

CHAPTER 4

EXPENSES

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4.1 EXPENSES AND FORWARD ESTIMATES

Total expenses in the General Government Sector in 2013-14 are estimated to be \$4.59 billion increasing to \$4.86 billion in 2014-15. Approximately 47 per cent of expenses in 2014-15 relates to employees' wages and superannuation. Around 50 per cent of total expenses relate to health and education (including vocational education).

The estimated outcome for expenses in 2013-14 is approximately \$8.3 million higher than the original 2013-14 Budget forecast.

In 2014-15, expenses are forecast to increase by 5.9 per cent to \$4.9 billion, largely reflecting increases associated with growth in service activities and the net impact of new policy decisions.

Across the estimates period, expenses are forecast to grow at an annual average rate of 3.4 per cent. The growth in expenses largely reflects growth in employee and superannuation related expenses.

Expense estimates incorporate a range of savings measures. Further information can be found in Savings (Chapter 4.2).

This chapter provides details of the 2013-14 estimated outcome, the 2014-15 Budget and forward estimates for expense items, including a discussion of the major variances of expense items.

Table 4.1.1
General Government Expenses

2013-14 Budget \$'000		2013-14 Est. Outcome \$'000	2014-15 Budget \$'000	Var %	2015-16 Estimate \$'000	2016-17 Estimate \$'000	2017-18 Estimate \$'000
	Expenses						
1,583,362	Employee Expenses	1,633,843	1,688,492	3	1,741,733	1,818,072	1,883,912
313,777	Superannuation Interest Cost	299,563	334,958	12	351,456	367,587	383,253
242,113	Other Superannuation Expenses	306,225	259,202	-15	262,650	271,674	273,981
338,863	Depreciation and Amortisation	332,897	359,889	8	374,056	385,579	390,350
149,775	Interest Expense	148,259	168,474	14	193,892	206,825	215,651
919,472	Supplies and Services	860,498	980,443	14	934,003	945,033	988,120
199,788	Other Operating Expenses	173,096	197,813	14	200,454	207,515	216,087
830,726	Grants and Purchased Services	831,809	869,077	4	836,420	868,435	891,026
4,577,876	Total Expenses	4,586,190	4,858,348	6	4,894,664	5,070,720	5,242,380

Note: Numbers may not add due to rounding.

Factors Affecting Expense Levels

Employee Expenses

For 2013-14, employee expenses are estimated to be \$1.6 billion. This is \$50.5 million or 3.2 per cent higher than the forecast in the 2013-14 Budget, mainly due to the impact of revised wage parameters as included in the *Appropriation Act 2013-2014 (No. 2)*.

Employee expenses are forecast to grow by \$54.6 million or 3.3 per cent in 2014-15 compared to the 2013-14 estimated outcome. This increase is largely due to the impact of indexation on employee expenses and growth in health related expenses.

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 \$49.9 million in the 2013-14 estimated outcome from the original budget is due mainly to the impact of the lower than estimated discount rate as at 30 June 2013 of 4.29 per cent used for the annual superannuation liability valuation. This compares to the long-term average rate of 6 per cent used in the 2013-14 Budget.

Depreciation and Amortisation

The 2013-14 estimated outcome for depreciation and amortisation of \$332.9 million is \$6.0 million below the original 2013-14 Budget of \$338.9 million. This largely results from the timing of capital works projects and the impact of rollovers and re-profiling adjustments.

Depreciation and amortisation expenses are estimated to increase in 2014-15 by \$27.0 million or 8.1 per cent from the 2013-14 estimated outcome mainly reflecting the completion of capital projects.

Interest Expense (Borrowing Costs)

This item mainly represents the interest payments for borrowings.

The decrease of \$1.5 million in the 2013-14 estimated outcome from the original budget is mainly a result of lower borrowing interest costs due to the timing profile of required borrowings.

The increase of \$20.2 million in the 2014-15 Budget from the 2013-14 estimated outcome is mainly a result of increased interest payments due to 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 2013-14 estimated outcome for supplies and services expenses is expected to decrease by \$59.0 million from the original budget. This is mainly due to the allocation of the wages provision as part of the *Appropriation Act 2013-2014 (No. 2)* and the reprofiling of expenses to future years.

Expenses are forecast to increase in 2014-15 by \$119.9 million or 13.9 per cent from the 2013-14 estimated outcome. The variance is primarily due to the impact of new policy decisions incorporated in the 2014-15 Budget and rollovers from 2013-14.

Other Operating Expenses

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

The 2013-14 estimated outcome for other expenses is expected to decrease by \$26.7 million or 13.4 per cent from the original 2013-14 Budget. This is primarily attributable to lower than expected inflation, fewer insurance claims payments than anticipated and changes in actuarial assumptions in relation to insurance claims.

The increase of \$24.7 million in the 2014-15 Budget from the 2013-14 estimated outcome is due to the forecast value of insurance claim expenses returning to anticipated long-run levels.

Grants Expenses

The 2013-14 estimated outcome for grants and purchased services of \$831.8 million is broadly in line with the original budget of \$830.7 million.

