

STATEMENT 5: EXPENSES AND NET CAPITAL INVESTMENT

Statement 5 presents estimates of general government sector expenses and net capital investment, allocated according to the various functions of government, on a fiscal balance basis. These functions are based on an international standard classification of functions of government that is incorporated into the Government Finance Statistics (GFS) reporting framework.

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

Statement 5 focuses on short to medium term trends in estimated expenses and their underlying drivers. Consistent with this emphasis, much of Statement 5 explains year on year changes across the forward estimates period.

The main trends are:

- in 2015-16 the social security and welfare, health, defence and education functions account for nearly two thirds of total expenses, with social security and welfare accounting for slightly more than one third of total expenses;
- in real terms, the strongest growth across the budget and forward estimates is expected to occur in the social security and welfare function; and
- net capital investment in 2015-16 largely reflects continued investment in defence capital projects.

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OVERVIEW

Australian Government general government sector (GGS) accrual expenses are expected to increase by 0.9 per cent in real terms in 2015-16, with the growth rate increasing to 3.3 per cent in 2018-19, predominantly reflecting the implementation of the National Disability Insurance Scheme. Total expenses are expected to decline as a percentage of GDP from 26.2 per cent in 2015-16 to 25.8 per cent over the forward estimates.

Table 1.1: Estimates of general government sector expenses

	MYEFO	Revised	Estimate		Projections	
	2014-15	2014-15	2015-16	2016-17	2017-18	2018-19
Total expenses (\$b)	422.9	420.3	434.5	452.7	471.8	499.4
Real growth on previous year (%) ^(a)	-0.2	-0.2	0.9	1.7	1.8	3.3
Per cent of GDP	26.3	26.2	26.2	25.9	25.7	25.8

(a) Real growth is calculated using the consumer price index.

When presented in underlying cash terms, total payments are expected to decline as a percentage of GDP from 25.9 per cent in 2015-16 to 25.3 per cent over the forward estimates.

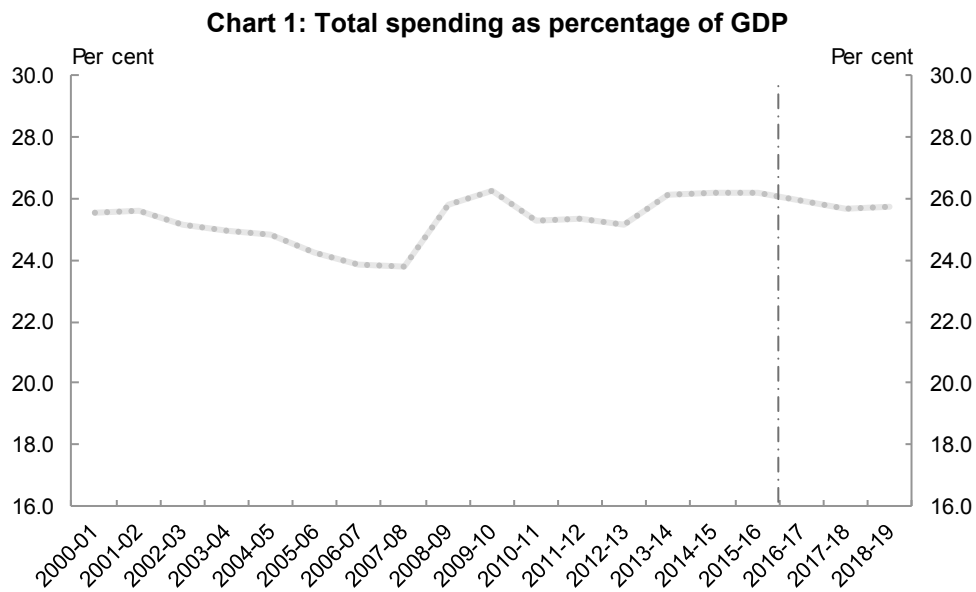
Table 1.2: Estimates of general government sector payments

	MYEFO	Revised	Estimate		Projections	
	2014-15	2014-15	2015-16	2016-17	2017-18	2018-19
Total payments (\$b)	416.5	415.0	429.8	444.9	464.3	491.1
Real growth on previous year (%) ^(a)	0.1	0.4	1.1	1.0	1.9	3.2
Per cent of GDP	25.9	25.9	25.9	25.5	25.3	25.3

(a) Real growth is calculated using the consumer price index.

As set out in Statement 3 of Budget Paper No. 1, the Government also reports spending on an underlying cash basis. When expressed in cash terms, Government spending is forecast to grow by an average of 1.5 per cent per annum in real terms over the four years to 2018-19.

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Over the period between 2007-08 and 2013-14, total expenditure rose as a percentage of GDP from 23.8 per cent of GDP in 2007-08 to an estimate of 26.2 per cent of GDP in 2013-14. Over the forward estimates, expenses are expected to decline to 25.8 per cent of GDP in 2018-19 (see Chart 1).

Table 2 provides a reconciliation of expense estimates between the 2014-15 Budget, the 2014-15 *Mid-Year Economic and Fiscal Outlook* (MYEFO) and the 2015-16 Budget showing the effect of policy decisions, and economic parameter and other variations.

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Table 2: Reconciliation of expense estimates

	Estimates			Projections	Total
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	
2014-15 Budget expenses	414,845	431,118	453,806	475,447	1,775,216
Changes from 2014-15 Budget to 2014-15 MYEFO					
Effect of policy decisions(a)	2,802	2,288	253	-1,418	3,925
Effect of parameter and other variations	5,251	3,078	2,038	1,281	11,647
Total variations	8,053	5,366	2,291	-137	15,572
2014-15 MYEFO expenses	422,898	436,484	456,097	475,310	1,790,788
Changes from 2014-15 MYEFO to 2015-16 Budget					
Effect of policy decisions(a)	669	3,887	1,912	2,276	8,743
Effect of economic parameter variations					
Total economic parameter variations	-25	-1,289	-468	-230	-2,012
<i>Unemployment benefits</i>	-213	12	423	596	817
<i>Prices and wages</i>	-84	-1,185	-1,441	-1,608	-4,317
<i>Interest and exchange rates</i>	-18	35	-11	-88	-82
<i>GST payments to the States</i>	290	-150	560	870	1,570
Public debt interest	-265	-455	-489	-594	-1,804
Programme specific parameter variations	-403	622	-653	-697	-1,131
Other variations	-2,538	-4,779	-3,745	-4,250	-15,312
Total variations	-2,563	-2,015	-3,443	-3,495	-11,515
2015-16 Budget expenses	420,335	434,469	452,654	471,816	1,779,273

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

The combined impact of policy decisions and variations has decreased expenses by \$11.6 billion over the four years from 2014-15 to 2017-18 compared to the 2014-15 MYEFO. The Government has made policy decisions which increase expenses by \$8.7 billion. Programme specific, parameter and other variations have decreased expenses by \$20.3 billion, \$7.4 billion of which is a result of the Government's decision to not proceed with the Paid Parental Leave Scheme.

Estimated expenses by function

Table 3 sets out the estimates of Australian Government GGS expenses by function for the period 2014-15 to 2018-19.

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Table 3: Estimates of expenses by function

	Estimates			Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
General public services	25,169	22,162	22,936	22,224	22,543
Defence	24,612	26,348	26,106	27,631	28,783
Public order and safety	4,580	4,885	4,851	4,735	4,806
Education	31,202	31,854	33,133	34,055	35,115
Health	67,037	69,381	71,634	74,076	76,987
Social security and welfare	149,107	154,000	159,654	170,719	186,869
Housing and community amenities	4,940	5,329	5,242	5,041	4,553
Recreation and culture	3,520	3,530	3,350	3,294	3,287
Fuel and energy	6,986	6,706	6,705	6,895	7,237
Agriculture, forestry and fishing	2,731	3,063	2,930	2,780	2,408
Mining, manufacturing and construction	3,218	3,142	3,129	3,082	3,092
Transport and communication	6,504	8,575	11,198	9,304	6,315
Other economic affairs	10,680	9,792	8,918	8,850	8,950
Other purposes	80,049	85,701	92,869	99,131	108,483
Total expenses	420,335	434,469	452,654	471,816	499,428

Major expense trends between 2014-15 and 2015-16, and from 2015-16 over the forward years include movements in the following functions:

- **general public services** – the decrease in expenses between 2014-15 and 2015-16 largely reflects the use of different discount rates applied to superannuation expenses and returning the level of official development assistance (ODA) expenditure in real terms to the levels that applied when ODA was last funded from Budget surpluses rather than debt. From 2015-16 to 2018-19 expenses in the general public services function are estimated to remain relatively stable;
- **defence** – the decrease in expenses from 2015-16 to 2016-17 largely reflects the practice of funding overseas operations on a year-by-year basis. Between 2015-16 and 2018-19, Defence expenses are projected to grow by 9.2 per cent in nominal terms (1.6 per cent in real terms);
- **education** – the increase in expenses from 2015-16 to 2018-19 largely reflects the Government's *Students First* school education policy, ongoing enrolment growth under the expanded higher education demand driven system, and an increase in the value of Higher Education Loan Programme loans which will vary with enrolment numbers and the number and value of HELP loans;
- **health** – the increase in expenses from 2015-16 to 2018-19 is driven by a range of programmes within the Medical Services and Benefits, Pharmaceutical Benefits and Services and Assistance to the States for public hospitals sub-functions. Higher demand for health services, and a growing and ageing population, continue to be significant drivers of increasing health costs;

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- **social security and welfare** – the increase in expenses from 2015-16 to 2018-19 largely reflects the implementation of the National Disability Insurance Scheme to support people with a significant and permanent disability, and an increasingly ageing population accessing age, disability and carer payments and residential and home care. This increase is partly offset by decreasing expenses in other social security and welfare programmes such as Family Tax Benefit and Paid Parental Leave;
- **housing and community amenities** – the decrease in expenses from 2015-16 to 2018-19 largely reflects the scheduled completion of payments made to state and territory governments under two National Partnership Agreements and forecast reductions of construction and acquisition of Defence Housing Australia properties;
- **transport and communication** – the fluctuating profile of expenses from 2015-16 to 2018-19 largely reflects infrastructure projects within the Rail Transport and Road Transport sub-functions, where the value of projects funded varies year on year, and payments correspond to project timelines; and
- **other purposes** – the increase in expenses from 2015-16 to 2018-19 largely reflects growing general revenue assistance payments (largely GST) to be made to the states and territories, increasing public debt interest costs and the conservative bias allowance component of the Contingency Reserve.

Government expenses are strongly influenced by underlying trends in spending in the social security and welfare, health and education functions (see Boxes 1 and 2). Together, these functions account for 58.7 per cent of all government expenses in 2015-16. Further details of spending trends against all functions, including movements in expenses from 2014-15 to 2015-16, are set out under individual function headings.

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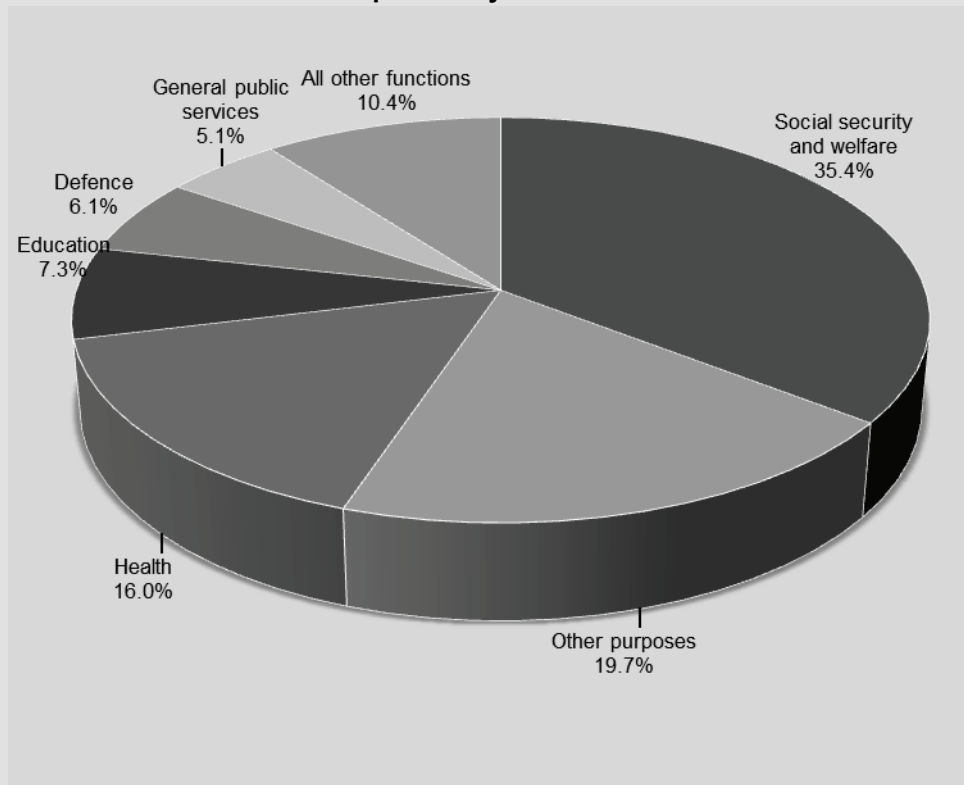
Box 1: Where does government spending go in 2015-16?

