

5 Expenses

Features

- The focus of the 2019-20 Budget is on developing the Government's economic plan for the next decade. This budget continues to target initiatives that drive job creation, business-led growth, sustainable public investment, support for the next wave of innovation and ensure Queenslanders have the skills for the future. The Government through its *Our Future State: Advancing Queensland's Priorities* is also focused on delivering on opportunities and tackling the major challenges facing the state.
- Expenses for 2018-19 are estimated to be \$59.226 billion, an increase of \$2.891 billion from 2017-18. The increase is due to growth funding to support ongoing demand for health services (around \$1.5 billion) and education services (around \$600 million). The operating expense component of natural disaster related expenses in 2018-19 is around \$500 million.
- Total expenses are projected to grow at an average annual rate of 2.3% over the four years to 2022-23. From 2020-21, revenues commence growing at a faster rate than expenses, with the gap widening across the remainder of the forward estimates.
- In 2019-20, General Government Sector expenses are estimated to be \$60.198 billion, an expected increase of \$972 million over the estimated actual for 2018-19.
- Ongoing budget sustainability is central to delivering on the Government's economic plan. A Service Priority Review Office (the Office) will be established in Queensland Treasury. In partnership with the Department of the Premier and Cabinet, the Office will drive the realisation of reprioritisation targets of \$200 million in 2019-20 and \$500 million per annum from 2020-21, by conducting reviews of Queensland public sector agencies and existing programs.
- In 2019-20, the major areas of expenditure are health and education, which together constitute approximately 56.1% of General Government Sector expenses.

This chapter provides an overview of General Government Sector expenses for the estimated actual for 2018-19, forecasts for the 2019-20 Budget year and projections for 2020-21 to 2022-23. The forward estimates are based on the economic projections outlined in Chapter 2.

5.1 2018-19 estimated actual

General Government Sector expenses in 2018-19 are estimated to be \$59.226 billion, \$748 million higher than the 2018-19 Mid Year Fiscal and Economic Review (MYFER) estimate. The increase since MYFER is largely driven by:

- higher hospital and health services
- increased natural disaster expenditure including disaster-affected primary producer grants following the North and Far North monsoon trough event in 2019
- advance payments to local councils to compensate for the commencement of the Queensland waste levy from 1 July 2019
- the Australian Government's advance payment of financial assistance grants to local governments in 2018-19 for the 2019-20 financial year
- actuarial adjustments for the State's Defined Benefit Superannuation Scheme.

These expenses were partly offset by lower than estimated payments to the National Disability Insurance Agency due to the slower than anticipated transition of Queenslanders to the NDIS.

5.2 2019-20 Budget and out-years

Table 5.1 General Government Sector expenses¹

	2017-18 Actual \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Employee expenses	22,678	24,096	25,396	25,728	26,709	27,724
Superannuation						
interest costs	667	642	516	542	580	624
Other superannuation expenses	2,744	3,044	3,093	3,202	3,257	3,292
Other operating expenses	17,258	16,791	15,790	15,907	16,363	16,733
Depreciation and amortisation	3,325	3,449	3,961	4,097	4,231	4,334
Other interest expenses	1,614	1,514	1,688	1,721	1,797	1,848
Grants expenses	8,048	9,691	9,754	10,219	10,164	10,197
Total Expenses	56,335	59,226	60,198	61,416	63,101	64,753

Note:

1. Numbers may not add due to rounding.

General Government Sector expenses of \$60.198 billion in 2019-20 represent an increase of \$972 million (or 1.6%) over the 2018-19 estimated actual. Factors influencing the higher expenditure in 2019-20 include:

- increases in education expenditure largely reflects student enrolment growth and enterprise bargaining outcomes, and additional funding under the National School Reform Agreement and associated Bilateral Agreement.
- growth in demand for public hospital and health services. Increased health expenditure includes workforce requirements to meet the ongoing growth in demand for frontline health services
- additional funding for the public safety sector, including criminal and youth justice systems, transition of private prisons to public operation and addressing the outcomes of Taskforce Flaxton
- payment for works delivered on behalf of government-owned corporations
- natural disaster expenditure following the North and Far North monsoon trough event in 2019 including disaster-affected primary producer grants.

