



# **COMMONWEALTH GRANTS COMMISSION**

**DRAFT ASSESSMENT PAPER CGC 2003/25**

## **VOCATIONAL EDUCATION AND TRAINING**

Prepared for the Commission's 2003 Conferences on Draft Assessments

**AUGUST 2003**

## **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 Vocational Education and Training (VET) category for the 2004 Review. It builds on the staff proposals set out in *Discussion Paper CGC 2002/40, Vocational Education and Training* and State comments on them provided at the 2002 Conferences and in the 2003 Rejoinder Submissions.

## THE 1999 REVIEW ASSESSMENT

### *Category definition*

2. In the 1999 Review, the VET category comprised expenses on government funded vocational education programs provided by both Technical and Further Education (TAFE) and private providers, education programs for leisure-time activities, industry and commerce, and non-vocational courses offered by VET; migrant education programs; education programs not definable by level, such as adult education courses which are essentially non-vocational and associated with leisure-time activities other than those offered by VET; and apprenticeship and training programs designed to facilitate entry into the work force of people currently not employed or in need of retraining.

3. The category excluded VET courses provided in schools and any transportation provided to VET students.

### *Specific purpose payments*

4. *Draft Assessment Paper CGC 2003/78 Specific Purpose Payments* sets out the SPPs which were associated with the VET category, and were treated by inclusion for the 2003 Update. These SPPs were:

- (i) Vocational Education and Training Funding Act;
- (ii) Advanced English for Migrants Program; and
- (iii) Indigenous Education Strategic Initiatives Program.

### *Importance of the category*

5. Table 1 shows the gross expenses standard for this category in the 2003 Update. In 2001-02, this category represented 3.7 per cent of total gross standard expenses.

**Table 1** VOCATIONAL EDUCATION AND TRAINING — STANDARD EXPENSES, 2003 UPDATE

	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
Standard expenses (\$pc)	148.00	156.30	164.33	171.24	175.00	184.96
% of total standard expenses	4.02	4.05	3.61	3.70	3.61	3.69

6. In the 2003 Update, compared with an equal per capita assessment, this category redistributed \$89.6 million. The redistribution reduced the grants of New South Wales, Victoria and South Australia. The factor which had the largest impact on grant shares was the socio-demographic composition factor.

***Structure of the assessment***

7. The assessment structure used in the 2003 Update is shown in Table 2.

**Table 2** ASSESSMENT STRUCTURE, 1999 REVIEW

Component	Component weight	Factors	Basis of calculation
	%		
<b>Expenditure</b>			
Scale-affected expenditure	2.70	Input costs	General method with weights of 80% for wages, 2% for accommodation and 1% for electricity.
		Administrative scale	General method.
Institutes	97.03	Dispersion	General method.
		Input costs	General method with weights of 70% for wages, 2% for accommodation and 1% for electricity.
		Service delivery scale	Same factors as assessed for Government Secondary Education.
		Socio-demographic composition	Based on relevant populations (persons aged 15 years and over) adjusted for: <ul style="list-style-type: none"> <li>• age-sex participation;</li> <li>• lower participation rates of people living in small urban and rural centres; and</li> <li>• additional weights given to Indigenous persons.</li> </ul>
		Cross-border	Derived from the net proportions of annual hours associated with clients with interstate home postcodes.
Isolation	0.27	Isolation	General method.

***User charges***

8. In the 1999 Review, user charges for VET were assessed differentially. User charges issues are discussed in the User Charges section below.

## PROPOSED CATEGORY DEFINITION AND STRUCTURE

### *Scope of the category*

9. In the staff *Discussion Papers CGC 2002/3, The Scope and Structure of the Standard Budget and 2002/40, Vocational Education and Training*, it was proposed that the scope of the category be widened to include labour market and employment programs to better conform to the ABS Government Finances Statistics (GFS) classification now used by the Commission.

10. **State Views.** Queensland, Tasmania and the Northern Territory supported the proposal to include labour market and employment programs, and migrant education in VET. Tasmania wanted the cost impact of training programs for unemployed persons to be reflected in the assessments.

11. **Commission decisions.** The Commission decided that labour market and employment programs should not be included in VET, but continue to be included in the General Public Services category<sup>1</sup>.

### *Assessment structure and component weights*

12. **Commission decisions.** The Commission decided that, as the scope and definitions are the same as those used in the 1999 Review, there was no reason to change the assessment structure.

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

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

Decision	Reason
Retain the 1999 Review category definition.	No reason to change. The scope is the same as that used in the 2003 Update.
Treatment of SPPs	Inclusion— same as in the 2003 Update.

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<sup>1</sup> See *Draft Assessment Paper CGC 2003/77 Equalisation Budget for the 2004 Review*.

## FIXED COSTS COMPONENT

### *Administrative scale — fixed costs component*

14. **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 \$2.6 million, of which \$1.2 million was considered as fixed cost and \$1.08 million as variable cost. The scale-affected expenses component represented 2.70 per cent of expenses in this category.

15. **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 Cost component in each category. In comments specific to this category, Tasmania and the ACT said that smaller States incurred significant diseconomies of scale disabilities with the amount of the work necessary to meet their ANTA obligations.

16. 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. The Commission considers that the assessed factors are sufficient to take account of the arguments put by Tasmania and the ACT.

17. The administrative scale factors for this category, shown in Table 4, have been calculated using the 2004 Review general method. Fixed costs for this category have been estimated to be \$0.63 million per State. The Commission also assessed extra fixed costs of \$0.34 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 the category are \$5.0 million which represents 1.06 per cent of the category standard.

**Table 4** ADMINISTRATIVE SCALE FACTORS — FIXED COST 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
1998-99	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

18. The factor based on Estimated Resident Populations and the component weight will be updated annually.

### *Input costs — fixed cost component*

19. **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 these inputs. For the scale affected costs component, these 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.

20. **2004 Review.** *Discussion Paper CGC 2003/04 Input Costs* sets out the issues raised by the States regarding the assessment of wages and salaries costs. The paper sets out the Commission's proposals for the general method of assessment to be adopted for the 2004 Review and 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* sets out 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 the size of the standard expense proportions in each category for accommodation costs and electricity costs.

21. The Commission considered that the prices of labour, accommodation and electricity used in providing fixed costs 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.

