

## 6.1 EXPENSES AND FORWARD ESTIMATES

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Total expenditure in the General Government Sector in 2011-12 is estimated to be \$4.127 billion increasing to \$4.347 billion in 2012-13. Approximately 47 per cent of the expenditure relates to employees' wages and superannuation. Functionally, around 51 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 – 2012 Update*, are below the national average by around \$168 per person. The demographic characteristics of the ACT lead to lower than average assessed service need.

The expenditure assessments redistribute GST funding away from the ACT overall, given they are in large part driven by the costs of providing services to people from Indigenous and low socio-economic status backgrounds and those who are located in remote areas. The ACT has below average proportion of these persons relative to the other States and Territories.

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 23 per cent above its assessed level of need.

The forecast outcome for expenditure in 2011-12 is broadly in line with the original budget, being approximately \$29 million (or less than 1 per cent) above the original forecast.

In 2012-13, expenses are forecast to increase by 5.3 per cent to \$4.3 billion, largely reflecting increases associated growth in service activities and the net (of savings) impact of new policy initiatives.

Across the Budget and forward estimates, expenses are forecast to grow at a compound annual average growth rate of 4 per cent. The growth in expenditure generally reflects growth in employee expenses, service activities and the depreciation and amortisation of assets.

Expenditure estimates incorporate a range of savings measures totalling around \$180.5 million across the budget year and forward estimates. Savings measures include a mix of reduced administrative costs, employee expenses and improvement in the efficiency of back office functions.

The cumulative effect of the saving measures adopted in this and previous budgets is to lower the underlying expenditure trajectory by around 1 per cent per annum.

This chapter provides details of the 2011-12 estimated outcome, the 2012-13 Budget and forward estimates for expense items, including a discussion of the variances of the expenditure items.

**Table 6.1.1  
General Government Expenditure**

2011-12 Budget \$'000		2011-12 Est. Outcome \$'000	2012-13 Budget \$'000	Var %	2013-14 Estimate \$'000	2014-15 Estimate \$'000	2015-16 Estimate \$'000
	<b>Expenses</b>						
1,427,457	Employee Expenses	1,447,390	1,527,566	6	1,557,651	1,611,141	1,657,470
	Superannuation Expenses						
267,248	Superannuation Interest Cost	265,327	297,660	12	314,020	330,166	345,955
219,098	Other Superannuation Expenses	236,322	236,567	..	236,214	237,749	244,365
312,382	Depreciation and Amortisation	307,897	324,488	5	342,157	356,215	358,695
100,132	Interest Expenses	100,220	112,728	12	134,009	142,994	131,838
	Other Operating Expenses						
869,632	Supplies and Services	832,578	888,385	7	900,329	963,136	1,003,336
165,104	Other Operating Expenses	199,423	199,840	..	210,225	214,817	223,864
736,821	Grants Expenses	737,740	760,187	3	782,655	817,693	853,140
<b>4,097,874</b>	<b>Total Expenses</b>	<b>4,126,897</b>	<b>4,347,421</b>	<b>5</b>	<b>4,477,260</b>	<b>4,673,911</b>	<b>4,818,663</b>

Note: Numbers may not add due to rounding.

## Factors Affecting Expenditure Levels

### *Employee Expenses*

For 2011-12, employee expenses are estimated to be \$1.447 billion. This is an increase of \$20 million or 1.4 per cent from the original budget of \$1.427 billion mainly due to the impact of revised wage parameters.

Employee expenses are forecast to grow by \$80.2 million or 5.5 per cent in 2012-13 from the 2011-12 estimated outcome. These increases are largely due to the impact of revised wage parameters, increased health related service activities and the conversion of contractors to permanent staff.

### *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 fund of choice. The following variance explanation is in relation to the aggregate of these two items.

The 2011-12 estimated outcome for superannuation expenses is expected to increase by a net \$15.3 million from the original 2011-12 Budget. This comprises an increase from the impact of a reduced discount rate as at 30 June 2011 of 5.3 per cent compared with the Budget estimate of 6 per cent in relation to CSS/PSS liabilities.

Superannuation expenses for the CSS/PSS schemes are forecast to increase in 2012-13 by a net \$32.6 million from the 2011-12 estimated outcome. This relates 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 (\$18.5 million) and an increase in membership in fund of choice superannuation arrangements (\$14.1 million).

