

## STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

Statement 6 presents estimates of general government expenses and net capital investment on a Government Finance Statistics (GFS) accrual accounting basis. The statement includes information on the allocation of Australian Government funds to the various functions of government. These functions are based on an international standard classification of functions of government that is incorporated into the GFS framework.

The first part of this Statement provides information on trends in expense estimates while the second part presents trends in net capital investment estimates. Estimates are on an Australian Government general government sector basis.

Statement 6 focuses on short to medium-term expense trends and their underlying determinants. Consistent with this emphasis, much of Statement 6 explains year-on-year changes across the forward estimates.

Further information on portfolio and agency expenses, capital movements, major outputs and administered items may be found in the respective Portfolio Budget Statements.

The key points are:

- general government expenses are forecast to fall from 22.6 per cent of gross domestic product (GDP) in 2004-05 to 22.2 per cent of GDP in 2005-06 and then rise slightly to 22.3 per cent of GDP in 2008-09;
- in 2005-06, the social security and welfare, health, education and defence functions together account for approximately 76 per cent of total expenses with social security and welfare itself accounting for approximately 42 per cent of total expenses;
- in real terms, the strongest growth across the Budget and forward estimates years is occurring in the health, education, social security and welfare and defence functions, with other functions either being stable or declining; and
- net capital investment in 2005-06 largely reflects increased investment in the Department of Finance and Administration's construction and refurbishment projects, and the purchase of land and security upgrade of various overseas missions by the Department of Foreign Affairs.

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## STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

### OVERVIEW

Australian Government general government expenses are expected to grow in real terms in 2005-06 and over the forward estimates period to 2008-09 (Table 1). Expenses as a proportion of gross domestic product (GDP) are forecast to fall slightly over the next four years, from 22.6 per cent of GDP in 2004-05 to 22.3 per cent of GDP in 2008-09.

**Table 1: Estimates of expenses**

	2004-05		2005-06	2006-07	2007-08	2008-09
	MYEFO(a)	Revised	Estimate	Projections		
<b>Total expenses (\$b)</b>	<b>193.8</b>	<b>195.0</b>	<b>206.1</b>	<b>214.8</b>	<b>225.4</b>	<b>236.6</b>
Real growth on						
previous year(%) <sup>(b)</sup>	2.9	3.5	1.2	3.5	4.2	3.0
Per cent of GDP	22.4	22.6	22.2	22.2	22.4	22.3

(a) As published in the Mid-Year Economic and Fiscal Outlook 2004-05.

(b) Real growth is calculated using the non-farm gross domestic product (GDP) deflator.

### GENERAL GOVERNMENT EXPENSES

#### Reconciliation of expenses since the 2004-05 Budget

Table 2 provides a reconciliation of expense estimates between the 2004-05 Budget, *Mid-Year Economic and Fiscal Outlook 2004-05* (MYEFO) and the 2005-06 Budget, showing the effect of policy decisions and economic parameter and other variations.

Part 3: Revenue, Expenses and Budget Funding

**Table 2: Reconciliation of expense estimates**

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
<b>2004-05 Budget expenses</b>	<b>192,306</b>	<b>200,626</b>	<b>210,033</b>	<b>220,939</b>
<b>Changes between 2004-05 Budget and MYEFO</b>				
Effect of policy decisions(a)	1,646	2,943	3,250	3,367
Effect of economic parameter variations				
Unemployment benefits	-106	-27	-9	-38
Prices and wages	95	-472	-149	-257
Interest and exchange rates	15	-21	-25	-19
<i>Total economic parameter variations</i>	4	-519	-183	-314
Public debt interest	-15	-5	-54	-118
Programme specific parameter variations	-1,500	-1,043	-1,096	-1,068
Slippage in 2004-05 Budget decisions	7	0	0	0
Other variations	1,361	1,583	414	84
<b>Total variations</b>	<b>1,503</b>	<b>2,960</b>	<b>2,330</b>	<b>1,951</b>
<b>2004-05 MYEFO expenses</b>	<b>193,808</b>	<b>203,585</b>	<b>212,363</b>	<b>222,890</b>
<b>Changes between MYEFO and 2005-06 Budget</b>				
Effect of policy decisions(a)	932	2,040	3,041	3,201
Effect of economic parameter variations				
Unemployment benefits	-59	-370	-331	-364
Prices and wages	57	1,046	455	329
Interest and exchange rates	-6	-30	-60	-67
<i>Total economic parameter variations</i>	-8	646	64	-102
Public debt interest	9	30	42	56
Programme specific parameter variations	178	407	394	399
Slippage in 2004-05 Budget decisions	-1	1	0	0
Other variations	94	-628	-1,098	-1,043
<b>Total variations</b>	<b>1,203</b>	<b>2,496</b>	<b>2,443</b>	<b>2,511</b>
<b>2005-06 Budget expenses</b>	<b>195,012</b>	<b>206,081</b>	<b>214,806</b>	<b>225,400</b>

(a) Excluding the public debt net interest effect of policy measures.

Discussion of the major changes between the 2004-05 MYEFO and the 2005-06 Budget, shown in the above table can be found in Statement 2 (in the section titled Variations in expense estimates). Further information on expense measures can be found in Budget Paper No. 2, *Budget Measures 2005-06*.

### Expense estimates by function

Table 3 sets out the estimates of Australian Government general government expenses by function for the period 2004-05 to 2008-09.

**Table 3: Estimates of expenses by function**

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
General public services(a)	12,748	12,799	13,067	13,339	13,368
Defence	14,190	15,600	15,851	16,791	17,238
Public order and safety	2,490	2,721	2,792	2,860	2,892
Education	14,533	15,729	16,541	17,336	17,905
Health(a)	35,541	37,544	39,041	40,937	42,812
Social security and welfare(a)	83,814	87,564	92,138	95,943	99,789
Housing and community amenities	1,887	1,968	2,003	1,992	1,894
Recreation and culture(a)	2,473	2,670	2,575	2,563	2,472
Fuel and energy	3,871	4,212	4,198	4,340	4,848
Agriculture, forestry and fishing	2,263	2,520	2,571	2,408	1,622
Mining, manufacturing and construction	1,754	1,916	1,820	1,802	1,833
Transport and communication	2,723	2,806	2,972	3,042	2,879
Other economic affairs	4,782	4,782	4,923	5,100	5,013
Other purposes	11,943	13,250	14,314	16,948	22,002
<b>Total expenses</b>	<b>195,012</b>	<b>206,081</b>	<b>214,806</b>	<b>225,400</b>	<b>236,568</b>

(a) There has been some reclassification of expenditure that was previously reported under the Aboriginal advancement nec sub-function (social security and welfare) to other primary functions.