In 2019-20 expenses growth is also impacted by the Australian Government's advance payment of financial assistance grants in 2018-19 for 2019-20, advance payments in 2018-19 to local councils for compensation ahead of the commencement of Queensland Waste Levy from 1 July 2019 and whole-of-Government reprioritisation targets.

5.3 Expenses by operating statement category

As outlined in Chart 5.1, the largest expense categories in the General Government Sector in 2019-20 are employee and superannuation expenses (48.2%), followed by other operating expenses (26.2%) that reflect non-labour costs of providing goods and services to government and non-government recipients including transport service contract payments and repairs and maintenance.

Chart 5.1 Expenses by operating statement category, 2019-20

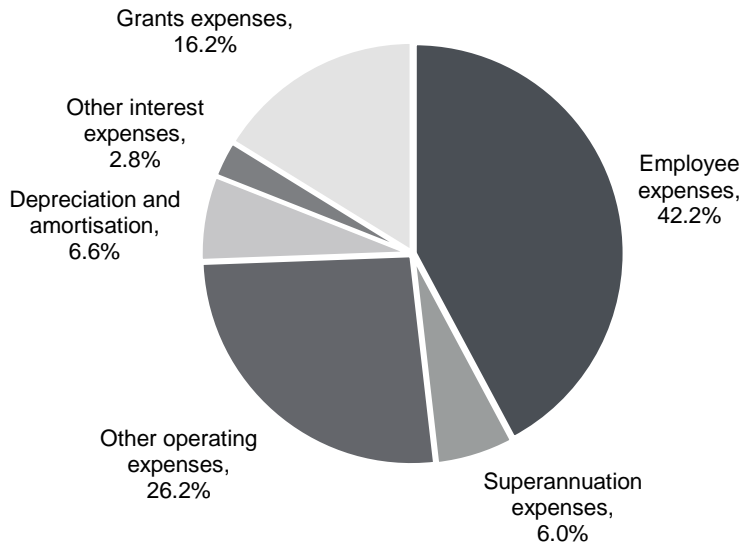
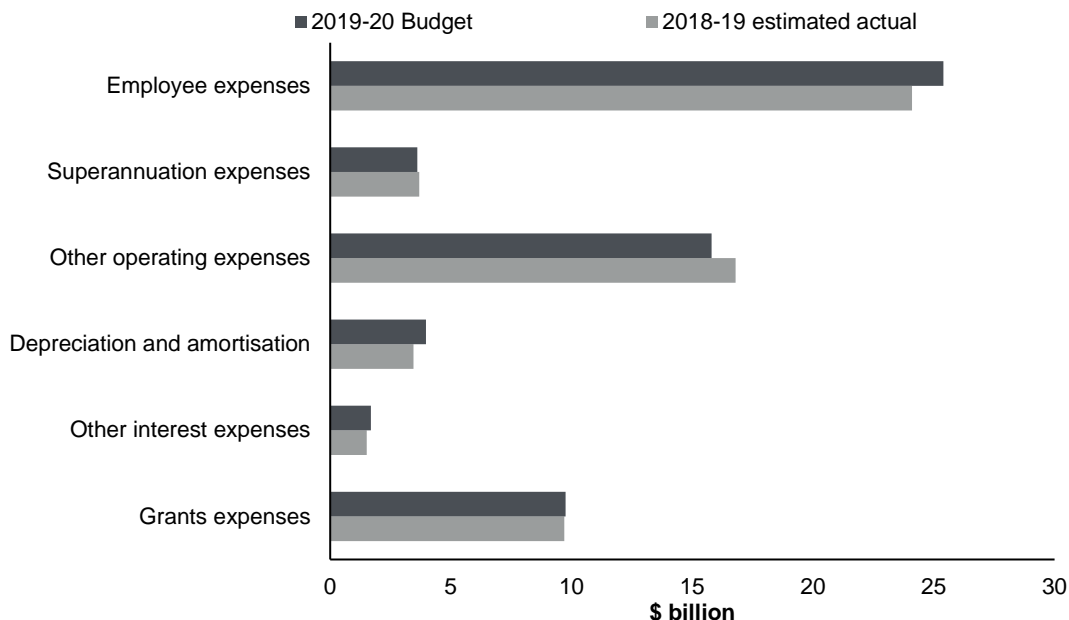


Chart 5.2 identifies the growth in expenses for each operating statement category between the 2018-19 estimated actual and the 2019-20 Budget. The largest increase is in employee expenses, which primarily reflects workforce requirements to meet the ongoing demand for frontline hospital and health services and school enrolment growth.

