provision for restoration

The renegotiation of the lease for the office premises in 2015-16 resulted in a reduction of the space occupied. In 2015-16 the Commission restored components of the existing leasehold asset back to original condition.

Contributed Equity

Contributed equity is in line with budget projections.

Retained surpluses

The variance from Budget is mainly driven by the previous year budget surplus plus current year operating surplus.

Reserves

The change to the asset revaluation reserve was not budgeted and resulted from a change in leased premises and changes to leasehold improvements following an asset revaluation undertaken in 2015-16.

Commonwealth Grants Commission

Statement of Changes in Equity

For the period ended 30 June 2017

	2017 \$'000	2016 \$'000	Original Budget \$'000
CONTRIBUTED EQUITY			
Opening balance			
Balance carried forward from previous period	127	63	127
Opening balance	127	63	127
Transactions with owners			
Contribution by owners			
Departmental Capital Budget	63	64	63
Total transactions with owners	63	64	63
Closing balance as at 30 June	190	127	190
RETAINED EARNINGS			
Opening balance			
Balance carried forward from previous period	2 813	1 764	1 683
Opening balance	2 813	1 764	1 683
Comprehensive income			
Surplus (deficit) for the period	1 125	992	(65)
Total comprehensive income	1 125	992	(65)
Transfers between equity components	-	57	-
Closing balance as at 30 June	3 938	2 813	1 618
ASSET REVALUATION RESERVE			
Opening balance			
Balance carried forward from previous period	552	343	343
Opening balance	552	343	343
Comprehensive income			
Revaluation	-	304	-
Asset disposal	-	(38)	-
Total comprehensive income	-	266	-
Transfer between equity components	-	(57)	-
Closing balance as at 30 June	552	552	343

Commonwealth Grants Commission

Statement of Changes in Equity (Cont.)

For the period ended 30 June 2017

	2017	2016	Original
	\$'000	\$'000	Budget
			\$'000
TOTAL EQUITY			
Opening balance			
Balance carried forward from previous period	3 492	2 170	2 153
Opening balance	3 492	2 170	2 153
Comprehensive income			
Surplus for the period	1 125	992	(65)
Other Comprehensive income	-	209	-
Total comprehensive income/(loss)	1 125	1 201	(65)
Transactions with owners			
Contribution by owners			
Departmental Capital Budget	63	64	63
Total transactions with owners	63	64	63
Transfers between equity components	-	57	-
Closing balance as at 30 June	4 680	3 492	2 151

The above statement should be read in conjunction with the accompanying notes.

Commonwealth Grants Commission

Statement of Changes in Equity (Cont.)

For the period ended 30 June 2017

Accounting Policy

Equity Injections

Amounts appropriated which are designated as 'equity injections' for a year (less any formal reductions) and Departmental Capital Budgets (DCBs) are recognised directly in contributed equity in that year.

Other Distribution to Owners

The FRR require that distribution to owners be debited to contributed equity unless it is in the nature of a dividend. In 2016-17 there were no dividends paid out.

Budget Variances Commentary

Retained surpluses

The variance from Budget is mainly driven by the current year operating surplus.

Reserves

The change to the asset revaluation reserve was not budgeted and resulted from a change in leased premises and changes to leasehold improvements following an asset revaluation undertaken in 2015-16.

Commonwealth Grants Commission

Cash Flow Statement

for the period ended 30 June 2017

	Notes	<u>2017</u> \$'000	<u>2016</u> \$'000	Budget \$'000
OPERATING ACTIVITIES				
Cash received				
Appropriations		6 266	6 405	6 207
Net GST received		77	77	-
Section 74		106	318	-
Total cash received		<u>6 449</u>	<u>6 800</u>	<u>6 207</u>
Cash used				
Employees		(4 273)	(4 881)	(4 700)
Suppliers		(896)	(745)	(1 507)
Return to OPA		(1 151)	(1 058)	-
Total cash used		<u>(6 320)</u>	<u>(6 684)</u>	<u>6 207</u>
Net cash from operating activities		<u>129</u>	<u>116</u>	<u>-</u>
INVESTING ACTIVITIES				
Cash used				
Purchase of property, plant and equipment		(129)	(83)	(63)
Makegood settlement		-	(37)	-
Total cash used		<u>(129)</u>	<u>(120)</u>	<u>(63)</u>
Net cash from used by investing activities		<u>(129)</u>	<u>(120)</u>	<u>(63)</u>
Net Increase/(decrease) in cash held		0	(4)	-
Cash at beginning of the reporting period		<u>112</u>	<u>116</u>	<u>116</u>
Cash at the end of the reporting period	2.1A	<u>112</u>	<u>112</u>	<u>116</u>

The above statement should be read in conjunction with the accompanying notes.