22. The input costs factors for the fixed cost 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 COST EXPENSES COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	1.03302	0.98766	0.98151	0.98039	0.97094	0.93703	1.00802	1.09279
1998-99	1.03482	0.98866	0.97958	0.97693	0.96902	0.93459	1.01228	1.08820
1999-2000	1.03762	0.98781	0.97671	0.97892	0.96546	0.92795	1.01666	1.08353
2000-01	1.03819	0.98920	0.97482	0.97886	0.96427	0.92509	1.01589	1.08084
2001-02	1.03714	0.99034	0.97354	0.97996	0.96824	0.92479	1.01291	1.07737

23. 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.

## INSTITUTES COMPONENT

24. This component is the largest in this category. It covers the institute-based expenses in providing services in VET institutes. The factors assessed for this component are dispersion, input costs, socio-demographic composition and cross border.

### *Dispersion*

25. **1999 Review.** The dispersion factor was assessed to account for differences in per capita costs of providing services arising from differences between States in the spread of their populations. The factor reflects the effects of population dispersion on State expenses associated with telecommunication, freight, travel and staffing on-costs.

26. There were seven indexes within the dispersion factor, each reflecting the effect of interstate differences in population dispersion on a separate type of dispersion-affected cost. The indexes were weighted by the proportions of standard expenses affected by each type of dispersion-affected cost and combined to form the overall dispersion factor. The proportions of standard expenses estimated for this component are shown in Table 6.

**Table 6**      DISPERSION COST WEIGHTS — INSTITUTES COMPONENT,  
2003 UPDATE

Telephone	Freight	Air Travel	Road Travel		Remote Removals	Locality Allowances
			Inter Regional	Local		
0.00523	0.00221	0.00142	0.00366	0.00000	0.00000	0.00000

Source: 2003 Update Working Papers Volume 4, p107.

27. **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.

28. The Commission noted the expenses incurred in providing VET services include costs that are affected by population dispersal. It has therefore decided that a dispersion disability will be assessed.

29. The dispersion factors for VET have been calculated according to the 2004 Review general method. There were nine indexes within 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** DISPERSION COST WEIGHTS — INSTITUTES COMPONENT, 2004 REVIEW

Telecommunication		Freight, General	Air Travel	Road Travel		Repairs and Maintenance	Remote Staff Turnover	Locality Allowances
Voice	Non-voice			Inter Regional	Local			
0.0067	0.0007	0.0019	0.0025	0.0078	0.00000	0.00000	0.00000	0.00000

30. Table 8 shows the dispersion factors assessed for the Institutes component for the 2004 Review.

**Table 8** DISPERSION FACTORS — INSTITUTES COMPONENT, 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Dispersion factors	1.00066	0.99583	1.00438	1.00146	0.99664	1.00512	0.98504	1.02247

31. Neither the factor nor the dispersion cost weights will be updated before the next review.

***Input costs — Institutes component***

32. **1999 Review.** The following standard expense proportions were applied to each of the factors assessed for this component:

- (i) wages and salaries                      70 per cent;
- (ii) accommodation                              2 per cent; and
- (iii) electricity                                      1 per cent.

33. **2004 Review.** The input costs factors for the Institutes component of this category, shown in Table 9, 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 70 per cent for wages and salaries, 2 per cent for accommodation and 1 per cent for electricity.

**Table 9** INPUT COSTS FACTORS — INSTITUTES COMPONENT,  
2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	1.02932	0.98903	0.98351	0.98292	0.97413	0.94405	1.00688	1.08142
1998-99	1.03090	0.98991	0.98183	0.97989	0.97245	0.94192	1.01061	1.07740
1999-2000	1.03335	0.98917	0.97931	0.98163	0.96934	0.93610	1.01444	1.07331
2000-01	1.03385	0.99038	0.97766	0.98158	0.96830	0.93360	1.01376	1.07096
2001-02	1.03293	0.99138	0.97654	0.98254	0.97177	0.93334	1.01116	1.06793

### *Service delivery scale*

34. **1999 Review.** In the 1999 Review, a service delivery scale factor was assessed in the institutes component to take account of perceived service delivery scale disabilities.

35. **Staff proposals.** Commission staff were of the view that service delivery scale disabilities continue to exist for VET. They proposed examining the National Centre for Vocational Education and Training (NCVER) data to decide whether they had improved sufficiently at the campus level to measure the cost impact of service delivery scale in VET. If not, staff were inclined to recommend the continued use of service delivery scale factors calculated for secondary government schools as a proxy for VET.

36. **State views.** Victoria argued that this factor should be abolished because there was no empirical evidence to support the existence of service delivery scale disabilities. However, Queensland, Western Australia, Tasmania and the Northern Territory supported its continuation.

37. Victoria produced a table showing that there was little difference in average costs per student contact hour between large and small institutes in Victoria. However, Queensland and Western Australia produced tables showing that in their States smaller institutes were more costly to run. Queensland, Tasmania and the Northern Territory supported the continued use of the service delivery scale factor assessed for government secondary education as a proxy for VET. Tasmania and the Northern Territory said that suitable VET based staffing data were not available. Tasmania also said that institute size was not a good measure of service delivery scale because it:

- (i) was heavily influenced by State government policy; and
- (ii) ignored the main cause of disability — small numbers of enrolments in a course.

38. Tasmania also suggested that another possible approach was to base the service delivery scale factor on the number of different industries in a State. Tasmania said that despite its small population size, it had a large number of industries because its industry

structure was similar to the national industry structure. To meet its diverse industry needs for training, Tasmania had to offer small classes or, where classes were very small, meet the cost of sending students interstate for training.

39. **Analysis.** Inquiries with the Australian National Training Authority (ANTA) and the NCVET indicated that suitable comparable data to measure whether, or to what extent, service delivery scale disabilities existed were not available.

40. The Tasmanian proposal to use the number of industries did not seem to give an appropriate measure of service delivery scale for two reasons:

- (i) the higher level of specialisation in very large centres would influence the number of course offerings; and
- (ii) the impact of policy influences in deciding the number and variety of course offerings.

41. The Commission considers that there may be a conceptual case for the existence of service delivery scale disabilities, but it is difficult to progress it. States have provided conflicting evidence and States have considerable policy flexibility on what courses they offer and how and where they offer them. Further, the Commission notes that there are no suitable VET data available to test for the existence of this disability or to measure it. It does not consider that using government school service delivery scale factors as a proxy for VET disabilities would be accurate within an acceptable margin of error, even if such disabilities did exist.