Chart 5.2 Growth in expenses by operating statement category – 2018-19 estimated actual to 2019-20 Budget



5.3.1 Employee expenses

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

In 2019-20, employee expenses are expected to be \$25.396 billion, \$1.3 billion or 5.4% higher than the 2018-19 estimated actual. This reflects both growth in full-time equivalents (FTEs) and the Government’s wages policy. Much of the increase in employee expenses in 2019-20 is the key frontline service areas of health and education reflecting increasing demand for health services and student population growth.

Full-time equivalents

During the 2015 election, the Government made commitments to revitalise frontline service delivery. This contributed in FTEs increasing 22,208 (or 11.0%) from 2014-15 to 2017-18, and an estimated further 5,518 (or 2.5%) in 2018-19. Between March 2015 and March 2019:

- teachers increased by 4,803 (or 11.4%)
- teacher aides increased by 1,399 (or 15.0%)
- nurses increased by 5,988 (or 21.5%)
- health practitioners increased by 1,761 (or 17.8%)
- doctors increased by 2,020 (or 25.5%)
- ambulance operatives increased by 510 (or 13.8%)
- police officers increased by 436 (or 3.9%).

As at March 2019, around 91.4% of public servants were engaged in frontline and frontline support roles.

Given the tight fiscal environment and the fact that employee expenses represent the State's largest expense category, the Government introduced a new fiscal principle in the 2016-17 Budget to maintain a sustainable public service where overall growth in FTEs, on average over the forward estimates, does not exceed population growth.

The introduction of the fiscal principle has resulted in FTE growth moderating, and continuing to moderate. FTEs are estimated to increase by around 4,391 in 2019-20. The overall average annual growth rate over 2018-19 to 2022-23, based on current estimates, is 1.68%. This compares to an estimated Queensland population growth of 1¼% annually.

One of the recommendations from the Coaldrake Review (discussed further in Box 5.1) was to nuance the representation of Fiscal Principle 6 to expand disclosure to show health and education growth separately from the rest of the sector. The Government accepted this recommendation in principle, with a commitment to explore changes to the reporting of Fiscal Principle 6.

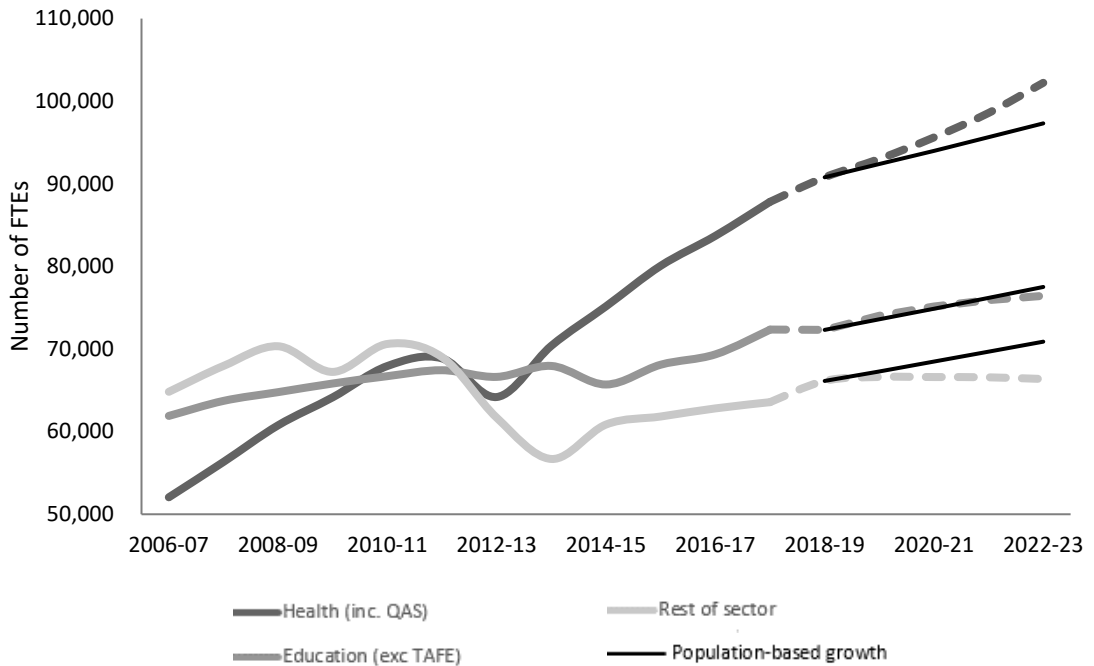
In response, Chart 5.3 shows the breakdown of actual FTE growth from 2006-07 to 2017-18 and estimated FTEs from 2018-19 to 2020-23, with health and education shown separately from the rest of the sector. Estimated FTEs for health, education and rest of sector are compared to forecast population growth.