Major movements within the estimates of expenses by function between 2004-05 and 2005-06, and across the forward estimates, include increases in the following functions:

- **Defence** due to continued funding increases associated with the Government's White Paper *Defence 2000 – Our Future Defence Force*, together with funding for major Australian Defence Force deployments, such as the operations in Iraq;
- **Education** due to increased schools funding associated with the election commitment School infrastructure – investing in our schools together with increased higher education funding reflecting the majority of the *Our Universities* measures;
- **Health** due to a continued increase in the use of medical and pharmaceutical services over the forward estimates period, increasing costs for the provision of medical services and a continuing trend towards newer and more expensive drugs under the Pharmaceutical Benefits Scheme; and
- **Social security and welfare** due to the *Welfare to Work* package as well as the continued effect of indexation of payments together with the demographic and social factors that affect demand driven programmes.

Estimates presented in Table 3 above are explained in greater detail for each individual function in the following pages.

## General public services

**Table 4: Summary of expenses**

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Legislative and executive affairs	850	788	826	941	787
Financial and fiscal affairs	3,730	3,685	3,864	3,763	3,798
Foreign affairs and economic aid(a)	2,936	3,063	2,885	3,041	3,138
General research	2,206	2,324	2,455	2,512	2,509
General services	539	576	629	648	657
Government superannuation benefits	2,487	2,363	2,409	2,434	2,479
<b>Total general public services(b)</b>	<b>12,748</b>	<b>12,799</b>	<b>13,067</b>	<b>13,339</b>	<b>13,368</b>

(a) In order to better reflect the Australian Federal Police's role in overseas development and assistance missions (such as the Regional Assistance Mission to the Solomon Islands), approximately a third of its departmental funding has been reclassified from the other public order and safety sub-function (public order and safety) to the foreign affairs and economic aid sub-function (general public services).

(b) There has been some reclassification of expenditure that was previously reported under the Aboriginal advancement nec sub-function (social security and welfare) to other primary functions.

### Nature of expenses and major trends

The general public services function includes expenses relating to the organisation and operation of government. This includes: expenses related to the Parliament, Governor-General and conduct of elections; expenses related to the collection of taxes, and management of public funds and public debt; and assistance to developing countries including assistance initiatives in the Pacific, contributions to international organisations and the operations of the foreign service. It also includes: expenses related to research in areas not otherwise connected with a specific function; expenses related to overall economic and statistical services and government superannuation benefits (excluding nominal interest expenses on unfunded liabilities which are included under the nominal superannuation interest sub-function in the other purposes function).

Expenses within the function tend to fluctuate over the budget and forward estimates period partly due to one-off factors such as the preparation for a federal election in 2007-08 (legislative and executive affairs sub-function) and the 2006 Census (financial and fiscal affairs sub-function).

General research sub-function expenses are expected to grow over the forward estimates period reflecting the on-going impact of the *Backing Australia's Ability – An Innovation Plan for the Future* package, announced in January 2001 and the *Backing Australia's Ability – Building Our Future Through Science and Innovation* package announced in May 2004. Fluctuations in the foreign affairs and economic aid sub-function over the Budget and forward years are due to timing effects in Australia's contributions to multilateral development banks. The increase in expenses in 2008-09 for this sub-function is due to the impact of the Government's decision to write off a proportion of Iraq's debt to Australia.

## Defence

**Table 5: Summary of expenses**

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Defence	14,190	15,600	15,851	16,791	17,238
<b>Total defence</b>	<b>14,190</b>	<b>15,600</b>	<b>15,851</b>	<b>16,791</b>	<b>17,238</b>

### Nature of expenses and major trends

Expenses in this function are within the Defence portfolio and support operations and delivery of navy, army, air and intelligence capabilities and strategic policy in the defence of Australia and its national interests.

Total annual expenses for the Defence function rise by over \$1.6 billion over the period 2005-06 to 2008-09.

The growth and pattern of expenditure is due to a number of factors. Firstly, there is the influence of significant funding increases for investments in capability announced by the Government in *Defence 2000 – Our Future Defence Force* (the 2000 White Paper). Secondly, there are variations in funding levels for major Australian Defence Force deployments, such as the operations in Iraq.

The remaining growth in expenses is largely due to changes in price together with additional funding provided in this and previous budgets for North West Shelf surveillance, logistics, military personnel costs and initiatives, and maintenance of the Defence estate.

**Public order and safety**

**Table 6: Summary of expenses**

	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m
Courts and legal services	663	716	772	824	832
Other public order and safety(a)	1,828	2,005	2,020	2,036	2,061
<b>Total public order and safety</b>	<b>2,490</b>	<b>2,721</b>	<b>2,792</b>	<b>2,860</b>	<b>2,892</b>

(a) In order to better reflect the Australian Federal Police's role in overseas development and assistance missions (such as the Regional Assistance Mission to the Solomon Islands), approximately a third of its departmental funding has been reclassified from the other public order and safety sub-function (public order and safety) to the foreign affairs and economic aid sub-function (general public services).

**Nature of expenses and major trends**

Expenses for the public order and safety function support the administration of the Federal legal system and the provision of legal services, including legal aid, to the community. Public order and safety expenses also include law enforcement activities and the protection of Australian Government property.

Expenses for the courts and legal services sub-function increase from 2004-05 to 2007-08 reflecting the new family law system. The increase in expenditure from 2004-05 to 2005-06 for the other public order and safety sub-function is a result of new protective security and regional counter-terrorism measures.



## Education

**Table 7: Summary of expenses**

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Higher education	4,735	5,164	5,353	5,528	5,660
Vocational and other education	1,425	1,571	1,590	1,612	1,635
Non-government schools	5,091	5,508	5,916	6,338	6,670
Government schools	2,595	2,851	3,023	3,181	3,234
<i>Schools</i>	7,686	8,359	8,939	9,519	9,904
Student assistance	569	530	547	569	598
General administration	1	1	1	1	1
School education - specific funding	118	105	111	107	107
<b>Total education</b>	<b>14,533</b>	<b>15,729</b>	<b>16,541</b>	<b>17,336</b>	<b>17,905</b>

### Nature of expenses and major trends

Education expenses support the delivery of education services through: higher education institutions; vocational education and training providers (including technical and further education institutions); and government (state and territory) and non-government schools.

Expenses under the student assistance sub-function include the ABSTUDY scheme, Assistance for Isolated Children and income support for students aged twenty-five years and over through AUSTUDY.

Total expenses for this function are estimated to increase by 10.1 per cent in real terms over the three forward years, 2006-07 to 2008-09, or 3.3 per cent annually on average, with expenses on higher education and schools being the main drivers.

Growth in the higher education sub-function from 2004-05 to 2005-06 reflects the impact of the majority of the *Our Universities* package effective 1 January 2005. Funding associated with *Our Universities* continues to grow over the forward years, along with increases in funding under the Commonwealth Grant Scheme, increases to the number of higher education student places and scholarships and additional funding for capital projects. Growth is also due to the application of the higher education indexation factor.

