

5.1 EXPENDITURE AND FORWARD ESTIMATES

Total expenditure in the General Government Sector in 2012-13 is estimated to be \$4.424 billion increasing to \$4.578 billion in 2013-14. Approximately 48 per cent of the expenditure relates to employees' wages and superannuation. Functionally, around 55 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 – 2013 Update*, are below the national average by around \$202 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 that are not covered by bilateral compensation agreements.

The recurrent expenditure in the ACT continues to be well above the national average, at around 21 per cent above its assessed level of need.

The forecast outcome for expenditure in 2012-13 is approximately \$76.9 million (or 1.8 per cent) above the original ACT Government's forecast largely due to the impact of a lower than estimated discount rate used to value the superannuation liability.

In 2013-14 expenses are forecast to increase by 3.5 per cent to \$4.578 billion, largely reflecting increases associated with growth in service activities and the net (of savings) impact of government initiatives.

Across the Budget and forward estimates, expenses are forecast to grow at an annual average rate of 3.5 per cent. The growth in expenditure generally reflects growth in employee expenses, supplies and services and the depreciation and amortisation of assets.

Expenditure estimates incorporate a range of savings measures totalling \$142.6 million across the budget year and forward estimates. Savings measures include ceasing of initiatives that no longer align with government priorities, further administrative savings and reprioritisation of program expenditure.

This chapter provides details of the 2012-13 estimated outcome, the 2013-14 Budget and forward estimates for expense items, including a discussion of the major variances of expenditure items.

**Table 5.1.1
General Government Expenditure**

2012-13 Budget \$'000		2012-13 Est. Outcome \$'000	2013-14 Budget \$'000	Var %	2014-15 Estimate \$'000	2015-16 Estimate \$'000	2016-17 Estimate \$'000
	Expenses						
1,527,566	Employee Expenses	1,544,167	1,583,362	3	1,621,453	1,670,382	1,749,612
	Superannuation Expenses						
297,660	Superannuation Interest Cost	264,214	313,777	19	330,007	345,899	361,386
236,567	Other Superannuation Expense	346,794	242,113	-30	244,906	248,675	257,892
324,488	Depreciation and Amortisation	320,838	338,863	6	360,671	366,250	369,092
112,728	Interest Expense	123,618	149,775	21	166,662	172,665	168,894
	Other Operating Expenses						
888,385	Supplies and Services	869,974	919,472	6	965,030	1,013,421	1,078,533
199,840	Other Operating Expenses	180,317	199,788	11	203,513	210,117	208,131
760,187	Grants Expenses	774,419	830,726	7	821,225	832,825	875,035
4,347,421	Total Expenses	4,424,341	4,577,876	3	4,713,467	4,860,234	5,068,575

Note: Numbers may not add due to rounding.

Factors Affecting Expenditure Levels

Employee Expenses

For 2012-13, employee expenses are estimated to be \$1.544 billion. This is an increase of \$16.6 million or 1.1 per cent from the original budget of \$1.528 billion mainly due to the impact of revised wage parameters and changes in the workforce profile.

Employee expenses are forecast to grow by \$39.2 million or 2.5 per cent in 2013-14 from the 2012-13 estimated outcome. These increases are largely due to the impact of indexation on employee expenses and growth in health related initiatives.

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 increase of \$76.8 million in the 2012-13 estimated outcome from the original budget is due mainly to the impact of the lower actual discount rate as at 30 June 2012 of 3.41 per cent used for the annual superannuation liability valuation. This compares to the long term average rate of 6 per cent used in the 2012-13 Budget.

Depreciation and Amortisation

The 2012-13 estimated outcome for depreciation and amortisation of \$320.8 million is \$3.7 million below the original 2012-13 Budget of \$324.5 million. This largely results from the timing of capital works projects and the flow on impact of asset revaluations undertaken in 2011-12.

Depreciation and amortisation expenses are estimated to increase in 2013-14 by \$18 million or 5.6 per cent from the 2012-13 estimated outcome reflecting the completion of major infrastructure projects and asset purchases.

Interest Expense (Borrowing Costs)

This item mainly represents the interest payments for borrowings.

The increase of \$10.9 million in the 2012-13 estimated outcome from the original budget is mainly due to higher borrowing interest costs as a result of the timing and level of new borrowings undertaken through the year.

The increase of \$26.2 million in the 2013-14 Budget from the 2012-13 estimated outcome is mainly due to increased interest payments from higher levels of borrowings.

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 2012-13 estimated outcome for supplies and services expenses is expected to decrease by \$18.4 million or 2.1 per cent from the original budget.

Expenses are forecast to increase in 2013-14 by \$49.5 million or 5.7 per cent from the 2012-13 estimated outcome. The variance reflects increased expenditure associated with the implementation of new 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 2012-13 estimated outcome for other expenses is expected to decrease by \$19.5 million or 9.8 per cent from the original 2012-13 Budget. This is primarily attributed to a decrease in the average frequency and amounts in insurance claims and a funding reduction from New South Wales for cross border health costs.

The increase of \$19.5 million in the 2013-14 Budget from the 2012-13 estimated outcome is due to the forecast value of insurance claim expenses returning to anticipated long run levels, and the full year impact of operation of the ACT State Pool Account under the National Health Reform Arrangements.

Grants Expenses

The 2012-13 estimated outcome for grants is expected to increase by \$14.2 million from the original budget. This is mainly attributed to the reclassification of expenses to other expense line items to more closely align with expected expenditure patterns and grants to Calvary Hospital to be used for capital works in their Emergency Department.

The 2013-14 Budget forecast for grants expenses of \$830.7 million is \$56.3 million higher than the 2012-13 estimated outcome of \$774.4 million. This is mainly due to the impact of Government initiatives and increased community sector grants.

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 5.1.2 lists Community Service Obligations funded in the 2013-14 Budget.

**Table 5.1.2
CSOs Funded in the 2013-14 Budget**

CSO provided by:	2013-14 Budget \$'000	Description
Territory and Municipal Services Directorate		
Yarralumla Nursery	270	Free plant issue.
ACT Forests	2,329	Provision and upkeep of public use areas within ACT Forests.
ACTION	91,230	Funding provided to ACTION to operate network services.
Economic Development Directorate		
Exhibition Park Corporation	425	Compensation for charging below market rates, as a result of Ministerial direction, or in agreement entered into by the ACT Government.
Community Services Directorate		
ACTEW	1,656	Half cost of water use for schools and churches.
ACTEW	3,779	Half cost of sewerage services to churches, hospitals, benevolent, charitable institutions and schools.
ACTEW	98	Compensation for water and sewerage rates for lease granted under the (repealed) <i>Church Land Act 1924</i> .
ACTEW	274	Administration cost for rebates.
ACTEW	6,965	Rebates on water and sewerage charges to pensioners.
ActewAGL & TRUenergy	8,581	Rebates on electricity bills to pensioners.
ACTEW/ActewAGL	58	Rebates on utility bills.
ACTEW	157	Rebates on electricity supply to properties operated by non profit organisations.
Several Transport Providers	1,620	Part subsidy for taxi fares for eligible persons with disability.
Several Funeral Directors	50	Funerals Assistance Program.
Public Trustee for the ACT		
Public Trustee	473	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.
Total Community Service Obligation	117,965	

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 2013-14 Budget the following rates have been applied to eligible community sector funding.

Table 5.1.3
Community Sector Funding Rate

	2013-14 Budget %
Wage Price Index	3.0
Consumer Price Index	2.25
Community Sector Funding Rate	2.85

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 "ACT Community Sector Reforms" initiative.

