

STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

Statement 6 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 6 focuses on short to medium term trends in estimated expenses and their underlying drivers. Consistent with this emphasis, much of Statement 6 explains year on year changes across the forward estimates period.

The main trends are:

- general government expenses as a percentage of GDP are forecast to decrease from 26.2 per cent in 2013-14 to 25.4 per cent in 2014-15, and then remain relatively stable over the forward estimates;
- in 2014-15 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 2014-15 largely reflects continued investment in defence capital projects.

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OVERVIEW

Australian Government general government sector (GGS) accrual expenses are expected to decrease by 2.3 per cent in real terms in 2014-15, with the growth rate increasing to 2016-17 before decreasing in 2017-18. Total expenses are expected to decline as a percentage of GDP from 26.2 per cent in 2013-14 to 25.4 per cent in 2014-15, and then remain relatively stable over the forward estimates.

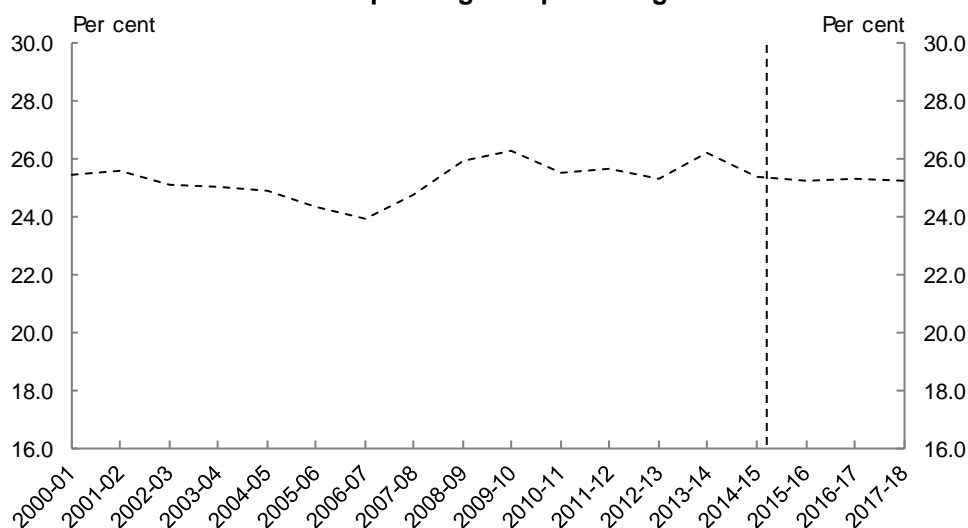
Table 1: Estimates of general government sector expenses

	MYEFO	Revised	Estimate		Projections	
	2013-14	2013-14	2014-15	2015-16	2016-17	2017-18
Total expenses (\$b)	412.1	415.3	414.8	431.1	453.8	475.4
Real growth on previous year (%) ^(a)	5.0	5.6	-2.3	1.4	2.7	2.2
Per cent of GDP	26.1	26.2	25.4	25.2	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 0.8 per cent per annum in real terms over the four years to 2017-18.

Chart 1: Total spending as a percentage of GDP



Over the last seven years, total expenditure rose as a percentage of GDP from 24.8 per cent of GDP in 2007-08 to a forecast 26.2 per cent of GDP in 2013-14. Over the

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forward estimates, expenses are expected to decline to 25.3 per cent of GDP in 2017-18 (see Chart 1).

Table 2 provides a reconciliation of expense estimates between the 2013-14 Budget, the *Pre-election Economic and Fiscal Outlook 2013* (PEFO), the *Mid-Year Economic and Fiscal Outlook 2013-14* (MYEFO) and the 2014-15 Budget showing the effect of policy decisions, and economic parameter and other variations.