Growth in expenses relating to schools is driven by funding provided under the *Schools Assistance Act 2004* (the Act). Estimated Australian Government funding of \$33 billion, including expenses for the election commitment *\$1 billion Investment In Our School Infrastructure*, will be provided to and through the states and territories over the four year period 2005 to 2008 (calendar year) under the Act.

The student assistance sub-function will decline between 2004-05 and 2005-06 as a result of the closure of the Student Financial Supplementation Scheme to new borrowers.

## Health

**Table 8: Summary of expenses**

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Medical services and benefits(a)	14,672	15,688	16,053	16,530	17,067
Hospital services	1,663	1,808	1,951	2,108	2,272
Health care agreements	8,008	8,407	8,852	9,310	9,478
<i>Hospital services and health care agreements</i>	<i>9,671</i>	<i>10,214</i>	<i>10,803</i>	<i>11,418</i>	<i>11,750</i>
Pharmaceutical services and benefits	7,214	7,536	8,025	8,735	9,615
Aboriginal and Torres Strait Islander health	312	374	363	381	408
Health services	1,218	1,211	1,207	1,195	1,170
Other health services	1,566	1,621	1,687	1,752	1,843
<i>Other health services</i>	<i>2,784</i>	<i>2,832</i>	<i>2,895</i>	<i>2,947</i>	<i>3,013</i>
General administration	633	655	654	669	687
Health assistance to the aged	254	244	249	257	272
<b>Total health(b)</b>	<b>35,541</b>	<b>37,544</b>	<b>39,041</b>	<b>40,937</b>	<b>42,812</b>

(a) The financial impact of premium growth on the forward estimates for the Private Health Insurance Rebate has been allocated to the contingency reserve.

(b) There has been some reclassification of expenditure that was previously reported under the Aboriginal advancement nec sub-function (social security and welfare) to other primary functions.

### Nature of expenses and major trends

The health function includes expenses relating to: medical services funded through Medicare and the Private Health Insurance Rebate (medical services and benefits sub-function); provision of in-hospital services to eligible veterans and their dependants (hospital services sub-function); funding under Australian Health Care Agreements between the Australian Government and the states and territories (health care agreements sub-function); and the Pharmaceutical Benefits and Repatriation Pharmaceutical Benefits Schemes (pharmaceutical services and benefits sub-function).

The major purpose of health function expenditure is to ensure that all Australians have access to essential health services through a range of providers and without excessive price barriers.

Expenses related to health are likely to be a major, if not the major, contributor to increased Australian Government spending in the future. Total Government health spending is expected to remain at around 4 per cent of GDP over the Budget and forward estimates years.

Total expenses for this function are estimated to increase by 10.3 per cent in real terms over the three forward years, or on average by around 3.3 per cent per annum. This growth is most pronounced in the areas of hospital services and pharmaceutical services and benefits.

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Medical services and benefits funded through Medicare and the Private Health Insurance Rebate are the main contributors to health function expenses, making up around 40 per cent of total health expenditure.

The hospital services sub-function has average annual growth in real terms of 6.0 per cent due to an ageing and increasingly frail veteran community requiring more hospital services.

The trend in the estimates for the health care agreements sub-function is driven by 3.0 per cent average annual growth, in real terms, in funding for the Australian Health Care Agreements over the life of the current agreements that cover the period 1 July 2003 to 30 June 2008.

The expense for the pharmaceutical services and benefits sub-function is one of the fastest growing health expenses and is forecast to grow at an average of 5.4 per cent per annum in real terms. This growth is driven by a combination of an ageing population and demand for newer and more expensive drugs.

**Box 6.1: Pharmaceutical services and benefits**

**Table 8.1: Trends in major components of the pharmaceutical services and benefits sub-function**

	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m
Pharmaceutical Benefits (Concessional)(a)	4,302	<b>4,644</b>	4,993	5,480	6,078
Pharmaceutical Benefits (General)(a)	1,073	<b>1,130</b>	1,171	1,297	1,442
Repatriation Pharmaceutical Benefits Scheme(b)	480	<b>507</b>	546	595	642
Highly Specialised Drugs(a)	464	<b>521</b>	572	628	684
Other(c)	712	<b>560</b>	570	560	592
Sub-total Administered Items	7,031	7,362	7,852	8,560	9,438
Departmental Expenses(d)	183	<b>174</b>	173	175	177
<b>Total</b>	<b>7,214</b>	<b>7,536</b>	<b>8,025</b>	<b>8,735</b>	<b>9,615</b>

(a) For a detailed discussion of the Pharmaceutical Benefits Scheme, refer to Outcome 2 of *Health and Ageing Portfolio Budget Statements 2005-06*.

(b) Veterans' Pharmaceutical Services are covered under Outcome 2 of the *Department of Veterans' Affairs (Defence Portfolio) Portfolio Budget Statements 2005-06*.

(c) Subsumed within Outcomes 1 and 2 of *Health and Ageing Portfolio Budget Statements 2005-06*. The decrease in 'Other' in 2005-06 is attributable to the fulfilment of prevalence cohort immunisations for the Meningococcal C Vaccination Programme.

(d) Approximately 20 per cent of Health Insurance Commission departmental expenses and 14 per cent of Health and Ageing departmental expenses are allocated to this sub-function.

## Social security and welfare

**Table 9: Summary of expenses**

	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m
Assistance to the aged	28,220	29,876	31,656	33,483	35,310
Assistance to veterans and dependents	6,017	6,136	6,185	6,220	6,216
Assistance to people with disabilities	11,658	12,308	12,829	13,454	14,207
Assistance to families with children	25,458	26,691	27,995	28,584	29,307
Assistance to the unemployed	5,181	5,041	5,676	6,164	6,509
Assistance to the sick	87	88	87	86	77
<i>Assistance to the unemployed and sick</i>	5,269	5,129	5,763	6,250	6,586
Common youth allowance	2,219	2,347	2,487	2,545	2,618
Other welfare programmes	1,273	1,355	1,422	1,483	1,535
Aboriginal advancement nec(a)	1,367	1,419	1,452	1,478	1,510
General administration	2,333	2,302	2,349	2,447	2,499
<b>Total social security and welfare</b>	<b>83,814</b>	<b>87,564</b>	<b>92,138</b>	<b>95,943</b>	<b>99,789</b>

(a) There has been some reclassification of expenditure that was previously reported under the Aboriginal advancement nec sub-function (social security and welfare) to other primary functions.

### Nature of expenses and major trends

The social security and welfare function includes pensions and services to the aged, services to the unemployed, assistance to people with disabilities, a variety of assistance to families with children, income support and compensation for veterans and their dependants, and advancement programmes for Aboriginal and Torres Strait Islander people.

