

4.1 EXPENSES AND FORWARD ESTIMATES

Total expenditure in the General Government Sector is \$3.382 billion (2008-09 estimated outcome) rising to \$3.623 billion on 2009-10. Approximately 46 per cent of the 2009-10 expenditure relates to employees' wages and superannuation. Functionally, 51 per cent of total expenditure relates to health and education portfolios (including vocational education).

The ACT's expenditure needs, as assessed by the Commonwealth Grants Commission as part of its distribution of GST funding, are near average relative to other jurisdictions nationwide. A number of demographic factors lead to lower than average service needs, particularly an under-representation of the population in categories often responsible for increasing expenditure needs, including low income, pensioner and concession cardholders, as well as Indigenous population living in remote areas and aged 65 years or older. The relatively lower service needs due to a higher socio-economic status are, however, almost entirely offset by the ACT's small population and its status as a regional centre, which leads to the servicing of interstate residents in areas not covered by bilateral compensation agreements, such as education.

The actual 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 2008-09 is approximately \$58 million above the original budget, or 1.7 per cent, largely reflecting the impact of new policy initiatives through the Supplementary Appropriations, and the phasing in of expenditure associated with the *Nation Building and Jobs Plan* package.

In 2009-10, expenses are forecast to increase by 7.1 per cent to \$3.623 billion. The increase mainly reflects the new policy initiatives in the Budget, recurrent impact of the *Nation Building and Jobs Plan* package, and wage growth.

The expenditure estimates also incorporate savings relating to wage restraint and the application of an efficiency dividend, totalling around \$17.7 million in 2010-11, increasing to \$19 million in 2012-13.

Across the Budget and forward estimates, the total expenses are forecast to grow at an average annual rate of 4.9 per cent. The growth in expenditure generally reflects wages and price indexation, and new budget recurrent initiatives and operating impacts of infrastructure programs.

This chapter provides the 2008-09 estimated outcome and 2009-10 Budget and forward estimates for expense items. A discussion of the main expenditure items is also included.

Table 4.1.1
General Government Expenditure

2008-09 Budget \$'000		2008-09 Est.Outcome \$'000	2009-10 Budget \$'000	Var %	2010-11 Estimate \$'000	2011-12 Estimate \$'000	2012-13 Estimate \$'000
Expenses							
1,145,062	Employee Expenses	1,179,774	1,231,024	4	1,264,474	1,313,423	1,370,103

194,910	Superannuation Interest Cost	204,451	227,876	11	243,371	258,740	273,835
227,281	Other Superannuation Expenses	179,491	207,188	15	212,174	237,395	241,187
216,185	Depreciation and Amortisation	214,671	230,740	7	254,478	273,081	285,126
62,918	Interest Expenses	62,366	65,264	5	71,247	91,904	90,728
	Other Operating Expenses						
726,464	Supplies and Services	737,700	808,971	10	837,121	899,790	959,768
135,356	Other	154,163	145,868	-5	153,682	161,402	167,780
615,543	Grants Expenses	649,157	705,871	9	694,139	695,799	709,417
3,323,719	Total Expenses	3,381,773	3,622,802	7	3,730,686	3,931,534	4,097,944

Note: Totals may not add due to rounding

Factors Affecting Expenditure Levels

Employee Expenses

For 2008-09, employee expenses are estimated to be \$34.712 million or 3 per cent above the original Budget, largely reflecting increased activity levels at The Canberra Hospital, as well as staff moving from contract permanent employment, costs relating to Commonwealth grants and adjustments to provisions.

Employee expenses will grow by \$51.250 million or 4.3 per cent in 2009-10 from the 2008-09 estimated outcome. This increase is largely due to the staffing impacts associated with new initiatives and general wages growth.

Superannuation Current Cost and Nominal Superannuation Interest Expense

The 2008-09 estimated outcome for superannuation expenses is expected to decrease \$38.249 million or 9.1 per cent from the original 2008-09 Budget, mostly reflecting the increased discount rate of 6.55 per cent as at 30 June 2008 and a lower level of staff on Fund of Choice superannuation arrangements compared to the original budget.

Superannuation expenses are forecast to increase in 2009-10 by \$51.122 million or 13.3 per cent from the 2008-09 estimated outcome, mainly due to the estimated growth in superannuation liabilities following the recent actuarial review and increases in Fund of Choice superannuation scheme membership.

