



COMMONWEALTH GRANTS COMMISSION

DRAFT ASSESSMENT PAPER CGC 2003/20

PRE-SCHOOL EDUCATION

Prepared for the Commission's 2003 Conferences on Draft Assessments

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NOTE

Included in this paper are the results of preliminary calculations based on the methods proposed throughout the paper and using the data currently available. Those results are indicative only and should be seen as work in progress. Ongoing changes are being made to standards and factor calculations as new data come to hand. Moreover, the calculations have been done using a prototype assessment system and are subject to ongoing revision as checking processes proceed.

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INTRODUCTION

1. This paper presents a draft assessment for the Pre-school Education category. Pre-school Education was considered a no change category for the 2004 Review. It was not included in category specific discussion papers circulated to the States in 2002. This paper takes account of comments by the States in their main and rejoinder submissions.

2. Only Victoria, Tasmania and the ACT discussed Pre-school Education in their submissions. The Victorian and Tasmanian comments related to issues raised for the government schools categories. The ACT commented specifically on pre-schools.

THE 1999 REVIEW ASSESSMENT

Scope of the category

3. In the 1999 Review, the Pre-school Education category comprised expenses on pre-school services, consisting of administration, inspection, support and operation of pre-school education programs provided on a sessional basis for children up to 5 years of age delivered in a school type environment. More specifically, the category included:

- (i) direct provision of pre-schools and kindergartens;
- (ii) payment of subsidies and grants to non-government and local government operators of pre-schools and kindergartens; and
- (iii) education programs for pre-school age children with special needs, including children with disabilities.

4. Table 1 shows the gross standard expenses for the 2003 Update. In 2001-02, this category represented 0.47 per cent of total gross standard expenses.

Table 1 PRE-SCHOOL EDUCATION — GROSS STANDARD EXPENSES, 2003 UPDATE

	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Standard expenses (\$pc)	18.07	19.56	21.11	22.09	23.05	23.67
% of total gross standard expenses	0.49	0.51	0.46	0.48	0.47	0.47

5. The standard expenses included amounts funded by the pre-school element of the Indigenous Education Strategic Initiatives Program.

Structure of the assessment

6. The assessment structure used in the 1999 Review is shown in Table 2.
7. In the 2003 Update, the category redistributed \$9.2 million in grants (\$0.50 per capita) from New South Wales, Victoria, South Australia and the ACT to the other States.
8. An equal per capita (EPC) assessment was adopted for pre-school user charges.

Table 2 ASSESSMENT STRUCTURE

Expenses component	Component weight	Factors	Basis of calculation
Expenses	%		
Scale-affected expenditure	0.78	Input costs	Assessed by the general method with a weighting of 80% for wages, 2% for accommodation and 1% for electricity.
		Administrative scale	Assessed by the general method.
Schools	98.88	Dispersion	Assessed by the general method.
		Input costs	Assessed by the general method with a weighting of 70% for wages, 2% for accommodation and 1% for electricity.
		Service delivery scale	The same as the factors used in Government Primary Education but without the adjustment for distance education.
		Socio-demographic composition	A joint factor assessing relevant population and socio-economic composition disabilities. The relevant population was five-year olds not in primary school, four-year olds, and three-year olds from low socio-economic background. The relevant population was weighted using the same method as Government Primary Education.
Isolation	0.34	Isolation	Assessed using the general method.

PROPOSED CATEGORY DEFINITION AND ASSESSMENT STRUCTURE

9. The States did not comment on the scope of the category or its assessment structure. The component weight for the largest component of this category (Schools) was

the balance of the category after allowing for the weights assigned to fixed costs and isolation under their respective general methods.

10. *Draft Assessment Paper CGC 2003/78 Treatment of Specific Purpose Payments* said the Indigenous Education Strategic Initiatives Program would continue to be treated by inclusion. Since pre-school education is a State function, the expense standard includes the expenditure of the part of this Specific Purpose Payment (SPP) allocated to pre-schools. Needs associated with Indigenous students will be assessed through the socio-demographic composition factor.