Table 2: Reconciliation of expense estimates

	Estimates			Projections	Total
	2013-14	2014-15	2015-16	2016-17	
	\$m	\$m	\$m	\$m	\$m
2013-14 Budget expenses	398,301	415,663	431,015	454,747	1,699,726
Changes from 2013-14 Budget to 2013 PEFO					
Effect of policy decisions(a)	1,134	-1,628	-1,565	-2,303	-4,362
Effect of parameter and other variations	2,050	1,950	1,461	2,092	7,554
Total variations	3,184	322	-103	-211	3,191
2013 PEFO expenses	401,485	415,985	430,911	454,536	1,702,917
Changes from 2013 PEFO to 2013-14 MYEFO					
Effect of policy decisions(a)	7,710	-1,996	-3,014	-6,467	-3,767
Effect of parameter and other variations	2,864	3,769	8,121	9,042	23,796
Total variations	10,574	1,773	5,108	2,574	20,030
2013-14 MYEFO expenses	412,060	417,758	436,019	457,110	1,722,947
Changes from 2013-14 MYEFO to 2014-15 Budget					
Effect of policy decisions(a)	51	-1,939	-5,498	-7,688	-15,075
Effect of economic parameter variations					
Total economic parameter variations	784	1,323	1,506	774	4,388
<i>Unemployment benefits</i>	4	17	295	32	348
<i>Prices and wages</i>	32	211	-85	-812	-654
<i>Interest and exchange rates</i>	8	85	57	54	204
<i>GST payments to the States</i>	740	1,010	1,240	1,500	4,490
Public debt interest	-15	-247	-608	-872	-1,741
Programme specific parameter variations	601	327	468	915	2,311
Slippage in decisions	0	0	0	0	0
Other variations	1,813	-2,378	-770	3,567	2,232
Total variations	3,235	-2,914	-4,901	-3,304	-7,884
2014-15 Budget expenses	415,294	414,845	431,118	453,806	1,715,063

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

The Government has made policy decisions which reduce expenses by \$15.1 billion over the four years from 2013-14 to 2016-17 compared to the 2013-14 MYEFO, while programme specific parameter variations have increased expenses by \$2.3 billion over the same period. Economic parameter variations are expected to increase expenses by \$4.4 billion over the four years from 2013-14 to 2016-17 compared to the 2013-14 MYEFO. Public debt interest is estimated to decrease by \$1.7 billion compared to the 2013-14 MYEFO.

Estimated expenses by function

Table 3 sets out the estimates of Australian Government GGS expenses by function for the period 2013-14 to 2017-18.

Table 3: Estimates of expenses by function

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
General public services	34,151	23,185	22,752	23,357	23,051
Defence	22,840	24,197	25,249	25,719	27,632
Public order and safety	4,446	4,389	4,098	4,054	4,051
Education	29,707	29,553	30,206	31,843	32,788
Health	64,511	66,892	68,203	71,797	74,856
Social security and welfare	140,569	145,773	149,269	158,370	169,585
Housing and community amenities	8,383	4,835	4,902	5,026	5,105
Recreation and culture	3,725	3,512	3,360	3,385	3,343
Fuel and energy	7,047	7,058	7,172	7,439	7,836
Agriculture, forestry and fishing	2,629	2,752	2,868	2,642	2,565
Mining, manufacturing and construction	3,139	2,740	2,580	2,595	2,504
Transport and communication	8,495	7,286	9,697	10,949	7,469
Other economic affairs	11,263	10,670	10,366	9,646	9,485
Other purposes	74,388	82,002	90,395	96,984	105,178
Total expenses	415,294	414,845	431,118	453,806	475,447

Major expense trends between 2013-14 and 2014-15, and from 2014-15 over the forward years include movements in the following functions:

