

7 EXPENSES

FEATURES

- Total General Government sector expenses are expected to increase by \$2.7 billion (or 7.4%) over the estimated actual for 2008-09, to \$39.146 billion in 2009-10.
- Growth in expenses includes a range of service developments and initiatives with a particular focus on the areas of health, education and training, housing and disability services, many of which relate to partnerships with the Australian Government.
- The major areas of expenditure are health and education, which together constitute approximately 48.2% of General Government sector expenses.

INTRODUCTION

This chapter provides an overview of General Government sector expenses for the estimated actual outcome for 2008-09, forecasts for the 2009-10 Budget year and projections for 2010-11 to 2012-13. The forward estimates are based on the economic projections outlined in Chapter 2 and are formulated on a no policy change basis.

Table 7.1
General Government sector expenses¹

	2008-09 Budget \$ million	2008-09 Est.Act. \$ million	2009-10 Budget \$ million	2010-11 Projection \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million
Expenses						
Employee expenses	13,896	14,249	15,006	15,868	16,717	17,241
Superannuation interest cost	1,219	760	1,468	1,551	1,630	1,704
Other superannuation expenses	1,959	2,012	2,093	2,125	2,162	2,165
Other operating expenses	6,782	7,446	7,776	8,001	8,399	8,635
Depreciation and amortisation	2,665	2,551	2,773	3,044	3,261	3,393
Other interest expenses	539	539	887	1,418	1,932	2,299
Grants expenses	8,713	8,889	9,143	8,481	8,090	8,282
Total Expenses	35,772	36,447	39,146	40,488	42,191	43,720
Note:						
1. Numbers may not add due to rounding.						

General Government expenses in 2008-09 are estimated to be \$36.447 billion, an increase of \$675 million over the 2008-09 Budget forecast of \$35.772 billion. This increase is primarily due to:

- additional expenditure related to increased Australian Government funding for Specific Purpose Payments, National Partnership payments and *Nation Building and Jobs Plan* projects, particularly in education and health
- increased grant expense as a result of increased demand for the First Home Owners Grant to first home buyers driven by the Australian Government's First Home Owners Boost
- actuarial revisions to superannuation and long service leave provisions offset by a reduction in former defined benefit superannuation expense. Former defined benefit superannuation obligations represent the liabilities of defined benefit members who have elected to leave the defined benefit scheme. These liabilities are offset by Consolidated Fund investments which move with investment earnings. As a result, lower former defined benefit expense is offset by lower interest income.

The General Government operating statement provides for aggregate expenses of \$39.146 billion in 2009-10, representing an increase of \$2.7 billion (or 7.4%) over the 2008-09 estimated actual. Factors influencing the growth in expenses include additional expenditure related to joint projects with the Australian Government and growth in service delivery to meet increased demand and the implementation of service enhancements, which are outlined in Budget Paper 4 – Budget Measures.

As outlined in Chapter 1, the Government recognises the importance of fiscal sustainability and expenditure restraint in supporting Queensland's future economic growth, while maintaining services and continuing to deliver its commitments to the community. Revised fiscal principles, which must be tabled in Parliament and reported on regularly under the new *Financial Accountability Act 2009*, include a commitment to limit own-purpose expenses growth (that is, excluding Australian Government related expenses) to inflation and population growth.

For the forward estimates period, average growth in own-purpose expenses is estimated at 4.3%, compared with expected average growth of 4.63% in population and inflation.

The State's capacity to restrain own-purpose expenses growth is assisted by the following policy parameters:

- revised wages policy which limits wage increases to 2.5% per annum until the Budget returns to surplus
- public sector efficiency savings target of \$280 million per annum from 2009-10
- agencies, other than key front line service areas, being required to absorb non-labour cost pressures

- streamlining the Queensland Public Service from 23 departments down to 13 to exploit economies of scale and scope, together with shared services reforms
- growth in the public sector workforce being limited to front line service delivery areas and targeted policy commitments
- responding to the independent review of Queensland Government boards, committees and statutory authorities by abolishing 103 bodies and reforming a further 81 bodies
- the creation of a new Civil and Administrative Tribunal, replacing around 26 different tribunals
- changes to procurement policy to focus selection of procurement approaches on driving competition and value for money project delivery outcomes which reflect current market conditions
- the ongoing consolidation of ICT across Government
- abolition of the Queensland Fuel Subsidy Scheme.