Commonwealth Grants Commission

CASH FLOW STATEMENT (Cont.)

for the period ended 30 June 2017

Budget Variances Commentary

Operating Activities-Cash Received

Most of the variance was due to receipt of cash for leave liabilities under s 74 of PGPA Act resulting from employee transfers to the Commission.

There was also a small variance in the appropriations as a result of \$4K being quarantined by the Department of Finance.

Operating Activities-Cash Used

The variance from Budget for employee expenses is due to non-replacement of staff and planned delays in recruitment. Savings in supplier expenses were made because of internal efforts and deliberate savings measures for travel and other categories.

In 2016-17, the Commission returned \$1.151 million to the Official Public Account. This was not budgeted for.

Investment Activities-Cash Used

The variance from Budget for asset purchases is attributed to purchase of desktop machines.

OVERVIEW

Objectives of the Commonwealth Grants Commission

The Commission is a non-profit Australian Government controlled entity established by the *Commonwealth Grants Commission Act 1973*.

In 2016-17, the Commission was structured to meet one outcome: Informed Government decisions on fiscal equalisation between the States and Territories through advice and recommendation on the distribution of GST revenue.

The continued existence of the Commission in its present form and with its present programmes is dependent on Government policy and on continuing funding by Parliament for the Commission's administration and programmes.

The activities of the Commission are classified as Departmental.

Departmental activities involve use of assets, liabilities, income and expenses controlled or incurred by the Commission in its own right.

Basis of Preparation of the Financial Statements

The financial statements are general purpose financial statements and are required by section 42 of the *Public Governance, Performance and Accountability Act 2013*.

The financial statements have been prepared in accordance with:

- Chapter 2 *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR) for reporting periods ending on or after 1 July 2015; and
- Australian Accounting Standards and Interpretations-Reduced Disclosure Requirements issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

Future Australian Accounting Standard requirements

During the 2016-17 financial year accounting standards and interpretations were issued or amended by the Australian Accounting Standards Board which will be effective for future reporting periods.

Standard	Nature of change
<p><i>AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107</i></p>	<p>AASB 2016-2 amends AASB 107 <i>Statement of Cash Flows</i> to require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Entities are required to disclose the following changes in liabilities arising from financing activities:</p> <ul style="list-style-type: none"> • changes from financing cash flows; • changes arising from obtaining or losing control of subsidiaries or their businesses; • changes in fair values; and • other changes. <p>The above changes in liabilities arising from financing activities may be disclosed in a reconciliation between the opening and closing balances of liabilities arising from financing activities.</p>
<p><i>AASB 9 Financial Instruments</i></p>	<p>Changes to AASB 9 Financial Instruments are effective for reporting periods commencing after 1 January 2018. A detailed assessment is yet to be undertaken, however, based on a preliminary assessment the standard is not expected to have a material impact on the transactions and balances recognised in the financial statements.</p>
<p><i>AASB 15 Revenue from Contracts with Customers</i></p>	<p>The Commission will apply AASB 15 Revenue from Contracts with Customers for reporting periods commencing after 1 January 2018. The standard requires revenue from such contracts to be recognised as the entity transfers goods and services to the customer. Based on a preliminary assessment, the standard will have no impact on the transactions and balances recognised in the financial statements.</p>
<p><i>AASB 16 Leases</i></p>	<p>The Commission will apply AASB 16 Leases for reporting periods commencing after 1 January 2019. The standard will require the net present value of payments under most operating leases to be recognised as assets and liabilities. An initial assessment indicates that the implementation of the standard will have an impact on the financial statements however the Commission is yet to complete its review.</p>

All new standards, revised standards, interpretations and amended standards that were issued by the Australian Accounting Standards Board prior to the signing of the statements by the Accountable Authority and Chief Financial Officer, and are applicable to future reporting periods are not expected to have a future material impact on the Commission's financial statements.