Government spending provides a wide range of services to the community. The most significant component of government spending relates to social security and welfare, with around one third of total expenses providing support to the aged, families with children, people with disabilities, veterans, carers and unemployed people.

Another one sixth of government expenses occur in health, including Medicare Benefits Schedule (MBS) and Pharmaceutical Benefits Scheme (PBS) payments. A similar amount is also transferred to the states and territories in general revenue assistance under the other purposes function.

The Government also provides significant investment under the education function, supporting government and non-government schools, as well as higher education and vocational education and training. The remainder is spent on defence and a range of other public services.

Chart 2: Expenses by function in 2015-16



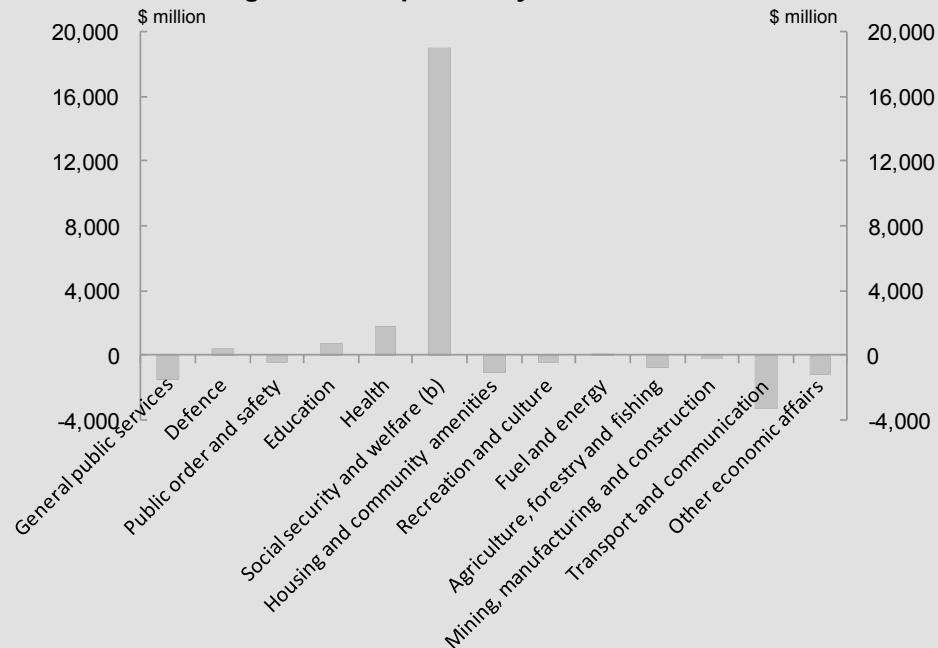
The estimates presented in the chart above are explained in greater detail under each individual function in the following pages.

Box 2: Trends in future spending

Social security and welfare expenses are projected to grow over the forward estimates. The key factor of growth is the implementation of the National Disability Insurance Scheme. Other factors driving growth include age, disability and carer payments and an increase in expenses associated with home care, home support, and residential and flexible aged care programmes, with demographic factors resulting in an increase in the number of people receiving these payments.

A number of major health programmes will continue to see expenditure growth in real terms, including the MBS, the Private Health Insurance Rebate, and payments to the states and territories for public hospital services. Spending on health is influenced by population growth and to some extent by the ageing of the population together with developments in health technology and the resulting use of new products and services.

Chart 3: Total real growth in expenses by function — 2015-16 to 2018-19^(a)

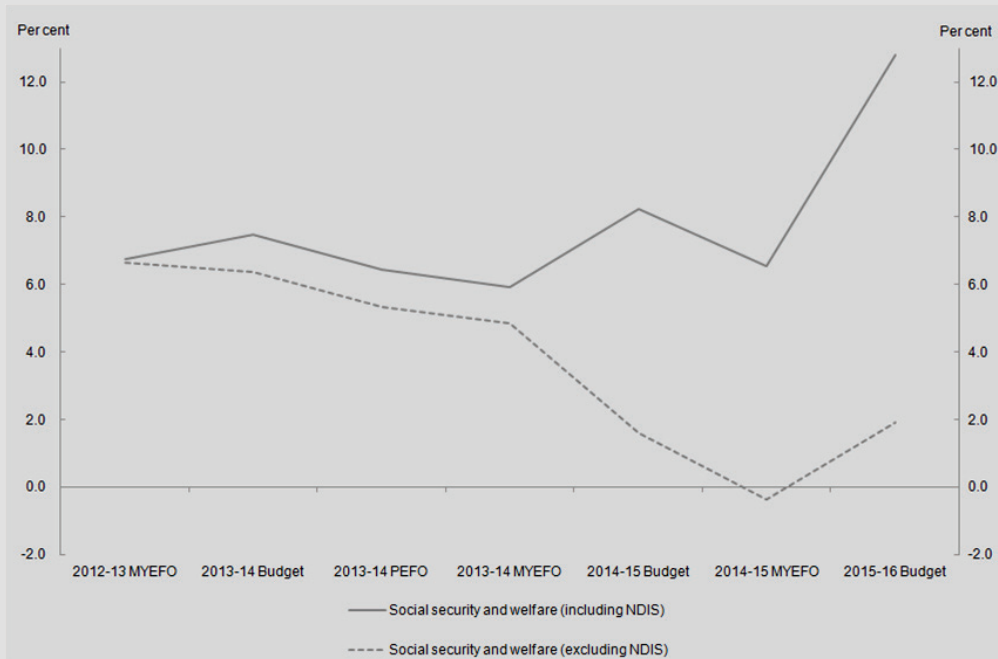


(a) The other purposes function is not included in this chart as it contains expenses for general revenue assistance to the state and territory governments (primarily GST), public debt interest, and the conservative bias allowance.
 (b) The growth in the social security and welfare function mainly reflects the implementation of the National Disability Insurance Scheme.

Box 2.1: Trends in social security and welfare spending

Chart 3.1 shows rates of real expenditure growth in the social security and welfare function over the forward estimates at each budget update with and without the National Disability Insurance Scheme. In 2015-16, expenditure growth in the social security and welfare function reflects the costs associated with the substantial ramp up of the implementation of the National Disability Insurance Scheme moving into the forward estimates period.

Chart 3.1: Total real growth rates over the forward estimates at each Budget and Economic update from 2012-13 MYEFO to 2015-16 Budget (a)



(a) NDIS figures includes some payments of monies received from the states and territories.

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Programme expenses

Table 3.1 reports the top 20 expense programmes in the 2015-16 financial year. These programmes represent approximately two thirds of total expenses in that year. More than half of the top 20 expense programmes provide financial assistance or services to seniors, families, people with a disability, students, carers and the unemployed.

Table 3.1: Top 20 programmes by expenses in 2015-16

Programme(a)	Function	Estimates			Projections	
		2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
Revenue Assistance to the States and Territories	Other purposes	55,178	57,749	61,660	65,149	68,745
Income support for seniors	SSW	41,648	44,178	46,234	47,719	50,371
Medicare Services	Health	20,321	21,141	22,126	22,975	24,272
Family tax benefit	SSW	21,519	20,152	18,737	17,785	18,142
Income Support for People with Disability	SSW	16,746	17,059	17,514	17,987	18,599
Assistance to the States for public hospitals(b)	Health	15,459	16,441	17,382	18,103	18,873
Job seeker income support	SSW	10,810	11,515	11,591	11,445	12,048
Residential and flexible care	SSW	9,683	10,161	10,697	11,331	12,064
Non-government schools - national support	Education	9,417	9,997	10,653	11,179	11,620
Pharmaceutical and pharmaceutical services	Health	9,481	9,970	10,457	10,841	11,178
Public sector superannuation(c)	Other purposes; General public services	8,633	8,187	8,387	8,581	8,774
Income support for carers	SSW	7,497	8,107	8,799	9,485	10,070
Child Care Fee Assistance(d)		6,510	7,261	7,923	0	0
Child Care Subsidy(d)	SSW	0	0	0	10,003	11,018
Army capabilities	Defence	6,559	6,779	6,483	6,397	6,391
Commonwealth Grants Scheme	Education	6,454	6,653	6,439	6,529	6,677
Private health insurance	Health	6,148	6,341	6,587	6,850	7,300
Fuel tax credits scheme	Fuel and energy	6,142	6,230	6,461	6,679	7,044
Government schools national support	Education	5,247	5,746	6,359	6,852	7,140
Parents' income support	SSW	5,683	5,703	5,733	5,819	6,097
Air force capabilities	Defence	5,180	5,546	5,119	5,232	5,246
Sub-total		274,315	284,915	295,343	306,937	321,670
Other programmes		146,020	149,553	157,311	164,878	177,758
Total expenses		420,335	434,469	452,654	471,816	499,428

(a) The entry for each programme includes eliminations for inter-agency transactions within that programme.

(b) Estimates for the Assistance to the States for healthcare services programme have moved to the Assistance to the States for public hospitals programme starting 2017-18.

(c) This programme is a combination of the public sector superannuation nominal interest and benefits payments.

(d) Child Care Fee Assistance includes the Child Care Benefit and Child Care Rebate. After 2017-18, the Child Care Benefit and Child Care Rebate will be replaced by the new Child Care Subsidy.

General government sector expenses

General public services

The general public services function includes expenses to support the organisation and operation of government such as those related to the Parliament, the Governor-General and conduct of elections; the collection of taxes and management of public funds and debt; assistance to developing countries to reduce poverty and achieve sustainable development, particularly countries in the Pacific region; 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, and those associated with overall economic and statistical services as well as 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).

Table 4: Summary of expenses — general public services

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Legislative and executive affairs	1,165	1,058	1,234	1,054	1,069
Financial and fiscal affairs	7,763	7,934	8,532	8,430	8,533
Foreign affairs and economic aid	6,324	5,422	5,663	5,573	5,740
General research	2,847	2,716	2,674	2,534	2,627
General services	860	913	877	888	906
Government superannuation benefits	6,208	4,119	3,956	3,745	3,667
Total general public services	25,169	22,162	22,936	22,224	22,543

Total general public services expenses are estimated to decrease by 14.0 per cent in real terms from 2014-15 to 2015-16, and decrease by 5.4 per cent in real terms over the period 2015-16 to 2018-19.

The uneven profile of expenses under the **legislative and executive affairs** sub-function partly reflects costs that will be incurred by the Australian Electoral Commission to support the scheduled federal election in 2016-17 and costs incurred by the Department of the Prime Minister and Cabinet due to Australia hosting the Group of 20 in 2014.

Expenses in the **financial and fiscal affairs** sub-function are expected to increase from 2015-16 to 2018-19, due to bad and doubtful debts expenses that are expected to increase in line with the normal growth in taxation revenue over the forward estimates. The increase in expenses from 2016-17 reflects funding for the Australian Bureau of Statistics to conduct the 2016 census and expenses associated with concessional loans under the northern Australia loan facility.