Chart 5.3 demonstrates the growth in health (including Queensland Ambulance Service (QAS)) is expected to be higher than population growth, though not as strong as in previous years (falling from an average annual growth of 5.32% between 2014-15 and 2017-18 to an estimated 3.01% between 2018-19 and 2022-23). The ongoing high FTE growth within health is not unexpected with the Government injecting record health funding every year since coming to power to restore vital frontline services. Further, Commonwealth health funding is based on activity and demand principles, not population growth.

The growth embedded in health and education agreements with the Australian Government is one of the primary drivers of the growth in health and education expenditures and employee numbers, the effects which can be seen in Chart 5.3.

Growth in other agencies is slower, with many remaining relatively flat or declining. The reasons for agency declines include changes in service delivery, for example, due to the introduction of the NDIS.

Chart 5.3 Education, Health and Rest of Sector departmental FTEs¹



Note:

1. 2018-19 to 2022-23 are forecasts.

The Government is also committed to ensuring that public service staff are located where they are needed in the community. Around 47% of FTEs are located outside Greater Brisbane, of which around 96% are engaged in frontline and frontline support roles. Regional Action Plans show increases in key service delivery occupations across the regions.

The devolved frontline service delivery models used in some agencies continue to present challenges to FTE estimation and monitoring, in particular when funding is provided in such a way that agencies determine how to most efficiently deliver services. Consistent with last year, the 2019-20 Budget FTE estimates build in an allowance for this.

Box 5.1 Public Sector FTE Reporting

The Queensland Government is continuously examining ways to improve the Queensland public sector and its ability to meet the needs of Queenslanders. To ensure the Queensland public sector is the most responsive, consistent and reliable public service possible, the Queensland Government commissioned the *Review into the Queensland Public Sector Workforce Reporting* (Coaldrake Review).

The Coaldrake Review comprised of two stages and three reports and makes 13 recommendations for Government. The Government has accepted or accepted in principle all the recommendations, which included:

- adopting a single, authoritative and immediately retrievable workforce database
- replacing the current quarterly Workforce Profile Reports with half-yearly reports covering sector wide analysis of particular trends, and other matters as required by government from time to time
- adopting a consistent approach to the reporting and monitoring of the indirect workforce (e.g. contractors and consultants) which supports the Queensland public sector.

In response to these recommendations, the Public Service Commission (PSC) will change its FTE methodology from 1 July 2019 to reduce the inconsistencies in data collections. In addition, the PSC is working on changes and enhancements to the Workforce Profile Report. Queensland Treasury in conjunction with the PSC is assessing options to improve the reporting and monitoring of the indirect workforce.

Table 5.2 shows the funded FTE positions by department and is consistent with agency Service Delivery Statements.

Table 5.2 Funded controlled FTE positions by Department^{1,2,3}

	2018-19 Adj. Budget	2018-19 Est. Act	2019-20 Budget
Aboriginal and Torres Strait Islander Partnerships	324	328	321
Agriculture and Fisheries	2,128	2,127	2,124
Child Safety, Youth and Women	3,375	3,423	3,439
Youth Justice	1,459	1,499	1,566
Communities, Disability Services and Seniors ⁴	2,241	2,243	1,755
Education	72,784	73,190	74,885
Electoral Commission of Queensland	60	60	58
Employment, Small Business and Training	4,432	4,417	4,436
Environment and Science	3,093	3,101	3,089
Housing and Public Works	5,570	5,568	5,565
Innovation, Tourism Industry Development and the Commonwealth Games	173	175	175
Justice and Attorney-General	3,449	3,473	3,509
Local Government, Racing and Multicultural Affairs	188	188	183
Natural Resources, Mines and Energy	2,665	2,663	2,662
Office of the Inspector-General Emergency Management	22	22	22
Premier and Cabinet	467	465	480
Public Safety Business Agency	1,117	1,122	1,121
Public Service Commission	70	70	70
Queensland Audit Office	182	191	191
Queensland Corrective Services	5,039	5,039	5,761
Queensland Fire and Emergency Services	3,321	3,318	3,346
Queensland Health (total – disaggregation below)	90,095	90,791	93,009
Queensland Police Service	15,696	15,709	15,802
Queensland Treasury	994	998	1,027
State Development, Manufacturing, Infrastructure and Planning	1,016	1,016	990
The Public Trustee of Queensland	615	617	621
Transport and Main Roads	7,427	7,433	7,425
Total⁵	228,002	229,246	233,637