42. The Commission’s decisions are summarised in Table 10.

**Table 10** COMMISSION DECISIONS — SERVICE DELIVERY SCALE

Decisions	Reason
To discontinue this factor.	The conceptual doubt as to whether service delivery scale disabilities exist in VET and the lack of suitable Australia-wide data on which to make a judgement.

***Socio-demographic composition***

43. **1999 Review.** In the 1999 Review, a socio-demographic composition factor was assessed in the Institutes component to take account of differences in costs and use weights associated with different population and demographic characteristics. More specifically, this factor took account of participation rate differences by age, location and Indigenous status. In addition, the assessment took account of the higher costs associated with providing VET services to Indigenous persons. This was done by giving an additional cost weight of 0.5 to all Indigenous persons plus a further weight of 0.25 for those living in remote areas.

44. **Preliminary State views.** New South Wales and Victoria argued that this factor should include an additional cost weight to reflect the higher levels of participation and costs associated with persons of non-English speaking, and culturally and linguistically diverse, backgrounds (NESB/CALD) in VET. The cost weights proposed were 2.0 by New South Wales and 1.5 by Victoria. Victoria presented information in its Workplace Discussions illustrating the high costs associated with NESB students. The data provided were limited to use indicators (above average per student hours), but additional unit costs were also discussed.

45. Victoria also argued for the recognition of the higher costs associated with vandalism and security in TAFE institutions in major urban centres.

46. Tasmania argued that there were higher costs associated with training some unemployed youth who tended to be disruptive and had enrolled mainly to receive Commonwealth allowances. It wanted a weighting based on differences among States in the proportions of young unemployed.

47. **Staff proposals.** In *Discussion Paper CGC 2002/40 Vocational Education and Training*, staff proposed using data from the NCVER to see whether the VET participation rates (in student hour terms) of Indigenous persons, persons born in non-English speaking countries<sup>2</sup>, unemployed persons and persons living in small centres differed from the average participation rate. Where these differences were significant, the introduction of use weights was proposed.

48. Staff indicated that it favoured the retention of the 1999 Review cost weights for Indigenous persons, but if cost weights for CALD/NESB and unemployed persons were to be considered, it would be necessary for States to provide suitable data.

49. In relation to vandalism and security, staff said that States would need to show that the proportion of VET costs spent on vandalism and security was significant, and that unit costs were higher in major urban areas, for disabilities to be assessed.

50. **State views.** Victoria reiterated its views that NESB/CALD students cost more, but this was disputed by Queensland, Western Australia and Tasmania. Queensland, Western Australia and the Northern Territory supported the retention of additional cost weights for Indigenous persons.

51. **Vandalism and security.** Victoria, in arguing for the introduction of a vandalism and security factor for VET, similar to that assessed for government schools, produced a table showing that in 2001 it spent an average of 0.64 per cent of its TAFE expenditure on vandalism and security in its metropolitan colleges, and 0.26 per cent in the others<sup>3</sup>.

52. Queensland, Western Australia and Tasmania opposed the introduction of an assessment for vandalism and security. The Northern Territory supported the introduction

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<sup>2</sup> This is the definition used by NCVER.

<sup>3</sup> In the Victorian workplace discussions at Holmesglen TAFE, it was stated that Holmesglen TAFE spent 2 per cent of its budget on security.

of an assessment, but not one based on urban size. Queensland and the Northern Territory said that vandalism and security costs were related to social stress — not urban population size. Queensland also said that much of its vandalism and security costs could not be separately identified, but it considered that these costs would represent a very small proportion of VET expenses.

53. Western Australia said that urban size was a minor influence and provided a table showing the proportion of expenses on the security for each of 11 TAFE colleges. This showed that the proportions represented between 0.19 and 0.93 per cent of college expenses. While there was considerable variation among colleges, a simple average of their proportions showed a higher average proportion for the metropolitan colleges (0.57 per cent) than for the regional colleges (0.43 per cent).

54. Tasmania said that no nationally consistent data could be found that showed the cost of vandalism or security for VET facilities.

55. *Analysis. Participation weights.* There was a risk of double counting in the 1999 Review method as the participation rates were calculated sequentially. To overcome this problem, we collected annual hours<sup>4</sup> data and population<sup>5</sup> data — disaggregated by age group, whether English is spoken at home<sup>6</sup>, labour force status, Indigenous status and geographic region — in a cross-tabulation format. This allows Australia-wide participation rates for each cross-tabulated cell to be calculated accurately, with no possibility of double counting. It also shows whether, and to what extent, differences in participation rates occur between particular population groups.

56. The differences in these participation rates, compared to the Australian average, could then be used to calculate relative weights.

57. *Cost weights.* An examination of relative costs per annual hour was undertaken. By calculating participation rates in terms of annual hours rather than numbers of students, we consider that the additional training hours required by NESB/CALD will be covered.

58. However, Victoria, during workplace discussions, said that there were additional time and resource costs associated with persons with low levels of English proficiency. These included: enrolments (particularly telephone inquiries), providing course information in languages other than English, information orientation programs and liaising with migrant resource centres, ethnic community groups and Centrelink. However, no cost data were provided.

59. We accept that there is a conceptual case that there are additional costs associated with CALD/NESB, such as costs associated with interpreter services and specialised tutorials. But there is a problem applying a cost weight given the form of the available data — the NCVET data for VET enrolments are not available by English fluency, only whether English is spoken at home. From the 2001 Census, we know that, while the

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<sup>4</sup> Special collection provided by the NCVET.

<sup>5</sup> Special Collection provided by ABS.

<sup>6</sup> NCVET data were not available for low English fluency.

proportion of persons in Australia who speak a language other than English at home is about 17 per cent, the proportion with low English fluency is only about 2 per cent. Given that the assessment must use the NCVET definition of CALD, any cost weight applied for low fluency would need to be discounted by about 87 per cent. On this basis, we have calculated a cost weight of 1.03 to apply to the population who speak a language other than English at home.

60. Both ANTA and the NCVET advised that they were not aware of any national data that could be used to find out whether there were differential costs, in annual hours terms, in providing VET services to particular population groups such as Indigenous and NESB persons.

