



# **COMMONWEALTH GRANTS COMMISSION**

**DRAFT ASSESSMENT PAPER CGC 2003/51**

## **MANUFACTURING AND OTHER INDUSTRY**

Prepared for the Commission's 2003 Conferences on Draft Assessments

**AUGUST 2003**

# CONTENTS

---

THE 1999 REVIEW ASSESSMENT	1
Category definition	1
Importance the category	1
Expenses assessment	2
User charges assessment	3
PROPOSED CATEGORY DEFINITION AND ASSESSMENT STRUCTURE	
2004 REVIEW	3
Proposed category definition	3
Category structure and component weights	4
FIXED COSTS COMPONENT	6
Administrative scale — fixed costs component	6
Input costs — fixed costs component	7
REGULATION COMPONENT	8
Input costs — regulation component	9
Economic environment — regulation component	9
ECONOMIC DEVELOPMENT COMPONENT	12
SUMMARY OF RESULTS	13
Derivation of category factor	13
Calculation formula	14
Standardised expenses	14
ANALYSIS	16
USER CHARGES	17

## INTRODUCTION

1. This paper presents a draft assessment for the Manufacturing and Other Industry category for the 2004 Review. It builds on staff proposals set out in *Discussion Paper CGC 2002/38 Services to Industry*, and State comments on them provided in the 2003 Rejoinder submissions.

2. The final assessment structure for this category in the 2004 Review is shown in Table 11 on page 14.

## THE 1999 REVIEW ASSESSMENT

### *Category definition*

3. In the 1999 Review, the Manufacturing and Other Industry category comprised expenditure on administration, planning, support, regulation, inspection and promotion relating to industries not elsewhere classified. More specifically, the category included expenditure on:

- (i) manufacturing activities and research into manufacturing methods, materials and industrial management; and
- (ii) other services designed to support, promote and encourage new or expanding industries not elsewhere classified and the development of advanced technology related to these industries.

4. There were no Specific Purpose Payments from the Commonwealth included in this category.

### *Importance the category*

5. Table 1 shows the gross expenses standard for six financial years. In 2001-02, this category represented 0.32 per cent of total gross standard expenses.

**Table 1** MANUFACTURING AND OTHER INDUSTRY — GROSS STANDARD EXPENSES AND USER CHARGES

	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
Gross standard expenses \$pc	16.01	14.37	18.54	17.38	16.61	15.93
% of total gross standard expenses	0.44	0.37	0.41	0.38	0.34	0.32
Gross standard user charges (\$pc)	1.02	0.90	1.25	1.05	0.83	0.78
% of category gross standard expenses	6.4	6.3	6.7	6.0	5.0	4.9

6. Table 2 shows that, compared to an equal per capita assessment, the 2003 Update assessment redistributed \$9.9 million in grants from New South Wales, Victoria, Queensland and South Australia to the other States.

**Table 2** EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION — MANUFACTURING AND OTHER INDUSTRY

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total <sup>(a)</sup>
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Contribution to 2003 Update relativities	-3.8	-1.9	-4.2	0.9	-0.1	2.3	3.2	3.6	9.9

(a) Total redistribution.

7. The factor with the greatest impact on State shares was administrative scale, which redistributed \$11.5 million in the 2003 Update assessment, away from New South Wales, Victoria and Queensland to the other States.

### *Expenses assessment*

8. The expenses assessment used in the 1999 Review is shown in Table 3.

**Table 3** MANUFACTURING AND OTHER INDUSTRY — 1999 REVIEW  
ASSESSMENT STRUCTURE

Expenses component	Component weight	Factors	Basis of calculation
Scale-affected expenses	12.56	Input costs	General method, with weights of 80% for wages, 2% for accommodation and 1% for electricity.
		Administrative scale	General method.
Regulation, training and research in the public interest	34.98	Economic environment	Based on numbers of locations and value of production of all industries except agriculture, fisheries, mining, tourism, government administration and defence, ownership of all dwellings and general government – locations and output being each weighted 50%.
		Input costs	General method, with weights of 60% for wages, 2% for accommodation and 1% for electricity.
Research for private profit and promotion	52.46	None	Equal per capita.