11. The Commission's decisions are summarised in Table 3.

Table 3 COMMISSION DECISIONS – CATEGORY DEFINITION, ASSESSMENT STRUCTURE AND COMPONENT WEIGHTS

Decision	Reason
Definition. Unchanged from 1999 Review.	
Treatment of SPPs. Continue to treat the Indigenous Education Strategic Initiatives SPP by inclusion.	Needs will be assessed in relation to this function which is a State responsibility.
Assessment Structure and Component Weights:	
The category will have the following assessment structure:	Apart from fixed costs and isolation-affected costs, expenses in this category are associated with the provision of one broad service.
fixed costs: 0.47%	
schools: 99.38%	
isolation: 0.15%	

FIXED COSTS COMPONENT

12. This component consists of expenses on core head office functions relating to administration, planning and regulation. The costs of these activities are inevitably greater in per capita terms in less populous States. Administrative scale and input costs factors have been assessed for the fixed cost component of this category.

Administrative scale — fixed costs component

13. **1999 Review.** The administrative scale factor was assessed to account for differences in per capita costs of providing central office functions and whole of State services. Scale-affected expenses for this category were assessed as \$13 million, of which \$8 million was considered as fixed cost and \$5 million as variable cost. The scale-affected expenses component represented 0.78 per cent of expenses in this category.

14. **2004 Review.** *Draft Assessment Paper CGC 2003/60 Administrative Scale* discusses the issues raised by the States regarding the assessment of this factor. The paper sets out the Commission's decisions on the general method of assessment adopted for the 2004 Review and on the size of the fixed costs component in each category. The Commission has decided that administrative scale will be assessed for this category.

15. The administrative scale factors for this category, shown in Table 4, have been calculated according to the general method. Fixed costs for this category have been estimated to be \$0.26 million per State. The Commission also assessed extra fixed costs of \$0.2 million for the Northern Territory to recognise the extra costs it incurs through the dual policy development tasks it must perform because of the high proportion of Indigenous people in its population. Total fixed costs for this category have been estimated to be \$2.28 million, which represents 0.47 per cent of the category standard.

Table 4 ADMINISTRATIVE SCALE FACTORS — FIXED COSTS COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	0.34487	0.47141	0.63651	1.20391	1.46724	4.60875	7.03915	17.87223
1998-1999	0.34482	0.47200	0.63408	1.19857	1.47645	4.67348	7.07127	17.77111
1999-2000	0.34484	0.47231	0.63138	1.19613	1.48613	4.73247	7.08520	17.69123
2000-01	0.34476	0.47241	0.62841	1.19549	1.49842	4.79253	7.08979	17.66644
2001-02	0.34518	0.47215	0.62452	1.19502	1.50943	4.84445	7.10408	17.77059

Input costs — fixed costs component

16. **1999 Review.** The input costs factor was assessed to account for differences between States in per capita costs of labour, office accommodation and electricity. A separate factor was calculated for each type of input and the following standard expense proportions were applied to each of the factors assessed for the fixed cost component:

- wages and salaries 80 per cent;
- accommodation 2 per cent; and
- electricity 1 per cent.

17. **2004 Review.** *Discussion Paper CGC 2003/4 Input Costs* discusses the issues raised by the States regarding the assessment of wages and salaries costs. The paper sets out the staff's proposals for the general method of assessment to be adopted for the 2004 Review. *Draft Assessment Paper CGC 2003/79 Input Costs — Electricity and Accommodation* discusses the issues raised by the States regarding the assessment of input costs relating to accommodation and electricity. The paper sets out the Commission's decisions on the general method of assessment to be adopted for the 2004 Review and on the size of the standard expense proportions in each category for accommodation costs and electricity costs. The States did not raise issues specific to this category.

18. The Commission considered that the prices of labour, accommodation and electricity used in providing head office type services differ across States for reasons beyond the control of individual States. It has therefore decided that input costs will be assessed for this component.

19. The input costs factors for the fixed costs component of this category, shown in Table 5, have been calculated according to the 2004 Review general methods. The standard expense proportions applied were 80 per cent for wages and salaries, 2 per cent for accommodation and 1 per cent for electricity.