61. In the 2001 Indigenous Funding Inquiry, the Commission noted that there were high delivery costs<sup>7</sup> associated with Indigenous students, and said that these existed because:

- (i) *'The number of Indigenous enrolments is high compared with the FTE equivalent. The short term training focus of Indigenous students affects needs for counselling, tutoring and other services, which increases costs.*
- (ii) *A high proportion of Indigenous students live in remote areas. This impacts on teaching costs, particularly the costs of transportation and accommodation for teachers to travel to the students, or for students to travel to a service provider.*
- (iii) *There may be cultural issues involved in the delivery of VET. In remote areas, States report dropout rates of up to 75 per cent because students are unable to cope in unfamiliar surroundings or new social pressures. Flexible delivery, with the training provided on site, has reduced dropout rates to about 25 per cent in some cases, but it is costly.'*

62. Any higher participation of Indigenous students will be captured by the participation weights based on annual hours, and the dispersion factor should capture many of the costs listed in paragraph 61(ii). However, there is still a need take account of the additional costs associated with specialised requirements for counselling, tutoring, course structures and flexible delivery in remote areas. We also noted, from workplace discussions, particularly with the Northern Territory, that low English fluency and cultural issues add significantly to the cost of providing training services to Indigenous persons, particularly for those living in remote areas.

63. *Vandalism and security.* States do incur costs associated with vandalism and security, but are these costs significant and, if so, do they increase with the population size of urban areas (in cost per annual student hour terms)? The information provided by States,

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<sup>7</sup> Indigenous Funding Report, Chapter 10, paragraph 61.

while limited and variable, seemed to suggest that the proportion of VET expenditure spent on vandalism and security was between 0.5 and 1.0 per cent.

64. State data comparing vandalism and security costs with population size was limited, in that only two States, Victoria and Western Australia, responded. Both data sets showed a correlation but, for Western Australia, the correlation was weak.

65. Conceptually, there is little doubt that social stress affects vandalism and security costs. But there is little data to allow its impact to be measured. Consequently, there is not enough evidence to include an additional allowance for it. On the other hand, our judgement is that the available data, while patchy, does suggest that vandalism and security costs are subject to urban influences that can be measured.

66. For conceptual and practical reasons, an assessment for vandalism and security is best done as part of the socio-demographic composition factor. Including an allowance for the impact of vandalism and security costs within the joint factor calculation of socio-demographic influences has the advantage that double counting of effects can be avoided.

67. **Commission decisions.** *Participation weights.* The Commission acknowledges that different population groups use VET at different rates. Because of differences in State population proportions, these differences have a material impact on State budgets. Cross tabulated data are available from the ABS (populations) and the NCVET (annual hours) to measure the participation rates for the population groups selected. The Commission has decided to recognise the differences in participation rates for particular population groups in the VET assessment

68. *Cost weights.* The Commission acknowledged that conceptually there are additional costs (in student hour terms) associated with CALD/NESB. Although data are not available to measure these cost impacts, the Commission decided to use the low English fluency weight applied in the government school categories. However, because the only data available is language spoken at home and not low English fluency, it will be necessary to discount the weight as described in paragraph 59.

69. The Commission recognises that there is a strong conceptual case supported by evidence provided during the Indigenous Funding Inquiry (IFI) that States spend more on providing VET services to Indigenous students. Although data are not available to measure these cost impacts, the Commission decided to use the weights applied in the government schools categories. This is because, in our view, there are similarities in the services provided by secondary school education and VET, and therefore the cost disabilities in servicing Indigenous persons are likely to be similar. The Commission decided to assess an Indigenous cost weight of 1.25 for non-remote areas and 1.70 for remote areas. In using the school weights, the Commission treated all Indigenous persons in non-remote areas as having low socio-economic status and an English speaking background. Indigenous persons in remote areas were treated as having low socio-economic status and a non-English speaking background.

70. *Vandalism and security.* The evidence indicates that vandalism and security costs have an impact on State budgets that, while small, the Commission considers to be

material. It is therefore of the view that vandalism and security disabilities should be assessed. It also considers that, given the likely similarities between secondary schools and TAFE campuses, the assessment is best dealt with using a method similar to that to be used for the government schools assessments. Under this method, disabilities associated with vandalism and security are dealt with within the joint socio-demographic composition assessment, because this approach enables interactions between influences to be systematically evaluated.

71. The Commission notes that a relationship can be measured between vandalism and security costs and urban size. The Commission considers this sufficient to allow an assessment of disabilities to be made, using this judgement. It therefore has weighted the student populations of Sydney and Melbourne by 1.01 and those of Brisbane, Perth and Adelaide by 1.005. These weights reflect an average of differentials indicated by the Victorian and Queensland data, and a judgement about the proportion of schools expenses incurred on vandalism and security.

72. Insufficient data are available to enable satisfactory measurement of the links between socio-economic influences and vandalism and security costs.

73. Table 11 shows the socio-demographic composition factors for VET with and without the inclusion of an adjustment factor for the additional costs associated with urban influences.

**Table 11** EFFECT OF INCLUDING AN ADJUSTMENT FOR URBAN INFLUENCES

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
With adjustment for urban influences	0.95726	0.97066	1.07809	1.03881	0.98643	1.06349	1.02756	1.24190
Without adjustment	0.95602	0.96836	1.08085	1.04011	0.98753	1.06855	1.03244	1.24781

74. A comparison of the socio-demographic composition factors used for all years in the 2003 Update and those proposed for the 2004 Review is given in Table 12. One of the reasons for the big changes, such as the fall in the Northern Territory's factor, was the likelihood of double counting in the 1999 Review. In the 1999 Review participation rates were calculated sequentially<sup>8</sup> instead of by cross tabulations.

75. The Commission's decisions are summarised in Table 13.

<sup>8</sup> In the 1999 Review the annual hours were first weighted by age then urban centre size and finally Indigeniety. In that Review younger persons, persons in small centres and Indigenous persons had higher participation rates. This probably inflated the Indigenous weight because a high proportion of Indigenous persons were young and lived in small centres.