***User charges assessment***

9. User charges for this category were assessed by the equal per capita method.

**PROPOSED CATEGORY DEFINITION AND ASSESSMENT STRUCTURE  
2004 REVIEW**

***Proposed category definition***

10. The Commission decided to retain the current category definition.

11. Following its reconsideration of the treatment of SPPs, as set out in *Draft Assessment Paper CGC 2003/78 Treatment of Specific Purpose Payments*, the Commission intends to include the following SPPs in the Manufacturing and Other Industry category for the 2004 Review:

- (i) *Enterprise Development Program*: changed from exclusion (previously a minor payment) to inclusion; and

- (ii) *National Business Information Service*: changed from exclusion (previous allocation reflected needs) to inclusion.

12. Although in *Discussion Paper CGC 2001/12 Scope and Structure of the Standard Budget* staff proposed the abolition of the Regulatory and Other Services and the spread of its expenses to other relevant categories, none of the Regulatory and Other Services expenses have been reallocated to this category. An examination of GFS industry classifications confirms that most of the expenses incurred in regulating this industry were already included in the category. If there were any Manufacturing and Other Industry regulatory expenses in the Regulatory and Other Services category, they would have been small and therefore difficult to find and separate out.

13. In the 2003 Update report, the Commission explained that it compiled expenses and user charges, for 1998-99 to 2000-01, using State expenses and user charges accrual based data from the GFS collection provided by the ABS, supplemented by information collected from the States. The first year of accrual reporting in GFS was 1998-99. The Commission's analysis of the data indicated that there were problems with the classification of expenses by purpose. The Commission modified the GFS data for 1998-99 to 2000-01 to give greater consistency with published data for earlier years.

14. Further, as data on expenses and user charges for 2001-02 were generally unavailable, the Commission continued its 'estimate and replace' approach used since the 2000 Update, under which it estimated expenses and user charges.

15. For the 2004 Review draft assessments, the approach used in estimating expenses for this category has more closely reflected the underlying GFS data. This has meant expense category standards for 1998-99 to 2001-02 for Manufacturing and Other Industry have been reduced to about half of what they were in the 2003 Update.

### ***Category structure and component weights***

16. *Draft Assessment Paper CGC 2003/60 Administrative Scale* sets out the Commission's decisions on the administrative scale assessment. These decisions have implications for this category. A fixed costs component will be introduced, replacing the 1999 Review scale-affected expenses component.

17. The *Discussion Paper CGC 2003/05 Treatment of Economic Development Assistance* set out the Commission's proposed treatment of economic development expenses. These decisions have implications for this category. The 1999 Review regulation, training and research in the public interest and the research for profit and promotion components will be replaced by two new components: regulation, and economic development.

18. The regulation component will comprise administration expenses (other than the minimum fixed costs) and regulation expenses. It will include expenses on:

- (i) ensuring the welfare of industry employees and consumers of its products; and

- (ii) ensuring the industry and its producers adhere to standards and protect State environments and natural resources for (broadly defined) future users.

19. The economic development component will comprise assistance targeted to specific firms or regions. It will include State expenses whose purpose is improve the market position and/or the financial circumstances of specific firms or regions, including expenses on:

- (i) delivering training designed to provide information to industry producers — including the provision of extension programs, and the production and distribution of industry publications — to increase their use of improved production techniques and the quality of their products;
- (ii) undertaking pure and applied research, including market research, which supports manufacturing and other industry as a whole;
- (iii) grants and subsidies paid to encourage firms to establish, expand or move from other States or nations;
- (iv) infrastructure for the specific benefit of firms or a region;
- (v) price support and marketing schemes directly aimed at firms or a region;
- (vi) schemes to encourage or restrict output of particular products so that the market position of firms or a region are improved; and
- (vii) advertising and other promotional programs which directly support a firm, the whole industry or a region.

20. The size of these components has been estimated using expense information provided by the States in the previous review, known changes to the contents of each component, and judgement.

21. In the 1999 Review, the proportion of expenses in the regulation, training and research in the public interest component was estimated as 40 percent of the balance of the category, after taking out the scale-affected expenses. The proportion of expenses in regulation, training and research in the private interest component was estimated as 60 per cent of the category balance.

22. The regulation component will now comprise all non-fixed head office expenses and regulation expenses. We estimate that this component is now likely to comprise approximately 20 per cent of the balance of the category after fixed costs have been deducted. The economic development component will comprise 80 per cent of the balance of the category.