Table 5 INPUT COSTS FACTORS — FIXED COSTS COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	1.03086	0.98776	0.98243	0.98229	0.97405	0.93225	1.00817	1.11439
1998-99	1.03267	0.98876	0.98050	0.97883	0.97213	0.92981	1.01243	1.10979
1999-2000	1.03546	0.98791	0.97763	0.98082	0.96857	0.92317	1.01680	1.10513
2000-01	1.03603	0.98930	0.97573	0.98076	0.96738	0.92031	1.01603	1.10244
2001-02	1.03498	0.99044	0.97446	0.98186	0.97135	0.92001	1.01306	1.09897

20. The factors will be updated annually. The proportions represented by wages and salaries, accommodation and electricity will not be re-examined until the next review.

SCHOOLS COMPONENT

21. This component is the largest in this category. It covers the school-based expenses associated with providing services in pre-school education. Dispersion, input costs, service delivery scale and socio-demographic composition factors are assessed for this component.

Dispersion — schools component

22. **1999 Review.** The dispersion factor was assessed to account for differences in per capita costs of providing pre-school services arising from differences between States in the spread of their population. The factor reflected the effects of population dispersion on State expenses associated with telecommunication, freight, travel and staffing on-costs.

23. There were seven indexes in the dispersion factor. Each index reflected the effect of interstate differences in population dispersion on a separate type of dispersion-affected cost. Each index was weighted by the proportion of standard expenses accounted for by each type of dispersion-affected cost. The seven weighted indexes were combined to form the overall dispersion factor. The proportions of standard expenses estimated for this component are shown in Table 6.

Table 6 COST WEIGHTS FOR DISPERSION, 2003 UPDATE

Telephone	Freight	Air Travel	Road Travel		Remote Removals	Locality Allowances
			Inter Regional	Local		
0.00157	0.00299	0.00025	0.00391	0.00231	0.00151	0.0045

Source: 2003 Update Working Papers, Volume 4, p31.

24. **2004 Review.** Draft Assessment Paper CGC 2003/63 *Dispersion* discusses the issues raised by the States regarding the assessment of the dispersion factor. The paper sets out the Commission's decisions on the general method of assessment adopted for the 2004 Review and on the size of the standard expense proportions estimated for each of the nine elements of dispersion-affected expenses.

25. The dispersion factors for the schools component have been calculated according to the 2004 Review general method. There were nine indexes in the dispersion factor for the 2004 Review. Table 7 shows the proportions of standard expenses estimated for each of the nine elements of dispersion affected expenses for this component.

Table 7 COST WEIGHTS FOR DISPERSION, SCHOOLS COMPONENT

Telecommunication		Freight, General	Air Travel	Road Travel		Repairs and Maintenance	Remote Staff Turnover	Locality Allowances
Voice	Non-voice			Inter Regional	Local			
.0014	.0002	.0034	.0003	.0039	.0023	.0008	.0003	.0045

26. Table 8 shows the factors assessed for this component for the 2004 Review.

Table 8 DISPERSION FACTORS — SCHOOLS COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Dispersion factors	0.99505	0.99267	1.00588	1.01843	0.99708	0.99804	0.98469	1.10898

Input costs — schools component

27. **1999 Review.** An input costs factor was assessed for this component. It was based on a wages weight of 70 per cent, an accommodation weight of 2 per cent and an electricity weight of 1 per cent.

28. **2004 Review.** Because pre-school costs are dominated by wages and include electricity and accommodation elements, the Commission considered it was appropriate to continue to assess a input costs factor to allow for the interstate differences in the prices of

those inputs. The factor for each input has been calculated by the general method. The proportion of standard expenses considered to be affected by each input cost factor was 70 per cent for wages, 2 per cent for accommodation and 1 per cent for electricity.

29. Table 9 shows the factors assessed for this component for this review.

Table 9 INPUT COSTS FACTORS — SCHOOLS COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	1.02920	0.98887	0.98342	0.98355	0.97452	0.94171	1.00676	1.08785
1998-99	1.03078	0.98975	0.98174	0.98052	0.97283	0.93958	1.01048	1.08383
1999-2000	1.03323	0.98901	0.97923	0.98226	0.96972	0.93376	1.01431	1.07974
2000-01	1.03372	0.99022	0.97757	0.98221	0.96868	0.93127	1.01363	1.07739
2001-02	1.03281	0.99122	0.97645	0.98317	0.97215	0.93100	1.01104	1.07436

Service delivery scale — schools component

30. **1999 Review.** The Commission assessed a service delivery scale factor to recognise the diseconomies of small scale experienced by States at the point of service delivery. This factor (which was the same as that calculated for government primary education) was intended to allow for differences between the States in their need to provide services at less than optimum size because of the geographic distribution of their pre-school-aged population.