Taxation

The Commission is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Events after the Reporting Period

There were no events that occurred after the balance date that would affect the balances in the financial statements.

Commonwealth Grants Commission

Financial Performance This section analyses the financial performance of the Commission for the year ended 2017.

1.1 Expenses

	2017	2016
	<u>\$'000</u>	<u>\$'000</u>
<u>1.1A: Employee Benefits</u>		
Wages and salaries	3 238	3 362
Superannuation		
Defined contribution plans	236	282
Defined benefit plans	335	244
Leave and other entitlements	387	571
Total employee benefits	<u>4 196</u>	<u>4 459</u>

Accounting Policy

Accounting policies for employee related expenses is contained in the People and relationship section.

1.1B: Suppliers

Goods and services supplied or rendered

Consultants and outsourcing	90	140
Employees non-salary expenses	36	21
Finance and legal	74	64
IT and communications	150	81
Library	5	3
Office services	16	12
Travel	56	34
Property operating expenses	42	44
Total goods and services supplied or rendered	<u>469</u>	<u>399</u>
Goods supplied	63	68
Services rendered	406	331
Total goods and services supplied or rendered	<u>469</u>	<u>399</u>

Commonwealth Grants Commission

Financial Performance (Cont.)

	2017	2016
	<u>\$'000</u>	<u>\$'000</u>
<u>1.1B: Suppliers (Cont.)</u>		
Other suppliers		
Operating lease rentals	320	320
Workers compensation expenses	13	32
Total other suppliers	<u>333</u>	<u>352</u>
Total suppliers	<u>802</u>	<u>751</u>

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within 1 year	352	340
Between 1 to 5 years	1 535	1 887
More than 5 years	-	-
Total operating lease commitments	<u>1 887</u>	<u>2 227</u>

Accounting Policy

Operating lease payments are expensed on a straight line basis which is representative of the pattern of benefits derived from the leased assets.

The Commission has no finance leases.

Commitments are recorded on a GST inclusive basis.

Commonwealth Grants Commission

Financial Performance (Cont.)

1.2 Own-Source Revenue and gains

	2017	2016
	<u>\$'000</u>	<u>\$'000</u>
Own –Source Revenue		
<u>1.2A: Resources received free of charge</u>		
Remuneration of auditors	45	34
Total other revenue	45	34
<u>1.2B: Other gains</u>		
Decommission of assets	-	58
Total other gains	-	58

Accounting Policy

Resources Received Free of Charge

Resources received free of charge are for financial audit services provided by ANAO.

Resources received free of charge are recognised when, and only when, a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of these resources is recognised as an expense. Resources free of charge are recorded as either revenue or gains depending on their nature.

Sale of Assets

Gains from disposal of assets are recognised when control of the asset passes to the buyer.

1.2C: Revenue from Government

Appropriations

Departmental appropriations	6 203	6 241
Total revenue from Government	6 203	6 241

Commonwealth Grants Commission

Financial Performance (Cont.)

Accounting Policy

Revenue from Government

Amounts appropriated for departmental appropriations for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government when the Commission gains control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned. Appropriations receivable are recognised at their nominal amounts.

Commonwealth Grants Commission

Financial Position This section analyses the Commission's assets used to conduct its operations and the operating liabilities incurred as a result. Employee related information is disclosed in the People and Relationships section.

2.1 Financial Assets

	2017	2016
	<u>\$'000</u>	<u>\$'000</u>
<u>2.1A: Cash and Cash Equivalents</u>		
Cash on hand and on deposit	112	112
Total cash and cash equivalents	<u>112</u>	<u>112</u>

Accounting Policy

Cash is recognised at its nominal amount. Cash and cash equivalents include:

- a) cash on hand
- b) demand deposits in bank accounts with an original maturity of 3 months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

2.1B: Trade and Other Receivables

Appropriations receivable

Appropriations receivable	5 880	4 729
Total appropriations receivable	<u>5 880</u>	<u>4 729</u>

Other receivables

Other-GST receivable	10	5
Total other receivables	<u>10</u>	<u>5</u>
Total trade and other receivables (gross)	<u>5 890</u>	<u>4 734</u>

Commonwealth Grants Commission

Financial Position (Cont.)