Social security and welfare function expenses are estimated to total around \$87.6 billion in 2005-06 and grow significantly over the forward years. The sub-functions contributing most to the growth in the forward years are the assistance to the aged, and assistance to people with disabilities. The main driver in growth in these sub-functions is the indexation of payments, including maintaining the single rate of age and disability pensions at a minimum of 25 per cent of Male Total Average Weekly Earnings. The growth also reflects demographic and social factors such as the ageing of the population and expected developments in the economy and the labour market.

There has been an increase in the assistance to families with children sub-function in 2005-06 and in the forward years due to the increased rate of Family Tax Benefit Part B announced during the election campaign.

Part of the increase in the assistance to the unemployed, assistance to people with disabilities and assistance to families with children sub-functions is a result of the Government's *Welfare to Work* package and changes to Family Tax Benefit arrangements.

## Housing and community amenities

**Table 10: Summary of expenses**

	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m
Housing	1,457	1,467	1,580	1,618	1,636
Urban and regional development	155	215	148	123	132
Environment protection	274	286	274	251	126
<b>Total housing and community amenities</b>	<b>1,887</b>	<b>1,968</b>	<b>2,003</b>	<b>1,992</b>	<b>1,894</b>

### Nature of expenses and major trends

The housing and community amenities function includes the Australian Government's contribution to the *Commonwealth State Housing Agreement*, expenses of the Defence Housing Authority and various regional development and environment protection programmes.

The moderate growth in the housing sub-function in 2006-07 and 2007-08 is primarily due to the increased expenditure relating to Defence housing requirements, in support of the personnel to be assigned to the Headquarters Joint Operation Command to be located in Bungendore NSW.

The increase in the urban and regional development sub-function in 2005-06 primarily reflects an expansion of the Sustainable Regions Programme. The decrease from 2005-06 to 2007-08 reflects the finalisation of the pilot Sustainable Regions programme and lower expenses under the Regional Partnerships programme.

Expenses under the environment protection sub-function decrease between 2007-08 and 2008-09 due to the termination of funding for the Natural Heritage Trust in 2007-08. The remaining decrease over the two years 2007-08 and 2008-09 reflects the termination in 2007-08 of some measures announced as part of the Climate Change Strategy. These measures are expected to be reviewed and considered in the 2008-09 Budget.

## Recreation and culture

**Table 11: Summary of expenses**

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Broadcasting	1,191	1,240	1,225	1,238	1,241
Arts and cultural heritage	825	888	876	888	874
Sport and recreation	217	308	242	225	201
National estate and parks	240	234	232	211	156
<b>Total recreation and culture(a)</b>	<b>2,473</b>	<b>2,670</b>	<b>2,575</b>	<b>2,563</b>	<b>2,472</b>

(a) There has been some reclassification of expenditure that was previously reported under the Aboriginal advancement nec sub-function (Social Security and Welfare) to other primary functions.

### Nature of expenses and major trends

Recreation and culture function expenses support: public broadcasting; the regulatory framework for Australia's broadcasting sector; cultural institutions; funding for the arts and the film industry; assistance to sport and recreation activities; and the management and protection of national parks and other world heritage areas. This function also includes expenses relating to the protection and preservation of historic sites and buildings, including war graves.

Total expenses for the recreation and culture function fluctuate over the period from 2004-05 to 2008-09. Expenses under the national estate and parks sub-function decrease between 2007-08 and 2008-09 due to the cessation of funding for the Natural Heritage Trust in 2007-08. The growth in the arts and cultural heritage sub-function in 2005-06 reflects in part, increased funding associated with the election commitment A World Class Australian Film Industry.

Higher expenses in the sport and recreational sub-function in 2005-06 primarily reflect a direct payment to the Victorian Government to assist with costs associated with staging the Melbourne 2006 Commonwealth Games. It also reflects additional funding under the programme Building a Healthy, Active Australia – Active After-school Communities. This programme concludes in 2007-08, contributing to the declining trend over the forward years for this sub-function. This trend is partially offset by the additional funding provided for elite sport initiatives in the 2005-06 Budget.

## Fuel and energy

**Table 12: Summary of expenses**

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Fuel and energy	3,871	4,212	4,198	4,340	4,848
<b>Total fuel and energy</b>	<b>3,871</b>	<b>4,212</b>	<b>4,198</b>	<b>4,340</b>	<b>4,848</b>

### Nature of expenses and major trends

This function includes expenses for the Energy Grants Credits Scheme, Cleaner Fuels Grants Scheme and the Fuels Sales Grants Scheme, which are administered by the Australian Taxation Office. The Business Credits Scheme will replace the Energy Grants Credits Scheme on 1 July 2006.

This function also includes expenses of the Department of the Environment and Heritage for programmes funded under *A New Tax System – Measures for a Better Environment* package, the *Climate Change Strategy* measures and the *Securing Australia's Energy Future* measures. Also included within this function are expenses for programmes relating to the production of alternative fuels including ethanol and biodiesel, which are administered by the Department of Industry, Tourism and Resources and the Australian Taxation Office respectively.

Expenses within this function increase in 2005-06 due to the introduction of the Government's initiative *Securing Australia's Energy Future*, and an expected increase in outlays in the Energy Grants Credits Scheme as a result of expected improvement in mining production and increases in rail and road transport activity. Following the replacement of the Energy Grants Credits Scheme with the Business Credits Scheme on 1 July 2006, the function is expected to have significant growth from 2006-07 to 2008-09. However growth in 2006-07 will be offset by the cessation of the Fuel Sales Grant Scheme.

## Agriculture, forestry and fishing

**Table 13: Summary of expenses**

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Wool industry	54	58	59	60	60
Grains industry	125	126	122	121	100
Dairy industry	326	316	307	296	288
Cattle, sheep and pig industry	121	124	123	124	124
Fishing, horticulture and other agriculture	229	202	195	196	190
General assistance not allocated to specific industries	370	378	359	340	324
Rural assistance	457	279	136	59	26
Natural resources development	404	861	1,096	1,041	343
General administration	177	175	172	170	167
<b>Total agriculture, forestry and fishing</b>	<b>2,263</b>	<b>2,520</b>	<b>2,571</b>	<b>2,408</b>	<b>1,622</b>

### Nature of expenses and major trends

Agriculture, forestry and fishing function expenses support assistance to primary producers, forestry, fishing, land and water resources management, quarantine services and contributions to research and development.

Expenses within this function are expected to increase in 2005-06 and 2006-07 driven by substantial increases in expenditure in the natural resources development sub-function largely due to the expenditure of the Australian Water Fund in 2005-06. The Australian Water Fund will provide \$2 billion over six years with significant funding in 2005-06 until 2007-08. The Australian Water Fund will support investment in water infrastructure, improved water management and better practices in the stewardship of Australia's water resources.

The 36 per cent decrease in expenses over the four year period from 2005-06 to 2008-09 reflects the expected cessation of drought related measures within the rural assistance sub-function, due to an assumed return to normal seasonal conditions in Australia. The decrease is also attributable to the termination of funding for the Natural Heritage Trust and the National Action Plan on Salinity and Water Quality under the natural resources development sub-function.

