5.3 EXPENSES 2002-03 AND FORWARD ESTIMATES

This chapter provides the 2001-02 estimated outcome and 2002-03 budget and forward estimates for expense items. A discussion of the main expenditure items is also included.

Overview

General Government Sector expenses in 2002-03 are expected to be $2.197 billion. This is a marginal increase of $6.6m or 0.3% from the 2001-02 estimated outcome.

Across the forward estimates, the increase in total expenses is generally in line with, or marginally higher, than the estimated increase in CPI.

As shown in figure 5.3.1, Employee Expenses is the most significant component of general government expenditure, accounting for 33% of total expenses. This increases to 42% once superannuation is included. The remainder mainly comprises administrative expenses, grants and purchased services and depreciation related expenses.

Figure 5.3.1
Components of General Government Expenditure 2002-03

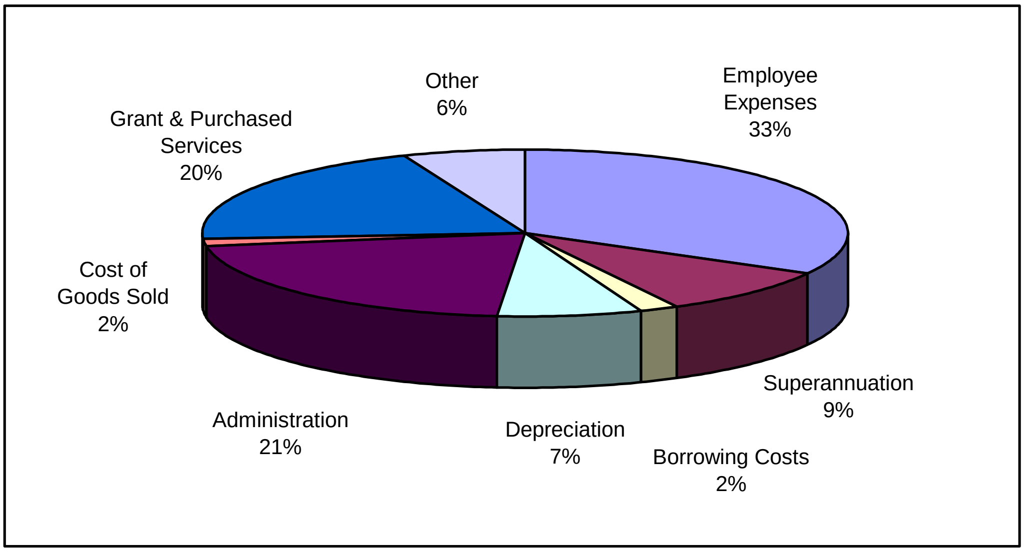

Table 5.3.1 provides a summary of the estimated outcome for 2001-02, forecasts for the 2002-03 budget and forward years for general government expenditure.

Table 5.3.1
General Government Expenditure

	2001-02 Est.Outcome $'000	2002-03 Budget $'000	Var %	2003-04 Estimate $'000	2004-05 Estimate $'000	2005-06 Estimate $'000
Expenditure						
Employee Expenses	686 218	724 307	6	730 494	742 963	753 576
Superannuation Expenses	198 096	201 933	2	217 238	231 950	250 514
Administrative Expenses	423 587	467 518	10	485 300	488 668	500 496
Depreciation and Amortisation	144 903	156 188	8	168 360	167 386	169 462
Borrowing Costs	46 851	44 497	-5	44 860	44 462	43 477
Cost of Goods Sold	34 007	31 217	-8	39 863	48 752	43 664
Grants and Purchased Services	428 924	435 981	2	442 651	461 588	481 279
Other Expenses	194 880	133 905	-31	116 973	125 356	133 176
Expenses of Associates and Joint Ventures	15 569	100	-99	0	0	0
Transfer Expenses	17 643	1 640	-91	5 690	3 690	3 600
Total Expenditure	**2 190 678**	**2 197 286**	**..**	**2 251 429**	**2 314 815**	**2 379 244**

Note: Totals may not add due to rounding

Factors affecting Expenditure Levels

Employee Expenses

Employee expenses will grow by 6% or $38.1m in 2002-03 from the 2001-02 estimated outcome. The forward estimates includes more modest growth in employee expenses in line with CPI in the first forward year with the rate of growth slowing by 2005-06.

Over $10m of the increase in the 2002-03 Budget from the 2001-02 estimated outcome is due to the effect of new initiatives in the 2002-03 Budget. The residual is largely due to general salary growth, the full year effect of the nurses' wage increase, and some estimated underspends in 2001-02.

