

# CHAPTER 4

## EXPENSES

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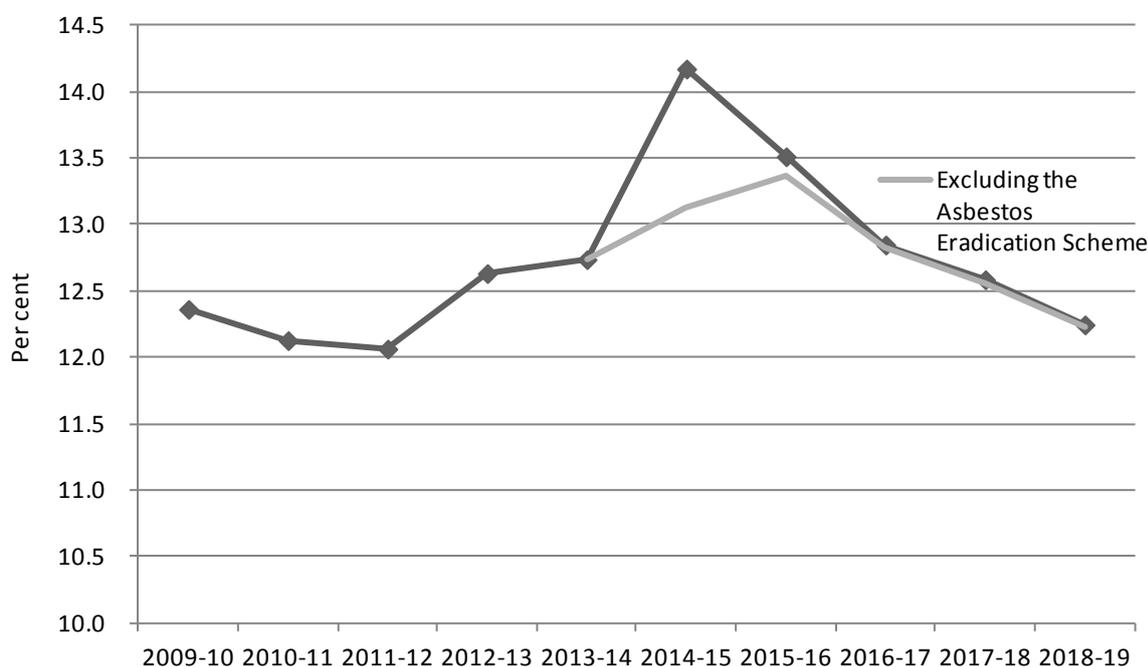
## 4.1 EXPENSES AND FORWARD ESTIMATES

In this chapter, ACT General Government Sector (GGS) expenses have been categorised and presented in accordance with both Government Purpose Classifications (GPC) and the consolidated GGS Operating Statement. In the Government Finance Statistics reporting framework, the GPC is a coding system that is used to classify expense transactions in terms of their functional purposes (for example, health, education, etc). Presenting the government expenses in this format provides information on the proportion of government expenses expected to be spent on individual functions. These classifications can differ from the thematic presentation of government spending presented elsewhere in the budget papers.

GGS expenses are forecast at \$5.2 billion in 2015-16, representing 13.5 per cent of Gross State Product. Health and education functions continue to be the two most significant components of government spending.

Across the estimated outcome and forward estimates period, GGS expenses are forecast to grow by 3.5 per cent per annum. This growth largely reflects an increase in health, education and other purposes expenses, offset by a reduction in housing and community amenities as the Asbestos Eradication Scheme winds down.

**Figure 4.1.1**  
**General Government Sector Total Expenses as a Percentage of Gross State Product**



## Estimated Expenses by Function

Table 4.1.1 sets out the estimates of GGS expenses by function for the period 2014-15 to 2018-19.