The fall in expenses from 2014-15 to 2015-16 in the **government superannuation benefits** sub-function reflects the use of different discount rates. In accordance with accounting standards, the superannuation expenses for 2014-15 apply a discount rate

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based on long-term government bonds at the commencement of the financial year (4.1 per cent). Forward years are estimated based on the discount rate applied by the superannuation scheme actuaries in preparing long term cost reports (6 per cent).

Table 4.1: Trends in the major components of foreign affairs and economic aid sub-function expenses

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Foreign aid(b)	4,395	3,344	3,565	3,592	3,739
Diplomacy(c)	854	900	904	812	816
Payments to international organisations	328	416	437	461	484
Passport services	243	245	246	247	247
International police assistance	240	229	216	152	147
International agriculture research and development	126	119	131	132	131
Consular services	79	97	96	87	87
Finance and insurance services for Australian exporters and investors	22	20	15	17	15
Other	37	53	52	74	74
Total	6,324	5,422	5,663	5,573	5,740

- (a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) The foreign aid figures reflect aid spending by the Department of Foreign Affairs and Trade in accrual terms. This differs from the international measure of aid reporting, official development assistance (ODA), which is in cash terms. Aid spending by other agencies is usually reflected in other sub-functions.
(c) Diplomacy includes Departmental expenditure for the Department of Foreign Affairs and Trade's Operations, Security and IT, overseas property and international climate change engagement.

Total expenses under the **foreign affairs and economic aid** sub-function are expected to decrease by 16.3 per cent in real terms from 2014-15 to 2015-16 and are forecast to decrease by 1.6 per cent in real terms across the forward years from 2015-16.

The decrease from 2014-15 to 2015-16 is primarily due to the Government's decision in the 2014-15 MYEFO to return the level of official development assistance (ODA) expenditure in real terms to the levels that applied when it was last funded from budget surpluses rather than debt. The decrease across the forward years from 2015-16 is primarily due to measures terminating in 2016-17 relating to Australia's diplomatic overseas network and international policing assistance.

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The table below sets out the major components of general research sub-function expenses.

Table 4.2: Trends in the major components of general research sub-function expenses

Component(a)	Estimates			Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
Research - national flagships, science and services	1,018	1,025	1,030	1,041	1,077
Discovery - research and research training	551	515	490	516	519
Science and technology solutions	296	296	302	289	295
Linkage - cross sector research partnerships	327	276	263	269	276
Supporting science and commercialisation	228	179	157	142	174
Research capacity	185	166	156	6	5
Other	243	259	274	270	281
Total	2,847	2,716	2,674	2,534	2,627

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

The **general research** sub-function incorporates expenses incurred by the Commonwealth Scientific and Industrial Research Organisation (CSIRO), the Australian Nuclear Science and Technology Organisation (ANSTO), the Australian Institute of Marine Science (AIMS) and the Australian Research Council (ARC).

Total expenses under this sub-function are expected to decrease in real terms by 6.8 per cent from 2014-15 to 2015-16 and by 10.1 per cent across the forward estimates from 2015-16. The decrease in expenses is primarily due to the scheduled termination of the National Collaborative Research Infrastructure Strategy on 30 June 2017 and decisions taken in the 2014-15 Budget which reduced funding to the ARC on an ongoing basis and to other science and research agencies and the Cooperative Research Centres programme over the period to 30 June 2018.

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Defence

The defence function includes expenses incurred by the Department of Defence (Defence) and related agencies. Defence expenses support Australian military operations overseas and the delivery of navy, army, air and intelligence capabilities and strategic policy advice in the defence of Australia and its national interests.

This function records the majority of expenses incurred by the defence portfolio but does not include the expenses incurred by the Department of Veterans' Affairs, superannuation payments to retired military personnel and housing assistance provided through Defence Housing Australia. These expenses are reported in the social security and welfare, other purposes, and housing and community amenities functions, respectively.

Table 5: Summary of expenses — defence

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Defence	24,612	26,348	26,106	27,631	28,783
Total defence	24,612	26,348	26,106	27,631	28,783

Total expenses for the defence function are estimated to increase by 4.5 per cent in real terms from 2014-15 to 2015-16, and by 1.6 per cent in real terms over the period 2015-16 to 2018-19.

Funding does not include the additional cost of major operations beyond 2015-16, which is considered on a year-by-year basis and subject to future government decisions. The expected decrease in defence expenses from 2015-16 to 2016-17 in part reflects this practice.

Additional funding of \$752.7 million will be provided in 2015-16 to support Defence operations in the Middle East and in protecting Australia's borders.

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Box 4: Defence funding

Total Defence spending is estimated to increase by \$4.6 billion (or 7.1 per cent in real terms) between 2015-16 and 2018-19. This includes both expenses and net capital investment. Expenses for the defence function are those incurred in undertaking day-to-day activities. Net capital investment represents expenditure to acquire capital items in the form of equipment, buildings and land, less depreciation expenses.

Table 5.1: Trends in the major components of defence function expenses and net capital investment

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Expenses	24,612	26,348	26,106	27,631	28,783
Net capital investment	3,752	3,751	3,369	4,642	5,886
Total defence spending	28,365	30,098	29,475	32,273	34,668
Nominal growth (per cent)	11.3%	6.1%	-2.1%	9.5%	7.4%
Real growth (per cent)	11.3%	3.6%	-4.4%	6.9%	4.8%

Capital funding in the defence function is applied to the acquisition of military equipment, enabling services and the construction of support facilities linked to capability. Fluctuations in capital spending can be due to slippage in expenditure from one year to the next, foreign exchange rate fluctuations and capital investment decisions of Government.

Public order and safety

The public order and safety function includes expenses to 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, border protection and intelligence activities, and the protection of Australian Government property.

Table 6: Summary of expenses — public order and safety

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Courts and legal services	1,063	1,198	1,169	1,111	1,096
Other public order and safety	3,518	3,687	3,682	3,625	3,711
Total public order and safety	4,580	4,885	4,851	4,735	4,806

Total expenses for the **public order and safety** function are estimated to increase by 4.1 per cent in real terms from 2014-15 to 2015-16, and to decrease by 8.5 per cent in real terms over the period 2015-16 to 2018-19.

Expenses within the **courts and legal services** sub-function are expected to increase by 10.1 per cent in real terms from 2014-15 to 2015-16 as a result of the consolidation of the Australian Government Solicitor into the Attorney-General's Department. Sub-function expenses decrease by 15.0 per cent in real terms from 2015-16 to 2018-19, largely due to the expected completion of the remaining two established Royal Commissions over the next year.

The major components of the other public order and safety sub-function expenses are set out in Table 6.1.

Table 6.1: Trends in the major components of the other public order and safety sub-function expenses

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Policing and law enforcement	2,371	2,339	2,355	2,254	2,309
Border protection(b)	1,147	1,347	1,326	1,371	1,401
Total	3,518	3,687	3,682	3,625	3,711

- (a) The entry for each component includes eliminations for inter-agency transactions within that component.
 (b) Border management expenses have been reclassified from the immigration sub-function to the other public order and safety sub-function from 1 July 2015 to better align the reporting of the expenses against the purpose of protecting Australia's border (refer to Table 16.1).

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Expenses within the other **public order and safety** sub-function are expected to increase by 2.3 per cent in real terms from 2014-15 to 2015-16, and decrease by 6.4 per cent in real terms from 2015-16 to 2018-19. The increase from 2014-15 to 2015-16 is largely due to a reclassification in expenses from the Immigration sub-function to better align the reporting of the expenses against the purpose of protecting Australia's border. The decrease across the forward estimates is largely due to ongoing efficiencies. This decrease is partially offset by additional national security funding and additional capability enhancements to further strengthen Australia's border protection service.

Education

The education function includes expenses to 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 primary and secondary schools.

Table 7: Summary of expenses — education

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Higher education	9,133	9,304	8,920	9,142	9,280
Vocational and other education	1,823	1,833	1,996	1,504	1,529
Schools	14,664	15,743	17,012	18,031	18,760
<i>Non-government schools</i>	9,417	9,997	10,653	11,179	11,620
<i>Government schools</i>	5,247	5,746	6,359	6,852	7,140
School education - specific funding	928	700	620	465	92
Student assistance	4,403	3,987	4,304	4,634	5,167
General administration	251	286	281	280	286
Total education	31,202	31,854	33,133	34,055	35,115

Total education expenses are expected to decrease by 0.3 per cent in real terms between 2014-15 and 2015-16 and increase by 2.5 per cent in real terms from 2015-16 to 2018-19.

Expenses under the **higher education** sub-function are expected to decrease by 0.5 per cent in real terms from 2014-15 to 2015-16 and by 7.3 per cent in real terms from 2015-16 to 2018-19. The expected decrease from 2015-16 is mainly due to the Government's policy to allow higher education providers to set their own course fees and to reduce the subsidies provided under the Commonwealth Grant Scheme from 2016.

Expenses under the **vocational and other education** sub-function are expected to decrease by 1.8 per cent in real terms between 2014-15 and 2015-16 and by 22.4 per cent in real terms from 2015-16 to 2018-19. The forecast overall decline in expenses over the forward estimates is primarily due to the conclusion of funding under the Skills Reform National Partnership Agreement, with the final milestone payments contributing to the one-off increase in expenses in 2016-17.

Aggregate school funding expenses are expected to increase by 4.8 per cent in real terms between 2014-15 and 2015-16 and by 10.8 per cent in real terms from 2015-16 to 2018-19 reflecting the Government's *Students First* school education policy. From the 2018 school year onwards, total school funding will be indexed by the Consumer Price Index, with an allowance for changes in enrolments.

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Expenses in the **schools – non-government schools** sub-function are expected to increase by 3.7 per cent in real terms between 2014-15 and 2015-16 and by 8.1 per cent in real terms from 2015-16 to 2018-19. Expenses under the **schools – government schools** sub-function are expected to increase by 6.9 per cent in real terms between 2014-15 and 2015-16 and by 15.5 per cent in real terms from 2015-16 to 2018-19.

Expenses under the **school education – specific funding** sub-function are expected to decrease by 26.3 per cent in real terms between 2014-15 and 2015-16 and by 87.8 per cent in real terms from 2015-16 to 2018-19. The expected decrease in expenses from 2014-15 is primarily due to the conclusion of a number of National Partnerships, including the National Partnership on Trade Training Centres in Schools in 2015-16, and the National Partnership Agreement on Universal Access to Early Childhood Education, which has been extended until 2017.

Expenses under the **student assistance** sub-function are expected to decrease by 11.6 per cent in real terms from 2014-15 to 2015-16, and increase by 20.5 per cent in real terms from 2015-16 to 2018-19. The decrease from 2014-15 to 2015-16 is primarily due to the impact of converting Student Start-up Scholarships to Student Start-up loans. The expected increase in expenses from 2015-16 is largely driven by the Higher Education Loan Programme (HELP). Expenses under HELP mainly reflect the estimated cost to the Government of providing concessional loans which will vary with enrolment numbers and the number and value of HELP loans. These expenses are recorded when loans are issued and are based on projections of future interest rates.

Health

The health function includes expenses relating to medical services funded through Medicare; payments to the states and territories to deliver essential health services, including public hospitals; the Pharmaceutical Benefits and Repatriation Pharmaceutical Benefits Schemes; the Private Health Insurance Rebate; Aboriginal and Torres Strait Islander health programmes; Mental Health services; and health workforce initiatives.

In addition to these expenses, the Government is committed to establishing the Medical Research Future Fund (MRFF) which was announced in the 2014-15 Budget. The MRFF will provide a sustainable and growing funding stream to be invested in additional medical research in the medium to long term.

Table 8: Summary of expenses — health

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Medical services and benefits	28,195	29,502	30,735	31,844	33,608
Pharmaceutical benefits and services	10,607	11,138	11,667	12,081	12,439
Assistance to the States for public hospitals	15,459	16,441	17,382	18,103	18,873
Hospital services(a)	2,019	1,787	1,706	1,716	1,725
Health services	6,796	6,660	6,353	6,462	6,489
General administration	3,220	3,110	2,982	2,977	2,923
Aboriginal and Torres Strait Islander health	740	743	809	893	931
Total health	67,037	69,381	71,634	74,076	76,987

(a) The hospital services sub-function includes payments from the Commonwealth to the states and territories for specific hospital improvement initiatives and is in addition to the bulk of hospital funding provided under the Assistance to the States for public hospitals' sub-function.