Budget Strategy and Outlook 2019-20

	2018-19 Adj. Budget	2018-19 Est. Act	2019-20 Budget
Queensland Health Disaggregation			
Health	7,645	7,820	7,728
Queensland Ambulance Service	4,507	4,585	4,707
Cairns and Hinterland Hospital and Health Service	4,971	5,079	5,101
Central Queensland Hospital and Health Service	3,052	3,072	3,167
Central West Hospital and Health Service	373	380	380
Children's Health Queensland Hospital and Health Service	3,700	3,862	3,823
Darling Downs Hospital and Health Service	4,549	4,636	4,713
Gold Coast Hospital and Health Service	8,063	8,323	8,385
Mackay Hospital and Health Service	2,312	2,371	2,356
Metro North Hospital and Health Service	16,165	16,272	16,860
Metro South Hospital and Health Service	12,882	13,465	13,478
North West Hospital and Health Service	782	780	781
South West Hospital and Health Service	819	794	816
Sunshine Coast Hospital and Health Service	6,400	6,000	6,007
Torres and Cape Hospital and Health Service	943	1,031	1,005
Townsville Hospital and Health Service	5,401	5,424	5,508
West Moreton Hospital and Health Service	3,572	3,717	3,659
Wide Bay Hospital and Health Service	3,132	3,180	3,266
Funded unallocated FTEs ⁶	827	..	1,269
Total Queensland Health	90,095	90,791	93,009
Notes:			
1. Numbers may not add due to rounding.			
2. Explanation of variations in departmental FTEs can be found in the Service Delivery Statements. Departmental totals may include multiple tables from Service Delivery Statements (SDSs), due to separate FTE tables being provided for Departmental service areas and Commercialised Business Units.			
3. Adjusted Budget reflects movements of FTEs following Machinery of Government changes only.			
4. The decrease in 2019-20 is due to the transition of State specialist disability services to the NDIS.			
5. Total 2019-20 Budget includes an additional 5 FTEs held centrally.			
6. Funded unallocated FTEs represents estimates of additional FTEs which have not yet been allocated to particular Hospital and Health Services.			

5.3.2 Superannuation expenses

The superannuation interest cost represents the imputed interest on the Government's accruing 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. Interest costs are calculated on a net liability approach by applying the discount rate to both the gross liability and superannuation plan assets.

Superannuation interest costs are dependent on the applicable discount rates at the beginning of the year. Rates have declined in 2018-19 comparative to 2017-18 before increasing across the forward estimates, resulting in lower superannuation interest costs in 2019-20 before marginally increasing across the remaining forward estimates. The defined benefit scheme, which is closed to new members and subject to interest rate fluctuations, will decline over time as members leave.

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).

5.3.3 Other operating expenses

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

In 2019-20, other operating expenses are expected to be \$15.790 billion, a decrease of \$1 billion or 6.0% lower compared to the 2018-19 estimated actual.

Other operating expenses decline significantly in 2019-20 due to:

- the accounting treatment for the recognition of leases under the new accounting standard AASB 16 *Leases*, effective 1 July 2019. Under the new standard previous operating lease rental expenses have been replaced by depreciation expenses on the right of use asset
- continuing transition of specialist disability services to the NDIS. Queensland's contributions to the NDIS are reflected as grants expenses
- a proportion of savings targets allocated to other operating expenses.

5.3.4 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 increasing investment in State infrastructure.

As mentioned above, depreciation increases significantly in 2019-20 due to the implementation of AASB 16 *Leases*. Adoption of the new standard results in a reallocation from other operating expenses to depreciation for the right of use asset.

5.3.5 Other interest expenses

Other interest expenses include interest paid on borrowings, finance leases and similar arrangements to acquire capital assets and infrastructure such as roads and government buildings.