**Table 4.1.1**  
**General Government Sector Expenses by Function**

2014-15 Budget \$'000		2014-15 Est. Outcome \$'000	2015-16 Budget \$'000	2016-17 Estimate \$'000	2017-18 Estimate \$'000	2018-19 Estimate \$'000
453,618	General Public Services	433,016	558,437	540,375	537,270	553,259
414,332	Public Order and Safety	409,772	407,055	419,252	422,826	421,206
1,035,077	Education	1,035,731	1,093,513	1,112,020	1,139,347	1,175,035
1,308,065	Health	1,340,588	1,388,119	1,442,334	1,522,694	1,581,677
263,228	Social Security	253,969	251,524	251,140	275,985	258,106
196,412	Housing and Community Amenities	599,633	256,392	184,646	176,341	173,685
204,647	Recreation and Culture	222,695	207,042	203,141	202,414	206,948
24,678	Fuel and Energy	26,497	22,747	20,368	20,360	20,885
6,798	Agriculture, Forestry, Fishing and Hunting	2,310	2,463	2,481	2,607	2,791
7,504	Mining and Mineral Resources other than Fuels, Manufacturing and Construction	12,244	10,073	11,774	10,918	11,142
322,242	Transport and Communications	316,928	309,086	288,333	290,569	303,468
69,750	Other Economic Affairs	67,550	66,445	62,340	55,400	55,980
551,997	Other Purposes	496,537	575,652	602,030	630,580	637,645
<b>4,858,348</b>	<b>Total Expenses</b>	<b>5,217,471</b>	<b>5,148,547</b>	<b>5,140,234</b>	<b>5,287,311</b>	<b>5,401,827</b>

**Note:** Numbers may not add due to rounding. Classifications may have changed following the recent Administrative Arrangements and will be reviewed prior to Budget Review.

GGS expenses are strongly influenced by underlying trends in spending in the health, education, and other purposes functions. Together, these functions account for 59.4 per cent of all government expenses in 2015-16.

Major expense trends across the budget and forward years include movements in the following functions:

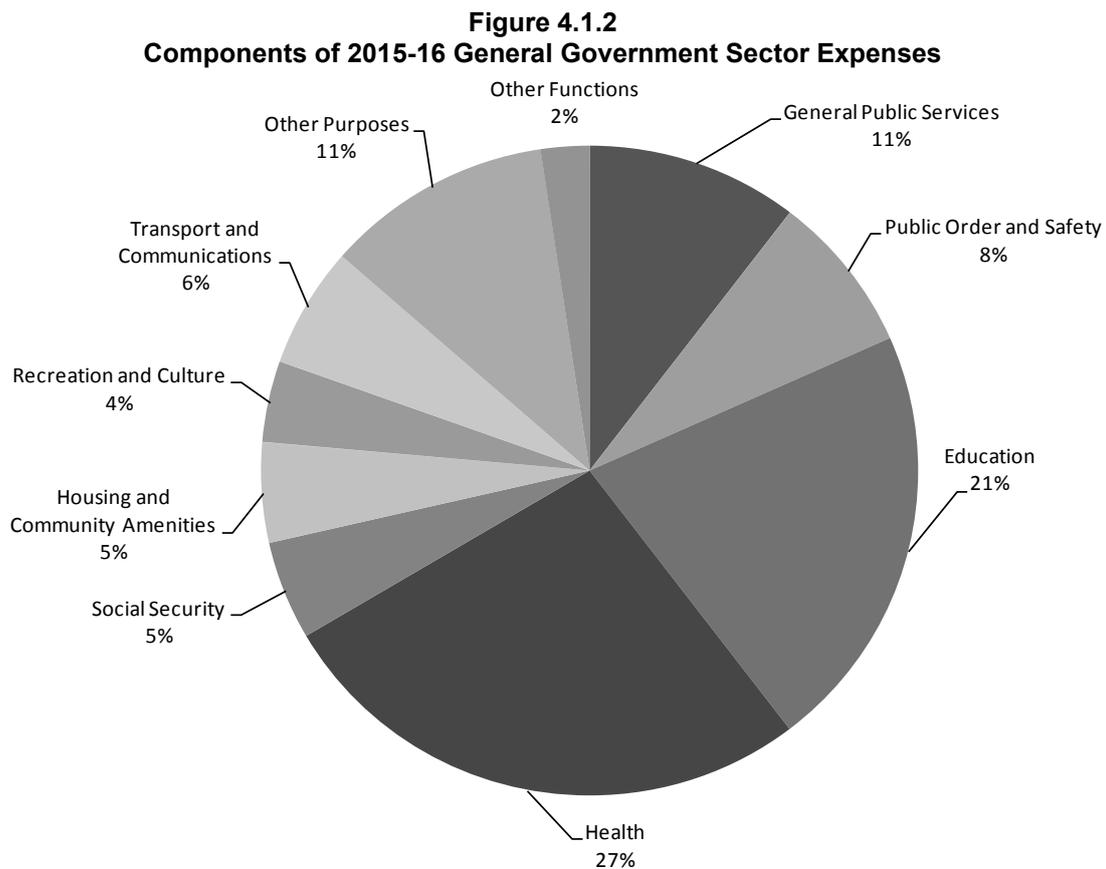
- Education – the forecast increase in expenses is primarily driven by indexation, and expected growth in student numbers, as well as costs associated with operating new schools and delivering information and communication technology in schools;
- Health – expenses are expected to increase to reflect indexation of the government's contribution to the provision of health services. This is in line with forecast growth in health service delivery and associated health-related expenses;
- Housing – the spike in expenses in 2014-15 is due to the creation and activities of the Asbestos Response Taskforce and is expected to gradually decrease as the program comes to an end; and
- Other Purposes – the increase in expenses over the forward estimates largely reflects interest expense on the \$1 billion loan from the Commonwealth in relation to the Asbestos Eradication Scheme, and borrowings to finance investment in infrastructure for Canberra.