Total expenses for this function are estimated to increase by 1.1 per cent in real terms between 2014-15 and 2015-16. Total expenses are estimated to increase by 3.2 per cent in real terms from 2015-16 to 2018-19. This expected growth is driven by higher demand for health services, and a growing and ageing population.

The **medical services and benefits** sub-function, which primarily consists of Medicare and Private Health Insurance Rebate (PHIR) expenses, is 42.5 per cent of total estimated health expenses for 2015-16. Medicare expenses are the major driver of growth in this sub-function.

The major components of the medical services and benefits sub-function are set out in Table 8.1.

Table 8.1: Trends in the major components of medical services and benefits sub-function expenses

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Medicare services	20,321	21,141	22,126	22,975	24,272
Private health insurance	6,148	6,341	6,587	6,850	7,300
General medical consultations and services	888	873	845	818	816
Dental services	425	605	616	630	656
Other	414	542	561	571	565
Total	28,195	29,502	30,735	31,844	33,608

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Expenses for Medicare services are expected to increase by 1.6 per cent in real terms between 2014-15 and 2015-16, and by 6.7 per cent in real terms over the period 2015-16 to 2018-19, as a result of ongoing growth in the use of medical services and in the use of high value items on the Medicare Benefits Schedule.

Expenses for Private Health Insurance are expected to increase by 0.7 per cent in real terms between 2014-15 and 2015-16, and by 7.0 per cent in real terms over the period

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2015-16 to 2018-19 due to forecast continued take up of private health insurance policies. The proportion of Australians with some form of private health insurance is now around 55 per cent, providing a high level of access to private health services and taking pressure off the public system.

Expenses for dental services are expected to increase by 39.2 per cent in real terms between 2014-15 and 2015-16, and are expected to grow by 0.7 per cent in real terms over the period 2015-16 to 2018-19, due to the expansion of dental services under the *Child Dental Benefit Schedule – consistent indexation*.

The **pharmaceutical benefits and services** sub-function is expected to increase by 2.5 per cent in real terms between 2014-15 and 2015-16 due largely to new and amended listings on the Pharmaceutical Benefits Scheme. Expenses are expected to grow by 3.8 per cent in real terms over the period 2015-16 to 2018-19. Estimates for the Pharmaceutical Benefits Scheme (PBS) do not include the potential listing of new drugs or price adjustments to existing drugs, which typically increase spending above original estimates.

The major components of the pharmaceutical benefits and services sub-function are set out in Table 8.2.

Table 8.2: Trends in the major components of pharmaceutical benefits and services sub-function expenses

Component(a)	Estimates			Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
Pharmaceutical benefits (concessional)	5,657	5,735	5,957	6,137	6,318
Pharmaceutical benefits (highly specialised and other drugs dispensed in hospitals)	2,213	2,601	2,809	2,965	3,072
Pharmaceutical benefits (general)	1,414	1,434	1,489	1,534	1,580
Pharmaceutical benefits - targeted medicine programmes	148	114	108	113	115
Immunisation	180	273	309	315	314
Veterans' pharmaceutical benefits	388	369	376	389	402
Payments for wholesalers and pharmacy programmes	342	344	347	350	354
Other	265	268	272	278	284
Total	10,607	11,138	11,667	12,081	12,439

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

The Australian Government's contribution to public hospital funding is reported through the **Assistance to the States for public hospitals** sub-function. Hospital services covered by this sub-function include all admitted services, programmes that deliver hospital services in the home and emergency department services. Expenditure growth for this sub-function is expected to increase by 3.9 per cent in real terms from 2014-15 to 2015-16, and by 6.7 per cent in real terms over the period 2015-16 to 2018-19. This increase largely reflects growth in the volume of services and changes in the efficient price of those services from 2014-15 to 2016-17, with the annual rate of growth

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in expenses slowing to around 1.7 per cent in real terms between 2016-17 and 2018-19 due to the Government's decision to transition to block funding indexed by a combination of population growth and the Consumer Price Index.

The **hospital services** sub-function includes payments to the states and territories through a range of National Partnership Agreements, and support for veterans' hospital services. Expenditure growth for this sub-function is expected to fall by 13.6 per cent in real terms between 2014-15 and 2015-16, and fall by 10.2 per cent in real terms over the period 2015-16 to 2018-19. This fall is primarily due to the National Partnership Agreement on Improving Public Hospital Services ceasing from 1 July 2015.

Expenses in the **health services** sub-function include Australian Government expenses associated with the delivery of population health, mental health, blood and blood products, research, other allied health services, and health infrastructure funding through the Health and Hospitals Fund (HHF). As announced in the 2014-15 Budget, the HHF will cease operation and transfer uncommitted funds to the Medical Research Future Fund once the fund is established. From 2014-15 to 2015-16 expenditure is expected to decrease by 4.3 per cent in real terms, and between 2015-16 and 2018-19 expenditure is expected to decrease by 9.4 per cent in real terms. This largely reflects the completion of projects funded from the HHF. This is partially offset by increased expenditure on the national blood agreement, reflecting both greater costs and demand for blood products, and increased expenditure on health research, resulting from the Medical Research Future Fund.

The **general administration – health** sub-function includes the Government's general administrative costs, investment in health workforce measures and support for rural health initiatives. Expenditure for this sub-function is expected to fall in real terms by 5.7 per cent between 2014-15 and 2015-16 and by 12.6 per cent over the period 2015-16 to 2018-19, largely as a result of recent measures the Government has undertaken to improve the efficiency of the Department of Health and its programmes.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function are expected to decrease by 2.1 per cent in real terms from 2014-15 to 2015-16, due to ceasing National Partnership Agreements. Expenses are expected to increase by 16.5 per cent in real terms over the period 2015-16 to 2018-19 as Aboriginal and Torres Strait Islander people across Australia continue to access Indigenous-specific services under the *Indigenous Australians Health Programme*. Substantial investments in Indigenous health also occur through other health sub-functions.

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Box 5: Medical Research Future Fund

The Government remains committed to the establishment of the Medical Research Future Fund (MRFF), and will introduce legislation to establish the MRFF from 1 August 2015. The MRFF is still expected to reach \$20 billion in 2019-20, even though the Government will not proceed with proposed changes to the GP consultation items announced in the 2014-15 *Mid-Year Economic and Fiscal Outlook*.

The capital and any ongoing capital gains of the MRFF will be preserved in perpetuity to provide a sustainable funding stream to be spent on medical research in the medium to long term.

The net interest earnings of the fund will be drawn down in the year after they are earned and used to fund critical medical research (\$10 million will be made available in 2015-16 by bringing forward some of the earnings that would otherwise be made available in 2016-17). This additional expenditure will grow from \$10 million in 2015-16 to provide an ongoing funding stream of around \$1 billion per year from 2023-24.

Table 8.3: Medical Research Future Fund

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Savings invested in the MRFF	0	2,406(a)	2,182	3,512	4,778
Uncommitted balance from the HHF invested in the MRFF		1,021			
Total investments each year in the MRFF	0	3,427	2,182	3,512	4,778
Net interest earnings		63	130	224	396
Capital gains		7	15	26	45
Additional funding for Medical Research(b)		-10	-53	-130	-224
Cumulative Balance of the MRFF(c)(d)	0	3,487	5,761	9,392	14,387

(a) Includes \$76 million in 2013-14 savings and \$743 million in 2014-15 savings which will be invested in the MRFF after it is established on 1 August 2015.

(b) The net interest earnings of the MRFF are paid out in the year after they are earned to fund medical research. This expenditure is included in the health function.

(c) The estimated cumulative balance includes capital gains in addition to savings.

(d) Numbers may not add due to rounding.

Social security and welfare

The social security and welfare function includes expenses for pensions and services to the aged; assistance to the unemployed, people with disabilities and families with children; and income support and compensation for veterans and their dependants. It also includes assistance provided to Indigenous Australians which has not been included under other functions.

Table 9: Summary of expenses — social security and welfare

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Assistance to the aged	57,637	60,734	63,057	65,538	69,400
Assistance to veterans and dependants	6,790	6,592	6,405	6,193	6,016
Assistance to people with disabilities	27,724	29,545	34,157	42,950	53,067
Assistance to families with children	38,808	38,143	37,084	38,152	39,856
Assistance to the unemployed and the sick	10,810	11,515	11,591	11,445	12,048
Other welfare programmes	1,527	1,494	1,529	897	1,017
Assistance for Indigenous Australians nec	2,148	2,112	2,161	2,151	2,105
General administration	3,662	3,865	3,671	3,394	3,360
Total social security and welfare	149,107	154,000	159,654	170,719	186,869

Expenses in the social security and welfare function are estimated to grow by 0.9 per cent in real terms from 2014-15 to 2015-16 and by 12.8 per cent in real terms from 2015-16 to 2018-19.

The growth in social security and welfare expenses across the forward estimates is driven by the **assistance to people with disabilities** sub-function, which grows by 4.1 per cent in real terms between 2014-15 and 2015-16 and by 67.0 per cent between 2015-16 and 2018-19, reflecting the progressive implementation of the National Disability Insurance Scheme (NDIS). Also contributing to growth in social security and welfare expenses is **assistance to the aged**, which is expected to grow in real terms by 2.9 per cent between 2014-15 and 2015-16 and by 6.2 per cent between 2015-16 and 2018-19.

Growth in social security and welfare expenses is moderated by a decline in the growth of **assistance to families with children**, which reduces in real terms by 4.0 per cent between 2014-15 and 2015-16 and by 5.1 per cent between 2015-16 and 2016-17 before returning to real growth of 0.4 per cent from 2017-18, with a decrease in net real growth of 2.9 per cent between 2015-16 and 2018-19. Although overall expenses in the sub-function are falling in real terms, Child Care Fee Assistance expenses are expected to grow in real terms by 8.9 per cent from 2014-15 to 2015-16 and by 41.1 per cent between 2015-16 and 2018-19, reflecting both the 2015-16 Budget measure *Families Package – Child Care – Workforce Participation Stream* and underlying growth.

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Growth across all other sub-functions falls in real terms across the forward estimates period as a result of demographic change (**assistance to veterans and dependants**), specific Government reforms (**assistance to the unemployed and the sick** and **assistance for Indigenous Australians (nec)**) and falling service delivery costs (**general administration**).

The principal driver of growth over the forward estimates for the **assistance to the aged sub-function** is income support for seniors (Age Pension), which is estimated to grow by 3.6 per cent in real terms from 2014-15 to 2015-16 and 6.0 per cent in real terms from 2015-16 to 2018-19 due to demographic changes. Growth in total expenses is expected to slow between 2016-17 and 2017-18 to 0.8 per cent, primarily due to the increase in Age Pension age from 65 years to 65.5 years.

Also contributing to growth from 2015-16 to 2018-19 is an increase in expenses associated with home care, home support and residential and flexible aged care programmes, largely reflecting demographic factors.

Expenses for the National Partnership Payments – Assistance to the Aged cease after 2015-16 and reflect the Commonwealth's contribution for the Home and Community Care (HACC) programme in Victoria and Western Australia under the *HACC Review Agreement 2007*, which has been extended to 30 July 2016. Negotiations between the Commonwealth and the Victorian and Western Australian Governments on HACC transition arrangements are continuing. All other states and territories transferred funding and policy responsibility for HACC services to the Australian Government from 1 July 2012, with this funding now included in the Home Support Programme which commences from 1 July 2015.

The estimated increase in expenses of 10.7 per cent in real terms from 2015-16 to 2018-19 for veterans' community care and support is mainly attributable to a growing number of veterans and war widow(ers) accessing residential aged care.

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The major components of the assistance to the aged sub-function are outlined below in Table 9.1.