Other interest expenses are estimated to increase \$174 million in 2019-20 to \$1.688 billion compared to \$1.514 billion in 2018-19. Adoption of AASB 16 *Leases* from 1 July 2019 has resulted in previous operating lease rentals being recognised as finance lease liabilities on the Balance Sheet with a resulting reallocation from operating expenses to interest expenses in 2019-20.

Interest costs have fallen significantly since the recent peak of \$2.328 billion in 2014-15. The decline in General Government Sector debt servicing costs is due in part to the repatriation of surplus defined benefit superannuation assets and other balance sheet measures.

5.3.6 Grants expenses

Current grants include grants and subsidies to the community (such as non-state schools, hospitals, benevolent institutions and local governments) and personal benefit payments. Community Service Obligations (CSOs) are provided where Public Non-financial Corporations (PNFCs) are required to provide non-commercial services or services at non-commercial prices for the benefit of the community (for further details refer to Chapter 8).

Capital grants represent transfers to the PNFC Sector, local governments, not-for-profit institutions and other non-government entities, such as business and households (including the Queensland First Home Owners' Grant and non-state schools) for capital purposes.

Table 5.3 provides a breakdown of grants by category and recipient type.

Table 5.3 Grants expenses¹

	2017-18 Actual \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million
Current			
Grants to local government	691	853	471
Grants to private and not-for-profit organisations			
State funding for non-state schools	688	683	712
Australian Government funding for non-state schools	2,548	2,739	2,889
Other	1,449	1,663	1,713
Grants to other sectors of government			
Community service obligations to PNFCs	490	472	510
Other payments to PNFCs	46	29	32
Other (includes payments to NDIA)	408	1,169	1,264
Other	281	363	554
Total current grants	6,601	7,971	8,145
Capital			
Grants to local government	930	1,214	997
State funding for non-state schools	93	98	100
Grants to private and not-for-profit organisations	183	268	392
Payments to PNFCs	45	13	10
Queensland First Home Owners' Grants	195	127	110
Other	1
Total capital grants	1,447	1,720	1,609
Total current and capital grants	8,048	9,691	9,754
Notes:			
1. Numbers may not add due to rounding.			

In 2018-19, total grant expenses are estimated to be \$9.691 billion; \$1.643 billion higher than 2017-18. This increase is mainly due to:

- grants and payments by the State to the NDIA on the progressive transition to the NDIS
- timing of grants under the Townsville Water Security program
- advance payments to local councils to compensate for the commencement of the Queensland waste levy from 1 July 2019
- disaster related grants to local councils and disaster-affected primary producer grants following the North and Far North Queensland monsoon event in 2019.

In 2019-20, total grant expenses are estimated to be \$9.754 billion, an increase of \$63 million from 2018-19.

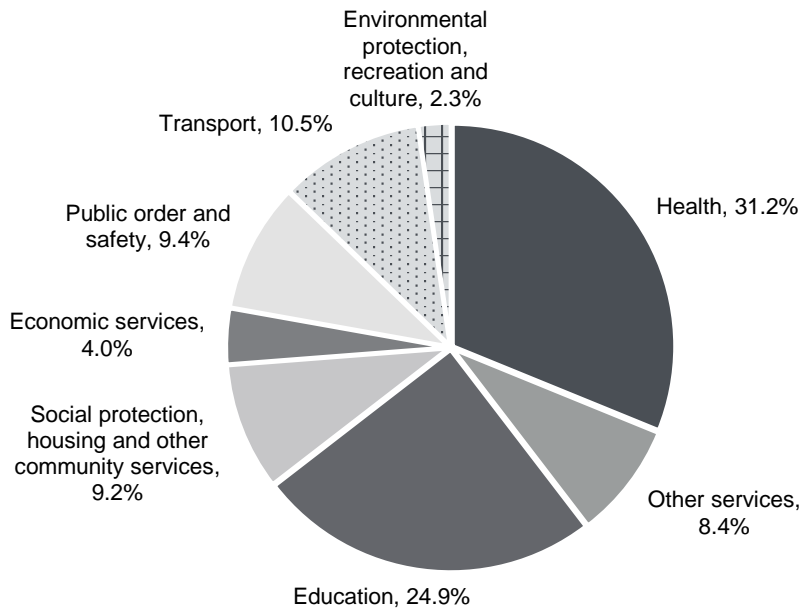
Growth in grants expenses remains comparatively low in 2019-20 mainly due to:

- the Australian Government again making advance payment of the 2019-20 financial assistance grants to local councils in 2018-19
- funding for the National Disability SPP being redirected to support the implementation of the NDIS
- significant proportion of grants for the Townsville Water Security program occurring in 2018-19
- compensation payments to local councils being made in advance of the introduction of the Queensland Waste Levy.

