

5.3 2003-04 EXPENSES AND FORWARD ESTIMATES

This chapter provides the 2002-03 estimated outcome and 2003-04 budget and forward estimates for expense items. A discussion of the main expenditure items is also included.

Overview

General Government Sector expenses in 2003-04 are expected to be \$2.365 billion. This represents a marginal decrease of \$19.864m or 1% from the 2002-03 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 34% of total expenses. This increases to 43% 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 2003-04

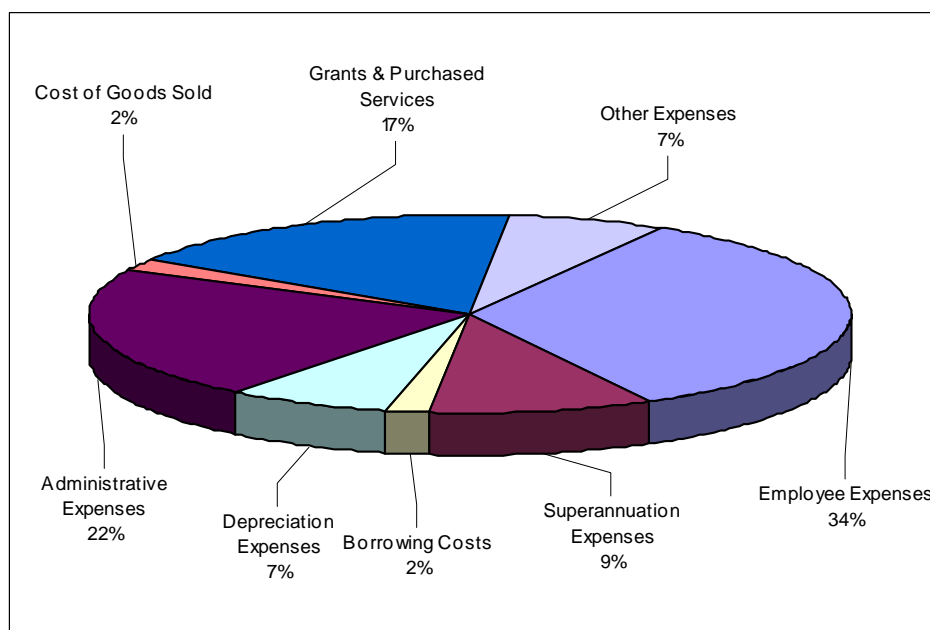


Table 5.3.1 provides a summary of the estimated outcome for 2002-03, forecasts for the 2003-04 budget and forward years for general government expenditure.

**Table 5.3.1
General Government Expenditure**

	2002-03 Est.Outcome \$'000	2003-04 Budget \$'000	Var %	2004-05 Estimate \$'000	2005-06 Estimate \$'000	2006-07 Estimate \$'000
Expenditure						
Employee Expenses	756 313	804 128	6	821 677	837 102	852 305
Superannuation Expenses	209 362	223 589	7	238 644	255 751	274 259
Administrative Expenses	464 910	508 730	9	513 060	522 621	533 472
Depreciation Expenses	154 294	164 322	6	167 723	175 134	171 896
Borrowing Costs	45 756	45 606	..	44 757	44 364	43 149
Cost of Goods Sold	42 428	50 107	18	55 983	61 404	49 826
Grants and Purchased Services	432 995	410 395	-5	416 574	432 753	442 038
Other Expenses	270 958	110 951	-59	106 666	114 630	117 833
Expenses of Associates and Joint Ventures	1 030	0	-100	0	0	0
Transfer Expenses	6 705	47 059	602	33 502	33 510	33 616
Total Expenses	2 384 751	2 364 887	-1	2 398 586	2 477 269	2 518 394

Note: Totals may not add due to rounding

Factors affecting Expenditure Levels

Employee Expenses

Employee expenses will grow by 6% or \$47.815m in 2003-04 from the 2002-03 estimated outcome. The forward estimates include more modest growth in employee expenses over the forward years.

Approximately \$23m of the increase in the 2003-04 Budget from the 2002-03 estimated outcome is due to the full year effect of the clerical wages increase. Also contributing to the increase are general wage increases and the impact of natural salary advancement and \$6.7m due to the impact from Budget initiatives. In addition, a provision has been made for future non-clerical wage negotiations.