Government will over time, and in each Budget, review the need for additional Budget initiatives, including productivity and savings measures, to ensure this key fiscal principle is achieved.

EXPENSES BY OPERATING STATEMENT CATEGORY

This section provides a breakdown of General Government expenses in 2009-10 by category and discusses the significant variances between the 2008-09 estimated actual and 2009-10 Budget by expense category.

The Service Delivery Statements provide details of expenditure for individual departments.

Chart 7.1 indicates that the largest expense category in the General Government sector is employee and superannuation expenses (47.4%), reflecting the direct service provision nature of Government activities, followed by grants expenses (23.4%) that include community service obligation payments to Government-owned corporations (GOCs), and grants to non-government schools and to first home buyers.

Chart 7.1
Expenses by operating statement category, 2009-10

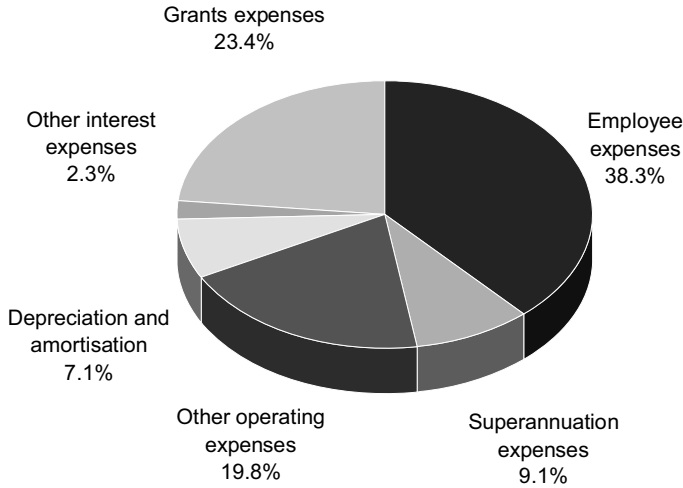
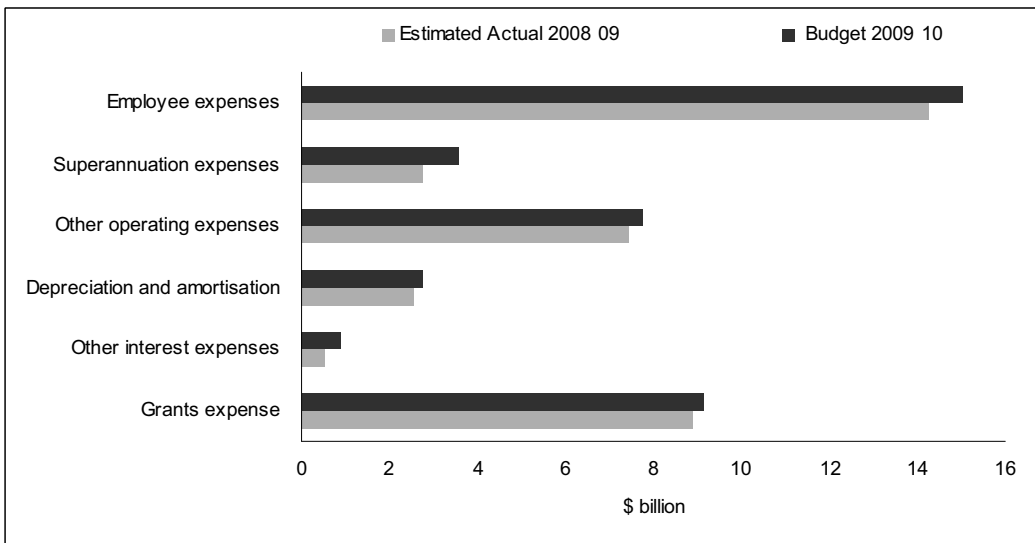


Chart 7.2 compares the 2008-09 estimated actual expenses for each operating statement category with the 2009-10 Budget.