Table 9.1: Trends in the major components of assistance to the aged sub-function expenses

Component(a)	Estimates			Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
Income Support for Seniors	41,648	44,178	46,234	47,719	50,371
Residential and flexible care	9,683	10,161	10,697	11,331	12,064
Veterans' Community Care and Support	1,567	1,648	1,741	1,853	1,962
Home Support	1,641	1,641	1,701	1,764	1,860
Home Care	1,364	1,531	1,730	1,954	2,250
National Partnership Payments - Assistance to the Aged	586	617	0	0	0
Mature Age Income Support	444	379	313	248	203
Ageing and service improvement	178	210	238	240	259
Access and information	134	129	144	149	150
Workforce and quality	104	103	105	104	105
Allowances, concessions and services for seniors	242	94	115	130	134
Other	45	42	39	46	42
Total	57,637	60,734	63,057	65,538	69,400

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Expenses for the **assistance to veterans and dependants** sub-function are estimated to fall by 15.2 per cent over the forward estimates in real terms, predominantly reflecting an expected natural decline in the number of beneficiaries.

The increase in projected expenses in the **assistance to people with disabilities** sub-function with growth of 67.0 per cent in real terms across the forward estimates is primarily driven by the National Disability Insurance Scheme (NDIS).

Growth in expenses for the NDIS reflect the increase in numbers of people with disabilities entering the scheme as it moves towards full coverage across all jurisdictions. Of the total \$37.0 billion in expenses over the forward estimates, the Commonwealth is contributing funding of \$18.9 billion. States and territories contribute the remaining funding, noting that, in addition, the Commonwealth will provide \$2.5 billion (14 per cent) to the states and territories from the proceeds of the Medicare Levy through National Partnership arrangements.

The increase in expenses for National Partnership Payments – Assistance to People with Disabilities of \$1.8 billion between 2014-15 and 2018-19 reflects funding sourced from the DisabilityCare Australia Fund to support participating states and territories achieve the scheduled rollout of the NDIS. The DisabilityCare Australia Fund was established to hold and invest the additional Medicare levy proceeds for the purpose of making a contribution to the State and Territory Governments' and the Commonwealth's costs incurred in relation to the NDIS. Over the life of the Fund the

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Commonwealth will provide \$9.7 billion to assist the states with their contributions to the cost of the NDIS.

Expenses for the Disability Support Pension (DSP) are estimated to decrease by 0.5 per cent in real terms from 2014-15 to 2015-16 due to lower than expected growth in DSP recipient numbers. The slower growth in DSP recipient numbers is underpinned by the ongoing impact of the revised DSP impairment tables. The measure announced in the 2014-15 MYEFO, *Disability Support Pension – revised assessment process* which commenced from 1 January 2015 is expected to further contribute to slowing growth in DSP expenses in the future. Expenses are expected to grow by 1.4 per cent in real terms from 2015-16 to 2018-19 primarily due to increases in payment rates.

Expenses for income support for carers are estimated to grow by 5.6 per cent in real terms from 2014-15 to 2015-16 and 15.5 per cent in real terms from 2015-16 to 2018-19, largely as a result of growth in Carer Payment and Carer Allowance (adult) payments predominantly driven by the increasing number of frail aged Australians receiving care at home.

The major components of the assistance to people with disabilities sub-function are outlined below in Table 9.2.

Table 9.2: Trends in the major components of assistance to people with disabilities sub-function expenses

Component(a)	Estimates			Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
Income Support for People with Disability	16,746	17,059	17,514	17,987	18,599
Income Support for Carers	7,497	8,107	8,799	9,485	10,070
Assistance to the States for Disability Services	1,394	1,442	1,493	1,552	1,617
Disability and Carers	842	1,152	1,257	1,268	1,204
National Disability Insurance Scheme(b)	629	1,079	4,331	11,785	19,202
National Disability Insurance Scheme Transition Programme	599	590	576	552	562
National Partnership Payments - Assistance to People with Disabilities	17	115	186	321	1,813
Total	27,724	29,545	34,157	42,950	53,067

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

(b) Includes both Commonwealth and State contributions to the cost of the National Disability Insurance Scheme delivered through the National Disability Insurance Agency, which is a Commonwealth agency in the General Government Sector

The decrease in projected expenses for the **assistance to families with children** sub-function is primarily driven by improved targeting of Family Tax Benefit (FTB) and Paid Parental Leave.

FTB expenses are estimated to decline by 8.6 per cent in real terms from 2014-15 to 2015-16 and by 16.3 per cent in real terms from 2015-16 to 2018-19. Reductions from 2015-16 reflect the impact of the 2014-15 Budget measures under the *Family Payment Reform* package, which improve the targeting and sustainability of FTB payments; and

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the 2014-15 MYEFO measure *Repeal of the Minerals Resource Rent Tax* and related measures, which ceases the Schoolkids Bonus after 30 June 2016.

Expenses for Paid Parental Leave (PPL) are estimated to grow by 3.3 per cent in real terms from 2014-15 to 2015-16 and decrease by 26.2 per cent in real terms from 2015-16 to 2018-19. The decrease mainly reflects the impact of the 2015-16 Budget measure *Removing Double-Dipping from Parental Leave Pay* which will take effect on 1 July 2016. This measure removes the ability for individuals to double dip when applying for the existing Parental Leave Pay Scheme.

The decline in real growth in the assistance to families with children sub-function is partially offset by an expected increase in Child Care Fee Assistance expenses, which are expected to grow in real terms by 8.9 per cent from 2014-15 to 2015-16 and by 41.1 per cent between 2015-16 and 2018-19. The increase in expenses in the period to 2017-18 is due to the growing number of families accessing fee assistance for the Child Care Rebate and Child Care Benefit. From 2017-18 the projected increase in expenses due to increased numbers of families is coupled with a change to the way assistance for families will be provided due to the implementation of the 2015-16 Budget measure *Families Package – Child Care – Workforce Participation Stream*.

The major components of the assistance to families with children sub-function are set out in Table 9.3.

Table 9.3: Trends in the major components of assistance to families with children sub-function expenses

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Family tax benefit	21,519	20,152	18,737	17,785	18,142
Child Care Fee Assistance(b)	6,510	7,261	7,923	0	0
<i>Child Care Benefit</i>	3,383	3,650	3,866	0	0
<i>Child Care Rebate</i>	3,126	3,612	4,057	0	0
Child Care Subsidy	0	0	0	10,003	11,018
Parents income support	5,683	5,703	5,733	5,819	6,097
Paid Parental Leave	1,949	2,061	1,625	1,581	1,637
Child support	1,857	1,879	1,915	1,962	2,024
Support for the child care system	703	524	586	437	400
Families and Children	242	234	231	230	222
Family relationship services	161	163	162	165	167
Child Payments	129	130	132	134	136
National Partnership Payments - Child care	31	21	24	22	0
Other	25	14	14	14	14
Total	38,808	38,143	37,084	38,152	39,856

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

(b) After 2017-18, Child Care Benefit and Child Care Rebate will be replaced by the new Child Care Subsidy.

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Expenses for the **assistance to the unemployed and the sick** sub-function are estimated to increase by 4.0 per cent in real terms from 2014-15 to 2015-16, and decrease by 2.7 per cent in real terms from 2015-16 to 2018-19. The increase is largely driven by an increase in the expected number of people requiring unemployment benefits. The decline after 2015-16 is due to a reduction in the average payment made to benefit recipients resulting from the 2014-15 Budget measure *Increasing the age of eligibility for Newstart Allowance and Sickness Allowance*.

Expenses for the **assistance for Indigenous Australians not elsewhere classified (nec)** sub-function are estimated to decrease by 4.0 per cent in real terms from 2014-15 to 2015-16, and by 7.3 per cent in real terms from 2015-16 to 2018-19. In nominal terms there is a reduction of 2.0 per cent over the period from 2014-15 to 2018-19.

Expenses for the **general administration** sub-function are estimated to increase slightly in 2015-16, with substantial decreases over the forward estimates in real terms. This is mainly attributable to 2014-15 and 2015-16 Budget measures implemented by the Department of Human Services, involving significant upfront service delivery costs that should decrease over time.

Housing and community amenities

The housing and community amenities function includes expenses for the Australian Government's contribution to the National Affordable Housing Specific Purpose Payment and related National Partnerships, other Australian Government housing programmes, the expenses of Defence Housing Australia (DHA), urban and regional development programmes and environmental protection initiatives.

Table 10: Summary of expenses — housing and community amenities

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Housing	3,348	3,276	3,524	3,440	2,794
Urban and regional development	734	1,009	609	451	436
Environment protection	858	1,045	1,110	1,150	1,323
Total housing and community amenities	4,940	5,329	5,242	5,041	4,553

Total expenses under the housing and community amenities function are estimated to increase in real terms by 5.4 per cent from 2014-15 to 2015-16, and decrease by 20.6 per cent in real terms from 2015-16 to 2018-19. The decrease of 11.9 per cent in real terms from 2017-18 to 2018-19 is primarily due to a reduction in housing expenses.

The **housing** sub-function includes initiatives relating to the Australian Government's contribution to the National Affordable Housing Specific Purpose Payment and associated National Partnerships, provision of housing for the general public and people with special needs and the expenses of DHA.

Expenses for this sub-function are estimated to decrease by 4.4 per cent in real terms from 2014-15 to 2015-16, and by 20.7 per cent in real terms from 2015-16 to 2018-19. There is a 20.8 per cent decrease in real terms from 2017-18 to 2018-19, reflecting the scheduled completion of National Partnership payments for remote Indigenous housing and the forecast reduction of construction and acquisition of DHA properties in 2018-19.

The **urban and regional development** sub-function comprises regional development programmes and services to territories. This includes the Community Development Grants, the National Stronger Regions Fund and the new Stronger Communities programme which fund capital works projects in local communities. Also reflected in this sub-function is new funding for the delivery of services to Norfolk Island under governance reforms. Expenses are expected to decline from a peak in 2015-16 due to the completion of projects under key programmes, such as Community Development Grants and the Regional Development Australia Fund.

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The **environment protection** sub-function includes expenses for a variety of initiatives, including the protection and conservation of the environment, water and waste management, pollution abatement and environmental research. The estimated increase in expenses from 2014-15 to 2015-16 is primarily due to the continued implementation of the Emissions Reduction Fund. The Emissions Reduction Fund and the Green Army programme are the prime drivers of the estimated increase in expenses from 2015-16 to 2018-19.

Recreation and culture

The recreation and culture function includes expenses to support public broadcasting and cultural institutions, funding for the arts and the film industry, assistance to sport and recreation activities, as well as 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.

Table 11: Summary of expenses — recreation and culture

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Broadcasting	1,538	1,524	1,473	1,495	1,500
Arts and cultural heritage	1,187	1,302	1,199	1,154	1,157
Sport and recreation	404	345	337	304	300
National estate and parks	390	359	341	341	330
Total recreation and culture	3,520	3,530	3,350	3,294	3,287

Total expenses under the **recreation and culture** function are estimated to decrease by 2.1 per cent in real terms from 2014-15 to 2015-16 and by 13.4 per cent in real terms over the period 2015-16 to 2018-19.

Expenses under the **broadcasting** sub-function are estimated to decrease by 3.2 per cent in real terms from 2014-15 to 2015-16 and by 8.5 per cent in real terms from 2015-16 through to 2018-19. These reductions are primarily due to the 2014-15 Budget measure *Australian Broadcasting Corporation and Special Broadcasting Service Corporation – efficiency savings* and the 2014-15 MYEFO measure *Australian Broadcasting Corporation and Special Broadcasting Service Corporation – additional efficiency savings*.

Table 11.1 provides further details of the major components of broadcasting sub-function expenses.

Table 11.1: Trends in the major components of broadcasting sub-function expenses

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
ABC general operational activities	962	953	903	909	912
SBS general operational activities	292	285	281	292	289
ABC transmission and distribution services	195	198	202	207	211
SBS transmission and distribution services	89	88	87	88	88
Total	1,538	1,524	1,473	1,495	1,500

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Expenses under the **arts and cultural heritage** sub-function are estimated to increase by 7.1 per cent in real terms from 2014-15 to 2015-16, but will decrease by 17.4 per cent over the period 2015-16 to 2018-19. This sub-function includes programmes which support funding for the arts and cultural institutions. The estimated initial increase

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reflects the timing of expenditure on Australian screen production incentives. The estimated overall decreases are due to the implementation of greater efficiencies, and arts-related savings measures, including the ongoing savings associated with the 2014-15 Budget measure *Arts programmes – reduced funding*.