- **general public services** – the decrease in expenses between 2013-14 and 2014-15 is primarily due to a one-off grant provided to the Reserve Bank of Australia. The grant took the Reserve Bank Reserve Fund to 15 per cent of assets at risk, which ensures the bank has all of the resources available to operate in a volatile environment. In the normal course of events, the bank would be profitable, enabling the Government to receive future dividends. From 2014-15 to 2017-18 expenses in the general public services function are estimated to remain relatively stable;
- **defence** – the increase in expenses from 2014-15 to 2017-18 reflects the Government's commitment to recapitalise Defence and put its funding back on an achievable and realistic growth path towards 2 per cent as a share of GDP by 2023-24. The increase is partially offset by the Government shifting funding within the Defence budget away from expenses in favour of capital expenditure, to improve defence capability;
- **education** – the increase in expenses from 2014-15 to 2017-18 largely reflects the Government's *Students First* school education policy. Further information on *Students First* can be found in Budget Paper No. 2, *Budget Measures* and the *Mid-Year Economic and Fiscal Outlook 2013-14*;

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- **health** – the increase in expenses from 2014-15 to 2017-18 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;
- **social security and welfare** – the increase in expenses from 2014-15 to 2017-18 are largely due to an ageing population with more people accessing age, disability and carer payments and residential and home care together with implementation of the National Disability Insurance Scheme to support people with a significant and permanent disability;
- **housing and community amenities** – the decrease in expenses between 2013-14 and 2014-15 is primarily due to the termination of various programmes as part of the abolition of the carbon tax, including the Jobs and Competitiveness Programme, Energy Security Fund and the Biodiversity Fund;
- **transport and communication** – the fluctuating profile of expenses from 2014-15 to 2017-18 are largely driven by 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 2014-15 to 2017-18 primarily 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 58.4 per cent of all government expenses in 2014-15. Further details of spending trends against all functions including movements in expenses from 2013-14 to 2014-15 are set out under individual function headings.

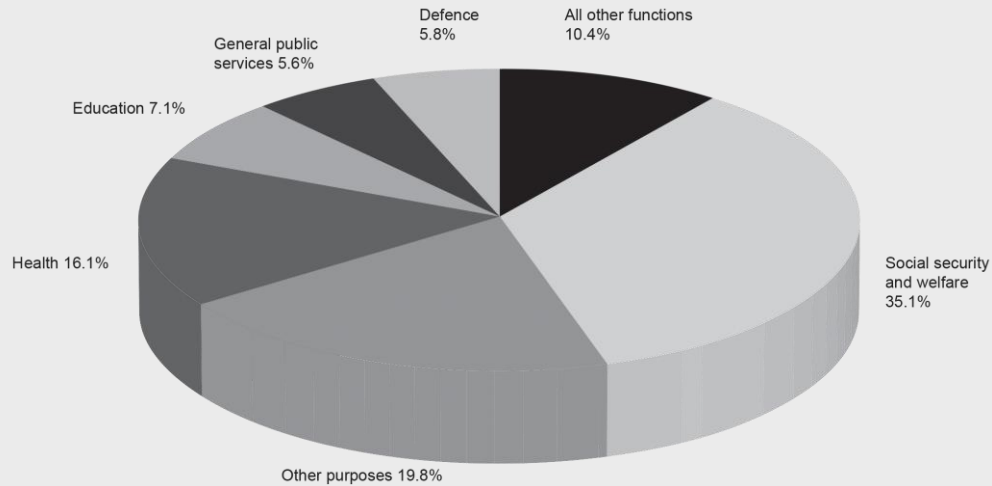
Box 1: Where does government spending go in 2014-15?