Other significant expenses on conservation and sustainable use and repair of Australia's natural environment are included in the environment protection sub-function (housing and community amenities function) and the national estate and parks sub-function (recreation and culture function).



## Manufacturing and mining

**Table 14: Summary of expenses**

	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m
Mining, manufacturing and construction	1,754	1,916	1,820	1,802	1,833
<b>Total mining, manufacturing and construction</b>	<b>1,754</b>	<b>1,916</b>	<b>1,820</b>	<b>1,802</b>	<b>1,833</b>

### Nature of expenses and major trends

Expenses under this function relate to the manufacturing and export sectors, and are designed to improve the efficiency and competitiveness of Australian industries. Major expenses include programmes specific to the automotive, textile clothing and footwear and pharmaceutical industries. Expenses also include Australian Government assistance to exporters through direct financial assistance for the development of export markets, information and promotional assistance, finance and insurance services, and the development of trade policy, and programmes providing research and development assistance grants and a programme of strategic investment incentives.

The introduction of a new textile clothing and footwear Strategic Investment Programme in 2006-07 will provide a more strategically targeted level of assistance than the current textile clothing and footwear programme over the forward estimates.

The slight decline in expenses from 2006-07 to 2007-08 reflects a lower number of projects being funded under the strategic investment coordination process. Increased expenditure in 2008-09 includes higher grant payments under the Commercial Ready Programme.

## Transport and communication

**Table 15: Summary of expenses**

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Communication	525	486	421	360	323
Rail transport	15	118	45	31	45
Air transport	156	142	125	125	125
Road transport	1,682	1,670	2,015	2,163	2,021
Sea transport	213	222	234	233	233
Other transport and communication	131	168	132	130	132
<b>Total transport and communication</b>	<b>2,723</b>	<b>2,806</b>	<b>2,972</b>	<b>3,042</b>	<b>2,879</b>

### Nature of expenses and major trends

Transport and communication function expenses support the infrastructure and regulatory framework for Australia's transport and communications sectors.

Expenses in some sub-functions fluctuate from 2004-05 to 2008-09 reflecting the irregular expenditure patterns associated with the commencement and/or completion of major programmes and one-off projects. The function includes expenses associated with the Government's AusLink national land transport network, involving expenditure on both road and rail.

The decline in the communication sub-function over the period to 2008-09 reflects the conclusion of programmes associated with several Australian Government telecommunication and information technology initiatives, including the Telstra Social Bonus 2, the response to the Telecommunications Service (Besley) Inquiry and the Building on IT strengths Programme.

The increase in the 2005-06 rail transport sub-function reflects rail funding under AusLink and the payment made by the Government to the Australia Rail Track Corporation for new rail infrastructure projects on the interstate rail system.

The high level of expenses in the air transport sub-function in 2004-05 and 2005-06 is primarily due to a one-off funding boost to regional airport security.

The overall increase in the road transport sub-function from 2004-05 to 2008-09 is primarily a result of expenses associated with AusLink. Since the last budget, the Government has increased funding for land transport by approximately \$1.2 billion for the five years to 2008-09.

The Government also provides untied funding to local government through Financial Assistance Grants that are identified for roads – see the general purpose inter-government transactions sub-function (other purposes function).

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Major components of the road transport sub-function are outlined in further detail in Box 6.2 below.

**Box 6.2: Components of road transport funding**

**Table 15.1: Trends in major components of the road transport sub-function**

	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m
AusLink(a)	1,265	<b>1,225</b>	1,562	1,732	1,635
Roads to Recovery	259	<b>341</b>	343	330	330
Road Safety Black Spot Programme	45	<b>45</b>	45	45	-
Other	113	<b>59</b>	65	56	56
<b>Total(b)</b>	<b>1,682</b>	<b>1,670</b>	<b>2,015</b>	<b>2,163</b>	<b>2,021</b>

(a) Largely Specific Purpose Payments to the states but with a small additional component for land transport research.

(b) See Outcome 1 of the Transport and Regional Services Portfolio Budget Statements 2005-06.

## Other economic affairs

**Table 16: Summary of expenses**

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Tourism and area promotion	216	204	190	184	129
Vocational and industry training	617	691	744	789	823
Labour market assistance to job seekers and industry	1,940	1,828	1,972	2,062	1,985
Industrial relations	381	271	243	286	259
Immigration	808	899	916	935	969
<i>Total labour and employment affairs</i>	<i>3,746</i>	<i>3,689</i>	<i>3,876</i>	<i>4,072</i>	<i>4,037</i>
Other economic affairs nec	820	889	857	844	847
<b>Total other economic affairs</b>	<b>4,782</b>	<b>4,782</b>	<b>4,923</b>	<b>5,100</b>	<b>5,013</b>

### Nature of expenses and major trends

The other economic affairs function includes expenses on tourism and area promotion, labour market assistance, immigration, industrial relations and other economic affairs not elsewhere classified.

Estimates for the labour market assistance to job seekers and industry sub-function reflect an overall increase in resourcing to the Job Network, Work for the Dole and other work assistance programs. The Government's *Welfare to Work* reform package increases the expenditure on labour market assistance to job seekers although this increase is partially offset by improved efficiencies in Job Network arrangements to be implemented from 1 July 2005.

Continuing growth in the vocational and industry training sub-function is due to an expected increase in apprenticeships/traineeships commencements.

The decline between 2007-08 and 2008-09 in the tourism and area promotion sub-function reflects the conclusion of additional funding arrangements announced in the context of the 2003 White Paper on Tourism.

## Other purposes

Table 17: Summary of expenses

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Interest on Australian Government's behalf	3,896	3,614	3,532	3,525	3,356
Interest on behalf of states and territories	11	1	0	0	0
Interest received on Australian Government stock	0	0	0	0	0
<i>Public debt interest</i>	3,907	3,614	3,532	3,525	3,356
Nominal superannuation interest	4,882	5,654	5,478	5,766	5,894
General revenue assistance - states and territories	794	1,146	258	262	97
General capital assistance - states and territories	0	0	0	0	0
Debt assistance	33	220	0	0	0
Local government assistance	1,556	1,628	1,690	1,739	1,804
Revenue assistance to the States and Territories	160	165	169	173	178
Assistance to other governments	493	531	479	475	485
<i>General purpose inter-government   transactions</i>	3,034	3,690	2,596	2,650	2,563
Natural disaster relief	84	104	104	94	94
Contingency reserve(a)	36	187	2,604	4,914	10,095
<b>Total other purposes</b>	<b>11,943</b>	<b>13,250</b>	<b>14,314</b>	<b>16,948</b>	<b>22,002</b>

(a) Asset sale related expenses are treated as a component of the contingency reserve.

## Nature of expenses and major trends

The other purposes function includes expenses incurred in the servicing of public debt interest, and assistance to the state and territory governments and local government. The function also includes items classified to natural disaster relief, the contingency reserve, and costs of asset sales.