Expenses under the **sport and recreation** sub-function are estimated to decrease by 16.5 per cent in real terms from 2014-15 to 2015-16 and by 19.1 per cent in real terms over the period 2015-16 to 2018-19. The drop in 2015-16 primarily reflects the completion of funding for the Asian Football Cup and the Netball World Cup. The decline in expenditure over the forward estimates reflects the completion of sporting infrastructure projects by 30 June 2016 announced at the 2014-15 MYEFO, the termination of the 2014-15 Budget measure *Sporting Schools Initiative* on 30 June 2017, and continued efficiencies at the Australian Sports Commission and the Australian Sports Anti-Doping Authority.

Expenses under the **national estate and parks** sub-function are estimated to decrease by 10.3 per cent in real terms from 2014-15 to 2015-16 and by 14.4 per cent in real terms over the period 2015-16 to 2018-19. The decrease from 2014-15 to 2015-16 largely reflects a reduction in expenses for the Australian Antarctic Programme. The further decline in expenses in 2016-17 relates, in part, to the scheduled termination of the measure *Antarctica – maintaining Australia’s presence*.

Fuel and energy

The fuel and energy function includes expenses for the Fuel Tax Credits, Cleaner Fuels, and Product Stewardship Waste (Oil) schemes, all administered by the Australian Taxation Office. It also includes expenses related to improving Australia’s energy efficiency, resource related initiatives, and programmes to support the production or use of alternative fuels, including ethanol and biodiesel.

Table 12: Summary of expenses — fuel and energy

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Fuel and energy	6,986	6,706	6,705	6,895	7,237
Total fuel and energy	6,986	6,706	6,705	6,895	7,237

Fuel and energy expenses are estimated to decrease by 6.2 per cent in real terms from 2014-15 to 2015-16, and increase by 0.3 per cent in real terms over the period 2015-16 to 2018-19.

Table 12.1 provides further details of the **fuel and energy** sub-function.

Table 12.1: Trends in the major components of fuel and energy sub-function expenses

Component(a)	Estimates			Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
Fuel Tax Credits Scheme	6,142	6,230	6,461	6,679	7,044
Australian Renewable Energy Agency Projects	267	197	74	74	26
Resources and Energy	279	172	65	33	52
Other	298	108	105	109	115
Total	6,986	6,706	6,705	6,895	7,237

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

The major programme within this function is the Fuel Tax Credits Scheme which is expected to decrease by 1.0 per cent in real terms from 2014-15 to 2015-16 and increase by 5.1 per cent in real terms from 2015-16 to 2018-19. The decrease in 2015-16 reflects an expected fall in eligible diesel consumption, particularly in the mining industry, with the subsequent increase reflecting the indexation of fuel excise.

The decrease in expenses under the resources and energy component from 2014-15 to 2018-19 reflects the Government's 2014-15 Budget decisions to reduce funding for the Carbon Capture and Storage Flagships programme and to abolish the Ethanol Production Grants programme on 30 June 2015, as well as the closure of the Low Emissions Technology Demonstration Fund and the Low Carbon Communities programme in 2015-16.

The decrease in expenses under the Australian Renewable Energy Agency (ARENA) Projects component from 2014-15 to 2015-16 is due to the Government's 2014-15 Budget decision to abolish ARENA. The management of existing ARENA projects will be transferred to the Department of Industry and Science. The decrease in expenses under this component from 2015-16 to 2018-19 is driven by the timing of project milestones for the existing ARENA projects.

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Agriculture, forestry and fishing

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

Table 13: Summary of expenses — agriculture, forestry and fishing

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Wool industry	55	55	55	55	55
Grains industry	219	220	218	210	211
Dairy industry	55	56	57	58	59
Cattle, sheep and pig industry	200	181	181	183	186
Fishing, horticulture and other agriculture	298	293	291	281	268
General assistance not allocated to specific industries	26	26	26	27	27
Rural assistance	199	205	240	224	216
Natural resources development	1,011	1,346	1,194	1,079	741
General administration	669	681	667	663	646
Total agriculture, forestry and fishing	2,731	3,063	2,930	2,780	2,408

Total expenses under this function are estimated to increase by 9.5 per cent in real terms from 2014-15 to 2015-16, but decrease by 26.9 per cent in real terms over the period 2015-16 to 2018-19.

Expenses in the **fishing, horticulture and other agriculture** sub-function are estimated to decrease by 14.7 per cent in real terms over the period 2015-16 to 2018-19. This is largely due to the conclusion of a number of election commitments, including the Rural Research and Development for Profit programme in 2017-18.

The **rural assistance** sub-function is expected to increase by 0.5 per cent in real terms from 2014-15 to 2015-16 and decrease by 2.2 per cent in real terms over the period 2015-16 to 2018-19. The decrease is primarily driven by the funding profile of the Carbon Farming Futures programme declining over the forward estimates. This is partially offset by a forecast increase in expenses under the *Farm Household Allowance* caused by unfavourable seasonal conditions in certain parts of Australia as well as the continuation of the Drought Concessional Loans and Drought Recovery Concessional Loans Schemes announced in the 2015-16 Budget.

The majority of expenses under the **natural resources development** sub-function are related to water initiatives, comprising urban and rural programmes, including irrigation modernisation, recycling and stormwater capture. Funding for water purchasing is included under net capital investment.

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Table 13.1 provides further details of the natural resources development sub-function.

Table 13.1: Trends in the major components of natural resources development sub-function expenses

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Water reform(b)	771	1,092	958	884	566
Sustainable management - natural resources	19	6	2	1	0
Other	220	248	235	195	175
Total	1,011	1,346	1,194	1,079	741

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

(b) Water Reform includes the following programmes: National Partnership Payments — Water and Natural Resources; Water Reform; and Commonwealth Environment Water.

The increase in expenses under the water reform component from 2014-15 to 2015-16 largely reflects the continuation of projects under the Sustainable Rural Water Use and Infrastructure Programme, which peak in 2015-16. The increase in expenses from 2014-15 to 2015-16 under the 'Other' component is mainly due to the commencement of project delivery under the South Australian Riverland Floodplains Integrated Infrastructure Programme. The reduction in expenses from 2016-17 primarily relates to the currently scheduled termination of funding for the Murray-Darling Basin Authority's basin planning functions.

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Mining, manufacturing and construction

The mining, manufacturing and construction function includes expenses for programmes designed to promote the efficiency and competitiveness of Australian industries. The major components include the Research and Development Tax Incentive and programmes specific to the automotive, textile, clothing and footwear industries.

Table 14: Summary of expenses — mining, manufacturing and construction

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Mining, manufacturing and construction	3,218	3,142	3,129	3,082	3,092
Total mining, manufacturing and construction	3,218	3,142	3,129	3,082	3,092

Total expenses under the mining, manufacturing and construction function are expected to decrease by 4.6 per cent in real terms from 2014-15 to 2015-16 and by 8.5 per cent in real terms from 2015-16 to 2018-19.

Table 14.1 provides further details of the major components of the mining, manufacturing and construction sub-function.

Table 14.1: Trends in major components of mining, manufacturing and construction sub-function expenses

Component(a)	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Research and Development Tax Incentive	2,425	2,374	2,500	2,625	2,769
Growing business investment	575	553	412	282	157
Other	218	216	216	175	166
Total	3,218	3,142	3,129	3,082	3,092

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Changes in expenses for the Research and Development Tax Incentive, administered by the Australian Taxation Office, reflect changes in the number and size of expected claims from eligible companies with an annual turnover of less than \$20 million.

Expenses under the 'Growing business investment' component of this function are expected to decrease due to the Government's 2014-15 Budget decision to refocus industry policy by terminating a range of industry and innovation programmes and establishing the Entrepreneurs' Infrastructure Programme. The estimated decrease in expenses also reflects reduced demand for assistance under the Automotive Transformation Scheme in the lead up to the closure of vehicle manufacturing firms by the end of 2017.

Transport and communication

The transport and communication function includes expenses to support the infrastructure and regulatory framework for Australia's transport and communication sectors.

Table 15: Summary of expenses — transport and communication

Sub-function	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Communication	643	640	633	603	563
Rail transport	740	1,079	1,303	954	674
Air transport	210	245	212	212	203
Road transport	4,214	5,935	8,402	6,899	4,236
Sea transport	351	382	425	429	442
Other transport and communication	345	295	222	206	197
Total transport and communication	6,504	8,575	11,198	9,304	6,315

Total expenses under this function are estimated to increase by 28.7 per cent in real terms between 2014-15 and 2015-16, and decrease by 31.5 per cent in real terms from 2015-16 to 2018-19.

The estimated expenses for the **communication** sub-function relate to communication activities and support for the digital economy through the Department of Communications, the Australian Communications and Media Authority and the Digital Transformation Office. Total expenses under the communication sub-function are estimated to decrease by 2.8 per cent in real terms between 2014-15 and 2015-16 and decrease by 18.2 per cent in real terms from 2015-16 to 2018-19. These decreases primarily reflect the completion of measures including the restack of digital television spectrum and support for National ICT Australia. This will be partly counteracted by the funding provided to the new Digital Transformation Office.

Total expenses under the **rail transport** sub-function are estimated to increase by 42.4 per cent in real terms from 2014-15 to 2015-16 and 17.8 per cent from 2015-16 to 2016-17 due to payments under the Infrastructure Growth Package announced in the 2014-15 Budget. A decrease of 41.9 per cent from 2015-16 to 2018-19 reflects the completion of projects such as the Victorian Regional Rail Link.

The estimated expenses for the **air transport** and **sea transport** sub-functions predominantly relate to activities of the safety regulators – the Civil Aviation Safety Authority, the Australian Maritime Safety Authority and the Australian Transport Safety Bureau (ATSB). Total expenses under the **air transport** sub-functions are estimated to increase by 13.6 per cent in real terms between 2014-15 and 2015-16 and decrease by 22.9 per cent in real terms from 2015-16 to 2018-19 primarily due to the completion of airstrip improvements under the Regional Aviation Access programme by mid-2015. Total expenses under the **sea transport** sub-function are estimated to increase by 6.1 per cent in real terms between 2014-15 and 2015-16 and increase in real

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terms by 7.7 per cent from 2015-16 to 2018-19 due to the expansion of the Tasmanian Freight Equalisation Scheme to include exports.

The expenses under the **road transport** sub-function primarily consist of grants provided under the Infrastructure Investment Programme. Expenses are estimated to increase by 37.5 per cent in real terms between 2014-15 and 2015-16 and decrease by 33.6 per cent in real terms from 2015-16 to 2018-19. The increase in expenses over 2015-16 to 2016-17 is largely driven by additional funding for infrastructure announced in the 2014-15 Budget. The decline in 2017-18 and 2018-19 is due to the completion of projects such as the Toowoomba Second Range Crossing in Queensland and reduced Commonwealth contributions as major projects such as the NorthConnex in NSW and the Perth Freight Link move towards completion.

Total expenses under the **other transport and communication** sub-function are estimated to decrease by 16.7 per cent in real terms between 2014-15 and 2015-16 and decrease by 37.8 per cent in real terms from 2015-16 to 2018-19. This sub-function primarily reflects departmental funding for the Department of Infrastructure and Regional Development and is decreasing in real terms over the forward estimates as a result of the profile for departmental expenses reflecting the decline in road and rail expenses.

Box 6: Asset Recycling Fund

The Australian Government remains committed to its 2014-15 Budget decision to establish the Asset Recycling Fund (ARF), a dedicated vehicle for providing funding and incentives to the states and territories and other bodies to invest in productivity enhancing infrastructure including through the *Asset Recycling Initiative* announced as part of the *Infrastructure Growth Package* in the 2014-15 Budget.

The ARF will be seeded with capital from the uncommitted balances of the Building Australia Fund and the Education Investment Fund (EIF) and proceeds from the sale of Medibank Private. The capital and net earnings of the ARF will be available to fund projects under the *Infrastructure Growth Package*. To optimise its use of the Medibank Private sale proceeds pending the establishment of the ARF, the Australia Government will use the proceeds to reduce its borrowing requirement, thereby reducing public debt interest. The sale proceeds will then be invested in the ARF on 1 July 2016.