Accounting Policy

Loans and Receivables

Trade receivables and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest rate method less impairment. No impairment allowance has been recognised as at balance date (2016:\$0)

Commonwealth Grants Commission

Financial Position (Cont.)

2.2 Non-Financial Assets

2.2A: Reconciliation of The Opening and Closing Balances of Property, Plant and Equipment

Reconciliation of the opening and closing balances of property, plant and equipment 2017

	Buildings- Leasehold Improvements \$'000	Property, Plant and Equipment \$'000	Total \$'000
As at 1 July 2016			
Gross book value	493	247	740
Accumulated depreciation	(70)	(121)	(191)
Total as at 1 July 2016	423	126	549
Additions			
by purchase	1	128	129
Depreciation expense	(71)	(54)	(125)
Total as at 30 June 2017	353	200	553
Total as at 30 June 2017 represented by:			
Gross book value	494	375	869
Accumulated depreciation	(141)	(175)	(316)
Net book value 30 June 2017	353	200	553

Revaluations of non-financial assets

All revaluations were conducted in accordance with the revaluation policy stated at Note.5.2.

Contractual commitments for the acquisition of buildings and property, plant and equipment

There are no contractual commitments for the acquisition of buildings and property, plant and equipment

Commonwealth Grants Commission

Financial Position (Cont.)

Accounting Policy

Assets are recorded at cost on acquisition. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

Asset Recognition Threshold

Purchases of leasehold improvements and property, plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases costing less than \$2,000 which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'makegood' provisions in property leases taken up by the Commission where there exists an obligation to restore the property to its original condition. These costs are included in the value of the Commission's leasehold improvements with a corresponding provision for the 'makegood' recognised.

Revaluations

Following initial recognition at cost, leasehold improvements and property plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not materially differ with the assets 'fair values' as at the reporting date. The regularity of independent valuations depends on the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets are recognised directly through surplus and deficit except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Depreciation

Depreciable plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the Commission using, in all cases, the straight-line method of depreciation.

Commonwealth Grants Commission

Financial Position (Cont.)

Accounting Policy (Cont.)

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable assets are based on the following useful lives:

	2017	2016
Leasehold improvements	Within Lease term	Within Lease term
Plant and equipment	2 to 5 years	2 to 5 years

Impairment

All assets were assessed for impairment at 30 June 2017. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if the entity were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Derecognition

Leasehold improvements or an item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Accounting judgements and estimates

In the process of applying the accounting policy, the Commission has made assumptions or estimates for the fair value of leasehold improvements and property, plant and equipment. Leasehold improvements and property, plant and equipment is assessed at the market value or depreciated replacement cost as determined by an independent valuer and is subject to management assessment between valuations.

No accounting assumptions or estimates have been identified that have a significant risk of causing material adjustments to the carrying amount of the assets within the next reporting period.

Commonwealth Grants Commission

Financial Position (Cont.)

	2017	2016
	<u>\$'000</u>	<u>\$'000</u>
<u>2.2B: Other Non-Financial Assets</u>		
Prepayments	36	38
Total other non-financial assets	36	38

No indicators of impairment were found for other non-financial assets.

2.3 Payables

	2017	2016
	<u>\$'000</u>	<u>\$'000</u>
<u>2.3A: Suppliers</u>		
Trade creditors and accruals	23	30
Total suppliers	23	30
<u>2.3B: Other Payables</u>		
Superannuation	5	2
Salaries and wages	27	12
Employee payables	83	98
Lease cost payable	115	104
Total other payables	230	216

Commonwealth Grants Commission

Financial Position (Cont.)

2.4 Other Provisions

2.4A Other Provisions

	Provision for restoration \$'000s
As at 1 July 2016	85
Amounts used	-
Amounts reversed	-
New provisions made	-
Total as at 30 June 2017	85

The Commission currently has 1 (2016:1) agreement for the leasing of premises which have provisions requiring the Commission to restore the premises to its original condition at the conclusion of the lease. The Commission has made a provision to reflect the present value of this obligation.

Commonwealth Grants Commission

Funding This section identifies the Commission's funding structure.

