

## 4.1 EXPENSES AND FORWARD ESTIMATES

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Total expenditure in the General Government Sector is \$2.860 billion (2006-07 estimated outcome). Approximately 48 per cent of the total expenditure relates to employees' wages and superannuation. Functionally, 43 per cent of the total expenditure relates to health and education portfolios.

The Territory's expenditure needs are close to the national average. While the Territory has relatively higher expenditure needs due to its small administrative scale and some high cost services such as policing, these are almost entirely cancelled out by its socio-demographic composition (factors such as, younger, and healthier population) and geographic compactness. Relative to the national average, the ACT therefore receives only a small net benefit (around \$3 per capita) from the Commonwealth Grants Commission's assessment of expenditure needs.

Actual expenditure in the ACT is considerably above the assessed level of need, and has remained so (in the order of 20-25 per cent) since self-government. A higher than assessed level of expenditure could be due to a higher level (and/or quality) of service, or inefficient service provision. In the case of the ACT, its origins are in the service and administrative structures from self-government, and community expectations of a higher level of service.

Since self-government, the Territory's revenue effort has remained close to its capacity to raise revenue, that is, close to the national average (Chapter 3 provides detail on revenues).

To address this long-term fiscal imbalance, the Government undertook a broad ranging structural reform program in 2006-07. This included both revenue and expenditure measures. The efficiency measure implemented through the structural reform program have been effective. The forecast outcome for expenditure in 2006-07 (\$2.860 billion) reflects only a 1.1 per cent increase on total expenses of \$2.829 billion for 2005-06.

The reform program continues in 2007-08 with a further \$52 million in agency and Whole of Government savings from the measures already introduced factored into the expenditure projections.

The forecast outcome for expenditure in 2006-07 is approximately \$13 million below the original budget. The 2007-08 Budget forecasts expenditure to increase by 5.6 per cent. A significant part of this increase reflects the following: an 11.6 per cent increase reflecting actuarial assessments to the superannuation liability; a 12.3 per cent increase in payments to the Australian Federal Police; wages growth; normal inflationary growth; and new initiatives.

Across the Budget and forward estimates period, employee expenses are contained at an average of 3.7 per cent per annum – a modest growth in real terms. This reflects the flow-on effects of the saving measures introduced previously, and any significant wage rises in real terms largely being offset by productivity gains.

Across the forward years, the trajectory of expenses is slightly below the trajectory of revenues with average annual growth rates of 4.5 per cent and 4.6 per cent, respectively. The fiscal balance is maintained while providing for a significantly higher growth in health expenditure at an average rate of 6.2 per cent per annum reflecting both growth in demand and excess health inflation.

This chapter provides the 2006-07 estimated outcome and 2007-08 Budget and forward estimates for expense items. A discussion of the main expenditure items is also included.

**Table 4.1.1**  
**General Government Expenditure**

<b>2006-07 Budget \$'000</b>	<b>2006-07 Est.Outcome \$'000</b>	<b>2007-08 Budget \$'000</b>	<b>Var %</b>	<b>2008-09 Estimate \$'000</b>	<b>2009-10 Estimate \$'000</b>	<b>2010-11 Estimate \$'000</b>
<b>Expenses</b>						
992,807 Employee Expenses	1,012,478	1,055,582	4	1,092,719	1,129,975	1,171,684
197,818 Superannuation Current Cost	186,547	210,176	13	217,745	224,734	231,426
168,176 Nominal Superannuation Interest Expense	173,471	191,710	11	208,458	225,535	242,873
179,702 Depreciation and Amortisation	173,198	183,251	6	194,984	196,227	198,101
608,928 Supplies and Services	565,737	614,611	9	650,722	698,343	735,937
139,772 Other Operating Expenses	171,070	162,399	-5	157,987	163,341	168,610
52,718 Interest Expense	56,798	47,771	-16	51,136	54,150	56,640
533,189 Grants	521,079	554,012	6	572,894	593,742	611,631
<b>2,873,110 Total Expenses</b>	<b>2,860,378</b>	<b>3,019,512</b>	<b>6</b>	<b>3,146,645</b>	<b>3,286,047</b>	<b>3,416,902</b>

**Note:** Totals may not add due to rounding

## Factors Affecting Expenditure Levels

### *Employee Expenses*

For 2006-07, employee expenses are estimated to be \$19.671 million or 2.0 per cent above the original Budget, which reflects wage increases (such as medical officer and clerical pay outcomes) and reallocation of health growth funding from supplies and services.

Employee expenses will grow by \$43.104 million or 4.3 per cent in 2007-08 from the 2006-07 estimated outcome. This increase is largely due to the annual increase in wage costs (such as the clerical wage agreement) as well as new initiatives, particularly the expanded services of ACT Health.

The forward estimates are budgeted to remain broadly at 2007-08 levels in real terms.

### *Superannuation Current Cost and Nominal Superannuation Interest Expense*

The 2006-07 estimated outcome for superannuation expenses is \$5.976 million or 1.6 per cent below the published Budget, largely due a change in the discount rate used to calculate the 2006-07 Budget of 5.75 per cent and the discount rate of 5.87 per cent used to calculate the 2006-07 estimated outcome.