23. The Commission's decisions relating to the definition of the category, assessment structure and component weights are summarised in Table 4.

**Table 4** COMMISSION DECISIONS — MANUFACTURING AND OTHER INDUSTRY: DEFINITION, ASSESSMENT STRUCTURE AND COMPONENT WEIGHTS

Decision	Reason
<b>Definition.</b> Changed from 2003 Update (two SPPs included — refer below)	Reflects Commission decisions in draft assessment papers on SPPs and the scope of the equalisation budget.
<b>Treatment of SPPs:</b>	
<ul style="list-style-type: none"> <li>Enterprise Development Program</li> </ul>	Changed from exclusion (previously a minor payment) to inclusion.
<ul style="list-style-type: none"> <li>National Information Business Service</li> </ul>	Changed from exclusion (previously a minor payment) to inclusion)
<b>Assessment structure and component weights <sup>(a)</sup>:</b>	
Fixed costs: 15.16 %	While the assessment of administrative scale is based on fixed costs only, this component weight has increased because the category standard has almost halved (refer previous paragraphs on category definition). The discontinuation of the Regulatory and Other Services category has not resulted in an allocation of scale-affected expenses formerly included in that category among the services to industry categories, because all of those regulatory type expenses have been allocated to the General Public Services category.
Regulation: 16.97 %	Expenses component derived by splitting the balance of category expenses 20/80 per cent between regulation and economic development, after the proportion of category expenses on fixed costs has been determined.
Economic development: 67.87 %	Refer the regulation component above.

(a) Component weights for 2001-02.

## FIXED COSTS COMPONENT

24. As in the 1999 Review, administrative scale and input cost factors were applied to this component.

### *Administrative scale — fixed costs component*

25. **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 \$5 million, of which

\$3 million was considered as fixed cost and \$2 million as variable cost. The scale-affected expenses component represented 12.56 per cent of expenses in this category.

26. **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 States did not raise issues specific to this category, other than those covered previously concerning the abolition of the Regulatory and Other Services category.

27. The Commission has decided that administrative scale will be assessed for this category to recognise the unavoidable costs each State would incur to have the policy and administrative infrastructure necessary to provide the service regardless of the size of the task.

28. The administrative scale factors for this category, shown in Table 5, have been calculated using the 2004 Review general method. Fixed costs for this category have been estimated to be \$3 million per State, and represent 15.16 per cent of the category standard in 2001-02.

**Table 5** ADMINISTRATIVE SCALE FACTORS — FIXED COSTS COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	0.36858	0.50382	0.68027	1.28668	1.56812	4.92560	7.52310	12.32319
1998-99	0.36853	0.50445	0.67767	1.28097	1.57795	4.99478	7.55742	12.25346
1999-2000	0.36854	0.50478	0.67478	1.27836	1.58830	5.05782	7.57230	12.19839
2000-01	0.36846	0.50489	0.67161	1.27768	1.60144	5.12202	7.57722	12.18130
2001-02	0.36891	0.50461	0.66745	1.27717	1.61320	5.17750	7.59249	12.25311

29. The factor is based on estimated resident populations, and the component weight will be updated annually.

***Input costs — fixed costs component***

30. **1999 Review.** The input costs factor was assessed to recognise differences between States in per capita costs of labour, office accommodation and electricity. A separate factor was calculated for each of those inputs. For the scale-affected costs component, those factors were applied to the following proportions of standard expenses:

- (i) wages and salaries 80 per cent;
- (ii) accommodation 2 per cent; and
- (iii) electricity 1 per cent.

31. **2004 Review.** *Discussion Paper CGC 2003/04 Input Costs* discusses the issues raised by the States regarding the assessment of wages and salaries costs. The paper sets out details of 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 wages and salaries. *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.

32. The Commission considered that the prices of labour, accommodation and electricity relating to fixed costs in providing 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.

33. The input costs factors for the fixed cost component of this category, shown in Table 6, 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 6** 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

34. 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.

## REGULATION COMPONENT

35. This is a new component which includes the costs that States incurred in providing services to industry through regulation. It includes some additional expenses relating to head office costs. Economic environment and input costs factors were proposed for most of this component in the discussion paper. The Commission considers they remain appropriate for the reduced regulation component.