3.1 Appropriations

3.1A Annual Appropriations ('Recoverable GST exclusive')

Annual Appropriations for 2017

	<i>Appropriation Act</i>	<i>PGPA Act</i>		<i>Appropriation applied in 2017 (current and prior years)</i>	<i>Variance²</i>
	<i>Annual Appropriation¹</i>	<i>Section 74 Receipts</i>	<i>Total appropriation</i>	<i>\$'000</i>	<i>\$'000</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Departmental					
Ordinary annual services	6 207	106	6 313	(5 169)	1 144
Capital Budget ³	63	-	63	(129)	(66)
Total departmental	6 270	106	6 376	(5 298)	1 078

Notes:

- 1 In 2016-17, there were \$4K in appropriations that have been quarantined under Section 51 of the PGPA Act.
- 2 The variance for 2016-17 was related to savings in staff costs, which were affected by delays in recruiting, and continued initiatives for savings in administrative expenditure particularly travel.
- 3 Departmental Capital Budgets are appropriated through Appropriation Acts (No. 1,3,5). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts.

Commonwealth Grants Commission

Funding (Cont.)

Annual Appropriations for 2016

	<i>Appropriation Act</i>	<i>PGPA Act</i>		Appropriation applied in	
	Annual Appropriation ¹ \$'000	Section 74 \$'000	Total appropriation \$'000	2016 (current and prior years) \$'000	Variance ² \$'000
Departmental					
Ordinary annual services	6 243	318	6 561	(5 550)	1011
Capital Budget ³	64		64	(120)	(56)
Total departmental	6 307	318	6 625	(5 670)	955

Notes:

- 1 In 2015-16, there were \$2K in appropriations that have been quarantined under Section 51 of the PGPA Act.
- 2 The variance for 2015-16 was related to savings in staff costs, which were affected by delays in recruiting, and continued initiatives for savings in administrative expenditure particularly travel.
- 3 Departmental Capital Budgets are appropriated through Appropriation Acts (No. 1,3,5). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts.

Commonwealth Grants Commission

Funding (Cont.)

3.1B: Unspent Annual Appropriations ('Recoverable GST exclusive')

	2017	2016
	\$'000	\$'000
Departmental		
Appropriation Act (No.1) 2012-13	800	800
Appropriation Act (No.1) 2013-14	4	4
Appropriation Act (No.1) 2015-16	2 400	3 925
Appropriation Act (No.1) 2016-17	2 676	-
Cash and cash equivalents	112	112
Total	5 992	4 841

1. Amounts relating to 2012-13 and 2013-14 have been quarantined for administrative purposes.

Commonwealth Grants Commission

People and relationships

This section describes a range of employment and post-employment benefits provided to the Commission's people and the relationship with other key personnel.

4.1 Employee Provisions

	2017	2016
	<u>\$'000</u>	<u>\$'000</u>
<u>4.1A: Employee Provisions</u>		
Annual leave	413	464
Long service leave	1 160	1 146
Total employee provisions	<u>1 573</u>	<u>1 610</u>

Accounting policy

Liabilities for 'short term employee benefits' and termination benefits expected within twelve months of the end of the reporting period are measured at their nominal amounts.

Leave

The liability for employee benefits includes provision for annual leave and long service leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including the Commission's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability has been determined with reference to the Finance shorthand method. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Commonwealth Grants Commission

People and relationships (Cont.)

Accounting policy (Cont.)

Superannuation

Employees of the Commission are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap), or other superannuation funds held outside the Australian Government.

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported by the Department of Finance's administered schedules and notes.

The Commission makes employer contributions to the employee's defined benefit superannuation scheme at rates determined by an actuary to meet the current cost to the Government. The Commission accounts for the contributions as if they were contributions to defined contribution plans.

The liability for superannuation recognised as at 30 June represents outstanding contributions.

Accounting judgements and estimates

In the process of applying the accounting policy, the Commission has made assumptions or estimates based on the expected tenure of existing staff, patterns of leave claims and payouts, future salary movements and future discount rates.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to the carrying amount of the liabilities within the next reporting period.

Commonwealth Grants Commission

People and relationships (Cont.)

4.2 Key Management Personnel Remuneration

Key management personnel are those persons having authority and responsibility for planning and directing and controlling the activities of the Commission, directly or indirectly, including any director (whether executive or otherwise) of the Commission. The Commission has determined the key management personnel to be the Secretary and Assistant Secretaries. Key management personnel remuneration is reported in the table below.