5.4 Operating expenses by purpose

Chart 5.4 indicates the proportion of expenditure by major purpose classification for the 2019-20 Budget. Health accounts for the largest share of expenses (31.2%) followed by Education (24.9%).

Chart 5.4 General Government Sector expenses by purpose, 2019-20



5.5 Departmental expenses

Data presented in Tables 5.4 and 5.5 provide a summary drawn from financial statements contained in the Service Delivery Statements (SDS). Further information on the composition of expenses, outputs delivered and factors influencing the movement in expenses can also be obtained from a department's SDS.

Table 5.4 Departmental controlled expense^{1,2}

	2018-19	2019-20
	Est. Act.	Budget
	\$ 000	\$ 000
Aboriginal and Torres Strait Islander Partnerships	83,154	83,016
Agriculture and Fisheries	513,423	525,015
Child Safety, Youth and Women	1,646,469	1,499,237
Communities, Disability Services and Seniors	1,016,266	381,116
Education	9,410,818	9,954,148
Electoral Commission of Queensland	24,969	70,261
Employment, Small Business and Training	1,078,183	1,077,636
Environment and Science	933,787	797,356
Health Consolidated ³	18,063,133	18,454,664
Housing and Public Works	2,409,933	2,548,569
Innovation, Tourism Industry Development and the Commonwealth Games	146,597	224,529
Inspector General Emergency Management	5,097	5,006
Justice and Attorney-General	597,380	659,136
Legislative Assembly	99,171	103,526
Local Government, Racing and Multicultural Affairs	416,093	284,297
Natural Resources, Mines and Energy	725,521	601,238
Office of the Governor	7,225	7,333
Office of the Ombudsman	9,059	9,491
Premier and Cabinet	131,216	116,397
Public Safety Business Agency	422,669	420,801
Public Service Commission	14,654	15,084
Queensland Audit Office	42,804	45,032
Queensland Corrective Services	933,744	1,003,977
Queensland Fire and Emergency Services	716,098	739,732
Queensland Police Service	2,361,742	2,428,036
Queensland Treasury	264,923	274,050
State Development, Manufacturing, Infrastructure and Planning	408,148	479,808
The Public Trustee of Queensland	93,307	96,436
Transport and Main Roads	6,085,610	6,189,222
Youth Justice	31,087	246,052
Total expenses	48,692,280	49,340,201

Notes:

1. Total expenses by department do 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 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.
3. This represents Health Consolidated in the Service Delivery Statement, which consolidates Queensland Health controlled, the Hospital and Health Services, and Queensland Ambulance Service.

Table 5.5 Departmental administered expense^{1,2}

	2018-19	2019-20
	Est. Act.	Budget
	\$ 000	\$ 000
Aboriginal and Torres Strait Islander Partnerships	11,113	10,105
Agriculture and Fisheries	92,168	235,613
Child Safety, Youth and Women	5,868	5,888
Communities, Disability Services and Seniors	1,592,118	1,592,208
Education	3,618,670	3,807,457
Environment and Science	142,581	147,276
Health Consolidated ³	30,952	30,959
Housing and Public Works	57,599	58,633
Innovation, Tourism Industry Development and the Commonwealth Games	103,016	109,902
Justice and Attorney-General	436,819	435,136
Local Government, Racing and Multicultural Affairs	548,636	326,714
Natural Resources, Mines and Energy	534,499	569,163
Premier and Cabinet	112,705	128,064
Queensland Police Service	734	739
Queensland Treasury	5,885,711	6,010,699
State Development, Manufacturing, Infrastructure and Planning	594,638	691,720
The Public Trustee of Queensland	718	734
Total expenses	13,768,545	14,161,010

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 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.
3. This represents Health Consolidated in the Service Delivery Statement, which consolidates Queensland Health controlled, the Hospital and Health Services, and Queensland Ambulance Service.