Superannuation

Superannuation expenses will increase by \$14m or 7% in 2003-04 from the 2002-03 estimated outcome. The increase is due to the projected increase in the superannuation liability as assessed by the ACT Government's Actuary using the latest salary data as at 30 June 2002.

Administrative Expenses

Administrative expenses increased by \$43.820m or 9% in 2003-04 from the 2002-03 estimated outcome. This increase relates to movements in CPI (\$11.6m), the impact of rollovers and new expenditure associated with 2003-04 Budget initiatives (\$17.9m). Administrative expenses also include a general provision for Treasurer's Advance (\$20.8m).

Depreciation and Amortisation

Depreciation and amortisation is estimated to increase by \$10.028m or 6.5% in 2003-04 from the 2002-03 estimated outcome. This increases by a further \$7.574m 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 2002-03 estimated outcome to the 2003-04 Budget, the fluctuation in this expense across the forward estimates is mainly due to changes in the activity associated with the Government's Land Release and Development Program.

Grants and Purchased Services

The decrease in grants and purchased services of \$22.6m or 5% in 2003-04 from the 2002-03 estimated outcome represents the change in treatment which previously saw the onpassing of appropriation to ACT Housing by the Department of Disability, Housing and Community Services through grants and purchased Services. The payment to ACT Housing is now made through a direct appropriation and can be found under the line item transfer expense.

Other Expenses

The reduction in other expenses of \$160m in 2003-04 from the 2002-03 estimated outcome is mainly due to the expensing of equity investment revaluations in 2002-03 of \$55.6m. The 2003-04 Budget figure is in line with the forecast provided within the 2002-03 Budget Papers. It is expected that equity valuations will be positive, and therefore recorded as revenues in 2003-04.

Other Expenses in 2002-03 also include the one-off insurance payment to the Public Trading Sector (PTE) of \$81.8m resulting from the January 2003 bushfire. No expense for insurance payments to PTEs have been recorded in 2003-04.

Tax waiver costs have reduced by \$25.2m from \$30m in the 2002-03 estimated outcome to \$4.861m in 2003-04. This reduction resulted from a large one off waiver of conveyance duty in the 2002-03 estimated result.

Expenses of Associates and Joint Ventures

The decrease in Joint Venture expenses in 2003-04 of \$1.030m or 100% from the 2002-03 estimated outcome reflects the winding-up of several joint ventures in 2002-03, and in particular the Williamsdale Quarry Joint Venture project. This is consistent with the forward estimates presented within the 2003-04 Budget Papers.

Transfer Expenses

Transfer expenses relate to appropriation payments to the PTE Sector.

The increase in transfer expenses of \$40.354m in 2003-04 from the 2002-03 estimated outcome mainly reflects the revised treatment for the payment of appropriation to ACT Housing as outlined above in Grants and Purchased Services.

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 2003-04 Budget.

**Table 5.3.2
CSOs Funded in 2003-04 Budget**

Policy/Purchasing Department	CSO Provided by	2003-04 Price \$'000	Description
Department of Treasury			
	Exhibition Park in Canberra	298	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	221	Free plant issue scheme
	ACT Forests	2 138	Provision and upkeep of public use areas within ACT Forests
	ACTION	42 367	Funding provided to ACTION to operate network services. The funding covers: <ul style="list-style-type: none"> • lower than commercial fare levels; • off-peak services; • school services; • cost of government ownership; and • input inefficiencies. <p>During 2002-03 a funding model is to be developed which identifies the cost of CSOs.</p>
Department of Disability, Housing and Community Services			
	ACTEW	951	Half cost of water use for schools and churches
	ACTEW	1 457	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	4 220	Rebates on electricity bills to pensioners
	ACTEW	2 883	Rebates on water and sewerage charges to pensioners
	ACTEW	118	Administration cost for rebates
	Community Health	248	Part subsidy to taxi fares for eligible persons with disability.
Department of Justice and Community Safety			
	Office of Public Trustee	422	Financial management under Guardianship Management and Property Tribunal's determinations and under power of attorney, welfare funerals.
Total		55 354	

Note: Tables may not add due to rounding