	2017 <u>\$'000</u>
Short-term employee benefits	
Salary	578
Performance bonuses	39
Motor vehicle and other allowances	<u>85</u>
Total short-term employee benefits	<u>702</u>
Post-employment benefits	
Superannuation	<u>128</u>
Total post-employment benefits	<u>128</u>
Other long-term employee benefits	
Annual leave accrued	52
Long-service leave	<u>23</u>
Total long-term employee benefits	<u>75</u>
Total key management personnel remuneration expenses¹	<u>905</u>

The total number of key management personnel that are included in the above table are 3 (2016:4-Note however that this included 1 Senior Executive who retired.)

1. The above key management personnel remuneration excludes remuneration and other benefits of the Portfolio Minister. The Portfolio Minister's remuneration and other benefits are set by the Remuneration Tribunal and are not paid by the Commission.

Commonwealth Grants Commission

People and relationships (Cont.)

4.3 Related Party Disclosures

Related party relationships

The Commission is an Australian Government controlled entity. Related parties to the Commission are Key Management Personnel, Portfolio Minister and Key Personnel identified with financial delegations and other Australian Government entities.

Transactions with related parties

Given the breadth of Government activities, related parties may transact with the government sector in the same capacity as ordinary citizens. Such transactions include the payment or refund of taxes, receipt of Medicare rebate or higher education loans. These transactions have not been separately disclosed in this note and they are also not relevant as the Commission's role is to provide advice to government on the distribution of GST Revenue to the States and Territories.

The following transactions with related parties occurred during the financial year:

- The Commission transacts with other Australian Government controlled entities consistent with normal day-to-day business operations provided under normal terms and conditions, including the payment of workers compensation and insurance premiums. These are not considered individually significant to warrant separate disclosure as related party transactions.
- The Commission also transacted with other Australian Government controlled entities consistent with normal day-to-day business operations provided under normal terms and conditions which included data purchases, advertising and internet services. These are also not considered individually significant to warrant separate disclosures as related party transactions.
- Refer to Note 4.1 Employee Provisions for details on superannuation arrangements with the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) and the PSS Accumulation Plan (PSSap).

Giving consideration to relationships with related entities, and the materiality of transactions entered into during the reporting period by the Commission, it has been determined that there are no related party transactions to be separately disclosed.

Commonwealth Grants Commission

Managing uncertainties This section analyses how the Commission manages financial risks within its operating environment.

5.1 Contingent Assets and Liabilities

Quantifiable contingencies

The Commission has no quantifiable contingencies for 2016-2017 or 2015-2016.

Unquantifiable contingencies

The Commission provided an indemnity to the lessors of the Commission's leased premises in relation to all claims, losses, damages or injury for which the lessor shall, may or does become liable. These can arise from the negligent use by the lessee of water, gas, electricity, lighting, overflow or leakage of water and other services and facilities. The indemnity releases the lessor from all claims and demands of any kind and from all liability which may arise in respect of any loss, damage or injury to property or to a person within or outside the leased premises to the extent caused by or contributed to the negligent act or omission of the lessee.

5.2 Financial Instruments

5.2A: Categories of Financial Instruments

	2017	2016
	<u>\$'000</u>	<u>\$'000</u>
Financial Assets		
Cash and cash equivalents	112	112
Total financial assets	<u>112</u>	<u>112</u>
Financial Liabilities		
Financial liabilities measured at amortised cost		
Trade creditors	23	30
Total financial liabilities measured at amortised cost	<u>23</u>	<u>30</u>

Accounting policy

Financial assets

The Commission classifies its financial assets as 'loans and receivables'.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Commonwealth Grants Commission

Managing uncertainties (Cont.)

Financial liabilities

Financial liabilities are classified as other financial liabilities. Other financial liabilities are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method.

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

5.2 Fair Value Measurement

Accounting policy

The Commission's assets are held for operational purposes and not held for the purpose of deriving a profit. The current use of all NFAs is considered their highest and best use.

Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not materially differ with the assets 'fair values' as at the reporting date (refer to the Commission's accounting policy disclosed in Note 2.2).

There has been change to the valuation techniques for assets controlled by the Commission. In instances where sufficient observable inputs, such as market transactions of similar assets, were (not) identified at 30 June 2017, the valuation technique was changed from the Depreciated Replacement Cost (DRC) approach to a Market approach.