Chart 7.2
Expenses by operating statement category
2008-09 and 2009-10



DETAILS OF EXPENSES

Employee expenses

Employee expenses include salaries and wages, annual leave and long service leave expenses.

Employee expenses are forecast to increase by \$757 million or 5.3% to \$15.006 billion in 2009-10. The increase reflects a combination of wage increases related to enterprise bargaining agreements and other services' growth and enhancements.

The additional staffing provided in the 2009-10 Budget is predominantly in key service delivery areas, including 350 additional teachers and teacher aides to meet enrolment growth in Queensland state schools, 50 additional ambulance officers, 203 additional police positions, including a further 53 specialist traffic officers and 645 doctors, nurses and allied health professionals.

Growth in employee expenses across the forward estimates to 2011-12 averages 5.5% per annum before falling to 3% in 2012-13. This reduction reflects the Government's revised wages policy which provides for wage increases of 2.5% per annum. Further details of the revised wages policy are outlined in Chapter 1.

Superannuation expenses

The superannuation interest cost represents the imputed interest on the Government's accruing defined benefit superannuation liabilities and interest costs on former defined benefit superannuation liabilities.

In determining the State's defined benefit superannuation liabilities, AASB 119 *Employee Benefits* requires the discounting of future benefit obligations using yield rates on government bonds net of investment tax, estimated at 6.2%. Offset against this expense is the revenue from plan assets based on long-term expected rates of return of 7.25% per annum.

Former defined benefit superannuation obligations represent the liabilities of defined benefit members who have elected to leave the defined benefit scheme. These liabilities are offset by Consolidated Fund investments and move with investment earnings.

In 2009-10, superannuation interest cost is estimated to increase by \$708 million to \$1.468 billion as earnings on former defined benefit superannuation liabilities are expected to return to the long term average rate of 7.5% per annum. The 2008-09 estimated actual return on these liabilities is negative 15%.

Other superannuation expenses represent employer superannuation contributions to accumulation superannuation and the current service cost of the State's defined benefit obligation (or the increase in the present value of the defined benefit obligation resulting from employee service in the current period).

Other operating expenses

Other operating expenses comprise the non-labour costs of providing goods and services, repairs and maintenance, consultancies, contractors, electricity, communications and marketing.

Other operating expenses in 2009-10 are expected to be \$7.776 billion, which represents an increase of \$330 million (or 4.4%) on 2008-09. Higher spending in education under the Australian Governments' *Building the Education Revolution* program is the primary contributor to this increase.

Depreciation and amortisation

Depreciation and amortisation expense is an estimate of the progressive consumption of the State's assets through normal usage, wear and tear and obsolescence. Growth in this expense category primarily reflects asset revaluations and the size of the State's capital program.

Other interest expense

Other interest expense includes interest paid on borrowings to acquire capital assets and infrastructure such as roads and government buildings. The growth in this expense over the forward estimates reflects growth in borrowings primarily used to fund the State's capital program.

The General Government sector has a moderate level of debt in 2009-10 with a total debt servicing cost forecast at \$887 million.

Grants expenses

Current grants include grants and subsidies to the community (such as schools, hospitals, benevolent institutions and local governments) and personal benefit payments. Funding includes support for non-government healthcare providers, organisations servicing the community in partnership with government in the family support, disability, youth and childcare sectors. Community service obligations (CSOs) are provided where GOCs are required to provide non-commercial services or services at non-commercial prices for the benefit of the community.

Current grants are estimated to decline moderately to \$7.499 billion in 2009-10 (see Table 7.2). The significant increase in grants to non-government schools and non-profit organisations are offset by the abolition of the State's fuel subsidy scheme from 1 July 2009 and lower electricity CSO payments as a result of a reduction in cost disparity to supply electricity in regional areas. CSO payments, mainly to QR Limited and Ergon Energy, total \$1.569 billion in 2009-10.

The increase in grants to non-government schools is largely due to expenditure under Australian Government programs, including *Building the Education Revolution*. Grants to non-profit organisations grow in key service areas of disability and community services and social housing, particularly as a result of the Queensland Industrial Relations Commission's decision to increase award rates for community service workers.