31. **State views.** No State questioned the existence of service delivery scale disabilities associated with the provision of pre-school education services. Victoria and Tasmania commented on the factor in the course of discussing its application to government schools. Victoria said that the factor should be based on population density instead of distance. Tasmania said that it should be based on a measure of time rather than distance.

32. **Commission decision.** Discussion of the issues associated with the assessment of service delivery scale for the Schools Education categories, and the Commission's approach to those issues, are in *Draft Assessment Paper 2003/19 Schools Education*. The Commission decided that there was a conceptual case that diseconomies of small size affect the costs of provision of school and pre-school services in small population centres. It accepted that those services are commonly provided in close proximity to where students live. Some States had above average numbers of small communities and above average numbers of small schools were required to service them.

33. In the absence of data to directly calculate a factor for pre-schools and arguments to the contrary, the Commission decided to continue to base the service delivery scale factor for Pre-school Education on that assessed for Government Primary Education.

34. Table 10 provides a summary of the Commission's decision.

Table 10 COMMISSION DECISIONS – SCHOOLS COMPONENT, SERVICE DELIVERY SCALE

Decision	Reason
To assess service delivery scale for the Pre-School category using the factors calculated for the Government Primary Education category	Diseconomies of small size affect the costs of provision of pre-school services to small population centres.

35. **Proposed method and results.** The method of assessment for this factor is discussed in the *Draft Assessment Paper 2003/19 Schools Education*.

36. Table 11 shows the service delivery scale factors assessed for this component for the 2004 Review.

Table 11 SERVICE DELIVERY SCALE FACTORS — SCHOOLS COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Service delivery scale	0.99454	0.99216	1.00308	1.00476	1.00455	1.01040	0.98115	1.13486

Socio-demographic composition — schools component

37. **1999 Review.** A socio-demographic composition factor was assessed to allow for interstate differences in the demand for pre-school services from the relevant population and the effects on unit costs of low English fluency, low socio-economic status, Indigeneity and remoteness¹.

38. The relevant population was defined as all 4-year-olds, the notional numbers of 5-year-olds not in primary school and 3-year-olds from low-income families. The cost weights applied in the assessment were the same as those applied in the Government Primary Education assessment for:

- (i) students from a low socio-economic background;
- (ii) Indigenous students (remote and non-remote); and
- (iii) students with low-English fluency.

39. **State views.** Only Victoria and the ACT commented on this factor.

¹ A higher cost weight was given for Indigenous persons living in remote areas.

40. Victoria argued for the introduction of a Non-English Speaking Background (NESB) element to the socio-demographic composition assessment to explicitly measure the cost impacts of cultural and social differences — additional to English fluency problems.

41. The ACT said that the existing socio-demographic composition factor was not supported by evidence and did not reflect:

- (i) the varying State proportions of 3, 4 and 5-year-olds using different types of pre-school care;
- (ii) the varying costs of pre-school service provision in the diverse range of settings; and
- (iii) the positive relationship between high income and pre-school enrolments.

42. The ACT also said that the data underpinning the calculation of the notional population was neither comparable nor sound. It proposed that a comprehensive and detailed collection of pre-school data should be undertaken to determine appropriate disabilities. It said that if such a data collection was not feasible, the present factor should be abandoned.

43. *Analysis.* Consideration of the policies of the States indicate that it is a policy of States to provide pre-school education opportunities to all four year old children and five year olds that are not in primary school. Most States also provide opportunities for three year olds in certain circumstances, especially Indigenous children and those from low socio-economic situations. However, the methods adopted by States to provide those opportunities vary widely. They include government provided pre-schools, government subsidised pre-schools, pre-school programs in long day childcare centres, early intervention services and services specifically targeted for remote and Indigenous populations. Because participation is voluntary, it also varies between States. The result is that State expenses vary considerably. In 2001-02, expenses varied from a low of \$14.52 per capita in Victoria to a high of \$63.90 per capita in the Northern Territory.