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 2014-15

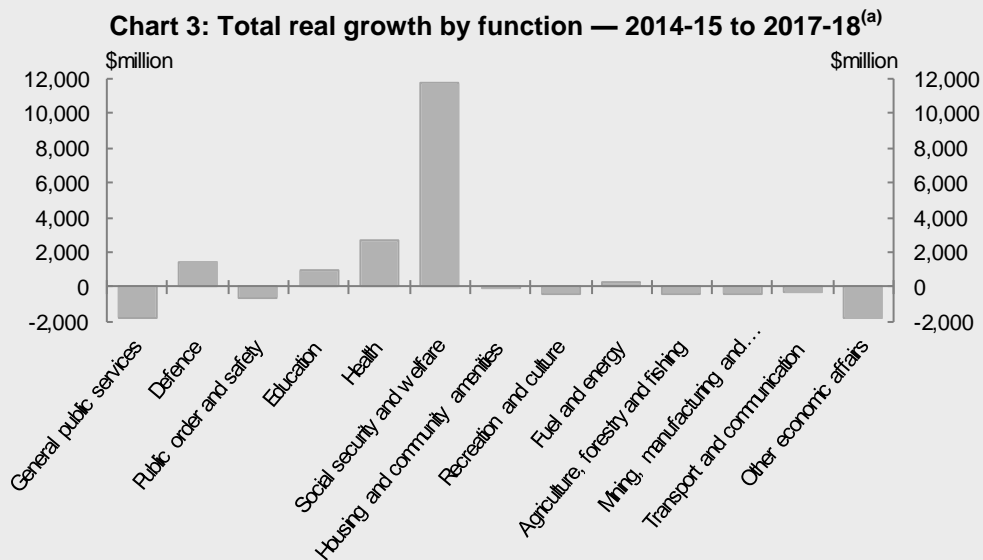


The estimates presented in the chart above are explained in greater detail under each individual function in the following pages.

Box 2: Trends in future spending

Social security and welfare expenses are projected to grow strongly over the forward estimates. Key factors driving this 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. Another driver of growth is the implementation of the National Disability Insurance Scheme.

A number of major health programmes will continue to see expenditure growth, 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.



(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.

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Programme expenses

Table 3.1 reports the top 20 expense programmes in the 2014-15 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 2014-15

Programme	Function	Estimates			Projections	
		2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Revenue assistance to the States and Territories	Other purposes	52,056	54,861	58,165	61,598	64,909
Income support for seniors	SSW	39,501	42,085	44,658	47,583	49,665
Medicare services	Health	19,334	20,317	20,176	21,480	22,647
Family tax benefit	SSW	20,125	19,270	17,645	17,650	16,861
Income Support for People with Disability Assistance to the States for public hospitals(a)	SSW	16,098	16,891	17,354	17,940	18,500
Job seeker income support	SSW	10,226	10,233	10,571	10,687	10,610
Residential and flexible care	SSW	8,978	9,547	10,065	10,610	11,244
Pharmaceuticals and pharmaceutical services	Health	9,455	9,445	9,607	10,110	10,467
Non government schools – national support	Education	8,764	9,260	9,957	10,685	11,277
Income support for carers	SSW	6,983	7,631	8,266	9,000	9,769
Public sector superannuation(b)	Other purposes; General public services	8,225	7,549	7,696	7,847	8,007
Commonwealth Grants Scheme	Education	6,222	6,479	6,566	6,583	6,709
Private health insurance	Health	5,997	6,302	6,565	6,873	7,187
Fuel tax credits scheme	Fuel and energy	5,823	6,270	6,822	7,211	7,615
Management of Capability Acquisition	Defence	4,268	6,225	6,781	6,205	7,373
Army capabilities	Defence	5,762	6,031	6,327	6,246	6,319
Management of capability sustainment	Defence	5,366	5,939	6,244	6,531	6,841
Parents' income support	SSW	5,526	5,341	5,392	5,408	5,389
Government Schools National Support	Education	2,408	5,114	5,689	6,348	6,872
Sub-total		254,962	269,906	281,097	294,690	307,133
Other programmes		160,332	144,939	150,021	159,116	168,314
Total expenses		415,294	414,845	431,118	453,806	475,447

(a) 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.

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

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

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Legislative and executive affairs	1,334	1,191	1,015	1,222	1,045
Financial and fiscal affairs	17,652	8,513	8,585	8,797	8,799
Foreign affairs and economic aid	6,060	6,299	6,125	6,704	6,733
General research	2,724	2,651	2,554	2,343	2,387
General services	714	821	757	773	797
Government superannuation benefits	5,667	3,709	3,715	3,516	3,290
Total general public services	34,151	23,185	22,752	23,357	23,051

Total general public services expenses are estimated to decrease by 33.6 per cent in real terms from 2013-14 to 2014-15, and decrease by 7.7 per cent in real terms over the period 2014-15 to 2017-18.