**Table 12** SOCIO-DEMOGRAPHIC COMPOSITION FACTORS, INSTITUTES COMPONENT — 2003 UPDATE AND 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2003 Update	0.97998	0.97933	1.03057	1.03922	0.95130	0.96865	1.11997	1.52877
2004 Review	0.95726	0.97066	1.07809	1.03881	0.98643	1.06349	1.02756	1.24190

**Table 13** COMMISSION DECISIONS — INSTITUTES COMPONENT: SOCIO-DEMOGRAPHIC COMPOSITION FACTOR

Decision	Reason
Participation weights. To introduce a comprehensive joint factor based on relative Australian average participation weights derived from cross tabulated 2001 Census population data and 2001 annual hours data. The variables to be used are age, whether English is spoken at home, employment status, Indigenous status and geographic region. These weights are applied to State populations aged 15 to 59.	The more comprehensive and comparable data now available allows for participation weights to be calculated in a cross-tabulated form. This eliminates the risk of double counting.
Cost weights. To apply the following cost weights:	
Indigenous persons – non-remote areas — 1.25 remote areas — 1.70	There are significant additional costs associated with providing VET services to Indigenous persons, particularly those living in remote areas. For other population groups, there are little data to show that the additional costs are material.
CALD — 1.03	There is a conceptual case that there are additional costs associated with the provision of interpreting and translating services for persons with low English fluency.
Persons in capital cities: Sydney & Melbourne — 1.01 Brisbane, Perth & Adelaide — 1.005	Data indicates that per capita vandalism and security costs are higher in the major cities.

76. **Proposed method of assessment.** The proposed method to calculate the socio-demographic composition factor is shown below using the annual hours data provided by the NCVET and population data by the ABS. 2001 annual hours data were used to match the population data derived from the 2001 Census. Both sets of data were provided in the same cross-tabulated format.

- (i) Calculate cross-tabulated participation weights derived from relative differences in the ratios of annual hours to population for a number of population groups compared with the Australian average participation

rate. The population groups used were age, employment status, language spoken at home<sup>9</sup>, Indigenous status and region.

- (ii) Apply the Australian average (standard) participation rates for each cell in the cross tab to each States population cross tab to calculate its use weighted population for each cell.

NOTE – Before applying the participation rates to each State’s population subset, it was first necessary to adjust the State’s numbers of unemployed. This was necessary as unemployment rates, unlike the other variables, exhibit significant movements over short periods of time. The adjusted unemployment rates were based on a moving<sup>10</sup> 5 year average. These were applied to each State’s population to revise its number of unemployed persons. As 2001 Census population data were used for all years, changes in the number of unemployed were balanced by making the opposite changes to the numbers of employed. Full details on the method of adjusting the unemployment rates are given in Attachment A.

- (iii) Apply the indigenous and vandalism and security cost weights to the appropriate population sub-sets. Each State’s weighted population is the aggregation of all cells.
- (iv) The factor for each State was calculated by:
  - calculating its ratio of weighted 15-59 year-old population to its total unweighted population (2001 Census); and
  - dividing the State ratio by the Australian (standard) ratio.

### ***Cross-border***

77. ***1999 Review.*** In the 1999 Review a cross-border factor was assessed in the Institutes component to take account of the net impact of cross-border movements for all States. This was derived from the student home address postcode and the postcode of the provider. This factor was calculated for each year.

78. ***State views.*** Tasmania proposed that this factor be abandoned. It said that the 1999 Review method, derived from student home address post codes State and the location of the provider, was not accurate. The examples it gave included sending students interstate for training and the *Competitive Bids and User Choice* programs where interstate providers give courses in Tasmania. In these instances, Tasmania meets the costs, but the NCVER may record the students with the interstate provider.

79. ***Analysis.*** Advice received from the NCVER suggested that there is some doubt about the accuracy in measuring small cross-border movements. However, the

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<sup>9</sup> Whether English or another language.

<sup>10</sup> The same factor would be used for all 5 years, but the moving average would change for each update.

measurement of movements which were greater than 10 per cent was more reliable. The movement from New South Wales to the ACT averages around 13 percent, but gross movements to and from other States generally do not exceed 2 per cent. Therefore, it seems appropriate to only make an assessment for the net movement between New South Wales and the ACT.

80. **Commission decision.** The Commission accepts that there is a conceptual case that net cross-border movements of students has an impact on the providing State's budget. Reliable data are available to measure the impact where net movements are large. The Commission has decided to use the NCVER data to recognise the net movement only between New South Wales and the ACT. This is the only case where the movement is sufficiently material and the data reliable. The Commission's decision is summarised in Table 14. The cross-border factors are in Table 15.

**Table 14** COMMISSION DECISION — INSTITUTES: CROSS-BORDER

Decision	Reason
To calculate a cross-border factor using the 1999 Review method but to limit its impact to the net impact of movements between New South Wales and the ACT only. The factor to be calculated for each year.	Only the NSW/ACT movements are large enough to justify an assessment with the required level of accuracy.

**Table 15** CROSS-BORDER FACTORS — INSTITUTES COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997	0.99539	1.00000	1.00000	1.00000	1.00000	1.00000	1.10058	1.00000
1998	0.99442	1.00000	1.00000	1.00000	1.00000	1.00000	1.10400	1.00000
1999	0.99537	1.00000	1.00000	1.00000	1.00000	1.00000	1.10442	1.00000
2000	0.99281	1.00000	1.00000	1.00000	1.00000	1.00000	1.13479	1.00000
2001	0.99511	1.00000	1.00000	1.00000	1.00000	1.00000	1.10158	1.00000

### *Course mix*

81. **State views.** In its rejoinder submission, Western Australia said that needs related to course mix differences should be assessed. Western Australia argued that due to its industry profile it was more costly to provide the full range of its industry needs. Western Australia proposed an assessment based on the course mix factors calculated for each State by ANTA which are shown in the following table. The factors were calculated

by applying average cost weights developed by ANTA<sup>11</sup> to the mix of courses in each State. States with above average proportions of student annual hours in the higher cost courses would have a course mix factor above 1.000. Under the Western Australian proposal, these States would be viewed as having a relative disadvantage.

**Table 16** COURSE MIX FACTORS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
1997	0.974	1.011	1.011	1.026	1.009	1.034	0.966	0.976	1.000
1998	0.979	0.999	1.009	1.048	1.020	1.053	0.965	0.962	1.000
1999	0.979	1.014	0.992	1.046	1.006	1.037	0.976	1.005	1.000
2000	0.979	1.014	0.994	1.039	1.010	1.016	0.990	1.019	1.000
2001	0.976	1.014	1.009	1.040	1.002	1.020	0.962	1.003	1.000

Source: ANTA 2001 Annual National Report, Vol 3, page 152.

