

4.1 EXPENSES AND FORWARD ESTIMATES

Total expenditure in the General Government Sector is \$3.142 billion (2007-08 estimated outcome). Approximately 47 per cent of the total expenditure relates to employees' wages and superannuation. Functionally, 41 per cent of the total expenditure relates to health and education portfolios.

The ACT continues to have near average requirements for expenditure, relative to other jurisdictions nationwide.

The Territory's assessed needs for services are effectively lowered by a number of demographic factors, particularly an under-representation of the population in categories often responsible for increasing expenditure needs, including low income, pensioner and concession card holders, Indigenous, 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. Relative to the national average, the ACT therefore receives only a small net benefit from the Commonwealth Grants Commission's assessment of expenditure needs.

Actual expenditure in the ACT is around 22 per cent above its assessed level of need (2008 Commonwealth Grants Commission assessment). Expenditure levels in excess of assessed need may be due to relatively lower efficiency of service provision, or higher level and quality of services.

Expenditure effort decreased from around 31 per cent above the assessed level of need due to efficiency improvements in the previous Budgets. The expenditure budget currently incorporates efficiencies in excess of \$100 million per annum.

The forecast outcome for expenditure in 2007-08 is approximately \$122.265 million above the original budget, with a forecast expenditure increase in the 2008-09 Budget of 5.8 per cent. A significant part of this increase reflects: the negotiation of, and ongoing impact of, wage agreements; the depreciation impact of the revaluation of the Territory's assets; interest payments on borrowings undertaken on behalf of ACTEW Corporation; and expenditure associated with increased Commonwealth funding for non-government schools.

Across the Budget and forward estimates, the total expenses are forecast to grow at an average annual rate of 5.1 per cent. The growth in expenditure generally reflects wages and price indexation, interest expenses, new budget initiatives and recurrent costs associated with the *Building the Future* Program. The trajectory of expenses is currently above the trajectory of revenues, reflecting Government's strategy of utilising past and future surpluses in investment in infrastructure to increase the productive capacity of the economy, reduce future costs and support economic growth.

This chapter provides the 2007-08 estimated outcome and 2008-09 Budget and forward estimates for expense items. A discussion of the main expenditure items is also included.

**Table 4.1.1
General Government Expenditure**

2007-08 Budget \$'000	2007-08 Est.Outcome \$'000	2008-09 Budget \$'000	Var %	2009-10 Estimate \$'000	2010-11 Estimate \$'000	2011-12 Estimate \$'000
Expenses						
1,055,582	1,069,049	1,145,062	7	1,186,270	1,231,194	1,276,310
198,993	215,493	227,281	5	215,770	220,849	249,413
202,893	189,954	194,910	3	223,377	239,806	256,670
183,251	187,744	216,185	15	239,018	259,046	264,118
614,611	671,382	726,464	8	770,792	820,610	879,597
162,399	163,185	135,356	-17	145,039	153,131	160,618
47,771	53,563	62,918	17	79,537	80,920	77,545
554,012	591,407	615,543	4	630,373	648,138	665,977
3,019,512	3,141,777	3,323,719	6	3,490,176	3,653,694	3,830,248

Note: Totals may not add due to rounding

Factors Affecting Expenditure Levels

Employee Expenses

For 2007-08, employee expenses are estimated to be \$13.467 million or 1.3 per cent above the original Budget, which reflects increased patient activity at The Canberra Hospital (TCH) and the negotiation of the ACT Fire Brigade wages outcome.

Employee expenses will grow by \$76.013 million or 7.1 per cent in 2008-09 from the 2007-08 estimated outcome. This increase is largely due to the staffing impacts associated with the Alexander Maconochie Centre (AMC), the ongoing impacts of wages agreements and new Budget initiatives.

Superannuation Current Cost and Nominal Superannuation Interest Expense

Superannuation expenses are estimated to remain on budget in 2007-08, with the estimated outcome only varying slightly by \$3.561 million or 0.9 per cent, from the 2007-08 Budget.

Superannuation expenses will increase by \$16.744 million or 4.1 per cent in 2008-09 from the 2007-08 estimated outcome. The increase is due to the estimated growth in superannuation liabilities and an increased emerging cost payment to the Commonwealth Government.

