

4.1 EXPENSES AND FORWARD ESTIMATES

Total expenditure in the General Government Sector in 2010-11 is estimated to be \$3.862 billion rising to \$4.098 billion in 2011-12. Approximately 47 per cent of the expenditure relates to employees' wages and superannuation. Functionally, around 52 per cent of total expenditure relates to the portfolios of health and education (including vocational education).

The ACT's recurrent expenditure needs, assessed as part of the Commonwealth Grants Commission's distribution of GST funding in its *Report on GST Revenue Sharing Relativities – 2011 Update*, are below the national average by around \$272 per person. The demographic characteristics of the ACT lead to lower than average assessed service need.

This assessment is determined by a higher than average socio-economic status of the ACT population, and an under representation of the population in areas considered to require higher levels of expenditure, such as unemployment, Indigeneity and remoteness.

These relatively lower service needs are, however, offset in part by the ACT's status as a regional centre, which leads to the servicing of interstate residents in areas which are not covered by bilateral compensation agreements.

The recurrent expenditure in the ACT continues to be well above the national average, at around 15 per cent above its assessed level of need.

The forecast outcome for expenditure in 2010-11 is broadly in line with the original budget, being approximately \$21 million (or 0.6 per cent) above the original forecast.

In 2011-12, expenses are forecast to increase by 6.1 per cent to \$4.098 billion, largely reflecting increases associated with wage growth, growth in health funding envelope from previous budgets, and the impact of new policy initiatives, offset by savings.

Across the Budget and forward estimates, the aggregate headline expenses are forecast to grow at a compound annual average growth rate of 4.2 per cent. The growth in expenditure generally reflects wages and price indexation, growth in service activity and depreciation and amortisation of assets.

The expenditure estimates incorporate savings relating to wage restraint, the application of an efficiency dividend, and other saving measures relating to employee and non-employee input costs. These savings measures total around \$217 million over four years.

The underlying expenses excluding the expenditure associated with the *Nation Building and Jobs Plan* funding from the Commonwealth grow at an average annual rate of 4.4 per cent. The underlying expenditure growth has been restrained below the underlying revenue growth (5.3 per cent), as part of the Budget Plan to return to a balanced budget by 2013-14.

The cumulative effect of the saving measures adopted in this and previous budgets is to lower the underlying expenditure trajectory by around $\frac{3}{4}$ per cent per annum.

This chapter provides details of the 2010-11 estimated outcome and 2011-12 Budget and forward estimates for expense items, including a discussion of the variances of the expenditure items.

**Table 4.1.1
General Government Expenditure**

2010-11 Budget \$'000		2010-11 Est. Outcome \$'000	2011-12 Budget \$'000	Var %	2012-13 Estimate \$'000	2013-14 Estimate \$'000	2014-15 Estimate \$'000
	Expenses						
1,343,413	Employee Expenses	1,335,213	1,427,457	7	1,476,760	1,526,340	1,586,357
	Superannuation Expenses						
233,200	Superannuation Interest Cost	229,820	267,248	16	282,061	296,583	310,808
222,919	Other Superannuation Expenses	243,594	219,098	-10	222,405	227,674	230,157
283,132	Depreciation and Amortisation	289,849	312,382	8	334,920	349,216	350,770
81,009	Interest Expenses	79,894	100,132	25	124,330	137,036	137,719
	Other Operating Expenses						
809,802	Supplies and Services	795,864	869,632	9	886,919	913,801	981,160
158,299	Other Operating Expenses	164,597	165,104	..	174,339	185,997	189,235
708,933	Grants Expenses	722,847	736,821	2	727,519	742,270	769,685
3,840,707	Total Expenses	3,861,678	4,097,874	6	4,229,253	4,378,917	4,555,891

Note: Numbers may not add due to rounding.

Factors Affecting Expenditure Levels

Employee Expenses

For 2010-11, employee expenses are estimated to be \$1.335 billion. This is a decrease of \$8.2 million or 0.6 per cent from the original budget of \$1.343 billion mainly due to lower than anticipated permanent staff numbers in Shared Services.

Employee expenses will grow by \$92.2 million or 6.9 per cent in 2011-12 from the 2010-11 estimated outcome. This increase is largely due to further wage increases and growth in service activities.

Superannuation Interest Cost and Other Superannuation Expenses

Superannuation interest cost and other superannuation expenses represent superannuation expenses in relation to the defined benefit CSS/PSS liabilities and accumulation superannuation arrangements including PSSap and choice of fund. The following variance explanation is in relation to the aggregate of these two items.

The 2010-11 estimated outcome for superannuation expenses is expected to increase by a net \$17.3 million from the original 2010-11 Budget. This comprises an increase from the impact of a reduced discount rate as at 30 June 2010 of 5.16 per cent compared with the Budget estimate of 6 per cent in relation to CSS/PSS liabilities (\$24.9 million) and a decrease from lower membership in fund of choice superannuation arrangements (\$7.7 million).

Superannuation expenses are forecast to increase in 2011-12 by a net \$12.9 million from the 2010-11 estimated outcome due to the increase in interest costs in relation to the annual increase in CSS/PSS superannuation liabilities which is partially offset by a reduced CSS/PSS service cost expense (\$3.2 million) and an increase in membership in fund of choice superannuation arrangements (\$9.7 million).

Depreciation and Amortisation

The 2010-11 estimated outcome for depreciation and amortisation of \$289.8 million is \$6.7 million above the original 2010-11 Budget of \$283.1 million, largely resulting from an increase in assets held and asset revaluations undertaken at the end of 2009-10.