## Where does Government Spending go in 2015-16?

In 2015-16, the Government will spend approximately \$5.1 billion in delivering services to Canberra. The most significant component of government spending relates to health expenses, with more than a quarter of total GGS expenses being used to provide health services such as general hospital activities, medical benefits, and health research.

Spending on health is followed closely by spending on education. Approximately 21 per cent of total GGS expenses are dedicated to education services such as the provision of education in government and non-government schools and higher education.

The remaining government expenses are mainly for public order and safety, and transport and communication, as shown in Figure 4.1.2.



## Consolidated General Government Sector Expenses

This section provides details of the 2014-15 estimated outcome, the 2015-16 Budget and forward estimates for expense items, including a discussion of the major variances in line with the presentation of the GGS Consolidated Operating Statement.

Total expenses for the GGS in 2014-15 are estimated to be \$5.2 billion and the 2015-16 Budget estimate is \$5.1 billion. Approximately 47.1 per cent of expenses in 2015-16 relate to employees' wages and superannuation.

The estimated outcome for expenses in 2014-15 is approximately \$359.1 million higher than the original 2014-15 Budget forecast. This increase is largely due to the creation and activities of the Asbestos Response Taskforce.

Abstract for the Asbestos Eradication Scheme, expenses are forecast to grow across the estimates at an annual average rate of 2.8 per cent.

**Table 4.1.2**  
**General Government Sector Expenses**

2014-15 Budget \$'000		2014-15 Est. Outcome \$'000	2015-16 Budget \$'000	Var %	2016-17 Estimate \$'000	2017-18 Estimate \$'000	2018-19 Estimate \$'000
<b>Expenses</b>							
1,688,492	Employee Expenses	1,716,557	1,805,053	5	1,849,706	1,880,247	1,939,025
334,958	Superannuation Interest Cost	313,820	350,898	12	366,913	382,446	397,490
259,202	Other Superannuation Expenses	332,443	268,258	-19	275,382	274,937	273,983
359,889	Depreciation and Amortisation	351,953	372,258	6	398,932	411,006	416,013
168,474	Interest Expense	158,642	203,895	29	216,471	231,017	221,960
980,443	Supplies and Services	923,116	991,906	7	954,979	989,894	1,032,445
197,813	Other Operating Expenses	278,027	250,940	-10	194,144	198,150	203,288
869,077	Grants and Purchased Services	1,142,913	905,339	-21	883,707	919,614	917,623
<b>4,858,348</b>	<b>Total Expenses</b>	<b>5,217,471</b>	<b>5,148,547</b>	<b>-1</b>	<b>5,140,234</b>	<b>5,287,311</b>	<b>5,401,827</b>

Note: Numbers may not add due to rounding.