44. The Commission considered that a special comprehensive data collection of the type envisaged by the ACT was not justified for a category with a standard expenditure of about \$24 per capita in 2001-02. Such a data collection would confirm the wide range of ways pre-school services are provided. It would be likely to also indicate that different approaches were partly driven by different policies of the States.

45. If different participation rates could be shown to stem from underlying demographic or socio-economic characteristics of sub-groups of the population, rather than being a response to the way the service is provided, there would be a conceptual case for assessing a disability factor. However, in circumstances where there are large differences in State policies, the task of separating the effects of underlying population characteristics from those of policy differences is difficult. That difficulty is increased when there is no clear indication that any effects of population characteristics on the use of the services would be material. The Commission does not have information that suggests any

demographic or socio-economic characteristics have a large effect on the use of pre-school services.

46. The 1999 Review assessment method, with its emphasis on the total relevant population plus some allowances for the extra costs of providing services to some sub-groups of population, is policy neutral. It is well established and has the support of most States. We have no reason to discontinue the 1999 Review approach to deriving the relevant population in this Review.

47. The information available to us indicates that States continue to incur extra costs in providing pre-school services to students from low socio-economic backgrounds, students with low English fluency and Indigenous students. We do not have information to demonstrate that any extra costs associated with cultural and social differences (apart from low English fluency and Indigeneity) are material. Again, we consider that a continuation of the 1999 Review method remains appropriate.

48. Under the assessment method adopted in the 1999 Review the cost weights applied to Government Primary Education were also applied to Pre-school Education. In *Draft Assessment Paper CGC 2003/19 Schools Education*, the Commission indicated that it would apply a range of cost weights to allow for the extra costs of providing services to students from low socio-economic backgrounds, students with low English fluency, Indigenous students and Indigenous students living in remote areas. Those cost weights are summarised in Table 12.

49. **Commission decisions.** There is a strong conceptual case that the size and other demographic and socio-economic characteristics of the population aged 3 to 5 years affect the demand for pre-school services. However, there was no readily available information to indicate that differences in those characteristics, other than the number of children in those age groups, had a material effect on the use of pre-school services. The Commission has decided that the size of this category does not warrant the data collection task proposed by the ACT. It has therefore decided not to make allowances for any differences between States, apart from the size of the 3 to 5 year old population, that might affect the use of pre-school services.

50. States commonly provide extra resources for students from certain sub-groups of the population. The Commission therefore accepts the conceptual case that socio-demographic characteristics of State populations can have a material effect on the average per student costs of pre-school services. In the absence of better data, and given the absence of State arguments to the contrary, the Commission has decided to continue the approach adopted in the 1999 Review of using the cost weights assessed for the socio-demographic composition factor in the Government Primary Education category as proxies for the influences on the cost of providing pre-school services.

Table 12 SOCIO-DEMOGRAPHIC COMPOSITION WEIGHTS FOR GOVERNMENT SCHOOL EDUCATION CATEGORIES, 2004 REVIEW

	Low fluency	Fluent
Indigenous persons – remote		
Low socio-economic status	1.70	1.50
Other	1.45	1.30
Indigenous persons – non-remote		
Low socio-economic status	1.35	1.25
Other	1.20	1.10
Non indigenous persons		
Low socio-economic status	1.25	1.15
Other	1.10	1.00

51. Table 13 summarises the Commission’s decisions regarding the assessment of socio-demographic composition for this component.

Table 13 COMMISSION DECISIONS – SOCIO-DEMOGRAPHIC COMPOSITION

Decision	Reason
Method of assessment. Unchanged from the 1999 Review, except for revising the weights to maintain parity with those assessed for the Government Primary Schools category.	The demand for pre-school services is affected by the size of the 3 to 5 year old population in each State and the unit costs of providing those services are affected by the socio-demographic characteristics of that population.

