

# CHAPTER 4

## EXPENSES

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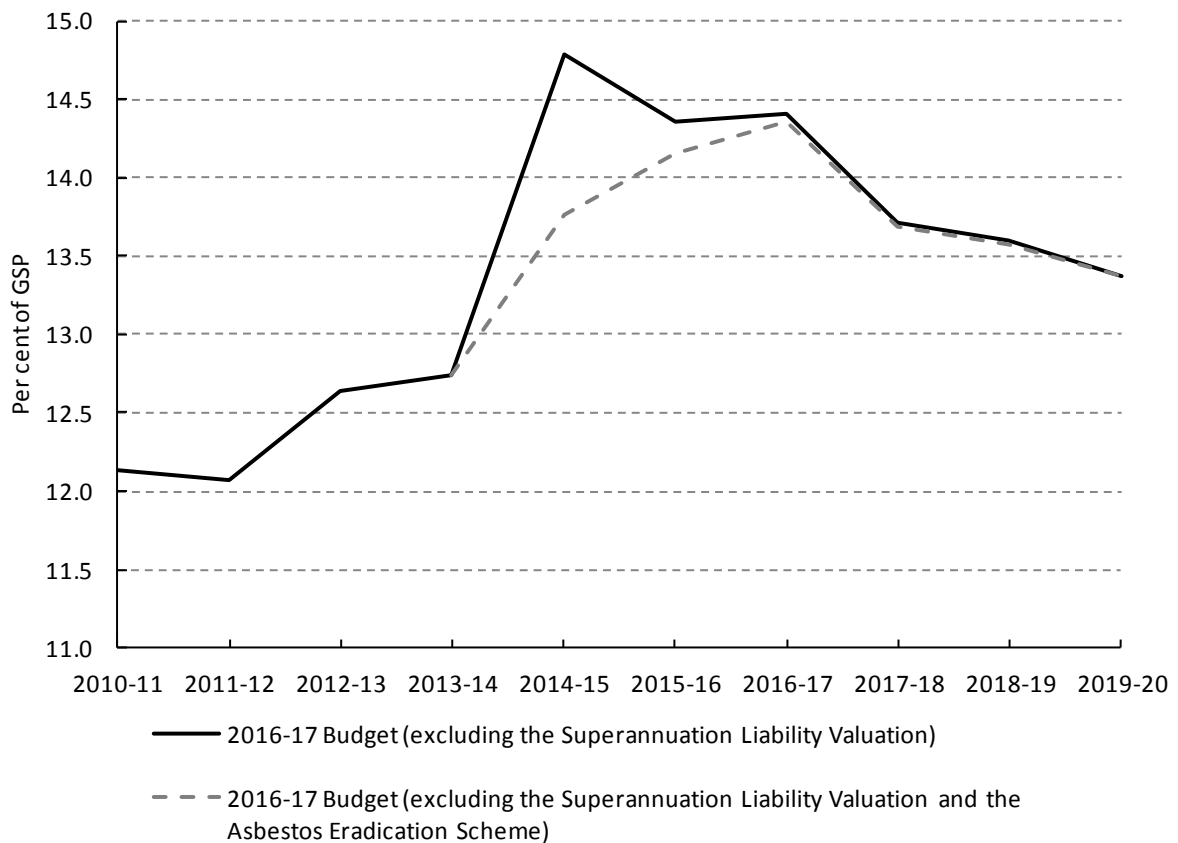
## 4.1 EXPENSES AND FORWARD ESTIMATES

General Government Sector (GGS) expenses are forecast to be \$5.4 billion in 2016-17, representing 14.6 per cent of Gross State Product. The health and education functions continue to be the two most significant components of government spending.

Across the estimated outcome and forward estimates period, GGS expenses are forecast to grow by 5.7 per cent. This growth largely reflects an increase in transport, health, education and other purposes expenses, partially offset by a reduction in general public service expenses.

Figure 4.1.1 shows GGS expenses (excluding the Superannuation Liability Valuation) over a 10 year period. The peak in 2014-15 reflects the costs associated with the Loose-fill Asbestos Insulation Eradication Scheme (the Asbestos Eradication Scheme).