### Factors Affecting Expense Levels

#### *Employee Expenses*

For the 2014-15 estimated outcome, employee expenses are estimated to be \$1.7 billion. This is \$28 million, or 1.7 per cent, higher than the forecast in the 2014-15 Budget, mainly due to the growth in health and a reclassification of grants and purchased services to wages and salaries.

Employee expenses are forecast to grow by \$88 million, or 5.2 per cent, in 2015-16 compared to the 2014-15 estimated outcome. This increase is largely due to growth in employee expenses in the Health and Education and Training Directorates that relates to the impact of expenditure rollovers, growth in wage rates, and an increase in education enrolment numbers.

### *Superannuation Interest Cost and Other Superannuation Expenses*

Superannuation interest costs 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 increase of \$52.1 million for the 2014-15 estimated outcome compared to the original budget is due mainly to a lower than estimated discount rate as at 30 June 2014 of 4.08 per cent used in the annual superannuation liability valuation. This compares to the long-term discount rate estimate of 6 per cent.

### *Depreciation and Amortisation*

The 2014-15 estimated outcome for depreciation and amortisation is \$7.9 million, or 2.2 per cent, lower than the original 2014-15 Budget. This largely results from the timing of completion of capital works projects.

Depreciation and amortisation expenses are estimated to increase in 2015-16 by \$20.3 million, or 5.8 per cent, from the 2014-15 estimated outcome mainly reflecting the completion of capital works programs over the course of the past year.

### *Interest Expense (Borrowing Costs)*

This item mainly represents interest payments for borrowings.

The expected decrease of \$9.8 million, or 5.8 per cent, in the 2014-15 estimated outcome from the original budget is mainly due to lower interest payments on market borrowings as a result of a lower Consumer Price Index impact on inflation-linked bonds and lower levels of market borrowings. This decrease is partly offset by the commencement of interest payments for the new Commonwealth loan provided in relation to the Asbestos Eradication Scheme.

The increase in interest costs of \$45.3 million, or 28.5 per cent, in the 2015-16 Budget from the 2014-15 estimated outcome is as a result of higher levels of borrowings to support future capital projects, and the full year cost of the interest on the Commonwealth borrowing associated with the Asbestos Eradication Scheme.

### *Supplies and Services*

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

The 2014-15 estimated outcome for supplies and services expenses is expected to be \$57.3 million, or 5.8 per cent, lower than the original budget. This is mainly due to the allocation of centrally held provisions, including the conservative bias allowance and future maintenance provision.

Expenses are forecast to increase in 2015-16 by \$68.8 million, or 7.5 per cent, from the 2014-15 estimated outcome. The increase is primarily due to new government policy decisions in 2015-16 and rollovers of unspent appropriation from 2014-15.

#### *Other Operating Expenses*

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

The 2014-15 estimated outcome for other expenses is expected to be \$80.2 million higher, or 40.6 per cent, than the original 2014-15 Budget. This is primarily attributable to the creation and activities of the Asbestos Response Taskforce, reflecting the fact that the majority of home owners are expected to sign up to the Asbestos Eradication Scheme in the 2014-15 financial year. This is partially offset by a decrease in claims expenses as a result of changes in actuarial assumptions and a decrease in the discount rate used to value insurance claims.

The decrease of \$27.1 million, or 10.2 per cent, in the 2015-16 Budget from the 2014-15 estimated outcome is mainly due to the creation and timing of activities of the Asbestos Response Taskforce.

#### *Grants and Purchased Services*

The 2014-15 estimated outcome for grants and purchased services is \$273.8 million, or 31.5 per cent, higher than the original budget.

The 2015-16 Budget forecast for grants expenses is \$237.6 million, or 20.8 per cent, lower than the 2014-15 estimated outcome. Both of these variances are mainly due to the creation and activities of the Asbestos Response Taskforce.

### **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 4.1.3 lists Community Service Obligations funded in the 2015-16 Budget.