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 decrease from 2013-14 to 2014-15, primarily due to a one-off grant provided to the Reserve Bank of Australia. Over the forward estimates, bad and doubtful debts expenses are expected to increase in line with the normal growth in taxation revenue over the forward estimates.

The fall in expenses from 2013-14 to 2014-15 in the **government superannuation benefits** sub-function reflects the use of different discount rates. The superannuation expenses for 2013-14 apply a discount rate based on long-term government bonds at the commencement of the financial year (4.3 per cent) in accordance with accounting

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standards. 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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Official development assistance(a)(b)	4,375	4,530	4,458	5,046	5,104
<i>Africa, South and Central Asia, Middle East and other</i>					
<i>East Asia</i>	881	1,131	1,081	1,124	1,440
<i>East Asia</i>	1,022	1,063	1,091	1,118	1,145
<i>PNG and Pacific</i>	882	967	1,017	1,045	1,082
<i>Emergency, humanitarian and refugee programmes</i>	264	339	350	362	374
<i>UN, Commonwealth and other international organisations</i>	369	344	343	421	425
<i>Multilateral replenishments</i>	265	118	-	377	13
<i>NGO, Volunteer and community programmes</i>	199	204	209	214	219
<i>Programme Support(c)</i>	362	240	237	252	271
<i>International agricultural research and development</i>	131	124	130	133	135
International police assistance	279	259	228	213	150
Passport services	239	253	263	256	258
Diplomacy(d)	759	854	766	745	760
Payments to international organisations	300	299	299	303	309
Consular services	66	75	74	74	74
Finance and insurance services for Australian exporters and investors	24	22	20	15	17
Other	18	7	17	52	61
Total	6,060	6,299	6,125	6,704	6,733

(a) The difference between these figures and the Government's ODA budget is partly due to the way replenishments are recognised in accrual terms when initial commitments are made. However, international reporting of ODA is in cash terms and reflects the timing of actual cash payments (which, in the case of multilateral replenishments, can be spread over several years).

(b) Some ODA delivered by other government departments is also classified to other programmes or functions.

(c) Programme Support includes departmental expenses of administering ODA for the Department of Foreign Affairs and Trade.

(d) Diplomacy includes Departmental expenditure for the Department of Foreign Affairs and Trade's Operations, Security and IT, overseas property and international climate change engagement.

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Box 3: Official Development Assistance

The Government will maintain official development assistance (ODA) spending at its nominal 2013-14 level of \$5.0 billion in each of 2014-15 and 2015-16. From 2016-17 ODA will grow in line with the Consumer Price Index.

Table 4.2: Official development assistance profile

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Official development assistance					
- total spending estimate	5,032	5,032	5,034	5,160	5,289

ODA spending reported internationally differs from the reporting in Table 4.1 due to some ODA eligible activities of government departments outside of the Foreign Affairs Portfolio being reported in other functions, and due to accounting differences in the treatment of investments and loans and reflects the timing of actual cash payments.

Total expenses under the **foreign affairs and economic aid** sub-function are expected to increase by 1.7 per cent in real terms from 2013-14 to 2014-15 and are forecast to decrease by 0.7 per cent in real terms across the forward years from 2014-15.

This decrease is due to the Government's decision to maintain official development assistance (ODA) expenditure at 2013-14 levels to 2015-16 with funding to grow in line with Consumer Price Index (CPI) from 2016-17 onwards. Budget Paper No. 2, *Budget Measures 2014-15*, contains further details on the Government's revision to the growth profile for ODA (see Box 3).

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 4.8 per cent from 2013-14 to 2014-15 and by 16.4 per cent across the forward estimates from 2014-15. This decrease is driven by the completion of a number of one-off projects funded under the Education Investment Fund, and the measure *Science and Research Agencies – reduced funding*.