52. ***Proposed method and results.*** The factor was calculated using the following steps:

- (i) dividing each State’s relevant student population into twelve different socio-economic groups using Census information²;
- (ii) weighting the population in each group with cost weights;
- (iii) summing the weighted relevant populations to derive total weighted student population; and

² The twelve different socio-economic sub-groups (2*2*3) consisted of two of English fluency (‘low fluency’ and ‘fluency’), two of socio-economic status (‘low income’ and ‘high income’) and three of Indigeneity (‘remote Indigenous’, ‘non-remote Indigenous’ and ‘non-Indigenous’).

- (iv) converting those weighted student populations into factor using the following formula:

$$\text{Factor} = \frac{(\text{State adjusted student population} / \text{State mean resident population})}{(\text{Australian adjusted student population} / \text{Australian mean resident population})}$$

53. **Error! Reference source not found.** shows the socio-demographic composition factors for this component.

Table 14 SOCIO-DEMOGRAPHIC COMPOSITION FACTORS — SCHOOLS COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	0.98628	0.96335	1.04885	1.02472	0.95485	1.07989	0.92656	1.50884
1998-99	0.98302	0.96480	1.04802	1.03132	0.95455	1.08433	0.93752	1.49884
1999-2000	0.98321	0.95911	1.05083	1.03809	0.95567	1.07484	0.94681	1.50723
2000-01	0.98760	0.95713	1.05207	1.03617	0.95086	1.04786	0.94419	1.50465
2001-02	0.98915	0.96060	1.05368	1.02922	0.94786	1.02709	0.93413	1.48960

ISOLATION COMPONENT

Isolation — isolation component

54. **1999 Review.** The isolation factor was assessed to account for differences in per capita costs of service provision for some States because of their economic and geographical isolation from the main interstate sources of supply in South Eastern Australia. It reflected the combined effect of isolation on labour-related costs, interstate freight costs, professional infrastructure costs, commercial goods costs, airfares, travel allowances and other travel-related subsidies. The isolation-affected expenses component represented 0.84 per cent of expenses in this category.

55. **2004 Review.** *Draft Assessment Paper CGC 2003/65 Isolation* sets out the issues raised by the States in this Review and the Commission's decisions on the general method of assessment of input costs adopted for this Review. The States did not raise issues specific to Pre-school Education.

56. The isolation factors for this category, shown in Table 15, have been calculated according to the 2004 Review general method. Isolation-affected expenses for this category have been estimated to be 0.15 per cent of the category standard.

Table 15 ISOLATION FACTORS — ISOLATION-AFFECTED EXPENSES COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Isolation	0.05107	0.10737	0.17783	0.74776	0.56469	3.49490	1.51842	68.27218

PROPOSED ASSESSMENT FOR THE 2004 REVIEW

57. Table 16 shows the proposed assessment structure for Pre-school Education.

Table 16 ASSESSMENT STRUCTURE —2004 REVIEW

Component	Component weight	Factors	Basis of calculation
%			
Expenses			
Fixed Costs	0.47	Input costs	General method with weights of 80% for wages, 2% for accommodation and 1% for electricity.
		Administrative scale	General method.
Schools	99.38	Dispersion	Assessed by the general method.
		Input costs	Assessed by the general method with a weighting of 70% for wages, 2% for accommodation and 1% for electricity.
		Service delivery scale	The same as the factors used in Government Primary Education but without the adjustment for distance education.
		Socio-demographic composition	A joint factor assessing relevant population and socio-economic composition disabilities. The relevant population contains five-year olds not in primary school, four-year olds, and three-year olds from low socio-economic background. The relevant population is weighted using the Government Primary Education weights.
Isolation	0.15	Isolation	General method.

58. An equal per capita assessment of User Charges will be undertaken for this category.

Calculating the category factor

59. Table 17 summarises the components, component weights and disability factors assessed for this category for 2001-02. It shows the calculation of the category factor.