Capital transfers represent grants to GOCs, local governments, non-profit institutions and other non-government entities, such as businesses and households, including First Home Owner Grant schemes, for capital purposes. An increase in capital grants to local government and non-profit organisations predominately reflects additional expenditure in social housing.

The decrease in grants to first home buyers reflects the Australian Government's policy of decreasing, then abolishing, the First Home Owners Boost in 2009-10.

Table 7.2 indicates the composition of grant payments by recipient.

Table 7.2		
Grant expenses¹		
	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
Current		
Fuel Subsidy Scheme	560	28
Grants to local government	579	569
Grants to non-government schools	1,775	2,257
Grants to non-profit organisations	1,046	1,241
Grants to other non-government recipients	1,883	1,729
Community service obligations to PNFCs	1,654	1,569
Other payments to PNFCs	81	105
Total current transfers	7,578	7,499
Capital		
First Home Owner Grant Scheme	240	220
First Home Owners Boost Scheme	161	142
Grants to local government	621	775
Grants to non-profit organisations	66	256
Grants to other non-government recipients	167	176
Other payments to PNFCs	56	75
Total capital transfers	1,312	1,645
Total current and capital transfers	8,889	9,143
Note:		
1. Numbers may not add due to rounding.		

OPERATING EXPENSES BY PURPOSE

Chart 7.3
General Government expenses by purpose, 2009-10

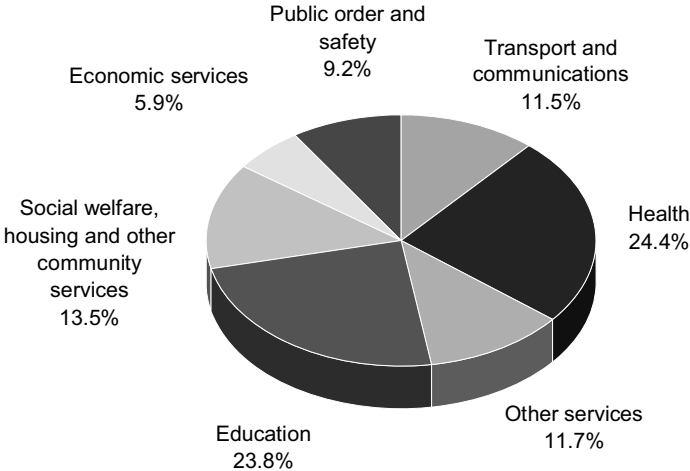
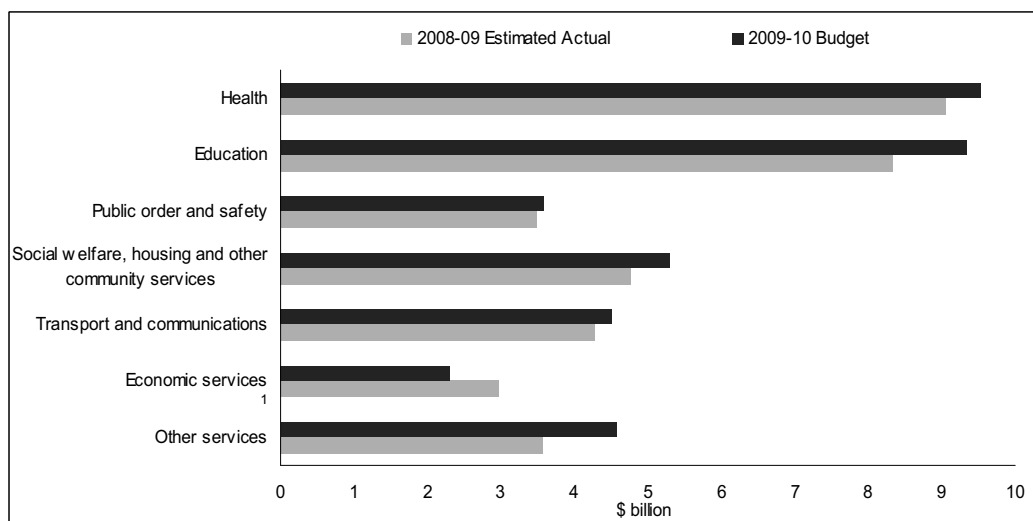


Chart 7.3 indicates the proportion of expenditure by major purpose classification for the 2009-10 Budget. Health accounts for the largest share of expenses (24.4%) followed by Education (23.8%).