The increase between 2004-05 and 2005-06 in general revenue assistance to the states and territories reflects compensation for GST revenue forgone to the states and territories in allowing some taxpayers who are voluntarily registered for GST to pay and lodge annually. The decline in this sub-function from 2005-06 reflects the fact that the current National Competition Policy (NCP) agreements only provide for competition payments to 30 June 2006. A Council of Australian Governments (COAG) review of the terms and operation of the NCP arrangements, including an assessment of the future of NCP payments, is scheduled to be completed in 2005. This decline is offset by Budget Balancing Assistance as a result of the Reform of state taxes – payment of Budget Balancing Assistance measure. The Budget Balancing Assistance will facilitate the elimination of a range of inefficient state taxes consistent with the *Intergovernmental Agreement on the Reform of Commonwealth – State Financial Relations*.

The drop-off in the debt assistance sub-function between 2005-06 and 2006-07 reflects the cessation of the agreed debt redemption arrangements between the Australian Government and the states in 2005-06.

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The increase between 2004-05 and 2005-06 in the nominal superannuation interest expense for superannuation reflects the increase in the total unfunded liability for the civilian and military schemes, with the balance represented by the increase in the nominal interest rates used by the actuary in calculating military superannuation liabilities.

The increased expenses in the contingency reserve from 2005-06 over the forward years is largely due to the conservative bias allowance – an allowance that compensates for the trend in expenses on existing Australian Government programmes to be underestimated by agencies in the forward years. The nature of the contingency reserve is discussed in more detail at Appendix B.

## GENERAL GOVERNMENT NET CAPITAL INVESTMENT

In 2005-06, forecast net capital investment has increased by \$605 million since the 2004-05 MYEFO. This increase is due to the combined effect of new policy decisions of \$251 million and parameter and other variations of \$354 million.

Net capital investment estimates for the period from 2004-05 to 2008-09 are provided in Table 18.

**Table 18: Estimates of total net capital investment**

	2004-05		2005-06	2006-07	2007-08	2008-09
	MYEFO(a)	Revised	Estimate	Projections		
<b>Total net capital investment (\$m)</b>	<b>705</b>	<b>652</b>	<b>1,020</b>	<b>617</b>	<b>1</b>	<b>-264</b>
Real growth on previous year(%) <sup>(b)</sup>	6.3	13.4	49.8	-39.9	-99.8	-
Per cent of GDP	0.1	0.1	0.1	0.1	0.0	0.0

(a) As published in the *Mid-Year Economic and Fiscal Outlook 2004-05*.

(b) Real growth is calculated using the non-farm gross domestic product (GDP) deflator.

Net capital investment of \$652 million is expected in 2004-05, largely reflecting — various refurbishment/construction projects in the Department of Finance and Administration's property portfolio (such as the construction of the Immigration Reception and Processing Centre on Christmas Island), as well as activities associated with the construction of a nuclear reactor by the Australian Nuclear Science and Technology Organisation; security enhancements of various overseas diplomatic missions, overseen by the Department of Foreign Affairs and Trade (this is partially offset by the re-phasing of land purchases for chanceries in Bangkok, Jakarta and Kuala-Lumpur from 2004-05 into 2005-06); purchase of equipment by the Australian Federal Police for activities in Papua New Guinea, as well as the establishment of a National Protection Operations Centre for Australian diplomats; purchase of biological and chemical agent screening equipment, cargo management information technology infrastructure and new container x-ray machines by the Australian Customs Service; and investment in computer equipment and software by Centrelink. These investments have been partially offset by property sales by the Department of Defence and the Defence Housing Authority.

### Reconciliation of net capital investment since the 2004-05 Budget

Table 19 provides a reconciliation of the 2004-05 Budget, 2004-05 MYEFO and 2005-06 Budget net capital investment estimates, showing the effect of policy decisions and economic parameter and other variations since the estimates were published in the 2004-05 Budget.

**Table 19: Reconciliation of net capital investment**

	Estimates		Projections	
	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
<b>2004-05 Budget net capital investment</b>	<b>148</b>	<b>45</b>	<b>-125</b>	<b>-429</b>
<b>Changes between 2004-05 Budget and MYEFO</b>				
Effect of policy decisions	227	116	104	172
Effect of parameter and other variations	330	254	244	133
<b>Total variations</b>	<b>557</b>	<b>370</b>	<b>348</b>	<b>304</b>
<b>2004-05 MYEFO net capital investment</b>	<b>705</b>	<b>415</b>	<b>223</b>	<b>-125</b>
<b>Changes between MYEFO and 2005-06 Budget</b>				
Effect of policy decisions	12	251	166	83
Effect of parameter and other variations	-66	354	228	44
<b>Total variations</b>	<b>-54</b>	<b>605</b>	<b>394</b>	<b>127</b>
<b>2005-06 Budget net capital investment</b>	<b>652</b>	<b>1,020</b>	<b>617</b>	<b>1</b>

Discussion of changes between the 2004-05 MYEFO and the 2005-06 Budget, shown in the table above, can be found in Statement 2 (in the section titled Variations in net capital investment estimates). Further information on capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2005-06*.

### Net capital investment estimates by function

Table 20 provides estimates for Australian Government general government net capital investment by function for the period 2004-05 to 2008-09.

**Table 20: Estimates of net capital investment by function**

	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m
General public services	245	624	281	147	-67
Defence	-85	-57	47	-103	-85
Public order and safety	118	55	26	1	6
Education	5	0	1	3	-1
Health	157	21	2	-5	-4
Social security and welfare	59	84	41	-8	-29
Housing and community amenities	95	139	117	-7	-56
Recreation and culture	-50	62	35	-10	-15
Fuel and energy	0	-1	0	0	0
Agriculture, forestry and fishing	0	3	-4	4	4
Mining, manufacturing and construction	5	9	11	8	2
Transport and communications	28	56	-2	-7	-11
Other economic affairs	71	18	32	-5	-5
Other purposes	3	5	29	-17	-3
<b>Total net capital investment</b>	<b>652</b>	<b>1020</b>	<b>617</b>	<b>1</b>	<b>-264</b>



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Net capital investment is expected to rise between 2004-05 and 2005-06. This primarily reflects: the construction of the Christmas Island Immigration Reception and Processing Centre, the construction and fit-out of an extension to the Australian Security Intelligence Organisation's Central Office building, and various other construction projects managed by the Department of Finance and Administration; investment by the Australian Nuclear Science and Technology Organisation in a new nuclear reactor; the acquisition of land and refurbishment/security upgrades of various overseas missions by the Department of Foreign Affairs and Trade; and investment in information technology by several departments (including rebuilding the superannuation business system for the Australian Taxation Office and the implementation of the Department of Veterans' Affairs' information technology application development framework). This is partly offset by receipts from property sales by the Department of Defence and the Defence Housing Authority.