Table 17 PRE-SCHOOL EDUCATION — DERIVATION OF CATEGORY FACTOR, 2001-02

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Fixed costs (FC) (Component weight = 0.47%)								
Administrative scale (s)	0.34518	0.47215	0.62452	1.19502	1.50943	4.84445	7.10408	17.77059
Input costs (ic_fc)	1.03714	0.99034	0.97354	0.97996	0.96824	0.92479	1.01291	1.07737
Component factor	0.35771	0.46721	0.60751	1.17013	1.46032	4.47650	7.19007	19.13020
Cont. to category factor	0.00168	0.00220	0.00286	0.00550	0.00686	0.02104	0.03379	0.08991
Schools (SCH) (Component weight = 99.38%)								
Dispersion (d)	0.99505	0.99267	1.00588	1.01843	0.99708	0.99804	0.98469	1.10898
Input costs (ic_sch)	1.03293	0.99138	0.97654	0.98254	0.97177	0.93334	1.01116	1.06793
Service delivery scale (sds)	0.99454	0.99216	1.00308	1.00476	1.00455	1.01040	0.98115	1.13486
Socio-demographic composition (sdc)	0.98915	0.96060	1.05368	1.02922	0.94786	1.02709	0.93413	1.48960
Component factor	1.01038	0.93703	1.03742	1.03419	0.92168	0.96569	0.91190	1.98777
Cont. to category factor	1.00411	0.93122	1.03099	1.02778	0.91597	0.95970	0.90624	1.97544
Isolation (ISO) (Component weight = 0.15%)								
Isolation factor (iso)	0.05107	0.10737	0.17783	0.74776	0.56469	3.49490	1.51842	68.27218
Component factor	0.05107	0.10737	0.17783	0.74776	0.56469	3.49490	1.51842	68.27218
Cont. to category factor	0.00008	0.00016	0.00027	0.00112	0.00085	0.00524	0.00228	0.10241
CATEGORY FACTOR	1.00587	0.93357	1.03411	1.03440	0.92368	0.98598	0.94232	2.16776

60. The following formulas were used to calculate the contribution of each expenses component to the overall category factor. In each case, the contributions are calculated as the expenses component weight multiplied by the component factor (the bracketed terms in the formulas). Each contribution to category factor was rescaled to ensure that the sum of standardised equals the sum of actual expenses.

$$FC = 0.0047 * (ic_fc * s)$$

$$SCH = 0.9938 * sdc * sds * (d + [ic_sch] - 1)$$

$$ISO = 0.0015 * (iso)$$

$$CATEGORY FACTOR = FC + SCH + ISO$$

Comparison of category factors

61. Table 18 shows the category factors calculated for the draft assessment for the 2004 Review compared with the category factors assessed in the 2003 Update.

Table 18 COMPARISON OF CATEGORY FACTORS, 2003 UPDATE AND THE DRAFT ASSESSMENT FOR THE 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2003 Update	1.00006	0.95007	1.02359	1.02808	0.94535	1.05541	0.95690	1.86117
2004 Review draft assessment -	1.00587	0.93357	1.03411	1.03440	0.92368	0.98598	0.94232	2.16776

Standardised Expenses

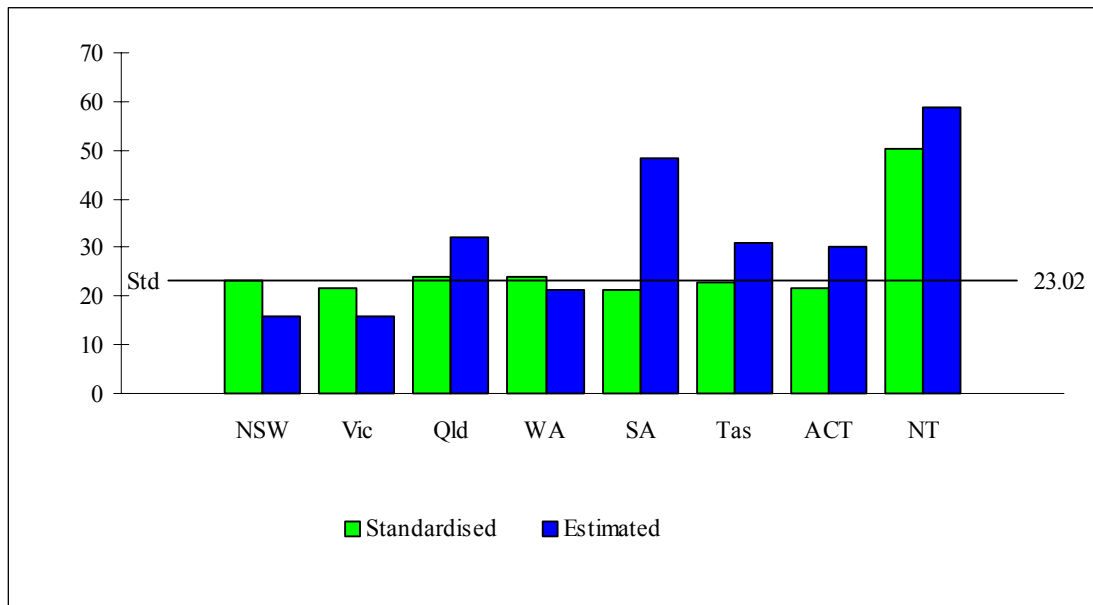
62. Table 19 shows the standardised expenses for this category for 2001-02 in the draft assessment compared with those assessed in the 2003 Update.