Chart 7.4
General Government expenses by purpose
2008 09 and 2009-10



Note:

1. In 2009 10, other services increase as superannuation interest costs on former defined benefit liabilities are expected to return to the long term average rate of 7.5% per annum, compared to 2008 09 estimated return of 15%.

As evidenced in Chart 7.4, expenditure increases in all key service delivery areas from 2008-09 estimated actual to 2009-10 Budget. The decrease in economic services is due to the abolition of the fuel subsidy in 2009-10.

The Government has consistently had a clear focus on improving key service areas such as education, health, public order and safety and community services. This section provides a breakdown of General Government expenditure by purpose between the estimated actual and 2009-10 Budget.

Education

The State's investment in education encompasses early childhood education and care, State and non-State education, technical and further education (TAFE) and higher education. The 2009-10 Budget for education is \$9.332 billion, representing an increase of \$1 billion (or 12.1%), over estimated actual expenditure.

Initiatives contributing to the growth in education expenditure in 2009-10 include:

- 350 additional teachers and teacher aides to meet enrolment growth in Queensland state schools
- implementation of Commonwealth-State National Partnership Agreements, including the provision of additional training places under the Productivity Places Program and provision of universal access to quality early childhood education under the Early Childhood Reform National Partnership

Health

In 2009-10, funding for health services within the Queensland Government will grow to \$9.523 billion, an increase of 5.1% on the 2008-09 estimated actual. The health function includes expenses relating to acute hospital services, including provision of medical, surgical and obstetric services, provision of primary health care for individuals or small targeted groups providing curative, promotive, preventative and rehabilitative services, access to quality emergency medical and outpatient services, residential care services for the aged and young people with physical and intellectual disabilities and mental health services.

The Council of Australian Governments (COAG) recently endorsed specific health funding reforms including funding under the new National Healthcare Agreement (effective from 1 July 2009) and National Partnership Agreements. These agreements direct additional State and Australian Government funds to key areas of the health system such as hospitals and health workforce reform, preventive health and health services.

In 2009-10, Queensland Health will focus spending on upgrading emergency departments, new rehabilitation and maternity services and expanding cancer treatment facilities and has committed to:

- a target of employing at least 3,500 additional doctors, nurses and allied health workers over the next three years
- additional funding to the Surgery Connect program to provide an additional 20,000 elective surgery operations (including 3,300 for children) over three years
- recruit and train new nurse practitioners to work in the busiest emergency departments.

Public order and safety

Public order and safety includes funding to police, legal services and law courts, fire protection, prisons and corrective services. Expenditure growth under this function is expected to increase 3.4% to \$3.594 billion in 2009-10.

The growth in the public order and safety function is partially due to the Government's continued support for effective delivery of policing services to the Queensland community through more police officers, including 203 additional police positions, better technology to fight crime and improvements to road safety.

Social welfare, housing and other community services

Services provided under the category of social welfare, housing and other community services include community, youth justice, child safety, disability and housing services. Expenditure under this function is estimated to increase 11.2% to \$5.307 billion in 2009-10.

2009-10 sees a significant investment in improving housing and homelessness services. Underpinning this investment are the joint programs between the Queensland and Australian Governments under the *Nation Building and Jobs Plan* and the National Partnership Agreements for Social Housing, Remote Indigenous Housing and Homelessness.

Funding for specialist disability services, non-clinical mental health services and home and community care services will also increase in 2009-10, including additional funding to support the needs of the frail aged, people with disabilities and their carers under the Home and Community Care Program.

In recognition of the increase in award wage rates for community services workers, the Government will also provide additional funding for allocation on a prioritised basis to State supported non-Government services to dependant and vulnerable Queenslanders.