82. **Analysis.** It seems likely that policy influences in developing course profiles could be just as significant as the industry mix. For example, it is not clear why course mix costs are so different between New South Wales and Victoria, given the large and comprehensive industry mix in both States. The table also shows volatility between years for some States, particularly the Northern Territory, for which there appears to be no obvious explanation.

83. This issue was also raised in the 1999 Review. The previous Commission, in deciding not to assess a factor to take account of course cost differences, said that:

‘... the research did not show any significant links between the apparent levels of industrial diversity in States and levels of demand and/or costs in VET services provision. On reviewing all the evidence, the Commission was more convinced that demand for VET [was] largely supply-driven and policy influenced<sup>12</sup>.’

84. **Commission decision.** The Commission notes the Western Australian argument and acknowledges that, conceptually, differences among States in their course mixes can have differential cost impacts on VET expenses because of cost differences in courses. However, it also notes that there is little policy free information to enable a proper measurement of the consequential disabilities. The Commission decision is summarised in Table 17.

<sup>11</sup> Derived by ANTA using 2001 revised planned activity as reported in State and Territory annual vocational education and training plans for 2002 and unit cost weightings developed by the Unit Cost Working Party.

<sup>12</sup> 1999 Review Working Papers, vol.4, page 105.

**Table 17** COMMISSION DECISIONS – COURSE MIX

Decisions	Reasons
Not to make an assessment for State differences in course mix.	Insufficient policy free data to make a reliable assessment.

## ISOLATION COMPONENT

### *Isolation*

85. **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 0.27 per cent of expenses in this category.

86. **2004 Review.** *Draft Assessment Paper CGC 2003/65 Isolation* discusses the issues raised by the States regarding the assessment of isolation. 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 isolation-affected expenses component for relevant categories. The States did not raise issues specific to this category.

87. The isolation factors for the isolation component, shown in Table 18, have been calculated according to the 2004 Review general method. Isolation-affected expenses for this category have been estimated to be 0.12 per cent of the category standard.

**Table 18** ISOLATION FACTORS — ISOLATION COMPONENT

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

88. The factor and component weight will not be updated until the next review. This means that isolation-affected expenses will grow at the same rate as category expenses.

## PROPOSED METHOD OF ASSESSMENT

89. Table 19 shows the proposed assessment structure for VET. This differs from that of the 1999 Review in that there is no longer an assessment for service delivery scale.

**Table 19** ASSESSMENT STRUCTURE

Component	Component weight	Factors	Basis of calculation
	%		
<b>Expenses</b>			
Fixed costs	1.06	Input costs	General method with weights of 80% for wages, 2% for accommodation and 1% for electricity.
		Administrative scale	General method.
Institutes	98.82	Dispersion	General method.
		Input costs	General method with weights of 70% for wages, 2% for accommodation and 1% for electricity.
		Socio-demographic composition	Based on relevant populations (persons aged 15-59 years) adjusted for differences in participation rates according to age, English fluency, unemployment, Indigenous status and location using cross tabulated data. Additional cost weights were given to Indigenous persons and persons living in major cities.
		Cross-border	The proportional net inflow of students (in annual hours) from NSW to the ACT.
Isolation	0.12	Isolation	General method.

### *Derivation of the category factor*

90. Table 20 summarises the components, component weights and disability factors assessed for this category for 2001-02. It shows how the category factor is derived.

**Table 20** VOCATIONAL EDUCATION AND TRAINING — DERIVATION OF CATEGORY FACTOR, 2004 REVIEW

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>Fixed Costs (FC) (component weight = 1.06%)</b>								
Administrative Scale	0.34518	0.47215	0.62452	1.19502	1.50943	4.84445	7.10408	17.77059
Input Costs	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	0.00379	0.00495	0.00644	0.01240	0.01548	0.04745	0.07621	0.20278
<b>Institutes (INST) (component weight= 98.82%)</b>								
Dispersion Factor	1.00066	0.99583	1.00438	1.00146	0.99664	1.00512	0.98504	1.02247
Input Costs Factor	1.03293	0.99138	0.97654	0.98254	0.97177	0.93334	1.01116	1.06793
Socio-demographic Composition Factor	0.95726	0.97066	1.07809	1.03881	0.98643	1.06349	1.02756	1.24190
Cross border	0.99511	1.00000	1.00000	1.00000	1.00000	1.00000	1.10158	1.00000
Component factor	0.98499	0.95865	1.05797	1.02261	0.95566	0.99847	1.12812	1.35474
Cont. to category factor	0.97337	0.94734	1.04549	1.01055	0.94439	0.98668	1.11480	1.33876
<b>ISOLATION (ISO) (component weight = 0.12%)</b>								
Isolation (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	0.00006	0.00013	0.00021	0.00090	0.00068	0.00419	0.00182	0.08193
<b>Category Factor</b>	<b>0.97722</b>	<b>0.95242</b>	<b>1.05214</b>	<b>1.02385</b>	<b>0.96054</b>	<b>1.03833</b>	<b>1.19284</b>	<b>1.62346</b>

***Calculation formula***

91. 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.

$$\begin{aligned}
 \text{FC} &= 0.0106 * (s*ic\_fc) \\
 \text{INST} &= 0.9882 * ([d+ic\_oth]*sdc*x) \\
 \text{ISO} &= 0.0012 * (iso) \\
 \text{Category Factor} &= \text{FC} + \text{INST} + \text{ISO}
 \end{aligned}$$