**Figure 4.1.1: General Government Sector Total Expenses as a Percentage of Gross State Product**



## Estimated Expenses by Function

Table 4.1.1 sets out the estimates of GGS expenses by function for the period 2015-16 to 2019-20.

The Government Finance Statistics classifies expense transactions in terms of their functional purposes (for example, health, education, etc). Presenting the government expenses in this format provides information on the proportion of government expenses expected to be spent on individual functions. These classifications can differ from the thematic presentation of government spending presented elsewhere in the budget papers.

**Table 4.1.1: General Government Sector Expenses by Function**

2015-16 Budget \$'000		2015-16 Est. Outcome \$'000	2016-17 Budget \$'000	2017-18 Estimate \$'000	2018-19 Estimate \$'000	2019-20 Estimate \$'000
558,437	General Public Services	434,713	492,226	454,508	443,489	451,889
407,055	Public Order and Safety	409,030	407,195	416,316	432,813	441,963
1,093,513	Education	1,129,324	1,134,063	1,159,561	1,198,996	1,254,889
1,388,119	Health	1,454,817	1,499,974	1,549,438	1,630,695	1,706,772
251,524	Social Security	267,701	302,215	291,854	301,007	289,160
256,392	Housing and Community Amenities	285,455	262,089	238,155	239,999	241,124
207,042	Recreation and Culture	221,913	225,579	209,637	207,826	210,061
22,747	Fuel and Energy	8,299	11,223	8,323	8,598	8,763
2,463	Agriculture, Forestry, Fishing and Hunting	2,874	2,718	2,884	2,877	2,855
10,073	Mining and Mineral Resources other than Fuels, Manufacturing and Construction	14,940	16,344	14,659	14,272	14,280
309,086	Transport and Communications	338,637	337,089	324,969	404,272	415,570
66,445	Other Economic Affairs	58,780	62,498	54,434	54,761	55,104
575,652	Other Purposes <sup>1</sup>	504,341	562,884	587,430	589,100	619,130
<b>5,148,547</b>	<b>Total Expenses excluding the Superannuation Liability Valuation</b>	<b>5,130,825</b>	<b>5,316,096</b>	<b>5,312,167</b>	<b>5,528,706</b>	<b>5,711,559</b>
0	Superannuation Liability Valuation <sup>2</sup>	0	87,653	0	0	0
<b>5,148,547</b>	<b>Total Expenses (including the Superannuation Liability Valuation)</b>	<b>5,130,825</b>	<b>5,403,749</b>	<b>5,312,167</b>	<b>5,528,706</b>	<b>5,711,559</b>

**Notes:** Numbers may not add due to rounding.

1. The increase in 2016-17 is largely due to the Asbestos Eradication Scheme.
2. The Superannuation Liability Valuation adjustment has been presented in this manner to provide a comparative presentation with the 2015-16 Budget. For presentation of this information in accordance with the Uniform Presentation Framework, refer to Table 9.9 in the GFS/GAAP Harmonised Financial Statements (Chapter 9).

GGS expenses are strongly influenced by underlying trends in spending in the health and education functions. Together, these functions account for around 50 per cent of all government expenses in 2016-17.

Major expense trends across the budget and forward years include movements in the following functions:

- Health – expenses are expected to increase as a result of growth in activity and costs;
- Education – the forecast increase in expenses is primarily driven by expected growth in the operational costs of schools;
- Transport and Communications – the forecast increase in expenses from 2018-19 is largely due to the investment in Light Rail – Stage 1 through a Public Private Partnership;
- General Public Services – the increase in 2016-17 reflects a forecast increase in ACTIA claims expenses, the re-profiling of spending originally planned for 2015-16, and the impact of new initiatives where funding beyond 2016-17 is subject to review or further decision by Government; and
- Other Purposes – the increase in expenses over the forward estimates largely reflects interest expense on borrowings to finance infrastructure investment and on the \$1 billion loan from the Commonwealth in relation to the Asbestos Eradication Scheme.