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

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Table 4.3: Trends in the major components of general research sub-function expenses

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
National research flagships, science and services	1,059	1,024	1,010	1,003	1,025
Discovery - research and research training	559	551	519	495	523
Linkage - cross sector research partnerships	330	327	278	266	273
Science and technology solutions	284	290	283	279	275
National Research Infrastructure - national facilities and collections	111	143	150	164	164
Other	382	316	315	135	128
Total	2,724	2,651	2,554	2,343	2,387

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Defence

The defence function includes expenses incurred by the Department of Defence (Defence), the Defence Materiel Organisation (DMO) 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. The DMO contributes to the preparedness of the Australian defence organisation through the acquisition and through-life support of military equipment and supplies.

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

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Defence	22,840	24,197	25,249	25,719	27,632
Total defence	22,840	24,197	25,249	25,719	27,632

Total expenses for the defence function are estimated to increase by 3.7 per cent in real terms from 2013-14 to 2014-15, and increase by 6.1 per cent in real terms over the period 2014-15 to 2017-18. While the increase in expenses from 2014-15 to 2017-18 in part reflects new policy decisions which provide defence additional funding, this is partially offset by a shift in funding within the Defence budget away from expenses in favour of capital expenditure, to improve defence capability (see Box 4 showing expenses and net capital investment).

To this end, the Government will achieve savings of \$1.2 billion over four years through various initiatives to increase efficiency and reduce spending in lower priority areas. The savings will be re-invested in capital to support Defence capability.

The funding growth does not include the full cost of operations beyond 2014-15 as such funding is considered on a year-by-year basis and is subject to future Government decisions. In 2014-15, additional funding of \$194.0 million will be provided to support Defence operations in the Middle East and in protecting Australia's borders.

Box 4: Defence funding

Total Defence spending is estimated to increase by \$4.0 billion (or 6.4 per cent in real terms) between 2014-15 and 2017-18. 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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Expenses	22,840	24,197	25,249	25,719	27,632
Net capital investment	2,825	3,315	3,219	2,883	3,892
Total defence spending	25,665	27,512	28,468	28,602	31,524
Nominal growth (per cent)	11.7%	7.2%	3.5%	0.5%	10.2%
Real growth (per cent)	0.7%	4.9%	1.0%	-2.0%	7.5%

Capital funding in the defence function is applied towards 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 year, foreign exchange rate fluctuations and additional funding decisions of Government.

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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 and intelligence activities, and the protection of Australian Government property.

Table 6: Summary of expenses — public order and safety

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Courts and legal services	1,080	1,043	957	871	882
Other public order and safety	3,366	3,346	3,141	3,184	3,168
Total public order and safety	4,446	4,389	4,098	4,054	4,051

Total expenses for the **public order and safety function** are estimated to decrease by 3.4 per cent in real terms from 2013-14 to 2014-15, and by 14.3 per cent in real terms over the period 2014-15 to 2017-18.

Expenses within the **courts and legal services sub-function** are expected to decrease by 21.5 per cent in real terms from 2014-15 over the forward years, and by 5.5 per cent in real terms from 2013-14 to 2014-15. This is largely due to the expected completion of the three established Royal Commissions over the next three years.

Expenses within the **other public order and safety sub-function** are expected to decrease by 12.1 per cent in real terms from 2014-15 over the forward years, and by 2.7 per cent in real terms from 2013-14 to 2014-15. This is largely due to the cessation of a number of temporary measures as well as recent efficiency measures which have reduced departmental resourcing. Further information is contained in the measures *Australian Federal Police officers – cessation of recruitment* and *Australian Federal Police – savings from efficiencies* (see Budget Paper No. 2, *Budget Measures 2014-15*). This impact has been partially offset by additional funding provided to the Australian Customs and Border Protection Service to reform border protection services.