### ***Input costs — regulation component***

36. **1999 Review.** The following standard expense proportions were applied to each of the factors assessed for this component (the former regulation, training and research in the public interest component):

- (i) wages and salaries                      60 per cent;
- (ii) accommodation                          2 per cent; and
- (iii) electricity                                1 per cent.

37. **2004 Review.** The input costs factors for the regulation component of this category, shown in Table 7, have been calculated according to the general method outlined in *Discussion Paper CGC 2003/04 Input Costs* and in *Draft Assessment Paper CGC 2003/79 Input Costs — Electricity and Accommodation*. The standard expense proportions applied were 60 per cent for wages and salaries, 2 per cent for accommodation and 1 per cent for electricity.

**Table 7**            INPUT COSTS FACTORS — REGULATION COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	1.02347	0.99051	0.98643	0.98734	0.98043	0.94629	1.00588	1.09164
1998-99	1.02483	0.99126	0.98499	0.98475	0.97899	0.94446	1.00907	1.08820
1999-2000	1.02692	0.99063	0.98283	0.98624	0.97632	0.93948	1.01235	1.08470
2000-01	1.02735	0.99167	0.98141	0.98620	0.97543	0.93734	1.01177	1.08268
2001-02	1.02656	0.99252	0.98046	0.98702	0.97840	0.93711	1.00954	1.08008

### ***Economic environment — regulation component***

38. **1999 Review method.** The economic environment factor was assessed to account for differences in the size, complexity and importance of the sector in each State and the affect these influences had on the costs incurred in providing regulation, training and research in the public interest.

39. For the Manufacturing and Other Industry category, the economic environment factors were based on:

- (i) the per capita numbers of manufacturing and other industries locations in each State; and
- (ii) the per capita value of manufacturing and other industry production in each State.

40. The factor was assessed by weighting the locations sub-factor by 50 per cent and the value of production sub-factor by 50 per cent, and combining the results.

41. Data for the economic environment factor calculations were derived from two ABS sources.

- (i) *ABS, Business Register Counts*— total counts of industry locations by all ANZIC Divisions and Subdivisions. Data on manufacturing and other industries locations as at September 1997 were used for the assessment years up to 1997-98. Data on locations as at September 1998 were used for the assessment years 1998-89 to 2001-02.
- (ii) *Australian National Accounts, State Accounts, Main Tables, 2001-02*, Cat No 5220.0.

42. ***Preliminary State views.*** No State commented on this assessment.

43. ***Staff proposals.*** In *Discussion Paper CGC 2002/38*, Commission staff proposed:

- (i) continuing to assess an economic environment factor for this component; and
- (ii) retaining the 1999 Review assessment method.

44. Commission staff also noted that the ABS data series, which provided the number of locations sub-factor in the 1999 Review, had been changed. In 2001, the ABS changed the way it collected data to make better use of information available from business activity statements. The new data are not comparable with its previous business register data. The new data are single business entities for taxation purposes. This change meant that some multi-location entities (both within States and across States) have been counted as a single business. This change means the number of manufacturing and other industries locations in each State are no longer available from the ABS. Commission staff asked States whether they could provide the data.

45. ***Further State views.*** *Tasmania* said it was not able to provide industry location information similar to that formerly provided by the ABS. The *Northern Territory* said its data were not comprehensive and would be costly to collect. It also doubted whether locations data supplied by the States would be comparable.

46. ***Analysis.*** The costs of administering and regulating the industries are influenced by the number of locations — especially the costs related to inspections of individual establishments. The sector's contribution to economic output also influences State expenses on regulation — States are likely to incur higher costs for industries that are important to the State economy. By judgement, the weight of 50 per cent which was applied to each sub-factor in the 1999 Review has been retained. We have no evidence to suggest that either the number of locations or the importance of the industry is the more important driver of State expenses on regulation provided to manufacturing and other

industries. As no State objected to this approach, the Commission has decided to retain the 50 per cent weights.

47. The Commission has tried to obtain data similar to that formerly contained in the ABS Business Register, but were not successful. Neither the ABS nor the States can provide the data. The new ABS information is the best alternative, and has been used for the draft assessment.