The 2014-15 Budget forecast for grants expenses of \$869.1 million is \$37.3 million higher than the 2013-14 estimated outcome of \$831.8 million. This is mainly due to the anticipated growth in the health funding envelope and the reprofiling of education related 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 4.1.2 lists Community Service Obligations funded in the 2014-15 Budget.

**Table 4.1.2
CSOs Funded in the 2014-15 Budget**

CSO provided by:	2013-14 Budget \$'000	Description
Territory and Municipal Services Directorate		
Yarralumla Nursery	277	Free plant issue.
ACT Forests	2,387	Provision and upkeep of public use areas within ACT Forests.
ACTION	96,574	Funding provided to ACTION to operate network services.
Economic Development Directorate		
Exhibition Park Corporation	445	Compensation for charging below market rates, as a result of Ministerial direction, or agreements entered into by the ACT Government.
Commerce and Works Directorate		
ACTEW	2,250	Half cost of water use for schools and churches.
ACTEW	5,136	Half cost of sewerage services to churches, hospitals, benevolent, charitable institutions and schools.
ACTEW	134	Compensation for water and sewerage rates for leases granted under the (repealed) <i>Church Land Act 1924</i> .
ACTEW	103	Administration cost for rebates.
ACTEW	10,024	Rebates on water and sewerage charges to pensioners/healthcare card holders.
ActewAGL & TRUenergy	8,729	Rebates on electricity bills to pensioners/healthcare card holders.
ACTEW/ActewAGL	59	Rebates on utility bills.
ACTEW	157	Rebates on electricity supply to properties operated by non profit organisations.
Several Transport Providers	2,106	Part subsidy for taxi fares for eligible persons with disability.
Several Funeral Directors	50	Funerals Assistance Program.
Public Trustee for the ACT		
Public Trustee	484	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 Obligations	128,915	

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 2014-15 Budget, the following rates have been applied to eligible community sector funding.

Table 4.1.3
Community Sector Funding Rate

	2014-15 Budget %
Wage Price Index	3.0
Consumer Price Index	2.5
Community Sector Funding Rate	2.90

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.

4.2 SAVINGS

The Government is committed to providing quality public services for the people of Canberra. To ensure the sustainability of the public finances, these services, need to be delivered in a cost effective manner. For this reason, the Government is continuing to identify ways to improve the quality and efficiency of its operations. Even after taking these savings into account, the total Full Time Equivalent staffing level for the ACT Public Service remains above 2013-14 levels.

The 2014-15 Budget includes savings initiatives totalling \$93.6 million over four years. These initiatives focus on improving the efficiency of service delivery across government and, to the fullest extent possible, reducing administrative duplication and overlap across government entities. To this end, a number of savings initiatives contain a small expenditure component designed to fund strategic investments across government.

A key element of improving efficiency is through greater application of digital and online technology. This spending will generate longer term savings through expanded digital service delivery, the development of strategic ICT investment programs, reduced paper based correspondence, lower data storage and management costs, and improved data processing efficiency (with a corresponding reduction in data entry effort). Initiatives such as iConnect will simplify how people and businesses interact with the Government, through use of a secure, single entry point.

The savings contained in the 2014-15 Budget appear in Table 4.2.1 below.

Table 4.2.1
Summary of Savings Initiatives (Gross)

	2014-15 \$'000	2015-16 \$'000	2016-17 \$'000	2017-18 \$'000	Total \$'000
Administrative Efficiencies ¹	60	10,560	13,060	13,460	37,140
Digital Dividend Investment Strategy and Transformational Service Delivery ¹	0	5,000	10,000	15,000	30,000
iConnect ²	0	500	4,020	10,109	14,629
Other ICT initiatives ^{2,3}	0	1,996	3,996	5,836	11,828
Total 2014-15 Budget Savings	60	18,056	31,076	44,405	93,597
Total 2013-14 Budget Savings	29,593	41,004	50,199	N/A	142,555⁴

Notes:

1. The Government will provide funding for these items to generate savings, as outlined in paragraph 2 above.
2. Savings reported as part of the capital and expense initiatives.
3. Includes savings such as the ICT Transformation – Hybrid cloud computing and the ICT Sustainability – Desktop computer and printer energy management initiatives.
4. Contains savings of \$21.759 million in 2013-14.

The savings presented in the 2014-15 Budget build upon the Government's track record of identifying and implementing ways to reduce input costs and generate efficiencies. The 2013-14 Budget focussed savings effort on reduced consultancy expenses, better utilising Worksafe Funds, energy savings measures, outsourcing vehicles efficiently, reducing corporate overheads, organisational restructure of the CIT, implementing various demand management measures, increasing sponsorships for venues and events and reprioritising youth programs.

Other savings were achieved in the 2013-14 Budget through the redirection of lower priority programs and ceasing initiatives from past budgets, providing opportunities to invest in higher priority activities and service delivery. Activities included reprofiling some court services, refining the ACTSmart program to gain efficiencies, increasing electronic processing of invoices, consolidating out of home care providers and implementing savings from red tape reduction activities.