Transport and communications

The transport and communication function incorporates the State's road network and transport systems including rail, port, freight and aviation systems. Transport and communication expenditure increases 5.7% to \$4.511 billion in 2009-10.

The State Government continues to progress the implementation of the *South East Queensland Infrastructure Plan and Program* (SEQIPP) and the *Roads Implementation Program* (RIP). For 2009-10, SEQIPP funding priorities include providing for population growth and managing traffic congestion in South East Queensland and RIP initiatives include enhancing and preserving road networks and sustaining employment for people in roads and related industries.

DEPARTMENTAL EXPENSES

Data presented in Tables 7.3 and 7.4 provide a summary drawn from financial statements contained in Budget Paper 5 - Service Delivery Statements. Further information on the composition of expenses, outputs delivered and factors influencing the movement in expenses can also be obtained from the Service Delivery Statements.

Table 7.3	
Departmental Controlled Expense ^{1,2}	
	2009 10 Estimate \$'000
Communities	3,799,559
Community Safety	1,573,382
Education and Training	7,217,329
Electoral Commission of Queensland	9,559
Employment, Economic Development and Innovation	974,818
Environment and Resource Management	914,586
Forestry Plantations Queensland Office	30,504
Health	9,037,031
Infrastructure and Planning	725,775
Justice and Attorney General	467,377
Legislative Assembly	73,284
Office of the Governor	5,056
Office of the Ombudsman	6,755
Police	1,705,813
Premier and Cabinet	198,297
Public Service Commission	11,332
Public Works	612,357
Queensland Audit Office	40,001
The Public Trustee of Queensland	66,167
Transport and Main Roads	3,727,279
Treasury	143,488
Total Expenses	31,339,749
Notes:	
1. Total expenses by department does not equate to total General Government expenses in Uniform Presentation Framework (UPF) terms reported elsewhere in the Budget Papers as General Government expenses include a wider range of entities including State Government statutory authorities. In addition, transactions eliminated between entities within the General Government sector (for example payroll tax payments) are excluded in the preparation of whole of Government UPF financial statements.	
2. Explanation of variations in departmental controlled expenses can be found in the Service Delivery Statements.	

Table 7.4
Departmental Administered Expense ^{1,2}

	2009 10 Estimate \$'000
Communities	268,829
Education and Training	2,437,480
Employment, Economic Development and Innovation	461,012
Environment and Resource Management	36,496
Health	24,076
Infrastructure and Planning	388,784
Justice and Attorney General	215,797
Police	429
Premier and Cabinet	216,257
Public Works	68,743
The Public Trustee of Queensland	2,002
Transport and Main Roads	828,040
Treasury	4,040,487
Total Expenses	8,988,432

Notes:

1. Total expenses by department does not equate to total General Government expenses in Uniform Presentation Framework (UPF) terms reported elsewhere in the Budget Papers as General Government expenses include a wider range of entities including State Government statutory authorities. In addition, transactions eliminated between entities within the General Government sector (for example payroll tax payments) are excluded in the preparation of whole of Government UPF financial statements.
2. Explanation of variations in departmental administered expenses can be found in the Service Delivery Statements.

Table 7.5
Reconciliation of Departmental to UPF Expenses ¹

	2009 10 Estimate \$ million
Departmental expenditure per Service Delivery Statements Controlled (Table 7.3)	31,340
Administered (Table 7.4)	8,988
Non UPF departmental expenses and whole of Government schemes ²	(2,082)
Other General Government entities (e.g. CBUs, SSPs, Statutory Bodies)	4,795
	43,042
Superannuation Interest cost	1,468
Eliminations and Other whole of Government adjustments	
Elimination of payments to CBUs and SSPs	(3,317)
Payroll Tax elimination	(491)
Other eliminations and adjustments	(1,555)
Total General Government UPF Expenses	39,146
Notes:	
1. Numbers may not add due to rounding.	
2. Certain expenses such as asset valuation changes are excluded from UPF reporting. In addition, this item removes the effect of cash payments for whole of Government schemes such as the State's share of superannuation beneficiary payments reported in Treasury Administered's expenses. Costs associated with these schemes are accrued annually.	