

5.1 EXPENSES AND FORWARD ESTIMATES

Total expenditure in the General Government Sector is \$2.8 billion (2005-06 estimated outcome). Approximately 47 per cent of the total expenditure relates to employees' wages and superannuation. Functionally, 42 per cent of the total expenditure relates to health and education portfolios.

The Territory's expenditure needs are close to the national average. Its socio-demographic composition (factors such as, younger, and healthier population) and geographic compactness cancel out diseconomies of small scale. Relative to national average, the ACT therefore receives only a small net benefit (around \$22 per capita) from the Commonwealth Grants Commission's assessment of expenditure needs.

The 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 ACT, its origins are in the service and administrative structures from self-government, and community expectations of a higher level of service.

The Territory's revenue effort is close to its capacity to raise revenue, that is, close to the national average. Once again, this mismatch in revenue and expenditure efforts has existed since self-government.

To address this long-term fiscal imbalance, the Government is undertaking a broad ranging structural reform program. This includes both revenue and expenditure measures (further detail is included in Chapter 2). A range of measures will result in growth in expenditure across the budget and forward estimates period being limited to less than the growth in revenues.

The forecast outcome for expenditure in 2005-06 is \$8.6 million below the original budget. The 2006-07 budget is for expenditure to increase by 3.1 per cent. This is underpinned by an increase of only 1.8 per cent in employee expenses – a decrease in real terms.

Across the forward years (2007-08 to 2009-10), employee expenses are budgeted to remain broadly at the 2006-07 level in real terms, reflecting the flow-on effects of the saving measures introduced in this budget, and any significant wage rises in real terms largely being offset by productivity gains.

Total expenses across the forward years grow at an average annual rate of 3.7 per cent. Expenditure on health, however, is budgeted to grow at an average rate of 6.4 per cent per annum, reflecting both growth in demand and excess health inflation.

This chapter provides the 2005-06 estimated outcome and 2006-07 Budget and forward estimates for expense items. A discussion of the main expenditure items is also included.

Table 5.1.1
General Government Expenditure – Australian Accounting Standards

2005-06 Budget \$'000		2005-06 Est.Outcome \$'000	2006-07 Budget \$'000	Var %	2007-08 Estimate \$'000	2008-09 Estimate \$'000	2009-10 Estimate \$'000
Expenditure							
988,618	Employee Expenses	975,728	992,807	2	1,008,952	1,038,859	1,069,194
319,568	Superannuation Expenses	350,620	365,994	4	378,109	400,128	421,373
590,187	Supplies and Services Expenses	570,501	610,928	7	640,756	678,838	725,111
172,488	Depreciation Expenses	168,736	179,702	6	188,897	190,009	189,875
49,401	Borrowing Costs	53,509	52,718	-1	52,919	53,959	55,985
40,423	Cost of Goods Sold	15,716	16,359	4	17,718	18,976	20,253
516,077	Grants and Purchased Services	501,832	514,321	2	528,288	546,347	563,201
98,078	Other Expenses	129,864	124,005	-5	161,112	139,167	125,618
32,611	Transfer Expenses	32,334	31,828	-2	32,265	32,706	33,201
2,807,451	Total Expenses	2,798,840	2,888,662	3	3,009,016	3,098,989	3,203,811

Note: Totals may not add due to rounding

Factors Affecting Expenditure Levels

Employee Expenses

For 2005-06, employee expenses are \$13 million or 1 per cent below the original Budget. This is partly due to the reclassification of the Land Development Agency from the General Government Sector.

Employee expenses will grow by \$17 million or 2 per cent in 2006-07 from the 2005-06 estimated outcome to the 2006-07 Budget. This increase is largely due to the annual increase in wage costs, offset by savings measures introduced in this budget.

The forward estimates are budgeted to remain broadly at the 2006-07 level in real terms, also reflecting the flow-on effects of the saving measures introduced in this budget, and a requirement that significant wage rises in real terms be offset by productivity gains.

Superannuation

For 2005-06, superannuation expenses are \$31 million or 10 per cent above the original Budget. This relates to an increase of \$42 million due to the actuarial review of the Territory's defined benefit employer superannuation liabilities, which was conducted in December 2005. This is offset by \$13 million due to a reduction in the discount rate at which the liability is valued.

Superannuation expenses will increase \$15 million or by 4 per cent in 2006-07 from the 2005-06 estimated outcome to the 2006-07 Budget. The increase is due to the estimated growth in superannuation liabilities as a result of the latest actuarial estimates.