### *Depreciation and Amortisation*

The 2011-12 estimated outcome for depreciation and amortisation of \$307.9 million is \$4.5 million below the original 2011-12 Budget of \$312.4 million. This largely results from the timing of completing capital works projects.

Depreciation and amortisation expenses are estimated to increase in 2012-13 by \$16.6 million or 5.4 per cent from the 2011-12 estimated outcome, reflecting the completion of major infrastructure projects.

### *Interest Expense (Borrowing Costs)*

The net increase of \$0.1 million in the 2011-12 estimated outcome from the original budget mainly reflects higher payments of investment interest to agencies due to higher than expected investment returns and higher investment balances. This is partially offset by lower borrowing interest costs due to the timing of the 2011-12 General Government Sector and ACTEW Corporation borrowings.

The net increase of \$12.5 million in the 2012-13 Budget from the 2011-12 estimated outcome is mainly due to increased interest payments for the General Government Sector and ACTEW Corporation borrowings. This is partially offset by lower payments of investment interest to agencies due to lower balances of funds under investment and lower expected investment returns than 2011-12.

### *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 2011-12 estimated outcome for supplies and services expenses is expected to decrease by \$37.1 million or 4.3 per cent from the original 2011-12 Budget.

Expenses are forecast to increase in 2012-13 by \$55.8 million or 6.7 per cent from the 2011-12 estimated outcome. The variance reflects increased expenditure associated with the implementation of new initiatives and growth in service activities for existing initiatives. This is partially offset by the implementation of savings initiatives.

### *Other Operating Expenses*

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

The 2011-12 estimated outcome for other operating expenses is expected to increase by \$34.3 million or 20.8 per cent from the original 2011-12 Budget. The increase is primarily attributed to a reduction in the discount factor applied to insurance claim expenses.

### *Grants Expenses*

The 2011-12 estimated outcome for grants is expected to increase by \$0.9 million from the original 2011-12 Budget.

The 2012-13 Budget forecast of \$760.2 million is \$22.4 million higher than the 2011-12 estimated outcome of \$737.7 million. This is mainly due to increased grants provided to non-government schools.

## 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 6.1.2 lists Community Service Obligations funded in the 2012-13 Budget.

**Table 6.1.2  
CSOs Funded in the 2012-13 Budget**

CSO provided by:	2012-13 Budget \$'000	Description
<b>Territory and Municipal Services Directorate</b>		
Yarralumla Nursery	270	Free Plant Issue.
ACT Forests	2,272	Provision and upkeep of public use areas within ACT Forests.
ACTION	81,497	Funding provided to ACTION to operate network services.
<b>Economic Development Directorate</b>		
Exhibition Park Corporation	412	Compensation for charging below market rates, as a result of Ministerial direction, or in agreement entered into by the ACT Government.
<b>Community Services Directorate</b>		
ACTEW	1,067	Half cost of water use for schools and churches.
ACTEW	2,528	Half cost of sewerage services to churches, hospitals, benevolent, charitable institutions and schools
ACTEW	81	Compensation for water and sewerage rates for lease granted under the (repealed) <i>Church Land Act 1924</i> .
ACTEW	428	Administration cost for rebates.
ACTEW	4,814	Rebates on water and sewerage charges to pensioners.
ActewAGL & TRUenergy	12,124	Rebates on electricity bills to pensioners.
ACTEW/ActewAGL	63	Rebates on utility bills.
ACTEW	10	Rebates on electricity supply to properties operated by non-profit organisations
<b>Public Trustee for the ACT</b>		
Public Trustee	466	Financial Management under ACAT orders, Enduring Power of Attorney, welfare funerals, AFP callouts, estates and trusts administered valued less than \$100,000, examination of external ACAT orders and will preparation.
<b>Total Community Service Obligation</b>	<b>106,032</b>	

## 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:

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

For the 2012-13 Budget the following rates have been applied to eligible community sector funding.

**Table 6.1.3**  
**Community Sector Funding Rate**

	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
	<b>Budget</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Wage Price Index	3.5	4.0	4.0	4.0
Consumer Price Index	2.25	2.5	2.5	2.5
<b>Community Sector Funding Rate</b>	<b>3.25</b>	<b>3.7</b>	<b>3.7</b>	<b>3.7</b>

**Note:** An adjustment of 0.34 per cent will be made to eligible service funding agreements managed by Housing ACT, the Community Services Directorate and the Health Directorate as a contribution to the "Implementation of Equal Remuneration Case Outcomes and Related ACT Community Sector Reforms" initiative.