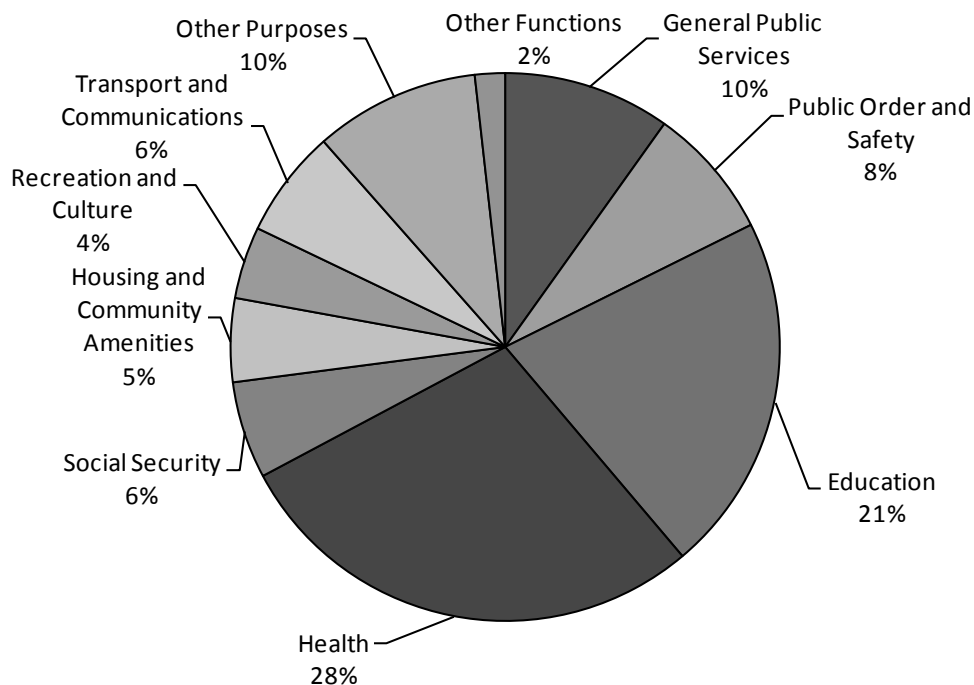
## Where will Government spending go in 2016-17?

In 2016-17, the Government will spend \$5.4 billion on delivering services to Canberra. The most significant component of government spending relates to health expenses, with more than a quarter of total GGS expenses being used to provide health services such as general hospital activities, medical benefits, and health research.

Spending on health is followed closely by spending on education. Approximately 21 per cent of total GGS expenses are dedicated to education services, such as the provision of education in schools as well as in higher education establishments.

The remaining government expenses are mainly for public order and safety, transport and communications, and social security, as shown in Figure 4.1.2.

**Figure 4.1.2: Components of 2016-17 General Government Sector Expenses**



## Consolidated General Government Sector Expenses

This section provides details of the 2015-16 estimated outcome, the 2016-17 Budget and forward estimates for expense items, including a discussion of the major variances in line with the presentation of the GGS Consolidated Operating Statement.

Total expenses for the GGS are expected to be \$5.1 billion in 2015-16 growing to \$5.4 billion in 2016-17. Almost half of expenses in 2016-17 relate to employee wages and superannuation.

The estimated outcome for expenses in 2015-16 is \$17.7 million lower than the original 2015-16 Budget forecast.

**Table 4.1.2: General Government Sector Expenses**

2015-16 Budget \$'000		2015-16 Est. Outcome \$'000	2016-17 Budget \$'000	Var %	2017-18 Estimate \$'000	2018-19 Estimate \$'000	2019-20 Estimate \$'000
	<b>Expenses</b>						
1,805,053	Employee Expenses	1,841,257	1,892,025	3	1,901,098	1,943,786	1,979,512
350,898	Superannuation Interest Cost	315,401	315,534	..	375,236	389,906	404,003
268,258	Other Superannuation Expenses	363,456	417,211	15	285,644	284,432	283,324
372,258	Depreciation and Amortisation	360,239	372,680	3	377,252	418,007	425,806
203,895	Interest Expense	177,394	187,445	6	200,964	212,072	226,198
991,906	Supplies and Services	966,261	1,028,169	6	1,014,022	1,087,863	1,196,974
250,940	Other Operating Expenses	143,036	191,697	34	191,338	199,086	205,590
905,339	Grants and Purchased Services	963,781	998,988	4	966,613	993,554	990,152
<b>5,148,547</b>	<b>Total Expenses</b>	<b>5,130,825</b>	<b>5,403,749</b>	<b>5</b>	<b>5,312,167</b>	<b>5,528,706</b>	<b>5,711,599</b>

**Note:** Numbers may not add due to rounding.

## Factors Affecting Expense Levels

### *Employee Expenses*

In 2015-16, employee expenses are expected to be \$1.8 billion; this is \$36.2 million, or 2 per cent, higher than the forecast in the 2015-16 Budget. This increase is mainly due to agencies utilising flexibility to reallocate resources between employees and supplies and services (such as using staff rather than contractors) and termination payments relating to the National Disability Insurance Scheme transitions.