Depreciation and Amortisation

The 2008-09 estimated outcome for depreciation and amortisation of \$214.671 million is slightly under the original 2008-09 Budget of \$216.185 million.

Depreciation and amortisation expenses are estimated to increase in 2009-10 by \$16.069 million or 7.5 per cent from the 2008-09 estimated outcome, reflecting the scheduled completion of capital works and information technology projects.

Interest Expense (Borrowing Costs)

The 2008-09 estimated outcome for interest expense (borrowing cost) is expected to remain close to the original budget.

Interest expense is estimated to increase by \$2.898 million or 4.65 per cent in 2009-10 from the 2009-10 estimated outcome, mainly due to interest payments for borrowings undertaken on behalf of ACTEW Corporation.

Supplies and Services

Supplies and services expense consists of supplies (such as pharmaceuticals), repairs and maintenance, consultants and contractors expenses, and payments to the Australian Federal Police.

The 2008-09 estimated outcome for supplies and services expenses is expected to increase by \$11.236 million or 1.55 per cent from the original 2008-09 Budget. This is mainly due to an increase in activity at The Canberra Hospital.

Supplies and Services expenses are forecast to increase in 2009-10 by \$71.271 million or 9.7 per cent from the 2008-09 estimated outcome. The variance is due to the suite of new initiatives being funded as part of the 2009-10 Budget, indexation and growth in health costs and Commonwealth grants.

Other Expenses

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

The 2008-09 estimated outcome for other operating expenses is expected to increase by \$18.807 million or 13.9 per cent from the original 2008-09 Budget. This increase relates to both new initiatives resulting from the 2008-09 2nd and 3rd Appropriations, and the increased volume and cost of medical and surgical supplies.

The 2009-10 Budget is forecast to decrease by \$8.295 million or 5.3 per cent from the 2008-09 estimated outcome. This in part reflects the cessation of NSW prisoner payments following the opening of the Alexander Maconochie Centre and planned wind down of Rhodium.

Grants

The 2008-09 estimated outcome for grants is expected to increase by \$33.614 million or 5.46 per cent from the original 2008-09 Budget. This is due to an increase in Commonwealth grant funding for disability, health and education services.

Grants are expected to increase in 2009-10 by \$56.714 million or 8.74 per cent from the 2008-09 estimated outcome, mainly in relation to increases in Commonwealth funding.

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 2009-10 Budget.

Table 4.1.2
CSOs Funded in 2009-10 Budget

CSO provided by:	2009-10 Budget \$'000	Description
Department of Territory and Municipal Services		
Exhibition Park in Canberra	350	Compensation for charging below market rates, as a result of Ministerial direction, or in agreement entered into by the ACT Government.
Yarralumla Nursery	270	Free Plant Issue.
ACT Forests	2,183	Provision and upkeep of public use areas within ACT Forests.
ACTION	65,996	Funding provided to ACTION to operate network services.
Department of Disability, Housing and Community Services		
ACTEW	1,524	Half cost of water use for schools and churches.
ACTEW	3,336	Half cost of sewerage services to churches and hospitals.
ACTEW	58	Compensation for water and sewerage rates for lease granted under the (repealed) <i>Church Land Act 1924</i> .
ACTEW	195	Administration cost for rebates.
ACTEW	5,336	Rebates on water and sewerage charges to pensioners.
ActewAGL	5,672	Rebates on electricity bills to pensioners.
Community Health	771	Part subsidy for taxi fares for eligible persons with disability.
Public Trustee for the ACT		
Public Trustee	442	Financial management under Guardianship Management and Property Tribunal's determinations and under power of attorney, welfare funerals.
Total Community Service Obligation	86,133	

Note: Totals may not add due to rounding

Community Sector Funding

The Government provides not-for-profit non government community organisations, delivering human services through a multi-year Service Funding Agreement, funding 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 2009-10 Budget the following rates have been applied to eligible community sector funding.

	2009-10 Budget %	2010-11 Estimate %	2011-12 Estimate %	2012-13 Estimate %
Wage Price Index	3.5	4.0	4.0	4.0
Consumer Price Index	1.75	2.5	2.5	2.5
Community Sector Funding Rate WPI*0.8+CPI*0.2	3.15	3.7	3.7	3.7