Superannuation expenses will increase \$41.868 million or by 11.6 per cent in 2007-08 from the 2006-07 estimated outcome. The increase is due to revised actuarial assumptions of wage growth and for calculating the liability, and therefore the cost, has also been adjusted. These changes are explained in Chapter 6.3 on Superannuation.

### *Depreciation and Amortisation*

The estimated outcome is lower than the 2006-07 Budget due to delays and subsequent rollover of capital projects, impairment of under-utilised school assets and revision of finance leases. Depreciation and amortisation expenses are estimated to increase by \$10.053 million or 5.8 per cent in 2007-08 from the 2006-07 estimated outcome reflecting the scheduled completion of capital works.

### *Supplies and Services Expenses*

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 2006-07, supplies and services expenses are expected to decrease by \$43.191 million or 7.1 per cent below the original Budget. This is mainly due to provisioning for wage outcomes being reclassified as employee expenses as wage outcomes are being finalised, reclassification of the NSW Prison payment to other operating expenses and provisioning for the Treasurer's Advance being expensed in accordance with the type of cost pressure as these have emerged.

Supplies and Services expenses are projected to increase by \$48.874 million or 8.6 per cent from the 2006-07 estimated outcome. The variance is due to the impact of new initiatives, ACT Policing wage outcomes and the impact of CPI.

### *Other Operating Expenses*

Other expenses consists of cost of goods sold, insurance related costs, concessions, school accounts expenses, the NSW Prison payment and other miscellaneous expenses. The estimated outcome for 2006-07 is \$31.298 million or 22.4 percent more than the 2006-07 Budget. This is due to increased insurance costs related to the summer hailstorms and other miscellaneous expenses (such as the NSW Prison payment) that were classified as supplies and services in 2006-07 Budget.

The 2007-08 Budget is \$8.671 million lower than the 2006-07 estimated outcome, which reflects a decrease in reinsurance costs offset by a slight increase in Community Service Obligations (CSO) payments, an increase in insurance related expenses resulting from an increase in medical malpractice settlements and claims arising from the 31 December 2006 and 27 February 2007 hailstorms.

### *Interest Expense (Borrowing Costs)*

The interest expense, or borrowing cost, is expected to increase by \$4.080 million or 7.7 per cent in 2006-07 estimated outcome from the 2006-07 original Budget, due to higher interest costs on the ACT's indexed annuity bonds reflecting a higher than expected CPI over the year, an increase in interest rates and a reclassification of finance charges from supplies and services.

Borrowing costs are estimated to decrease by \$9.027 million or 15.9 per cent in 2007-08 mainly due to the removal of Rhodium Asset Solutions from the Territory's financial statements as a result of the planned sale and an expected reduction of interest costs on the ACT's indexed annuity bonds resulting from expected lower average CPI rates for 2007-08, partially offset by increased interest costs associated with additional borrowings on behalf of ACTEW.

### *Grants*

The 2006-07 estimated outcome for grants is lower by \$12.110 million or 2.3 per cent from the original 2006-07 Budget. This decrease is due to an over estimation by the Australian Government for non government schools grants of \$11.1 million.

The forecast increase in grants in 2007-08 of \$32.933 million or 6.3 per cent is mainly due to the revision of Australian Government funding to non government schools of \$17.7 million, expansion of sub and non-acute services at Calvary Hospital and increased service capacity for disability services (\$3 million).

## 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 2007-08 Budget.

**Table 4.1.2**  
**CSOs Funded in 2007-08 Budget**

CSO provided by:	2007-08 Budget \$'000	Description
<b>Exhibition Park in Canberra</b>		
Exhibition Park Corporation	331	Compensation for charging below market rates, as a result of Ministerial direction, or in agreement entered into by the ACT Government.
<b>Department of Territory and Municipal Services</b>		
Yarralumla Nursery	145	Free Plant Issue.
ACT Forests	2,138	Provision and upkeep of public use areas within ACT Forests.
ACTION	53,717	Funding provided to ACTION to operate network services.
<b>Department of Disability, Housing and Community Services</b>		
ACTEW	1,408	Half cost of water use for schools and churches.
ACTEW	3,081	Half cost of sewerage services to churches and hospitals.
ACTEW	54	Compensation for water and sewerage rates for lease granted under the (repealed) <i>Church Land Act 1924</i> .
ACTEW	181	Administration cost for rebates.
ACTEW	4,059	Rebates on water and sewerage charges to pensioners.
ActewAGL	5,251	Rebates on electricity bills to pensioners.
Community Health	787	Part subsidy for taxi fares for eligible person with disability.
<b>Public Trustee for the ACT</b>		
Public Trustee	428	Financial management under Guardianship Management and Property Tribunal's determinations and under power of attorney, welfare funerals.
<b>Total Community Service Obligation</b>	<b>71,580</b>	

## 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 2007-08 Budget the following rates have been applied to eligible community sector funding.

	<b>2007-08 Budget %</b>	<b>2008-09 Estimate %</b>	<b>2009-10 Estimate %</b>	<b>2010-11 Estimate %</b>
Wage Price Index	4.0	4.0	4.0	4.0
Consumer Price Index	2.75	2.5	2.5	2.5
<b>Community Sector Funding Rate WPI*0.8+CPI*0.2</b>	<b>3.75</b>	<b>3.7</b>	<b>3.7</b>	<b>3.7</b>