**Category factors and standardised expenses**

92. Table 21 compares the category factors derived for the 2004 Review draft assessment within the 2003 Update.

**Table 21** COMPARISON OF CATEGORY FACTORS, 2003 UPDATE AND DRAFT ASSESSMENT, 2004 REVIEW

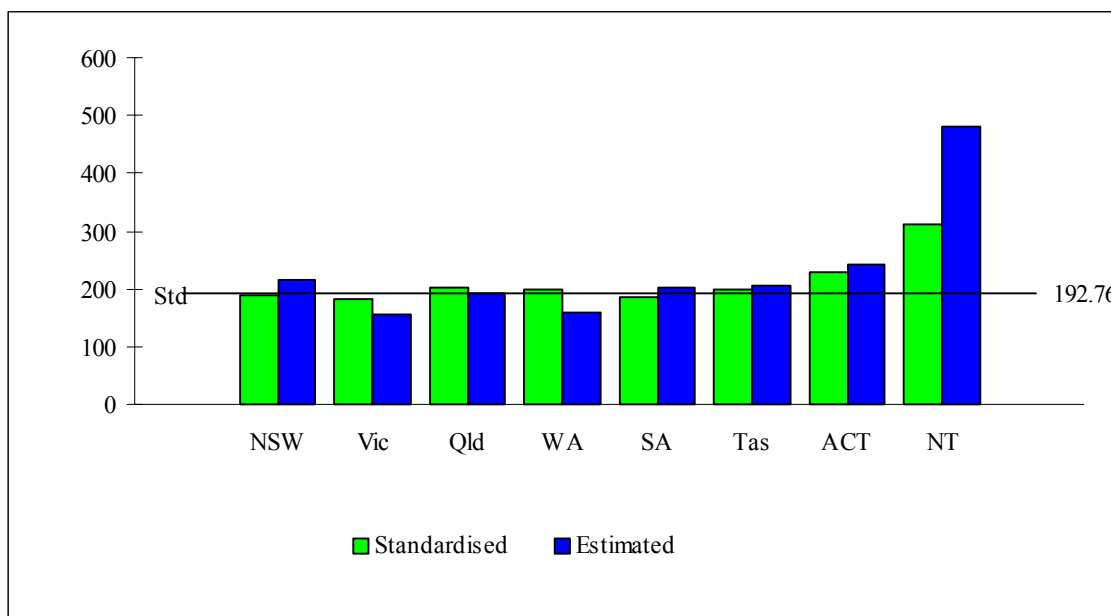
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2003 Update	0.97216	0.96769	1.00581	1.05580	0.94108	1.03036	1.26945	2.00822
<b>2004 Review draft assessment</b>	<b>0.97722</b>	<b>0.95242</b>	<b>1.05214</b>	<b>1.02385</b>	<b>0.96054</b>	<b>1.03833</b>	<b>1.19284</b>	<b>1.62346</b>

93. Table 22 presents, for 2001-02, the draft assessment standardised expenses and compares them with the 2003 Update results.

**Table 22** ESTIMATED, STANDARD AND STANDARDISED EXPENSES, 2001-02

	Standard	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>2003 Update</b>									
Estimated expenses									
\$m		1412.717	664.644	670.272	331.858	269.088	99.077	74.914	102.428
\$ per capita	184.96	212.73	136.90	182.61	173.01	177.19	209.39	232.17	512.30
Standardised expenses									
\$m		1194.092	868.954	682.830	374.585	264.335	90.175	75.761	74.265
\$ per capita		179.81	178.98	186.03	195.28	174.06	190.57	234.79	371.44
<b>2004 Review</b>									
Estimated expenses									
\$m		1429.172	762.120	700.701	305.165	308.807	98.030	77.879	96.001
\$ per capita		215.21	156.98	190.90	159.09	203.34	207.18	241.36	480.15
Standardised expenses									
\$m		1250.938	891.317	744.407	378.567	281.182	94.705	74.192	62.568
\$ per capita	192.76	188.37	183.59	202.81	197.36	185.15	200.15	229.93	312.94

**Figure 1** VOCATIONAL EDUCATION AND TRAINING — GROSS EXPENSES PER CAPITA — STANDARDISED, ESTIMATED AND STANDARD, 2001-02



***Effect of assessment on grants***

94. Table 24 shows the redistribution of grants resulting from the assessment in the 2003 Update and the draft assessment for the 2004 Review.

95. Compared with the 2003 Update, the draft assessment redistributed \$53.6 million away from Victoria, Western Australia, the ACT and the NT to the other States. The main reasons for the change in grants are given below.

- (i) The changed method of calculating the socio-demographic composition factor to remove potential double counting of influences in standardised student contact hours caused major redistributions. The grant shares to New South Wales, Victoria, the ACT and the Northern Territory decreased — particularly the ACT and the Northern Territory. The grant shares of Queensland, South Australia and Tasmania increased.
- (ii) The changes in the input costs factors had substantial effects and led to increases in the redistribution towards New South Wales, the ACT and the Northern Territory.
- (iii) Discontinuing the service delivery scale reduced the grant shares for Tasmania and the Northern Territory and, to a small degree, for

Queensland, Western Australia and South Australia. The ACT gained the most from this change.

- (iv) Reducing the impact of the administrative scale assessment (by reducing the size of the component to which it applies) also had some impact on the assessment.

**Table 23** EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION — VOCATIONAL EDUCATION AND TRAINING

	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 <sup>(b)</sup>	-45.4	-28.3	6.4	23.2	-15.9	3.0	17.0	40.0	<b>89.6</b>
Contribution to 2004 Review draft assessment relativities <sup>(b)</sup>	-33.6	-49.7	41.7	9.2	-12.3	4.4	13.4	26.8	<b>95.5</b>
Total change	<b>11.9</b>	<b>-21.4</b>	<b>35.3</b>	<b>-14.1</b>	<b>3.6</b>	<b>1.4</b>	<b>-3.5</b>	<b>-13.2</b>	<b>52.2<sup>(c)</sup></b>

(a) Total redistribution.

(b) 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 two inquiries.

## USER CHARGES

### *1999 Review*

96. In the 1999 Review the Vocational Education and Training (VET) User Charges category comprised fees and charges collected in association with enrolments in courses conducted by technical and further education institutions and from other industrial training programs.

97. More specifically, the category included fees and charges from: education programs for leisure-time activities, industry and commerce, and non-vocational courses offered by TAFE; labour and employment issues such as employment creation, regulation of working conditions, conciliation and arbitration, and anti-discrimination programs; migrant education programs; education programs not definable by level, such as adult education courses which are essentially non-vocational and associated with leisure-time activities other than those offered by TAFE; apprenticeship training and training programs designed to facilitate entry into the work force of people currently not employed or in need of retraining; and any consultancy fees.

98. Our analysis of VET revenues in the Government Finance Statistics (GFS) data shows that they are largely sales of goods and services. We do not know to what extent course fees are included because, for most States, they have not been separately identified.

99. Table 24 shows the standard user charges<sup>13</sup> for the six years of the 2003 Update assessment period and for the previous year. In 2001-02, this category represented 5.6 per cent of total user charges, and 12.9 per cent of the VET gross standard expenses.