Employee expenses are forecast to grow by \$50.8 million in 2016-17, consistent with growth in salaries and the creation of new positions, largely to deliver government services in health and education.

### *Superannuation Interest Costs and Other Superannuation Expenses*

Superannuation interest costs and other superannuation expenses represent superannuation expenses in relation to the defined benefit CSS/PSS liabilities and defined contribution superannuation arrangements including PSSap and fund of choice.

The net increase of \$59.7 million in the 2015-16 estimated outcome from the original budget is due to the actual discount rate of 3.66 per cent as at 30 June 2015 being lower than the original budget estimate of 6 per cent for the defined benefit CSS/PSS liabilities (\$55.8 million) and higher employer contribution expenses for defined contribution schemes (\$3.9 million).

The net increase of \$53.9 million in the 2016-17 Budget from the 2015-16 estimated outcome mainly reflects the Budget assumption for the discount rate as at 30 June 2016 of 3.2 per cent, based on prevailing Commonwealth domestic interest rates, compared to the actual discount rate at 30 June 2015 of 3.7 per cent for the defined benefit CSS/PSS liabilities (\$35.5 million). It also reflects higher employer contribution expenses for defined contribution schemes (\$18.3 million).

### *Depreciation and Amortisation*

The 2015-16 estimated outcome for depreciation and amortisation is \$12 million, or 3.2 per cent, lower than the original 2015-16 Budget. This is mainly due to the re-profiling of capital projects to 2016-17.

Depreciation and amortisation expenses are estimated to increase by \$12.4 million, or 3.5 per cent, in 2016-17 largely due to the expected completion of capital works and asset purchases, including property, plant and equipment.

### *Interest Expense (Borrowing Costs)*

This item mainly represents interest payments for borrowings.

The expected decrease of \$26.5 million in the 2015-16 estimated outcome from the original budget is mainly due to lower interest payments on market borrowings as a result of the lower Consumer Price Index impact on inflation-linked bond financed borrowings and the combined impact from lower levels of new market borrowings and the timing of raising new borrowings.

The expected increase in interest costs of \$10.1 million in 2016-17 is mainly as a result of higher borrowings to finance the Government's capital works program.



### *Supplies and Services*

Supplies and services expenses consist of supplies, repairs and maintenance, consultants and contractors' expenses, and payments for ACT Policing.

The 2015-16 estimated outcome for supplies and services expenses is expected to be \$25.6 million, or 2.6 per cent, lower than the original budget. This decrease is mainly due to the deferral of expenses relating to Urban Renewal Program – Better Public Housing initiatives.

Supplies and Services expenses are forecast to increase in 2016-17 by \$61.9 million, or 6.4 per cent, from the 2015-16 estimated outcome. The increase is primarily due to the rollover of funding from 2015-16 related to Better Public Housing as well as new initiatives.

### *Other Operating Expenses*

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

The 2015-16 estimated outcome for other expenses is expected to be \$107.9 million, or 43 per cent lower than the 2015-16 Budget estimate. This is primarily due to lower expected future insurance claim costs related to past claim events and a decrease in the applied discount rate. It is also due to account reclassifications of expenses from the Asbestos Eradication Scheme, which were partially offset by the increase in grants and purchased services.

The increase of \$48.7 million, or 34 per cent, in the 2016-17 Budget from the 2015-16 estimated outcome mainly reflects insurance claim expenses returning to historical levels, and the extension of the Lifetime Care and Support Scheme to cover workplace accidents.

### *Grants and Purchased Services*

The 2015-16 estimated outcome for grants and purchased services is \$58.4 million, or 6.5 per cent, higher than the original budget. This is largely due to an update of the expenditure profile of the Asbestos Eradication Scheme.