After 2005-06, net capital investment is expected to steadily decrease. This results from the conclusion of various construction projects, as well as the progressive conclusion of the Department of Foreign Affairs and Trade's overseas mission upgrades and various information technology-based projects.

Factors contributing to net capital investment, by function, include:

- **General Public Services** - the investment by the Department of Finance and Administration in its property portfolio, including construction of the Adelaide Law Courts building, construction and fit-out of an extension to the Australian Security Intelligence Organisation's Central Office building, and refurbishment of the Royal Australian Mint buildings and ANZAC Park East and West, investment by the Australian Nuclear Science and Technology Organisation in a new nuclear reactor at Lucas Heights, investment by the Commonwealth Scientific and Industrial Research Organisation (CSIRO) in new facilities under the CSIRO Infrastructure Plan, security enhancements, refurbishment and relocation of various overseas missions by the Department of Foreign Affairs and Trade, purchase of equipment by the Australian Federal Police for activities in Papua New Guinea and the Solomon Islands, and the provision of infrastructure in the Indian Ocean Territories by the Department of Transport and Regional Services;
- **Public Order and Safety** – the investment by the Australian Customs Service in additional cargo screening and x-ray equipment, cargo management information technology infrastructure, as well as equipment for the development of biometrics for border control;
- **Health** – the development of information technology systems associated with implementing the pharmaceutical provisions of the Australia-US Free Trade Agreement, developing a database register for a bowel cancer screening programme by the Department of Health and Ageing, and for investment in information technology infrastructure by the Health Insurance Commission for a range of measures, including the creation of eight new Medicare offices;

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- **Social Security and Welfare** – the investment in information technology infrastructure for Centrelink;
- **Housing and Community Amenities** – adjustments to the Defence Housing Authority's property portfolio, such as revisions to the estimated timing of certain property sales due to changes in the property market outlook;
- **Recreation and Culture** – the continuation of the facilities upgrade for the Australian Institute of Sport and ongoing capital works at the National Gallery of Australia, offset by the divestment of the Australian Broadcasting Corporation's Gore Hill property in 2004-05 and the sale of radio broadcasting licences in 2004-05. There is also a capital injection in 2005-06 arising from the establishment of the Australian Communications and Media Authority, which follows a return of capital from the amalgamated agencies in 2004-05;
- **Transport and Communications** – the development of information technology systems including the replacement of the Australian Transport Safety Bureau's aviation database and systems for the administration of AusLink; and
- **Other Economic Affairs** – the ongoing replacement and upgrade of various meteorological radars in the Bureau of Meteorology's radar network, as well as the replacement of various meteorological field offices and the purchase of ocean tidal gauges (as part of the Tsunami Early Warning measure), and the upgrade and redevelopment of immigration detention facilities by the Department of Immigration and Multicultural and Indigenous Affairs.

**APPENDIX A: EXPENSE BY FUNCTION AND SUB-FUNCTION****Table A1: Estimates of expenses by function and sub-function**

	Actuals	Estimates		Projections		
	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>General public services</b>						
Legislative and executive affairs	732	850	788	826	941	787
Financial and fiscal affairs	3,522	3,730	3,685	3,864	3,763	3,798
Foreign affairs and economic aid	2,162	2,936	3,063	2,885	3,041	3,138
General research	1,910	2,206	2,324	2,455	2,512	2,509
General services	453	539	576	629	648	657
Government superannuation benefits	2,069	2,487	2,363	2,409	2,434	2,479
<b>Total general public services(a)</b>	<b>10,848</b>	<b>12,748</b>	<b>12,799</b>	<b>13,067</b>	<b>13,339</b>	<b>13,368</b>
<b>Defence</b>	<b>12,937</b>	<b>14,190</b>	<b>15,600</b>	<b>15,851</b>	<b>16,791</b>	<b>17,238</b>
<b>Public order and safety</b>						
Courts and legal services	549	663	716	772	824	832
Other public order and safety	1,837	1,828	2,005	2,020	2,036	2,061
<b>Total public order and safety</b>	<b>2,386</b>	<b>2,490</b>	<b>2,721</b>	<b>2,792</b>	<b>2,860</b>	<b>2,892</b>
<b>Education</b>						
Higher education	4,549	4,735	5,164	5,353	5,528	5,660
Vocational and other education	1,332	1,425	1,571	1,590	1,612	1,635
Non-government schools	4,452	5,091	5,508	5,916	6,338	6,670
Government schools	2,284	2,595	2,851	3,023	3,181	3,234
<i>Schools</i>	6,735	7,686	8,359	8,939	9,519	9,904
Student assistance	650	569	530	547	569	598
General administration	0	1	1	1	1	1
School education - specific funding	130	118	105	111	107	107
<b>Total education</b>	<b>13,398</b>	<b>14,533</b>	<b>15,729</b>	<b>16,541</b>	<b>17,336</b>	<b>17,905</b>
<b>Health</b>						
Medical services and benefits	12,909	14,672	15,688	16,053	16,530	17,067
Hospital services	1,599	1,663	1,808	1,951	2,108	2,272
Health care agreements	7,512	8,008	8,407	8,852	9,310	9,478
<i>Hospital services and health care agreements</i>	9,110	9,671	10,214	10,803	11,418	11,750
Pharmaceutical services and benefits	6,752	7,214	7,536	8,025	8,735	9,615
Aboriginal and Torres Strait Islander health	255	312	374	363	381	408
Health services	963	1,218	1,211	1,207	1,195	1,170
Other health services	1,149	1,566	1,621	1,687	1,752	1,843
<i>Other health services</i>	2,111	2,784	2,832	2,895	2,947	3,013
General administration	506	633	655	654	669	687
Health assistance to the aged	139	254	244	249	257	272
<b>Total health(a)</b>	<b>31,783</b>	<b>35,541</b>	<b>37,544</b>	<b>39,041</b>	<b>40,937</b>	<b>42,812</b>
<b>Social security and welfare</b>						
Assistance to the aged	27,164	28,220	29,876	31,656	33,483	35,310
Assistance to veterans and dependents	5,737	6,017	6,136	6,185	6,220	6,216
Assistance to people with disabilities	10,694	11,658	12,308	12,829	13,454	14,207
Assistance to families with children	24,993	25,458	26,691	27,995	28,584	29,307

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**Table A1: Estimates of expenses by function and sub-function (continued)**