48. **Commission decision.** The Commission accepts that the conceptual case has been established for assessing an economic environment factor. The evidence is that the costs of regulating industry are influenced by the number of manufacturing and other industry establishments and their output. The data indicate that these influences have an impact on State budgets which the Commission considers to be material. The Commission has decided to assess an economic environment factor. The Commission's decision is set out in Table 8.

**Table 8** COMMISSION DECISION — ECONOMIC ENVIRONMENT FACTOR

Decision	Reason
An economic environment factor will be assessed for the regulation component in the 2004 Review.	Gives States the capacity to provide the average level of regulation by assessing differences between States in the per capita industry establishment numbers and value of production.

49. **Method and results.** The ABS has provided information on the number of single-State entities by industry sub-division, by State, for June 2001. Single-State entities are business entities located within one State. These entities are a mix of employing and non-employing businesses. Multi-State location businesses (business entities with locations in more than one State) are not included in the data.

50. Table 9 compares the locations sub-factor calculated using these single-State business entity data with the sub-factors calculated for the 2003 Update (using superseded ABS locations data). There are large differences in the two locations sub-factors. In the absence of Business Register data, the single-State entities are the best source of data for this factor.

**Table 9** MANUFACTURING AND OTHER INDUSTRY LOCATIONS SUB-FACTOR — 2004 REVIEW AND 2003 UPDATE

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
2003 Update	1.01344	1.03488	0.99475	0.99518	0.88655	0.98634	0.91758	0.87655	1.00000
2004 Review draft	1.04766	1.01022	0.98532	1.04683	0.88123	0.70358	0.84714	0.83918	1.00000

51. Table 10 sets out calculations for the economic environment factor. The locations sub-factor is calculated using ABS single-State entity data at June 2001. The value of production sub-factor has been calculated using ABS value of production data.

**Table 10** REGULATION COMPONENT — ECONOMIC ENVIRONMENT FACTORS, 2001-02

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
<b>Locations sub-factor</b>									
Locations <sup>(a)</sup>	674370	475396	350550	194635	129716	32269	26495	16263	1899694
Locations per capita	0.10155	0.09792	0.09551	0.10147	0.08542	0.06820	0.08211	0.08134	0.09693
Locations sub-factor based on single-State entities 2004 Review <sup>(b)</sup>	1.04766	1.01022	0.98532	1.04683	0.88123	0.70358	0.84714	0.83918	1.00000
Locations sub-factor assessed in the 2003 Update	1.01344	1.03488	0.99475	0.99518	0.88655	0.98634	0.91758	0.87655	1.00000
<b>Value of production sub-factor</b>									
Value of production <sup>(c)</sup> (\$m)	674370	475396	350550	194635	129716	32269	26495	16263	1899694
Value of production per capita (\$pc)	0.10155	0.09792	0.09551	0.10147	0.08542	0.06820	0.08211	0.08134	0.09693
Value of production sub-factor <sup>(d)</sup>	1.04766	1.01022	0.98532	1.04683	0.88123	0.70358	0.84714	0.83918	1.00000
Economic environment factor for 2004 Review <sup>(e)</sup>	1.01344	1.03488	0.99475	0.99518	0.88655	0.98634	0.91758	0.87655	1.00000

(a) All industries except agriculture, fishing, mining, government administration and defence.

(c) All industries except agriculture, fishing, mining, government administration and defence, general government, and ownership of dwellings.

(e) = 0.6\*(b) + 0.4\*(d)

52. **Reality check.** The size of the factors assessed for all States is in line with expectations. The factors for New South Wales and Victoria are higher than the other States because manufacturing industries are concentrated in those States.

53. **Updateability.** Data are be available to update the two sub-factors annually.

## ECONOMIC DEVELOPMENT COMPONENT

54. In accordance with the recommendations made in *Draft Assessment Paper CGC 2003/05 Treatment of Economic Development Assistance*, the Commission will assess this component equal per capita. This is because States have not provided the conceptual case and the empirical evidence on which an assessment can be made. The Commission has been unable to identify economic development disabilities and has concluded that State positions on economic development appear to be driven by their individual policies. The Commission's role does not extend to making judgments on the merits of those actions.