Table 19 ESTIMATED, STANDARD AND STANDARDISED EXPENSES, 2001-02

	Standard	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2003 Update									
Estimated expenses									
\$m		111.222	62.284	112.628	59.914	65.846	14.786	7.450	9.369
\$ per capita		17.11	12.98	31.31	31.58	43.90	31.45	23.84	47.69
Standardised expenses									
\$m		149.925	103.623	84.699	45.073	32.908	11.684	7.022	8.566
\$ per capita	23.01	23.07	21.59	23.55	23.75	21.94	24.85	22.47	43.60
2004 Review									
Estimated expenses									
\$m		106.185	76.527	117.968	40.855	73.708	14.549	9.679	11.753
\$ per capita		15.99	15.76	32.14	21.30	48.54	30.75	30.00	58.78
Standardised expenses									
\$m		153.789	104.350	87.387	45.681	32.295	10.741	7.000	9.979
\$ per capita	23.02	23.16	21.49	23.81	23.81	21.27	22.70	21.69	49.91

63. Figure 1 shows the gross expenses per capita for 2001-02 for the 2004 Review in terms of standardised, actual and standard expenses.

Figure 1 PRE-SCHOOL EDUCATION — GROSS EXPENSES PER CAPITA — STANDARDISED, ESTIMATED AND STANDARD, 2001-02



Effect of assessment on grants

64. Table 20 shows the redistribution of grants resulting from the assessment in the 2003 Update and in the draft assessment for the 2004 Review.

65. Compared to an equal per capita assessment, the draft assessment redistributed \$11.2 million away from New South Wales, Victoria, South Australia and the Australian Capital Territory to the other States, \$3.5 million less than in the 2003 Update. This is consistent with our understanding that the standardised expenses have risen relative to the corresponding amount for 2003 Update.

66. The changes are mainly due to changes in the assessment methods, especially:

- a reduction in the level of scale-affected expenses recognised for the less populous States;
- changes in the input costs factors which move grants towards New South Wales and the Northern Territory and away from Victoria and Western Australia; and
- the increased weight for remote Indigenous students.

Table 20 EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION —
PRE-SCHOOL EDUCATION

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total ^(a)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Contribution to 2003 Update relativities ^(b)	-1.0	-6.5	2.3	1.7	-1.8	1.2	-0.3	4.5	9.6
Contribution to 2004 Review Draft Assessments relativities ^(b)	0.2	-8.1	3.1	1.7	-2.7	0.3	-0.4	5.9	11.2
Total Change	1.2	-1.6	0.8	0.0	-0.9	-0.9	-0.1	1.4	3.5 ^(c)

(a) Total redistribution.

(b) These figures are for the previous OGPS category. Assuming same pool and a constant population.

(c) This figure shows the change in the amount redistributed among the States between the 2003 Update and the 2004 Review Draft Assessment. It does not necessarily equal the difference in the total contributions to the relativities between the 2003 Update and the 2004 Review.

USER CHARGES

67. User charges for this category is relatively small and remains policy influenced.

68. As was the case in the 2003 Update, the assessment has been made using the equal per capita method. This has not resulted in any changes in grant shares between the 2003 Update and the 2004 Review draft assessments.