Superannuation

Superannuation expenses will increase by $3.8m or 2% in 2002-03 from the 2001-02 estimated outcome. However, during 2001-02 there was a triennial review of superannuation which resulted in the actuarial revision of the liability as at 30 June 2002. The related expenditure level were therefore also updated. Superannuation expenses during 2001-02 increased by 20% as a result of this review.

The increased liability largely reflects the removal of the assumption that the PSS will close to new entrants by 1 July 2002, with the associated continuing growth in liabilities.

The impact of the review on expenses is an increase of $5.4m in 2002-03, increasing to $7.9m in 2005-06, over the forward estimates published in the 2001-02 Budget.

Administrative Expenses

Administrative expenses increase by $43.9m or 10% in 2002-03 from the 2001-02 estimated outcome. Of this, $19.4m relates to the general provision for Treasurer's Advance. New expenditure associated with 2002-03 Budget Initiatives increases the 2002-03 Budget by over an additional $10m. The impact of rollovers in expenditure also accounts for approximately $15m. The residual relates to general growth in expenses, offset by programs which are reducing in value in 2002-03.

Depreciation and Amortisation

Depreciation and amortisation is estimated to increase by $11.3m or 8% in 2002-03 from the 2001-02 estimated outcome. This increases by a further $13.3m across the forward estimates and is largely driven by the level and the increase in the value of the asset base.

Costs of Goods Sold

While the cost of goods sold remains relatively stable from the 2001-02 estimated outcome to the 2002-03 Budget, the increase in this expense across the forward estimates is mainly due to increased activity associated with the Government's Land Release Program.

Grants and Purchased Services

The increase in grants and purchased services of $7.0m or 1.6% in 2002-03 from the 2001-02 estimated outcome is generally in line with the 2001-02 estimated outcome. There was an increase of $24.4m or 6% in 2001-02 over the original budget.

Other Expenses

The reduction in other expenses of $61m in 2002-03 from the 2001-02 estimated outcome is mainly due to the expensing of equity investment revaluations in 2001-02 of $50.8m. It is expected that equity valuations will be positive, and therefore recorded as revenues in 2002-03.

The largest two components of other expenditure includes the ongoing increase in provisions for insurance costs, and the individual schools account held by the Department of Education and Community Services.

Insurance costs have increased by $10.6m from $42.8m in the 2001-02 estimated outcome to $53.4m in 2002-03. This increases further by $11.0m to $64.4m in 2005-06 is mainly due to predicted increases in future claims relating to public liability and medical malpractice.

Expenses of Associates and Joint Ventures

The decrease in Joint Venture expenses in 2002-03 of $15.5m or 99% from the 2001-02 estimated outcome reflects the winding-up of several joint ventures in 2002-03, and in particular the Williamsdale Quarry Joint Venture project.

Transfer Expenses

Transfer expenses relate to capital payments to the PTE Sector.

The decrease in transfer expenses of $16m in 2002-03 from the 2001-02 estimated outcome mainly reflects the one-off $10m payment provided to ACT Housing in 2001-02 to address urgent building works and community needs.

Funding across the forward estimates reflects the ongoing payments to the PTE sector for the ACTION bus replacement program.

Community Service Obligations

Community Service Obligations (CSOs) primarily relate to public trading enterprises and arise when government specifically requires a public enterprise to carry out activities which it would not elect to do on a normal commercial basis, or which it would only do commercially at higher prices.

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.

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.

Table 5.3.2 lists Community Service Obligations funded in the 2002-03 Budget.

Table 5.3.2
CSOs Funded in 2002-03 Budget

Policy/Purchasing Department	CSO Provided by	2002-03 Price $'000	Description
Department of Treasury			
	Exhibition Park in Canberra	292	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	146	Free plant issue scheme
	ACT Forests	2 095	Provision and upkeep of public use areas within ACT Forests
	ACTION	44 082	Funding provided to ACTION to operate network services. The funding covers: • lower than commercial fare levels; • off-peak services; • school services; • cost of government ownership; and • input inefficiencies. During 2002-03 a funding model is to be developed which identifies the cost of CSOs.
Department of Education and Community Services			
	ACTEW	956	Half cost of water use for schools and churches
	ACTEW	1 465	Half cost of sewerage services to churches and hospitals
	ACTEW	31	Compensation for water and sewerage rates for lease granted under the (repealed) Church Land Act 1924
	ACTEW	3 817	Rebates on electricity bills to pensioners
	ACTEW	2 898	Rebates on water and sewerage charges to pensioners
	ACTEW	117	Administration cost for rebates
Department of Justice and Community Safety			
	Office of Public Trustee	539	Financial management under Guardianship Management and Property Tribunal's determinations and under power of attorney, welfare funerals.
Department of Health and Community Care			
	Community Health	100	Part subsidy to taxi fares for eligible persons with disability.
Total		**56 538**	

Note: Tables may not add due to rounding