## SUMMARY OF RESULTS

55. Table 11 summarises the proposed assessment for the 2004 Review.

**Table 11** MANUFACTURING AND OTHER INDUSTRY — ASSESSMENT STRUCTURE FOR THE 2004 REVIEW, 2001-02

Expense component	Component weight	Factors	Basis of calculation
Fixed costs	%		
	15.16	Administrative scale	General method.
		Input costs	General method, with weights of 80% for wages, 2% for accommodation and 1% for electricity.
Regulation	16.97	Economic environment	Based on numbers of locations and value of production of all industries except agriculture, fisheries, mining, tourism, government administration and defence, ownership of all dwellings and general government — locations and output sub-factors being each weighted by 50%.
		Input costs	General method, with weights of 60% for wages, 2% for accommodation and 1% for electricity.
Economic development	67.87	None	Equal per capita.

### *Derivation of category factor*

56. Table 12 summarises the components, component weights and disability factors assessed for this category for 2001-02. It shows how the category factor is derived.

**Table 12** MANUFACTURING AND OTHER INDUSTRY — DERIVATION OF CATEGORY FACTOR: 2001-02

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>Fixed costs (FC) (component weight = 15.16%)</b>								
Administrative scale (s)	0.36891	0.50461	0.66745	1.27717	1.61320	5.17750	7.59249	12.25311
Input costs (ic_fc)	1.03498	0.99044	0.97446	0.98186	0.97135	0.92001	1.01306	1.09897
Component factor	0.38252	0.50072	0.65162	1.25634	1.56990	4.77221	7.70596	13.49087
Cont. to category factor	0.05799	0.07591	0.09879	0.19046	0.23800	0.72347	1.16822	2.04522
<b>Regulation (REG) (component weight = 16.97%)</b>								
Input costs (ic_oth)	1.02656	0.99252	0.98046	0.98702	0.97840	0.93711	1.00954	1.08008
Economic environment (e)	1.05196	1.05625	0.92622	1.01353	0.86623	0.71995	0.93531	0.91617
Component factor	1.07862	1.04711	0.90704	0.99919	0.84652	0.67388	0.94311	0.98836
Cont. to category factor	0.18302	0.17767	0.15391	0.16954	0.14364	0.11434	0.16003	0.16771
<b>Economic development (ED) (component weight = 67.87%)</b>								
Component factor	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Cont. to category factor	0.67872	0.67872	0.67872	0.67872	0.67872	0.67872	0.67872	0.67872
<b>CATEGORY FACTOR</b>	<b>0.91973</b>	<b>0.93230</b>	<b>0.93141</b>	<b>1.03872</b>	<b>1.06035</b>	<b>1.51653</b>	<b>2.00697</b>	<b>2.89164</b>

### *Calculation formula*

57. The following formulas are used to calculate the contribution of each expense component to the overall category factor. In each case, the contributions are calculated as the expense 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.

$$\begin{aligned}
 \text{FC} &= 0.1516 (s * \text{ic\_fc}) \\
 \text{REG} &= 0.1697 (e * \text{ic\_oth}) \\
 \text{ED} &= 0.6787 \\
 \text{Category Factor} &= \text{FC} + \text{REG} + \text{ED}
 \end{aligned}$$

### *Standardised expenses*

58. Table 13 compares the category factors derived for the 2004 Review draft assessment with the 2003 Update.

**Table 13** MANUFACTURING AND OTHER INDUSTRY — CATEGORY FACTORS, 2004 REVIEW AND 2003 UPDATE

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>2004 Review draft assessment</b>	<b>0.91973</b>	<b>0.93230</b>	<b>0.93141</b>	<b>1.03872</b>	<b>1.06035</b>	<b>1.51653</b>	<b>2.00697</b>	<b>2.89164</b>
2003 Update	0.96868	0.98380	0.93982	1.02458	0.99285	1.24374	1.52495	1.93284

