

Changes to the method of calculating government recurrent expenditure

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This technical paper provides information on changes to the method of calculating government recurrent expenditure used for national efficiency Key Performance Measure 6 (KPM 6). The change was implemented in July 2008 on data relating to calendar years 2003 to 2007.

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Changes to the method of calculating government recurrent expenditure

Introduction

This paper outlines how government recurrent expenditure is calculated for the public vocational education and training (VET) sector in Australia. It presents the current and previous methodology and the resulting unit costs under both methodologies.

The Australian Vocational Education and Training Management Information Statistical Standard (AVETMISS) financial collection is the mechanism for reporting state/territory VET recurrent expenditure. The reported expenditure is gross expenditure from all funding sources including state/territory recurrent, Commonwealth recurrent, state/territory and Commonwealth special/specific purpose funds, fee-for-service funds and from ancillary and/or commercial trading funding. There is no dissection of expenditures by funding sources which would enable the reporting of government recurrent expenditure. In fact, the concept of government recurrent expenditure is problematic since actual dollars spent cannot really be cleanly matched with the source of revenue. As such, the information needs to be derived.

Previously the expenditure was derived from a mix of revenues provided and expenditure incurred. The new method, which was used for the first time in the 2007 *Annual national report* (Department of Education, Employment and Workplace Relations [DEEWR], forthcoming), provides a more direct measure under accrual-based financial reporting.

Government recurrent expenditure is used in the numerator in the unit costs of delivery reported in the *Annual national report* and the *Report on government services* VET chapter (Steering Committee for the Review of Government Service Provision, forthcoming).

The current calculation

Government recurrent expenditure is the sum of:

- Commonwealth government general purpose recurrent revenues for agreed funding under the Skilling Australia's Workforce Act between the Australian Government and states and territories (net of VET in Schools funding)
- state and territory recurrent VET revenues
- recurrent revenues of state and territory training departments to fund VET expenses and liabilities undertaken by another department or agency. These are reported as Assumption of Liabilities in the revenues of state and territory training departments.

This calculation assumes that the relevant revenues are totally expended and that there are no unspent funds of any consequence to be carried over from one year to the next. This new

calculation of government recurrent expenditure was endorsed by the National Training Statistics Committee (NTSC) in July 2008 and replaces the previous calculation. The resulting unit costs are presented in Table 1.

The previous calculation

Government recurrent expenditure has in the past been estimated by deducting the following revenues from the gross expenditure:

- fee-for-service activities
- Commonwealth and state specific purpose program funds
- Commonwealth funding for VET in Schools
- ancillary trading and other commercial activities revenues
- extraordinary expenditure for staff redundancies.

This previous calculation was agreed by the Australian National Training Authority (ANTA) and states/territories in 1997. It assumes that all income from the list of exclusions itemised is expended, and thus what is left must be government recurrent expenditure.

The primary difficulty with this assumption is that embedded profits in fee-for-service and other commercial revenues are not separated out of the revenues when the revenues are deducted, thus distorting the derived expenditure result. Table 2 provides the unit costs under the previous calculation.

Table 1: Vocational education and training efficiency, current approach (Table A6.1 in the 2007 Annual National Report, forthcoming)

Government recurrent expenditure per publicly funded annual hour, 2003 to 2007 (Current approach)

	2003	2004	2005	2006	2007
Expenditure ^{1,2} per hour ² (\$/hour 2007 prices)	14.23	14.17	13.80	13.46	13.03
Annual change (%)		-0.4	-2.7	-2.4	-3.2
Change since 2003 (%)		-0.4	-3.1	-5.4	-8.5
Invalid enrolment rate (%)					
Invalid enrolment rate (%)	2.02%	2.15%	2.12%	2.83%	2.10%
Expenditure^{1,2} per hour², by state/territory (\$/hour 2007 prices)					
New South Wales	14.24	14.51	13.40	13.43	12.63
Victoria	12.16	12.05	12.51	12.33	11.61
Queensland	15.26	15.22	14.30	13.20	14.24
South Australia	16.02	15.96	14.93	15.56	14.80
Western Australia	15.46	14.69	15.10	14.19	13.73
Tasmania	14.24	14.25	14.49	14.28	13.74
Northern Territory	26.00	23.89	25.49	21.20	20.98
Australian Capital Territory	15.02	14.64	16.03	14.95	14.73
Annual change (%)					
New South Wales		1.9	-7.7	0.2	-6.0
Victoria		-0.9	3.8	-1.4	-5.8
Queensland		-0.3	-6.1	-7.7	7.9
South Australia		-0.4	-6.4	4.2	-4.9
Western Australia		-5.0	2.8	-6.0	-3.3
Tasmania		0.1	1.7	-1.4	-3.8
Northern Territory		-8.1	6.7	-16.8	-1.0
Australian Capital Territory		-2.5	9.5	-6.7	-1.5

(1)Source: NCVET, 2003–2007, *Australian vocational education and training statistics: Financial information*, published data from NCVET.

(2)Source: DEEWR, forthcoming, *Annual National Report of Australia's vocational education and training system*.

Table 2: Vocational education and training efficiency, previous calculation

Government recurrent expenditure per publicly funded annual hour, 2003 to 2007 (previous calculation)

	2003	2004	2005	2006	2007
Expenditure ^{1,2} per hour ² , (\$/hour 2007 prices)	15.89	15.87	15.51	14.85	14.45
Annual change (%)		-0.1	-2.3	-4.3	-2.7
Change since 2003 (%)		-0.1	-2.4	-6.6	-9.0
Invalid enrolment rate (%)					
Invalid enrolment rate (%)	2.02%	2.15%	2.12%	2.83%	2.10%
Expenditure^{1,2} per hour², by state/territory (\$/hour 2007 prices)					
New South Wales	16.76	15.70	15.48	14.93	14.50
Victoria	13.64	13.62	13.50	12.95	11.78
Queensland	16.09	17.65	16.19	15.56	16.64
South Australia	18.42	18.98	18.20	17.78	16.40
Western Australia	15.21	16.07	15.54	14.70	15.17
Tasmania	16.78	16.37	17.03	16.58	15.46
Northern Territory	28.39	26.86	29.78	23.90	23.98
Australian Capital Territory	16.74	17.37	18.70	16.84	15.73
Annual change (%)					
New South Wales		-6.3	-1.4	-3.5	-2.9
Victoria		-0.2	-0.9	-4.1	-9.1
Queensland		9.7	-8.2	-3.9	7.0
South Australia		3.1	-4.1	-2.3	-7.8
Western Australia		5.6	-3.3	-5.4	3.2
Tasmania		-2.4	4.0	-2.6	-6.8
Northern Territory		-5.4	10.9	-19.8	0.3
Australian Capital Territory		3.8	7.6	-9.9	-6.6

(1)Source: NCVER, 2003–2007, *Australian vocational education and training statistics: Financial information*, published data from NCVER.

(2)Source: DEEWR, forthcoming, *Annual National Report of Australia's vocational education and training system*.