Depreciated Replacement Cost

The amount a market participant would be prepared to pay to acquire or construct a substitute asset of comparable utility, adjusted for physical depreciation and obsolescence.

Market Approach

The approach seeks to estimate the fair value of an asset with reference to recent market transactions involving identical or comparable assets.

Commonwealth Grants Commission

Managing uncertainties (Cont.)

5.2A: Fair Value Measurement

Fair value measurements at the
end of the reporting date

	2017	2016	
	\$'000	\$'000	
Leasehold Improvements	353	423	Level 3
Property, plant and equipment	80	33	Level 2
Property, plant and equipment	120	93	Level 3
Total	553	549	

2. The Commission did not measure any non-financial assets at fair value on a non-recurring basis as at 30 June 2017.
3. The remaining assets and liabilities reported by the Commission are not measured at fair value in the Statement of Financial Position.

GLOSSARY

- 1 The Commission aims to keep the language it uses as simple as possible to make its reports and other documents more accessible. That said, there will always be a need for special terms to describe some concepts. This attachment provides a list of terms that have a meaning unique to the commission. The complete list of terms may be found in the commission's latest review and update reports, available on the website: <http://www.cgc.gov.au>.
- 2 The term 'State(s)' includes the Australian Capital Territory and the Northern Territory. The term 'average' refers to the average of all the States as defined.

TERMS

assessed differences (also known as *needs*)

The financial impact on a State's budget of its disabilities. They are measured, for example, as the difference between assessed expenses and average expenses, average revenue and assessed revenue. Assessed differences can be either positive or negative.

Goods and Services Tax (GST) revenue/GST pool

The funds made available by the Commonwealth Government for transfer to the *States* as untied financial assistance.

horizontal fiscal equalisation (equalisation)

A distribution of GST revenue to State governments such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and their associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources, operated at the same level of efficiency and maintained the average per capita net financial worth.

relativity

A per capita weight assessed by the commission for use by Treasury in calculating the share of the GST revenue a State requires to achieve horizontal fiscal equalisation.

review

The process in which the commission reconsiders the methods used to calculate State relativities, according to terms of reference given to it. From 1988 onwards, reviews have usually been done every 5 years. By contrast, an update is conducted every year other than a review year and updates the relativities using the methods determined in the last review and the latest financial data.

Payments for specific purpose

Commonwealth government payments to the States for specific purposes in policy areas for which the States have primary responsibility. These payments cover most functional areas of State (and local government) activity, including health, education, skills and workforce development, community services, housing, Indigenous affairs, infrastructure and the environment. PSPs include SPPs, National Health Reform Funding, Students First funding and NPPs.

update

The annual assessment of State relativities undertaken by the commission between reviews. Update assessments incorporate new budgetary developments and the most recent available data. In general, the methods used to calculate the relativities are those adopted in the most recent review.

ACRONYMS

AASB	Australian Accounting Standards Board
APS	Australian Public Service
ANAO	Australian National Audit Office
CGC	Commonwealth Grants Commission
COAG	Council of Australian Governments
CRF	Consolidated Revenue Fund
CSS	Commonwealth Superannuation Scheme
FMA	Financial Management and Accountability
FMO	Finance Minister's Order
FOI	Freedom of Information
GST	Goods and Services Tax
HFE	Horizontal Fiscal Equalisation
IPS	Information Publication Scheme
NDIS	National Disability Insurance Scheme
PGPA	Public Governance Performance and Accountability
PSS	Public Sector Superannuation Scheme
PSSap	Public Sector Superannuation Scheme accumulation plan
WH&S	Workplace Health and Safety