**Table 4.1.3  
CSOs Funded in the 2015-16 Budget**

<b>CSO provided by:</b>	<b>2015-16 Budget \$'000</b>	<b>Description</b>
<b>Chief Minister, Treasury and Economic Development Directorate</b>		
Icon Water Limited	11,120	Rebates on water and sewerage charges for concession card holders, schools, churches, hospitals, benevolent and charitable institutions, and remissions provided by the ACT Civil and Administrative Tribunal.
ActewAGL/Origin Energy/Energy Australia	13,537	Rebates on energy bills for concession card holders and community groups, and remissions provided by the ACAT.
Severall Transport Providers	1,694	Part subsidy for taxi fares for eligible persons with disability.
Severall Funeral Directors	252	Funerals Assistance Program.
<b>Public Trustee for the ACT</b>		
Public Trustee	496	Financial Management under ACAT orders, Enduring Power of Attorney, welfare funerals, AFP callouts, estates and trusts administered valued at less than \$100,000, and the examination of external ACAT orders and will preparation.
<b>Territory and Municipal Services Directorate</b>		
Yarralumla Nursery	284	Free plant issue.
ACT Forests	2,387	Provision and upkeep of public use areas within ACT Forests.
ACTION	96,014	Funding provided to ACTION to operate network services.
<b>Total Community Service Obligations</b>	<b>125,784</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:

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

Table 4.1.4 sets out the rates that have been applied to eligible community sector funding for the 2015-16 Budget.

**Table 4.1.4**  
**Community Sector Funding Rate**

	<b>2015-16 Budget</b>
	<b>%</b>
Wage Price Index	2.75
Consumer Price Index	2.5
<b>Community Sector Funding Rate</b>	<b>2.7</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 "Continuation of the Community Sector Reform Program".

## 4.2 SAVINGS

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The Government is committed to providing quality and sustainable public services for the people of Canberra. To do this, it continues to deliver services in better and more efficient ways.

As a result, a number of the initiatives announced in this Budget are fully or partly funded by savings generated by efficiencies. For example, savings will flow from the standardisation of business licensing through Access Canberra, a better land titles system and from implementation of 'One Service, One Experience' initiatives that will facilitate more online services. In addition, initiatives such as *Support for Teachers – Online teacher resources*, the *ACT Active Living Program*, and the feasibility for a back-up communications centre for the emergency services are being funded from within existing resources as a result of agencies achieving efficiencies.

In addition, the Government is implementing a number of whole-of-government savings reforms. These initiatives will generate \$45.2 million in savings over four years.

The Government will continue its successful program of procurement reform which is expected to deliver net savings of \$24.4 million in the four years to 2018-19.

In addition, partial offsets have been identified to support new expenditure on the Urban Renewal Program, which in turn will support economic growth and jobs, both now and into the future.

The First Home Owners' Grant was increased from \$7,000 to \$12,500 on 1 September 2013 as a stimulus measure. This stimulus has worked with a high level of take up by first home buyers. Reflecting this improvement in the housing market, the stimulus will be progressively withdrawn over two years to return to the previous \$7,000 level. In the 2015-16 Budget, changes to ensure this grant will see it reduced to \$10,000 from 1 January 2016 and \$7,000 from 1 January 2017.

Notwithstanding the savings identified as part of the 2015-16 Budget, the total Full Time Equivalent staffing level for the ACT Public Service is expected to remain above 2014-15 levels.

The savings contained in the 2015-16 Budget appear in Table 4.2.1 below.

**Table 4.2.1  
Summary of Savings Initiatives (Gross)**

	2015-16 \$'000	2016-17 \$'000	2017-18 \$'000	2018-19 \$'000	Total \$'000
<b>Whole of Government Savings</b>					
Procurement Reform	373	4,173	8,873	10,973	<b>24,392</b>
First Home Owners' Grant <sup>1</sup>	957	3,543	6,031	6,255	<b>16,786</b>
Urban Renewal Offsets <sup>2</sup>	1,300	1,015	736	967	<b>4,018</b>
<b>Total 2015-16 Budget Savings</b>	<b>2,630</b>	<b>8,731</b>	<b>15,640</b>	<b>18,195</b>	<b>45,196</b>

**Notes:**

1. The Government will provide funding for these items to generate savings. Accordingly, these savings are also reported as part of the capital and expense initiatives.
2. The Urban Renewal Program is also offset by savings in the Government's capital program (not reported here).