**Table 24** VOCATIONAL EDUCATION AND TRAINING — STANDARD USER CHARGES, 2003 UPDATE

	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
\$pc	22.47	23.69	19.10	19.79	22.78	23.90
% of total user charges	6.86	6.71	5.07	5.03	5.60	5.60
% of total VET gross standard expenditure	15.18	15.16	11.62	11.56	13.02	12.92

100. *Structure of the Assessment.* The 1999 Review structure of the assessment is summarised in Table 25.

**Table 25** VOCATIONAL EDUCATION AND TRAINING — ASSESSMENT STRUCTURE, 1999 REVIEW

Revenue Component	Component weight	Factors	Basis of calculation
	%		
User charges	100.00	User charges factor	Based on the proportion of persons aged 15 years and over classified as disadvantaged weighted by age participation rates.

101. The treatment of user charges was not discussed by States and the staff made no proposals for change.

### *Analysis*

102. In the 2003 Update VET User charges redistributed only \$2.7 million. This amount is consistent with that of previous updates after taking account of the effects of inflation. This small contribution, in the Commission's view, does not meet an acceptable

<sup>13</sup> The standard user charges for 1998-99, 1999-2000 and 2000-01 have been revised. For an explanation of these revisions please see the 2003 Update, *Supporting Information*, Chapter 2.

level of materiality. Unless a much different method of assessment is used, or State policies are changed to recover much higher levels of VET expenses, this level of contribution appears unlikely to change significantly.

***Commission decision.***

103. The Commission’s decision is summarised in Table 26.

**Table 26** COMMISSION DECISION: USER CHARGES

Decision	Reason
To adopt an equal per capita method of assessment.	The grant share effect using the 1999 Review method fails the materiality test.

***Summary of results***

104. Table 27 shows the standard and standardised revenues assessed for this category for 2001-02 in the draft assessment compared with that assessed in the 2003 Update.

**Table 27** VOCATIONAL EDUCATION AND TRAINING —ESTIMATED AND STANDARDISED AND USER CHARGES, 2001-02

	Standard	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>2003 Update - standardised user charges</b>									
\$’000		160 440	116 929	86 599	45 421	36 080	11 003	7 859	4 092
\$ per capita	23.90	24.16	24.08	23.59	23.68	23.76	23.25	24.36	20.47
<b>2004 Review Draft Assessment - Standardised user charges</b>									
\$’000		208 839	152 677	115 427	60 322	47 757	14 880	10 147	6 288
\$ per capita	31.45	31.45	31.45	31.45	31.45	31.45	31.45	31.45	31.45

105. The reason for the change since the 2003 Update was due to substituting an equal per capita (EPC) assessment for a differential assessment.

***Effect of assessment on grants***

106. Using the proposed EPC method of assessment for user charges will have no impact on grants.

# ATTACHMENT A

## UNEMPLOYMENT RATE ADJUSTMENT

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1. As unemployment rates can change significantly over a short period, it is necessary to adjust the numbers of employed and unemployed persons in each State to reflect the average impact of unemployment rates in each State over the 5 year period. This information will be used in the calculation of the socio-demographic composition factor. The following steps show how this was done.

- (i) The 5 year average of the unemployment rate for each State was calculated using the ABS Labour Force statistics (Table A-1). Only August of each year was used to match the timing of the 2001 Census.
- (ii) Using the special collection population data, the unemployed proportion of the 15-59 year old labour force (employed plus unemployed) participation was calculated (Table A-2).
- (iii) The unemployment rates in (i) were rebased by the derived Australian unemployment rate in (ii) above (Table A-3).
- (iv) The rebased unemployment rates in (iii) were applied to the total number of persons in the labour force, calculated in (ii), to calculate the revised numbers of unemployed (Table A-4). The revised number of employed persons (also used in the socio-demographic composition factor calculation) was derived by deducting the revised number of unemployed persons from the labour force total (which does not change as it uses 2001 Census data).

**Table A-1** UNEMPLOYMENT RATES — AUGUST 1998 TO AUGUST 2002

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	%	%	%	%	%	%	%	%	%
August 1998	7.4	8.2	8.9	7.2	10.0	10.8	6.8	4.3	8.1
August 1999	6.4	7.3	8.1	6.6	8.4	9.2	5.7	3.9	7.2
August 2000	5.5	6.3	7.6	6.1	7.7	9.5	4.6	5.2	6.4
August 2001	6.1	6.4	8.2	7.1	7.4	9.1	5.2	7.7	6.8
August 2002	5.9	5.8	7.2	6.2	6.6	8.7	4.3	4.6	6.2
5 year average	6.3	6.8	8.0	6.6	8.0	9.5	5.3	5.1	6.9

Source: Unemployment Rates: Trend Series - ABS Cat. 62.3.0, Table 9.

**Table A-2** IMPLIED UNEMPLOYMENT RATES — PERSONS AGED 15-59  
DERIVED FROM 2001 CENSUS POPULATION DATA

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Employed	2 724 393	2 063 928	1 520 902	812 768	621 834	178 817	158 748	83 818	8 165 207
Unemployed	215 284	152 041	139 656	67 234	52 364	20 477	8 703	5 859	661 617
Not in Labour Force	974 365	698 892	538 392	275 330	226 595	77 313	39 037	34 326	2 864 250
Total	3 914 042	2 914 860	2 198 950	1 155 332	900 793	276 607	206 488	124 002	11 691 074
Unemployment Rate (%)	5.5	5.2	6.4	5.8	5.8	7.4	4.2	4.7	5.7
Source:	Special population data collection from ABS.								

**Table A-3** REBASED UNEMPLOYMENT RATES — PERSONS AGED 15-59

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	%	%	%	%	%	%	%	%	%
	5.2	5.7	6.7	5.5	6.7	7.9	4.4	4.3	5.8

**Table A-4** REVISED NUMBERS OF EMPLOYED AND UNEMPLOYED PERSONS AGED 15-59

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Labour Force Total	2 939 677	2 215 968	1 660 558	880 002	674 198	199 294	167 451	89 676	8 826 824
Revised Unemployed	203 912	164 957	146 403	63 844	60 123	21 777	9 142	5 304	675 462
Revised Employed	2 735 764	2 051 012	1 514 155	816 158	614 074	177 517	158 309	84 372	8 151 362