Grants expenses are forecast to grow in 2016-17 by \$35.2 million, or 3.7 per cent. This increase is largely due to the commencement of the University of Canberra Public Hospital Car Park project, as well as increased non-government schools funding from the Commonwealth (which is recorded as an expense when passed on by the ACT Government).

## 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 as well as the financial implications of Government decisions in the provision of services to specific targeted groups in the community.

Table 4.1.3 lists the Community Service Obligations which are funded in the 2016-17 Budget.

**Table 4.1.3: CSOs funded in the 2016-17 Budget**

<b>CSO provided by:</b>	<b>2016-17 Budget \$'000</b>	<b>Description</b>
<b>Chief Minister, Treasury and Economic Development Directorate</b>		
Exhibition Park	468	Compensation for charging below market rates, as a result of ministerial direction, or agreements entered into by the Government.
Icon Water Limited	11,444	Rebates on water and sewerage charges for concession card holders, schools, churches, hospitals, benevolent and charitable institutions, and remissions provided by the ACT Civil and Administrative Tribunal (ACAT).
ActewAGL/Origin Energy/Energy Australia	13,889	Rebates on energy bills for concession card holders and community groups, and remissions provided by ACAT.
Several Funeral Directors	263	Funerals Assistance Program.
ACTION	8,222	Rebates on public transport for adult and student concession card holders.
<b>Public Trustee and Guardian</b>		
Public Trustee and Guardian	503	Financial Management under ACAT orders, Enduring Power of Attorney, welfare funerals, AFP callouts, estates and trusts administered valued at less than \$100,000, and the examination of external ACAT orders and will preparation.
<b>Transport Canberra and City Services Directorate</b>		
Yarralumla Nursery	284	Free plant issue.
ACTION	93,834	Funding provided to ACTION to operate network services.
<b>Environment and Planning Directorate</b>		
ACT Forests	2,272	Provision and upkeep of public use areas within ACT Forests.
<b>Total Community Service Obligations</b>	<b>131,179</b>	

## Community Sector Funding

The Government provides funding for not-for-profit non-government community organisations that deliver human services through a multi-year Service Funding Agreement to meet increasing wage-related and administrative costs.

Annual funding increases are calculated using the following formula:

$$\text{Community Sector Funding Rate} = (\text{Wage Price Index} \times 0.80) + (\text{Consumer Price Index} \times 0.20).$$

Table 4.1.4 sets out the rates that have been applied to eligible community sector funding for the 2016-17 Budget.

**Table 4.1.4 – Community Sector Funding Rate**

	<b>2016-17 Budget %</b>
Wage Price Index	2.0
Consumer Price Index	1.0
<b>Community Sector Funding Rate</b>	<b>1.8</b>

## 4.2 SAVINGS

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The principles underlying the Government's 2016-17 fiscal strategy include sustaining a strong operating balance over the medium term, sound public finances, and quality and efficient services. To deliver this fiscal strategy, the Government is enabling more efficient and productive public services through reviewing the public sector's structures and processes.

In contrast to the Commonwealth Government's increase in the efficiency dividend of agencies, the ACT Public Service is instead working to directly identify genuine and specific savings. For example, the Government has already identified in excess of \$80 million in savings from improved procurement contracts in the areas of advertising, consultants, information and communication technology (ICT) software licensing, water supply, mail and courier services, medical equipment and associated consumables and implants, and records management services. These savings reduce the cost of delivering public services without impacting on the level or quality of services.

The creation of Access Canberra in 2015-16 as a single entry point for the community and businesses facilitated efficiency gains and boosted public sector productivity. Savings have also been achieved through the modernisation of ICT initiatives that commenced in 2015-16. This has been boosted by the appointment of a Chief Digital Officer who will support the delivery of key digital priorities across the Territory.

Similarly, the creation of the Transport Canberra and City Services Directorate will not only improve the delivery of transport services, it will generate efficiencies in the coordination of transport planning and delivery across road, rail, bus, bicycle and pedestrian transport infrastructure.

The Government will continue its efforts to deliver public services in the most efficient manner. Notwithstanding these savings, the total Full Time Equivalent staffing level for the ACT Public Service is expected to remain above 2015-16 levels, consistent with delivering services to an ever growing city.