Depreciation and Amortisation

The 2007-08 estimated outcome for depreciation and amortisation is \$4.493 million or 2.5 per cent above the 2007-08 Budget due to the revaluation of the Territory's assets and the delayed sale of Rhodium Asset Solutions Limited.

Depreciation and amortisation expenses are estimated to increase by \$28.441 million or 15.1 per cent in 2008-09 from the 2007-08 estimated outcome reflecting asset revaluations and the scheduled completion of capital works.

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.

For 2007-08, supplies and services expenses are expected to increase by \$56.771 million or 9.2 per cent from the original Budget. This is mainly due to higher activity at TCH, costs associated with increased property management activities and the reallocation of other operating expenses related to the AMC.

Supplies and Services expenses are projected to increase by \$55.082 million or 8.2 per cent from the 2007-08 estimated outcome. The variance is due to the suite of new initiatives being funded as part of the 2008-09 Budget.

Other Operating Expenses

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

Other operating expenses are estimated to remain on budget in 2007-08, with the estimated outcome only varying slightly by \$0.786 million or 0.5 per cent, from the 2007-08 Budget.

The 2008-09 Budget is \$27.829 million or 17.1 per cent lower than the 2007-08 estimated outcome, which reflects the reallocation of NSW prison payments to supplies and services and employee expenses, associated with the opening of the AMC.

Interest Expense (Borrowing Costs)

The 2007-08 estimated outcome for interest expense (borrowing cost) is expected to increase by \$5.792 million or 12.1 per cent from the 2007-08 original Budget, due to a higher balance of agency funds under investment.

Interest expense is estimated to increase by \$9.355 million or 17.5 per cent in 2008-09, mainly due to interest payments for borrowings undertaken on behalf of ACTEW Corporation.

Grants

The 2007-08 estimated outcome for grants is expected to decrease by \$37.395 million or 6.7 per cent from the original 2007-08 Budget. This is due to the transfer of assets to the National Capital Authority associated with the Griffin Legacy project.

Grants are forecast to increase in 2008-09 by \$24.136 million or 4.1 per cent, mainly in relation to an increase in Commonwealth funding for non-government schools and infrastructure and capital works projects being undertaken at Calvary Hospital.

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 agreed to extend 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 2008-09 Budget.

**Table 4.1.2
CSOs Funded in 2008-09 Budget**

CSO provided by:	2008-09 Budget \$'000	Description
Exhibition Park in Canberra		
Exhibition Park Corporation	341	Compensation for charging below market rates, as a result of Ministerial direction, or an agreement entered into by the ACT Government.
Department of Territory and Municipal Services		
Yarralumla Nursery	270	Free Plant Issue.
ACT Forests	2,138	Provision and upkeep of public use areas within ACT Forests.
ACTION	63,847	Funding provided to ACTION to operate network services.
Department of Disability, Housing and Community Services		
ACTEW	1,450	Half cost of water use for schools and churches.
ACTEW	3,173	Half cost of sewerage services to churches and hospitals.
ACTEW	55	Compensation for water and sewerage rates for lease granted under the (repealed) <i>Church Land Act 1924</i> .
ACTEW	186	Administration cost for rebates.
ACTEW	5,082	Rebates on water and sewerage charges to Health Care Card holders.
ActewAGL	5,383	Rebates on electricity bills to pensioners.
Community Services	801	Part subsidy for taxi fares for eligible persons with disabilities.
Public Trustee for the ACT		
Public Trustee	435	Financial management under Guardianship Management and Property Tribunal's determinations and under power of attorney, welfare funerals.
Total Community Service Obligation	83,161	

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 2008-09 Budget the following rates have been applied to eligible community sector funding.

	2008-09 Budget %	2009-10 Estimate %	2010-11 Estimate %	2011-12 Estimate %
Wage Price Index	4.25	4.0	4.0	4.0
Consumer Price Index	3.0	2.5	2.5	2.5
Community Sector Funding Rate WPI*0.8+CPI*0.2	4.0	3.7	3.7	3.7