The Australian Government is funding the Asset Recycling Initiative and other aspects of the *Infrastructure Growth Package*, by providing funding of \$2.1 billion in 2015-16 through existing appropriation mechanisms.

Table 15.1: Asset Recycling Fund

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Uncommitted balance from the BAF invested in the ARF		3,091			
Uncommitted balance from the EIF investment in the ARF		3,662			
Medibank sale proceeds invested in the ARF			5,679		
Total investments each year in the ARF	0	6,753	5,679	0	0
Net interest earnings		88	302	242	188
Capital gains		10	35	29	22
Committed spending (a)(b)		-2,116	-2,608	-2,630	-1,897
Cumulative Balance of the ARF(b)(c)(d)	0	6,851	10,259	7,899	6,211

(a) An amount of \$2,116 million has been committed in 2015-16 to fund infrastructure investments, including the Asset Recycling Initiative under the *Infrastructure Growth Package*. This amount will be paid through existing appropriation mechanisms.

(b) The estimated cumulative balance for 2015-16 does not include the committed spending for 2015-16 which will be paid through existing appropriation mechanisms.

(c) The estimated cumulative balance includes capital gains in addition to savings.

(d) Numbers may not add due to rounding.

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Other economic affairs

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 (nec).

Table 16: Summary of expenses — other economic affairs

Sub-function	Estimates			Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
Tourism and area promotion	172	177	176	175	166
Total labour and employment affairs	3,903	3,963	4,296	4,326	4,358
<i>Vocational and industry training</i>	1,446	1,484	1,427	1,463	1,490
<i>Labour market assistance to job seekers and industry</i>	1,694	1,792	2,190	2,195	2,199
<i>Industrial relations</i>	763	687	679	668	669
Immigration	4,459	3,622	2,451	2,356	2,416
Other economic affairs nec	2,146	2,030	1,994	1,992	2,010
Total other economic affairs	10,680	9,792	8,918	8,850	8,950

Total expenses under the other economic affairs function are expected to decrease by 10.5 per cent in real terms from 2014-15 to 2015-16 and by 15.0 per cent in real terms from 2015-16 to 2018-19.

Expenses under the **vocational and industry training** sub-function are expected to increase by 0.2 per cent in real terms from 2014-15 to 2015-16, largely reflecting the implementation of the Industry Skills Fund and the Trade Support Loans programme. Expenses between 2015-16 and 2018-19 are expected to decrease by 6.6 per cent in real terms, largely due to the cessation of payments under the Tools For Your Trade programme.

Expenses under the **labour market assistance to job seeker and industry** sub-function are expected to increase by 3.3 per cent in real terms from 2014-15 to 2015-16 in line with forecast increases in unemployment benefit recipients. Expenses between 2015-16 and 2018-19 are expected to increase by 14.1 per cent in real terms, mainly due to new initiatives introduced by the Government in the 2015-16 Budget to support employment as part of the Growing Jobs and Small Business package.

Expenses under the **industrial relations** sub-function are expected to decrease by 12.1 per cent in real terms from 2014-15 to 2015-16 due to a forecast reduction in assistance payments to claimants under the Fair Entitlements Guarantee scheme. Expenses between 2015-16 and 2018-19 are expected to decrease by 9.5 per cent in real terms, mainly due to the measure *Fair Entitlements Guarantee – aligning redundancy payments to national employment standards* announced in the 2014-15 Budget.

The main components of the **immigration** sub-function relate to the management of Illegal Maritime Arrivals (IMA) and providing migration, border management and citizenship services.

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Table 16.1 provides further details of the major components of the immigration sub function expenses.

Table 16.1: Trends in major components of the immigration sub-function expenses

Component(a)	Estimates			Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
Illegal maritime arrivals asylum seeker management	2,899	2,445	1,331	1,163	1,179
Citizenship, visas, migration and border management(b)	809	666	646	698	717
Compliance and detention	281	275	269	291	293
Regional co-operation and refugee and humanitarian assistance	384	236	205	204	227
Other	87	0	0	0	0
Total	4,459	3,622	2,451	2,356	2,416

- (a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) Border management expenses have been reclassified from the immigration sub-function to the other public order and safety sub-function from 1 July 2015 to better align the reporting of the expenses against the purpose of protecting Australia's border (refer to Table 6.1).

Expenses under this sub-function are expected to decrease by 20.7 per cent in real terms between 2014-15 and 2015-16 and by 38.0 per cent in real terms from 2015-16 to 2018-19. The key driver is the reduction in expenditure for IMA management, reflecting forecast lower occupancy rates in the detention network.

Expenses under the **other economic affairs (nec)** sub-function are expected to decrease by 7.7 per cent in real terms from 2014-15 to 2015-16 and by 7.9 per cent in real terms from 2015-16 to 2018-19.

Table 16.2 provides further details of the major components of the other economic affairs nec sub-function expenses.

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Table 16.2: Trends in major components of the other economic affairs nec sub-function expenses

Component(a)	Estimates			Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
Promotion of Australia's export and other international economic interests(b)	336	367	358	350	352
Operating costs for:					
Department of Industry and Science(c)	505	443	422	459	485
Australian Securities and Investments Commission	357	345	341	339	336
Bureau of Meteorology	328	320	320	287	284
IP Australia	166	172	173	174	173
Australian Competition and Consumer Commission	135	132	131	131	130
Australian Prudential Regulation Authority	121	125	124	128	129
Other	197	126	125	123	122
Total	2,146	2,030	1,994	1,992	2,010

- (a) The entry for each component includes eliminations for inter-agency transactions within that component.
- (b) The programmes Export market development grants scheme and Trade, education and investment development have been moved into the Promotion of Australia's export and other international economic interests.
- (c) Since the Machinery of Government changes in December 2014, expenses for Vocational Education and Training activities previously reported against the Department of Industry and Science are now reported under the general administration — education sub-function.

The expected decrease in the economic affairs nec sub-function is primarily due to the Government's decision to change the way unclaimed money in savings accounts and life insurance policies is managed. Further information can be found in the measure *Reversal of Banking and Life Insurance unclaimed provisions* in Budget Paper No. 2, *Budget Measures 2015-16*. The decrease for the Bureau of Meteorology beyond 2016-17 reflects the scheduled termination on 30 June 2017 of funding to improve the detail and scope of nationally available water information.

Other purposes

The other purposes function includes expenses incurred in the servicing of public debt interest, and assistance to state, territory and local governments. This function also includes items classified to natural disaster relief, the Contingency Reserve, and expenses related to the nominal interest on unfunded liabilities for government superannuation benefits.

Table 17: Summary of expenses — other purposes

Sub-function	Estimates			Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
Public debt interest	14,468	15,561	16,455	16,846	17,364
<i>Interest on Commonwealth Government's behalf</i>	14,468	15,561	16,455	16,846	17,364
Nominal superannuation interest	8,989	9,869	10,259	10,648	11,034
General purpose inter-government transactions	57,467	60,038	63,949	67,534	71,232
<i>General revenue assistance - States and Territories</i>	55,178	57,749	61,660	65,149	68,745
<i>Local government assistance</i>	2,289	2,289	2,289	2,386	2,487
Natural disaster relief(a)	36	33	5	-1	-1
Contingency reserve	-911	201	2,201	4,104	8,854
Total other purposes	80,049	85,701	92,869	99,131	108,483

(a) Amounts for the Natural Disaster Relief and Recovery Arrangements (NDRRA) reflect an estimate of expenses being recorded in the year in which the disaster occurs rather than when payments are made to State or Territory governments in relation to Australian Government financial obligations under the NDRRA. The Natural Disaster Relief estimates do not include the recent NSW storms.

Total expenses under the other purposes function are estimated to increase by 4.5 per cent in real terms from 2014-15 to 2015-16, and by 17.7 per cent over the period 2015-16 to 2018-19. This increase in expenses is primarily driven by **general revenue assistance** paid to State and Territory governments, nearly all of which comprise payments of GST entitlements provided on an 'untied' basis. Payments to State and Territory governments tied to specific purposes are reported under the relevant sections in this statement. Further information on general revenue assistance to the states and territories can be found in Budget Paper No. 3, *Federal Financial Relations 2015-16*.

The increase in expenses under the **public debt interest** sub-function in 2015-16 and over the forward years is due to the increased issuance of Australian Government Securities. Expenses under the **nominal superannuation interest** sub-function are projected to increase over time, reflecting the growth in the Australian Government's superannuation liability. The Future Fund was established to assist in meeting the cost of this liability. Further information on the Future Fund can be found in Statement 6 of Budget Paper No. 1.

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Expenses in the **local government assistance** sub-function relate to financial assistance grants made to the states and territories and consist of a general purpose component and an identified local road component, both of which are untied, allowing councils to direct the grants to local priorities. Expenses are estimated to remain constant in nominal terms in 2014-15, 2015-16 and 2016-17 as a result of the Government's decision in the 2014-15 Budget to pause indexation of local government financial assistance grants for three years commencing in 2014-15. Expenses are expected to increase from 2017-18 onwards as indexation of the grants recommences. Further information on Australian Government assistance to local governments can be found in Budget Paper No. 3, *Federal Financial Relations 2014-15*.

The **natural disaster relief** sub-function reflects financial support provided by the Australian Government to affected states and territories under the Natural Disaster Relief and Recovery Arrangements. The profile over the forward estimates reflects the requirement under accounting standards to recognise the majority of expenses for a disaster in the year in which it occurs. No provision is made for future disasters. Actual (cash) payments expected to be made to states and territories are outlined in Budget Paper No. 3.

The **contingency reserve** sub-function comprises the Contingency Reserve. The Contingency Reserve is an allowance, included in aggregate expenses, that principally reflects anticipated events that cannot be assigned to individual programmes in the preparation of the Australian Government budget estimates. The Contingency Reserve is used to ensure that the estimates are based on the best information available at the time of the Budget. It is not a general policy reserve.

While the Contingency Reserve is designed to ensure that aggregate estimates are as close as possible to expected outcomes, it is not appropriated. Allowances that are included in the Contingency Reserve can only be drawn upon once they have been appropriated by Parliament. These allowances are allocated to specific entities for appropriation closer to the time when the associated events eventuate.

The Contingency Reserve also contains an allowance for the tendency for estimates of expenses for existing Government policy to be revised upwards in the forward years, known as the conservative bias allowance (CBA). The increase in expenses in the contingency reserve sub-function from 2015-16 is largely due to the CBA. Since the 2014-15 MYEFO, the allowance has been drawn down to:

- zero in the Budget year (2015-16);
- ½ of a percentage point of total general government sector expenses (excluding GST payments to the states) in the first forward year (2016-17);
- 1 per cent of expenses in the second forward year (2017-18); and
- a 2 per cent provision has been included in the third forward year (2018-19).

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The drawdown of the allowance reduced expenses by \$938 million in 2015-16, \$975 million in 2016-17 and \$2.0 billion in 2017-18. The drawdown of the allowance is consistent with long standing practice and does not represent a saving or offset to Government spending measures.

In general, the Contingency Reserve can also include:

- a provision for underspends in the current financial year reflecting the tendency for budgeted expenses for some entities or functions not to be met;
- commercial-in-confidence and national security-in-confidence items that cannot be disclosed separately and programmes that are yet to be renegotiated with State and Territory governments;
- 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 entities or functions;
- decisions taken but not yet announced by the Government, and decisions made too late for inclusion against individual entity estimates; and
- provisions for other specific events and pressures that are reasonably expected to affect the budget estimates.

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General government net capital investment

Net capital investment is broadly defined as the sale and acquisition of non-financial assets less depreciation expenses. It provides a measure of the overall growth in capital assets (including buildings and infrastructure, specialist military equipment, and computer software) after taking into account depreciation and amortisation as previously acquired assets age.

Australian Government general government sector net capital investment is expected to be \$4.2 billion in 2014-15; \$1.1 billion lower than the net capital investment in 2014-15. This change is largely due to the auction for most of the 700MHz and all of the 2.5GHz spectrum conducted by the Australian Communications and Media Authority in April and May 2013. Proceeds from the auction are recognised as revenue during 2014-15 when licences will be allocated to the successful bidders.

Details of movements are further explained in the following section.