Depreciation and amortisation expenses are estimated to increase in 2011-12 by \$22.5 million or 7.2 per cent from the 2010-11 estimated outcome, reflecting increased amortisation of capital projects and the impact of asset revaluations.

Interest Expense (Borrowing Costs)

The net decrease of \$1.1 million in the 2010-11 estimated outcome from the original budget reflects lower borrowing interest costs because of a lower level of borrowings raised for ACTEW in 2009-10 compared with the original estimate, offset by higher payments of investment interest to PTE agencies than originally anticipated due to higher investment returns on funds under investment.

The \$20.2 million increase in the 2011-12 Budget from the 2010-11 estimated outcome is mainly due to increased interest payments for new borrowings undertaken for ACTEW and the general government, partially offset by lower payments of investment interest to PTE agencies due to lower investment returns than those achieved in 2010-11.

Supplies and Services

Supplies and services expense consists of supplies (such as pharmaceuticals), repairs and maintenance, consultants and contractors expenses, and payments for ACT Policing.

The 2010-11 estimated outcome for supplies and services expenses is expected to decrease by \$13.9 million or 1.8 per cent from the original 2010-11 Budget.

Expenses are forecast to increase in 2011-12 by \$73.8 million or 9.2 per cent from the 2010-11 estimated outcome. The variance reflects increased expenditure associated with growth in service activities and the implementation of new initiatives, offset by savings initiatives.

Other Expenses

Other operating expenses consists of cost of goods sold, insurance related costs, concessions, school accounts expenses and other miscellaneous expenses.

The 2010-11 estimated outcome for other operating expenses is expected to increase by \$6.3 million or 3.8 per cent from the original 2010-11 Budget. The increase mainly relates to the rollover of expenditure into 2010-11 and waivers approved in 2010-11.

The 2011-12 Budget forecast of \$165.1 million is \$0.5 million higher than the 2010-11 estimated outcome of \$164.6 million.

Grants

The 2010-11 estimated outcome for grants is expected to increase by \$13.9 million or 1.9 per cent from the original 2010-11 Budget. The expected increase mainly relates to redirection of Commonwealth National Health Reform Elective Surgery funding to Calvary Hospital and higher than anticipated payments of the *First Home Owners Grant* and *First Home Owners Boost*.

The 2011-12 Budget forecast of \$736.8 million is \$14 million higher than the 2010-11 estimated outcome of \$722.8 million mainly reflecting the redirection of Commonwealth National Health Reform Elective Surgery funding to Calvary Hospital mentioned above.

Community Service Obligations

Community Service Obligations (CSOs) primarily relate to Public Trading Enterprises. The definition adopted by the ACT Government is the one used by the Steering Committee on National Performance Monitoring of Government Trading Enterprises, established under the aegis of the Special Premiers' Conference in 1991, which states:

“A Community Service Obligation arises when a government specifically requires a public enterprise to carry out activities relating to outputs or inputs, with identified public benefit objectives, which it would not elect to do on a commercial basis, and which the government does not require other businesses in the public or private sector to undertake, or which it would only do commercially at higher prices.”

The Government extends the policy to other business units regardless of whether the unit is formally a Territory-owned corporation or a statutory authority, and irrespective of its organisational structure.

The separate identification of CSOs provides transparency on the full costs of services, and the financial implications of Government decisions in the provision of services to specific targeted groups in the community.

Table 4.1.2 lists Community Service Obligations funded in the 2011-12 Budget.

**Table 4.1.2
CSOs Funded in the 2011-12 Budget**

CSO provided by:	2011-12 Budget \$'000	Description
Territory and Municipal Services Directorate		
Yarralumla Nursery	349	Free plant issue.
ACT Forests	2,227	Provision and upkeep of public use areas within ACT Forests.
ACTION	71,120	Funding provided to ACTION to operate network services.
Economic Development Directorate		
Exhibition Park Corporation	387	Compensation for charging below market rates, as a result of Ministerial direction, or in agreement entered into by the Government.
Community Services Directorate		
Community Health	785	Part subsidy for taxi fares for eligible persons with a disability.
ACTEW	1,677	Half cost of water use for schools and churches.
ACTEW	3,670	Half cost of sewerage services to churches and hospitals.
ACTEW	64	Compensation for water and sewerage rates for lease grants under the (repealed) <i>Church Land Act 1924</i> .
ACTEW	215	Administration cost for rebates.
ACTEW	5,871	Rebates on water and sewerage charges to pensioners.
ActewAGL	6,468	Rebates on electricity and gas bills to pensioners.
ACTEW/ActewAGL (Utility Concessions)	2,193	Rebates on utility bills.
Several transport providers	1,340	Part subsidy for taxi fares for eligible persons with a disability.
Public Trustee for the ACT		
Public Trustee	459	Financial management under Guardianship Management and Property Tribunal's determinations and under power of attorney, welfare funerals.
Total Community Service Obligation	96,825	

Community Sector Funding

The Government provides funding for not-for-profit non government community organisations that deliver human services through a multi-year Service Funding Agreement to meet increasing wage related and administrative costs.

Annual funding increases are calculated using the following formula:

$$\text{Community Sector Funding Rate} = (\text{Wage Price Index} * 0.80) + (\text{Consumer Price Index} * 0.20)$$

For the 2011-12 Budget the following rates have been applied to eligible community sector funding.

Table 4.1.3
Community Sector Funding Rate

	2011-12	2012-13	2013-14	2014-15
	Budget	Estimate	Estimate	Estimate
	%	%	%	%
Wage Price Index	3.5	4.0	4.0	4.0
Consumer Price Index	3.0	2.5	2.5	2.5
Community Sector Funding Rate	3.4	3.7	3.7	3.7