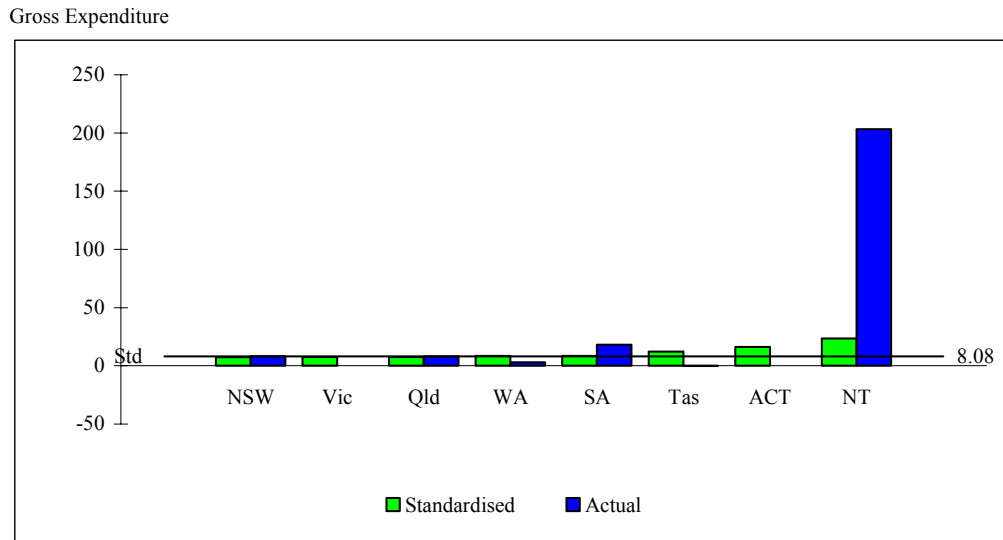
59. Table 14 shows the standardised expenses assessed for this category for 2001-02 in the draft assessment compared with that assessed in the 2003 Update.

**Table 14** ACTUAL AND STANDARDISED EXPENSES, 2001-02

	Standard	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>Actual Expenses</b>									
\$ per capita	8.08	8.26	0.13	7.95	2.83	18.24	-0.19	0.00	203.19
<b>2003 Update - Standardised Expenses</b>									
\$'000		102 477	76 087	54 952	31 308	24 019	9 375	7 838	6 156
\$ per capita	15.93	15.43	15.67	14.97	16.32	15.82	19.81	24.29	30.79
<b>2004 Review Draft Assessment - Standardised Expenses</b>									
\$'000		49 334	36 560	27 613	16 093	13 007	5 796	5 231	4 670
\$ per capita	8.08	7.43	7.53	7.52	8.39	8.56	12.25	16.21	23.35

60. Figure 1 shows the gross expenses per capita for 2001-02 in terms of standardised, estimated and gross expenses.

**Figure 1** MANUFACTURING AND OTHER INDUSTRY — GROSS EXPENSES PER CAPITA: STANDARDISED, ESTIMATED AND STANDARD, 2001-02



## ANALYSIS

61. Table 15 shows the redistribution of grants resulting from the assessment in the 2003 Update and the draft assessment. It also shows the sources of change.

62. Compared to an equal per capita assessment, the draft assessment redistributed \$10.3 million away from New South Wales, Victoria and Queensland, \$0.4 million more than in the 2003 Update.

63. The main reasons for the change in grants were changes to assessment methods and data, including changes to the component weights. In particular, the expansion of the economic development type component assessed by the equal per capita method and the reduction of the regulation type component which is assessed differentially is a key driver of change. This assessment effect has been the main cause of the decrease in notional grants for those States which have a disadvantage in providing regulatory services to manufacturing and other industries — notably New South Wales and Victoria.

**Table 15** EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION —  
MANUFACTURING AND OTHER INDUSTRY

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total <sup>(a)</sup>
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Contribution to 2003 Update relativities<sup>(b)</sup></b>	-3.8	-1.9	-4.2	0.9	-0.1	2.3	3.2	3.6	9.9
<b>Contribution to 2004 Review Draft Assessments relativities<sup>(b)</sup></b>	-4.7	-3.1	-2.5	0.7	0.7	2.2	3.0	3.6	10.3
<b>Total Change</b>	-0.9	-1.3	1.7	-0.2	0.8	-0.1	-0.1	0.0	2.6

(a) Total redistribution.

(b) Assuming same pool and a constant population.

### USER CHARGES

64. **1999 Review.** In the 1999 Review, user charges for this category were assessed by the equal per capita approach.

65. **State views.** No State commented on the user charges assessment for this category.

66. **Commission decision.** The quantum of user charges for this category is small and remains policy influenced. Given that no State has opposed the assessment, the Commission has decided to continue to assess user charges for this category by the equal per capita method.