Table 18: Estimates of total net capital investment

	MYEFO	Revised	Estimates		Projections	
	2014-15	2014-15	2015-16	2016-17	2017-18	2018-19
Total net capital investment (\$m)	2,784	3,138	3,854	4,198	3,598	5,090
Per cent of GDP	0.2	0.2	0.2	0.2	0.2	0.3

Reconciliation of net capital investment since the 2014-15 Budget

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2014-15 Budget, is provided in Table 19.

Table 19: Reconciliation of net capital investment estimates

	Estimates			Projections	Total
	2014-15	2015-16	2016-17	2017-18	
	\$m	\$m	\$m	\$m	\$m
2014-15 Budget net capital investment	2,359	708	2,630	3,962	9,658
Changes from 2014-15 Budget to 2014-15 MYEFO					
Effect of policy decisions(a)	135	81	53	24	294
Effect of parameter and other variations	290	1,633	35	-1,087	871
Total variations	425	1,714	88	-1,063	1,165
2014-15 MYEFO net capital investment	2,784	2,422	2,718	2,899	10,823
Changes from 2014-15 MYEFO to 2015-16 Budget					
Effect of policy decisions(a)	-31	-98	914	132	917
Effect of parameter and other variations	386	1,529	567	567	3,048
Total variations	354	1,432	1,481	699	3,965
2015-16 Budget net capital investment	3,138	3,854	4,198	3,598	14,788

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

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Forecast net capital investment for 2015-16 has increased by \$1.8 billion since the 2014-15 MYEFO. This increase is driven by the effect of new policy decisions of \$210 million, and parameter and other variations of \$1.6 billion.

Further information on the capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2015-16*.

Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2014-15 to 2018-19 are provided in Table 20.

Table 20: Estimates of net capital investment by function

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
General public services	792	372	-11	-243	-100
Defence	3,752	3,751	3,369	4,642	5,886
Public order and safety	123	143	63	39	-62
Education	-16	4	-10	-10	-10
Health	-17	15	17	-5	-16
Social security and welfare	21	15	37	-30	-127
Housing and community amenities	107	-14	6	-4	-191
Recreation and culture	71	-19	-57	-50	-22
Fuel and energy	2	-1	-1	0	-1
Agriculture, forestry and fishing	67	78	92	576	316
Mining, manufacturing and construction	-6	2	3	4	-3
Transport and communication	-2,145	-78	-12	-23	-18
Other economic affairs	369	87	-90	-97	-62
Other purposes	17	-502	794	-1,200	-501
Total net capital investment	3,138	3,854	4,198	3,598	5,090

A significant component of the Government's net capital investment occurs in the defence function, and is primarily the acquisition of military equipment. Major factors contributing to changes in net capital investment, expected to occur in the following functions, include:

- **general public services** – spending to upgrade the Department of Foreign Affairs and Trade's International Communications Network and construction of a number of overseas facilities, which are expected to be completed by 2016-17 as well as the delivery and completion of the Post Entry Quarantine Facility and the Moorebank Intermodal Terminal Project;
- **defence** – previous capital measures, which redistributed funding of \$550 million and \$150 million into 2015-16 and 2016-17 respectively;
- **public order and safety** – funding for the Department of Immigration and Border Protection for the acquisition of *Cape Class* patrol vessels in 2014-15 and 2015-16, and for the early transfer of the Australian Defence Vessel *Ocean Shield* from the Department of Defence in 2014-15;

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- **agriculture, forestry and fishing** – reflects an increase in water purchases under the Sustainable Rural Water Use and Infrastructure Programme in 2017-18 and 2018-19;
- **transport and communication** – the negative investment in 2014-15, largely due to the auction conducted by the Australian Communications and Media Authority in April and May 2013 for most of the 700MHz and all the 2.5GHz spectrum. Proceeds from the auction were recognised as revenue during 2014-15 when licences were allocated to the successful bidders. Further proceeds from the renewal of the telecommunication carrier's 15 year licences for 1800MHz spectrum are also being recognised in 2014-15;
- **other economic affairs** – the construction and expansion of offshore and onshore immigration facilities, in support of Operation Sovereign Borders impacting in 2014-15 and 2015-16; and
- **other purposes** – the negative investments in this function are largely due to the Government's intention to sell the remaining 700MHz spectrum and the renewal of the telecommunications carrier's 15 year licences for 2.1GHz spectrum.

Table 21 reports the acquisition of non-financial assets by function before taking into account depreciation or amortisation.

Table 21: Australian Government general government sector purchases of non-financial assets by function

	Estimates			Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
General public services	1,435	1,334	929	662	677
Defence	7,882	8,215	7,970	9,536	11,151
Public order and safety	507	564	499	504	442
Education	13	34	24	24	23
Health	81	105	76	58	45
Social security and welfare	357	386	413	340	238
Housing and community amenities	51	42	46	31	30
Recreation and culture	318	434	271	255	269
Fuel and energy	4	1	0	1	0
Agriculture, forestry and fishing	102	117	127	611	351
Mining, manufacturing and construction	8	11	11	11	5
Transport and communication	57	54	56	42	46
Other economic affairs	791	551	314	305	331
Other purposes	17	-440	873	226	249
General government purchases of non-financial assets	11,622	11,408	11,612	12,606	13,859

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

	Actuals		Estimates		Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
General public services						
Legislative and executive affairs	1,401	1,165	1,058	1,234	1,054	1,069
Financial and fiscal affairs	16,995	7,763	7,934	8,532	8,430	8,533
Foreign affairs and economic aid	6,011	6,324	5,422	5,663	5,573	5,740
General research	2,717	2,847	2,716	2,674	2,534	2,627
General services	684	860	913	877	888	906
Government superannuation benefits	5,834	6,208	4,119	3,956	3,745	3,667
Total general public services	33,642	25,169	22,162	22,936	22,224	22,543
Defence	22,113	24,612	26,348	26,106	27,631	28,783
Public order and safety						
Courts and legal services	1,089	1,063	1,198	1,169	1,111	1,096
Other public order and safety	3,280	3,518	3,687	3,682	3,625	3,711
Total public order and safety	4,368	4,580	4,885	4,851	4,735	4,806
Education						
Higher education	8,970	9,133	9,304	8,920	9,142	9,280
Vocational and other education	1,760	1,823	1,833	1,996	1,504	1,529
Schools	13,531	14,664	15,743	17,012	18,031	18,760
<i>Non-government schools</i>	8,741	9,417	9,997	10,653	11,179	11,620
<i>Government schools</i>	4,790	5,247	5,746	6,359	6,852	7,140
School education - specific funding	965	928	700	620	465	92
Student assistance	4,157	4,403	3,987	4,304	4,634	5,167
General administration	286	251	286	281	280	286
Total education	29,669	31,202	31,854	33,133	34,055	35,115
Health						
Medical services and benefits	26,360	28,195	29,502	30,735	31,844	33,608
Pharmaceutical benefits and services	10,351	10,607	11,138	11,667	12,081	12,439
Assistance to the States for public hospitals	13,841	15,459	16,441	17,382	18,103	18,873
Hospital services(a)	3,004	2,019	1,787	1,706	1,716	1,725
Health services	6,571	6,796	6,660	6,353	6,462	6,489
General administration	3,100	3,220	3,110	2,982	2,977	2,923
Aboriginal and Torres Strait Islander health	756	740	743	809	893	931
Total health	63,983	67,037	69,381	71,634	74,076	76,987
Social security and welfare						
Assistance to the aged	54,587	57,637	60,734	63,057	65,538	69,400
Assistance to veterans and dependants	6,950	6,790	6,592	6,405	6,193	6,016
Assistance to people with disabilities	25,839	27,724	29,545	34,157	42,950	53,067
Assistance to families with children	36,352	38,808	38,143	37,084	38,152	39,856

Statement 5: Expenses and Net Capital Investment

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

	Actuals		Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m	\$m
Social security and welfare (continued)						
Assistance to the unemployed and the sick	10,050	10,810	11,515	11,591	11,445	12,048
Other welfare programmes	1,190	1,527	1,494	1,529	897	1,017
Assistance for Indigenous Australians nec	1,691	2,148	2,112	2,161	2,151	2,105
General administration	3,907	3,662	3,865	3,671	3,394	3,360
Total social security and welfare	140,566	149,107	154,000	159,654	170,719	186,869
Housing and community amenities						
Housing	3,221	3,348	3,276	3,524	3,440	2,794
Urban and regional development	620	734	1,009	609	451	436
Environment protection	4,515	858	1,045	1,110	1,150	1,323
Total housing and community amenities	8,355	4,940	5,329	5,242	5,041	4,553
Recreation and culture						
Broadcasting	1,526	1,538	1,524	1,473	1,495	1,500
Arts and cultural heritage	1,236	1,187	1,302	1,199	1,154	1,157
Sport and recreation	511	404	345	337	304	300
National estate and parks	476	390	359	341	341	330
Total recreation and culture	3,749	3,520	3,530	3,350	3,294	3,287
Fuel and energy	6,749	6,986	6,706	6,705	6,895	7,237
Agriculture, forestry and fishing						
Wool industry	56	55	55	55	55	55
Grains industry	164	219	220	218	210	211
Dairy industry	53	55	56	57	58	59
Cattle, sheep and pig industry	194	200	181	181	183	186
Fishing, horticulture and other agriculture	261	298	293	291	281	268
General assistance not allocated to specific industries	26	26	26	26	27	27
Rural assistance	127	199	205	240	224	216
Natural resources development	869	1,011	1,346	1,194	1,079	741
General administration	634	669	681	667	663	646
Total agriculture, forestry and fishing	2,385	2,731	3,063	2,930	2,780	2,408
Mining, manufacturing and construction	3,451	3,218	3,142	3,129	3,082	3,092
Transport and communication						
Communication	701	643	640	633	603	563
Rail transport	1,648	740	1,079	1,303	954	674
Air transport	208	210	245	212	212	203
Road transport	5,305	4,214	5,935	8,402	6,899	4,236
Sea transport	335	351	382	425	429	442
Other transport and communication	211	345	295	222	206	197
Total transport and communication	8,407	6,504	8,575	11,198	9,304	6,315

Statement 5: Expenses and Net Capital Investment

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

	Actuals		Estimates		Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
Other economic affairs						
Tourism and area promotion	188	172	177	176	175	166
Total labour and employment affairs	3,879	3,903	3,963	4,296	4,326	4,358
<i>Vocational and industry training</i>	1,625	1,446	1,484	1,427	1,463	1,490
<i>Labour market assistance to job seekers and industry</i>	1,568	1,694	1,792	2,190	2,195	2,199
<i>Industrial relations</i>	686	763	687	679	668	669
Immigration	4,404	4,459	3,622	2,451	2,356	2,416
Other economic affairs nec	2,367	2,146	2,030	1,994	1,992	2,010
Total other economic affairs	10,838	10,680	9,792	8,918	8,850	8,950
Other purposes						
Public debt interest	13,414	14,468	15,561	16,455	16,846	17,364
<i>Interest on Commonwealth Government's behalf</i>	13,414	14,468	15,561	16,455	16,846	17,364
Nominal superannuation interest	8,214	8,989	9,869	10,259	10,648	11,034
General purpose inter-government transactions	53,563	57,467	60,038	63,949	67,534	71,232
<i>General revenue assistance - States and Territories</i>	52,391	55,178	57,749	61,660	65,149	68,745
<i>Local government assistance</i>	1,173	2,289	2,289	2,289	2,386	2,487
Natural disaster relief(b)	377	36	33	5	-1	-1
Contingency reserve	0	-911	201	2,201	4,104	8,854
Total other purposes	75,568	80,049	85,701	92,869	99,131	108,483
Total expenses	413,845	420,335	434,469	452,654	471,816	499,428

(a) The hospital services sub-function includes payments from the Commonwealth to the states and territories for specific hospital improvement initiatives and is in addition to the bulk of hospital funding provided under the 'Assistance to the States for public hospitals' sub-function.

(b) Amounts for the Natural Disaster Relief and Recovery Arrangements (NDRRA) reflect expenses being recorded in the year in which the disaster occurs rather than when payments are made to state or territory governments in relation to Australian Government financial obligations under the NDRRA. The Natural Disaster Relief estimates do not include the recent NSW storms.