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Review by Secretary		
Review by departmental secretary	Mandatory	1-2
Summary of significant issues and developments	Suggested	1-2
Review of department's performance and financial results	Suggested	2
Outlook for following year	Suggested	2
Significant issues and developments – portfolio	Portfolio departments – suggested	Not Applicable
Departmental Overview		
Role and functions	Mandatory	3
Organisational structure	Mandatory	11
Where outcome and programme structures differ from PB Statements/PAES or other portfolio statements accompanying any other additional appropriation bills (other portfolio statements), details of variation and reasons for change	Mandatory	Not Applicable
Portfolio structure	Portfolio departments - mandatory	Not Applicable
Report on Performance		
Review of performance during the year in relation to programmes and contribution to outcomes	Mandatory	3-9
Actual performance in relation to deliverables and KPIs set out in PB Statements/PAES or other portfolio statements	Mandatory	3-9
Where performance targets differ from the PBS/PAES, details of both former and new targets, and reasons for the change	Mandatory	Not Applicable
Narrative discussion and analysis of performance	Mandatory	3-9
Trend information	Mandatory	10-21
Significant changes in nature of principal functions/services	Suggested	Not Applicable
Performance of purchaser/provider arrangements	If applicable, suggested	Not Applicable
Factors, events or trends influencing departmental performance	Suggested	Not Applicable
Contribution of risk management in achieving objectives	Suggested	14
Performance against service charter customer service standards, complaints data, and the department's response to complaints	If applicable, mandatory	Not Applicable
Discussion and analysis of the department's financial performance	Mandatory	42-83

Description	Requirement	Page/s
Discussion of any significant changes in financial results from the prior year, from budget or anticipated to have a significant impact on future operations.	Mandatory	Not Applicable
Agency resource statement and summary resource tables by outcomes	Mandatory	44
Management and Accountability		
Corporate Governance		
Agency heads are required to certify that their agency complies with the 'Commonwealth Fraud Control Guidelines'.	Mandatory	14
Statement of the main corporate governance practices in place	Mandatory	12
Names of the senior executive and their responsibilities	Suggested	Not Applicable
Senior management committees and their roles	Suggested	12-14
Corporate and operational plans and associated performance reporting and review	Suggested	10-21
Internal audit arrangements including approach adopted to identifying areas of significant financial or operational risk and arrangements to manage those risks	Suggested	14
Policy and practices on the establishment and maintenance of appropriate ethical standards	Suggested	Not Applicable
How nature and amount of remuneration for SES officers is determined	Suggested	Not Applicable
External Security		
Significant developments in external scrutiny	Mandatory	13-14
Judicial decisions and decisions of administrative tribunals and by the Australian Information Commissioner	Mandatory	Not Applicable
Reports by the Auditor-General, a Parliamentary Committee, the Commonwealth Ombudsman or an agency capability review	Mandatory	Not Applicable
Management of Human Resources		
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Training and development undertaken and its impact	Suggested	18
Work health and safety performance	Suggested	41
Productivity gains	Suggested	Not Applicable
Statistics on staffing	Mandatory	15-18
Enterprise or collective agreements, IFAs, determinations, common law contracts and AWAs	Mandatory	16
Performance pay	Mandatory	17
Assets Management		
Assessment of effectiveness of assets management	If applicable, mandatory	Not Applicable
Purchasing		
Assessment of purchasing against core policies and principles	Mandatory	19

Description	Requirement	Page/s
Consultants		
The annual report must include a summary statement detailing the number of new consultancy services contracts let during the year; the total actual expenditure on all new consultancy contracts let during the year (inclusive of GST); the number of ongoing consultancy contracts that were active in the reporting year; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST). The annual report must include a statement noting that information on contracts and consultancies is available through the AusTender website.	Mandatory	19
Australian National Audit Office Access Clauses		
Absence of provisions in contracts allowing access by the Auditor-General	Mandatory	Not Applicable
Exempt Contracts		
Contracts exempted from publication in AusTender	Mandatory	Not Applicable
Financial Statements		
Other Mandatory Information		
Work health and safety (Schedule 2, Part 4 of the <i>Work Health and Safety Act 2011</i>)	Mandatory	41
Advertising and Market Research (Section 311A of the <i>Commonwealth Electoral Act 1918</i>) and statement on advertising campaigns	Mandatory	21
Ecologically sustainable development and environmental performance (Section 516A of the <i>Environment Protection and Biodiversity Conservation Act 1999</i>)	Mandatory	21
Compliance with the agency's obligations under the <i>Carer Recognition Act 2010</i>	If applicable, mandatory	Not Applicable
Grant programmes	Mandatory	20
Disability reporting – explicit and transparent reference to agency-level information available through other reporting mechanisms	Mandatory	
Information Publication Scheme statement	Mandatory	39
Correction of material errors in previous annual report	If applicable, mandatory	Not Applicable
Agency Resource Statements and Resources for Outcomes	Mandatory	44
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