	Actuals		Estimates		Projections	
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Social security and welfare (continued)</b>						
Assistance to the unemployed	5,443	5,181	5,041	5,676	6,164	6,509
Assistance to the sick	86	87	88	87	86	77
<i>Assistance to the unemployed and the sick</i>	5,529	5,269	5,129	5,763	6,250	6,586
Common youth allowance	2,248	2,219	2,347	2,487	2,545	2,618
Other welfare programmes	637	1,273	1,355	1,422	1,483	1,535
Aboriginal advancement nec(a)	1,429	1,367	1,419	1,452	1,478	1,510
General administration	2,398	2,333	2,302	2,349	2,447	2,499
<b>Total social security and welfare</b>	<b>80,830</b>	<b>83,814</b>	<b>87,564</b>	<b>92,138</b>	<b>95,943</b>	<b>99,789</b>
<b>Housing and community amenities</b>						
Housing	1,247	1,457	1,467	1,580	1,618	1,636
Urban and regional development	138	155	215	148	123	132
Environment protection	250	274	286	274	251	126
<b>Total housing and community amenities</b>	<b>1,634</b>	<b>1,887</b>	<b>1,968</b>	<b>2,003</b>	<b>1,992</b>	<b>1,894</b>
<b>Recreation and culture</b>						
Broadcasting	1,097	1,191	1,240	1,225	1,238	1,241
Arts and cultural heritage	679	825	888	876	888	874
Sport and recreation	207	217	308	242	225	201
National estate and parks	185	240	234	232	211	156
<b>Total recreation and culture(a)</b>	<b>2,168</b>	<b>2,473</b>	<b>2,670</b>	<b>2,575</b>	<b>2,563</b>	<b>2,472</b>
<b>Fuel and energy</b>	<b>3,502</b>	<b>3,871</b>	<b>4,212</b>	<b>4,198</b>	<b>4,340</b>	<b>4,848</b>
<b>Agriculture, forestry and fishing</b>						
Wool industry	57	54	58	59	60	60
Grains industry	129	125	126	122	121	100
Dairy industry	114	326	316	307	296	288
Cattle, sheep and pig industry	130	121	124	123	124	124
Fishing, horticulture and other agriculture	168	229	202	195	196	190
General assistance not allocated to specific industries	384	370	378	359	340	324
Rural assistance	452	457	279	136	59	26
Natural resources development	423	404	861	1,096	1,041	343
General administration	181	177	175	172	170	167
<b>Total agriculture, forestry and fishing</b>	<b>2,038</b>	<b>2,263</b>	<b>2,520</b>	<b>2,571</b>	<b>2,408</b>	<b>1,622</b>
<b>Mining, manufacturing &amp; construction</b>	<b>1,609</b>	<b>1,754</b>	<b>1,916</b>	<b>1,820</b>	<b>1,802</b>	<b>1,833</b>
<b>Transport and communication</b>						
Communication	529	525	486	421	360	323
Rail transport	450	15	118	45	31	45

Statement 6: Expenses and Net Capital Investment

**Table A1: Estimates of expenses by function and sub-function (continued)**

	Actuals		Estimates		Projections	
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Transport and communication (continued)</b>						
Air transport	176	156	142	125	125	125
Road transport	1,356	1,682	1,670	2,015	2,163	2,021
Sea transport	204	213	222	234	233	233
Other transport and communication	101	131	168	132	130	132
<b>Total Transport and Communication</b>	<b>2,816</b>	<b>2,723</b>	<b>2,806</b>	<b>2,972</b>	<b>3,042</b>	<b>2,879</b>
<b>Other economic affairs</b>						
Tourism and area promotion	135	216	204	190	184	129
Vocational and industry training	624	617	691	744	789	823
Labour market assistance to job seekers and industry	1,750	1,940	1,828	1,972	2,062	1,985
Industrial relations	277	381	271	243	286	259
Immigration	753	808	899	916	935	969
<i>Total labour and employment affairs</i>	<i>3,403</i>	<i>3,746</i>	<i>3,689</i>	<i>3,876</i>	<i>4,072</i>	<i>4,037</i>
Other economic affairs nec	748	820	889	857	844	847
<b>Total other economic affairs</b>	<b>4,286</b>	<b>4,782</b>	<b>4,782</b>	<b>4,923</b>	<b>5,100</b>	<b>5,013</b>
<b>Other purposes</b>						
Interest on Australian Government's behalf	3,982	3,896	3,614	3,532	3,525	3,356
Interest on behalf of States and Territories	19	11	1	0	0	0
Interest received on Australian Government stock	0	0	0	0	0	0
<i>Public debt interest</i>	<i>4,001</i>	<i>3,907</i>	<i>3,614</i>	<i>3,532</i>	<i>3,525</i>	<i>3,356</i>
Nominal superannuation interest	4,898	4,882	5,654	5,478	5,766	5,894
General revenue assistance - states and territories	647	794	1,146	258	262	97
General capital assistance - states and territories	0	0	0	0	0	0
Debt assistance	37	33	220	0	0	0
Local government assistance	1,511	1,556	1,628	1,690	1,739	1,804
Revenue assistance to the States and Territories	171	160	165	169	173	178
Assistance to other governments	409	493	531	479	475	485
<i>General purpose inter-government transactions</i>	<i>2,775</i>	<i>3,034</i>	<i>3,690</i>	<i>2,596</i>	<i>2,650</i>	<i>2,563</i>
Natural disaster relief	62	84	104	104	94	94
Contingency reserve(b)	35	36	187	2,604	4,914	10,095
<b>Total other purposes</b>	<b>11,771</b>	<b>11,943</b>	<b>13,250</b>	<b>14,314</b>	<b>16,948</b>	<b>22,002</b>
<b>Total expenses</b>	<b>182,005</b>	<b>195,012</b>	<b>206,081</b>	<b>214,806</b>	<b>225,400</b>	<b>236,568</b>

- (a) There has been some reclassification of expenditure that was previously reported under the Aboriginal advancement nec sub-function (social security and welfare) to other primary functions.  
(b) Asset sale related expenses are now treated as a component of the contingency reserve.

## **APPENDIX B: THE CONTINGENCY RESERVE**

The contingency reserve (other purposes function) is an allowance, included in aggregate expenses figuring, to reflect anticipated events that cannot be assigned to individual programmes in the preparation of the Australian Government budget estimates. The reserve is an estimating device used to ensure that the budget estimates are based on the best information available at the time of the Budget. It is not a general policy reserve.

While the reserve ensures that aggregate estimates are as close as possible to expected outcomes, it is not appropriated. Allowances that are included in the reserve can only be drawn upon once they have been appropriated by Parliament. These allowances are removed from the reserve and allocated to specific agencies for appropriation and for outcome reporting closer to the time when they eventuate.

The contingency reserve makes allowance in the budget and forward years for anticipated events including the following:

- an allowance for the tendency for estimates of expenses for existing government policy to be revised upwards in the forward years;
- commercial-in-confidence and national security-in-confidence items that cannot be disclosed separately;
- decisions made too late for inclusion against individual agency estimates;
- the effect on the budget and forward estimates of economic parameter revisions received late in the process and hence not able to be allocated to individual agencies or functions; and
- provision for events and pressures that are reasonably expected to affect the budget estimates.

The contingency reserve also includes expenses associated with the Government's major asset sales and associated administration costs.