Supplies and Services Expenses

For 2005-06, supplies and services expenses are expected to decrease by \$21 million or 3 per cent below the original Budget. This is mainly due to the underexpenditure of the Treasurer's Advance of \$6 million and the reclassification of the Land Development Agency from the General Government Sector (reducing supplies and services expenses by \$8.4 million). The 2005-06 Restructuring Fund was also underspent by \$8 million in 2006-07.

Supplies and Services expenses are projected to increase by \$40 million or 7 per cent from the 2005-06 estimated outcome. The variance partly relates to the one off reductions in expenditure in 2005-06 discussed above and the impact of additional funding for a further Restructure Fund of \$14 million in 2006-07.

The variance is also due to the impact of CPI increases.

Depreciation and Amortisation

Depreciation and amortisation expenses are estimated to increase by \$11 million or 6 per cent in 2006-07 from the 2005-06 estimated outcome reflecting the scheduled completion of capital works.

This is mainly due to the increase in the level and value of the asset base.

Borrowing Costs

Borrowing costs are expected to marginally decrease by \$1 million or 1 per cent in 2006-07 from the 2005-06 estimated outcome. Borrowing costs are estimated to increase by \$4 million or 8 per cent in 2006-07 reflecting the impact of borrowings undertaken on behalf of ACTEW. These borrowings will also have corresponding interest revenue.

Cost of Goods Sold

The estimated outcome for 2005-06 is expected to be \$25 million lower than the original budget due to the reclassification of the Land Development Agency out of the General Government Sector. Cost of goods sold is expected to increase marginally in 2006-07 from the 2005-06 estimated outcome.

Grants and Purchased Services

For 2005-06, grants and purchased services will decrease by \$14 million or 3 per cent. This decrease is mainly due to the overestimated Australian Government grants for non government schools of \$12 million in the original budget and the underexpenditure of a number of grants. The overestimation of the non government schools grant is budget neutral as revenue is similarly reduced.

The forecast increase in grants and purchased services of \$12 million or 2 per cent is due to increased payments for additional policing strength of \$4 million and the rollover of various programs from 2005-06 of \$7 million.

Other Expenses

For 2005-06, other expenses will increase by \$31 million or 32 per cent from the original budget. This is due to the unexpected one-off cost of the \$11 million write-off of the Ginninderra District High School, and a significant legal compensation expense of \$7.5 million, in the 2005-06 estimated outcome.

Other expenses are estimated to decrease marginally by \$6 million or 5 per cent in 2006-07 from the 2005-06 estimated outcome. This is due to the one-off cost of the \$11 million write-off of the Ginninderra District High School, and a significant legal compensation expense of \$7.5 million mentioned above. A further write-off of \$8.6 million is included in 2006-07 as a result of the schools rationalisation program.

The forward years also contain further write-off of \$40.5 million in 2007-08 and \$16.4 million is included in 2008-09 as a result of the continuing schools rationalisation program.

Transfer Expenses

Transfer expenses relate to appropriation payments to the PTE Sector.

Transfer expenses are estimated to decrease marginally in 2006-07 from the 2005-06 estimated outcome.

Community Service Obligations

Community Service Obligations (CSOs) primarily relate to Public Trading Enterprises. The definition adopted by the ACT Government is the one proposed 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.”

In the ACT, 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 5.1.2 lists Community Service Obligations funded in the 2006-07 Budget.

**Table 5.1.2
CSOs Funded in 2006-07 Budget**

Policy/Purchasing Department	CSO Provided by	2006-07 Price \$'000	Description
Exhibition Park in Canberra			
	Exhibition Park Corporation	321	Compensation for charging below market rates, as a result of Ministerial direction, or in agreements entered into by the ACT Government.
Department of Urban Services			
	Yarralumla Nursery	145	Free plant issue scheme.
	ACT Forests	2,138	Provision and upkeep of public use areas within ACT Forests.
	ACTION	54,655	Funding provided to ACTION to operate network services.
Department of Disability, Housing and Community Services			
	ACTEW	1,257	Half cost of water use for schools and churches.
	ACTEW	2,748	Half cost of sewerage services to churches and hospitals.
	ACTEW	48	Compensation for water and sewerage rates for lease granted under the (repealed) <i>Church Land Act 1924</i> .
	ACTEWAGL	5,123	Rebates on electricity bills to pensioners.
	ACTEW	3,623	Rebates on water and sewerage charges to pensioners.
	ACTEW	161	Administration cost for rebates.
	Community Health	780	Part subsidy to taxi fares for eligible persons with disability.
Public Trustee for the ACT			
		415	Financial management under Guardianship Management and Property Tribunal's determinations and under power of attorney, welfare funerals.
Total		71,414	