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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Higher education	8,970	9,223	9,274	9,282	9,465
Vocational and other education	1,766	1,824	1,837	2,003	1,515
Schools	13,567	14,374	15,646	17,032	18,149
Non-government schools	8,764	9,260	9,957	10,685	11,277
Government schools	4,803	5,114	5,689	6,348	6,872
School education - specific funding	1,151	734	282	194	163
Student assistance	3,998	3,338	3,110	3,264	3,431
General administration	255	61	56	67	65
Total education	29,707	29,553	30,206	31,843	32,788

Total education expenses are expected to decrease by 2.7 per cent in real terms between 2013-14 and 2014-15 and increase by 3.1 per cent in real terms from 2014-15 to 2017-18.

The major components of the higher education sub-function are set out in Table 7.1.

Table 7.1: Trends in the major components of the higher education sub-function expenses

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Commonwealth Grant Scheme	6,222	6,479	6,566	6,583	6,709
Investment in Higher Education Research	1,726	1,756	1,800	1,852	1,898
Higher Education Support	536	576	492	427	433
University Superannuation Programme(a)	289	324	332	340	349
Other	198	88	84	79	76
Total	8,970	9,223	9,274	9,282	9,465

(a) This does not include the 2014-15 Budget measure which is not for publication.

Expenses under the **higher education** sub-function are expected to increase by 0.6 per cent in real terms from 2013-14 to 2014-15, and decrease by 4.7 per cent in real terms from 2014-15 to 2017-18. The increase in expenses from 2013-14 to 2014-15 is due to growth in projected enrolments. The expected decrease from 2014-15 is mainly due to the implementation of the *Expanding opportunity – expansion of the demand driven system and sharing the cost fairly* measure from 2016, which allows higher education

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providers to set their own course fees and a reduction in subsidies provided under the Commonwealth Grant Scheme.

Expenses under the **vocational and other education** sub-function are estimated to increase by 1.1 per cent in real terms between 2013-14 and 2014-15, and decrease by 22.9 per cent in real terms from 2014-15 to 2017-18. The forecast decline in expenses over the forward estimates is due to the conclusion of funding under the Skills Reform National Partnership Agreement in 2016-17.

Aggregate school funding expenses are expected to increase by 3.7 per cent in real terms between 2013-14 and 2014-15 and by 17.3 per cent in real terms from 2014-15 to 2017-18 reflecting the Government's *Students First* school education policy. Slower growth in 2017-18 reflects the Government's commitment to put school funding on a more sustainable footing. From 2018, school funding will be indexed by the Consumer Price Index, with an allowance for changes in enrolments, to maintain the real level of Australian Government school funding.

Expenses in the **schools – non-government schools** sub-function are expected to increase by 3.4 per cent in real terms between 2013-14 and 2014-15 and by 13.1 per cent in real terms from 2014-15 to 2017-18. Expenses under the **schools – government schools** sub-function are expected to increase by 4.2 per cent in real terms between 2013-14 and 2014-15 and by 24.8 per cent in real terms from 2014-15 to 2017-18.

Expenses under the **student assistance** sub-function are expected to decrease by 18.3 per cent in real terms from 2013-14 to 2014-15, and by 4.5 per cent in real terms from 2014-15 to 2017-18. The decrease in 2014-15 is primarily due to recent changes in tertiary student assistance including the removal of grandfathering of recipients of the Student Start-up Scholarship from 1 July 2015.

Expenses under the Higher Education Loan Program (HELP) mainly reflect the estimated cost to the Government of providing concessional loans. These expenses are recorded when loans are issued and are based on projections of future interest rates. These expenses are expected to reduce in 2014-15 and be removed from 2015-16 onwards as a result of the Government's decision to change the indexation arrangements for debts from the Consumer Price Index to a rate equivalent to the yields on 10 year Australian Government bonds from 1 June 2016. The remaining expenses relate to the write down of debts.

Health

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

In addition to these expenses, the Government is creating a Medical Research Future Fund (MRFF) from 1 January 2015 to 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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Medical services and benefits	26,390	28,227	28,384	29,982	31,442
Pharmaceutical benefits and services	10,519	10,547	10,693	11,209	11,589
Assistance to the States for public hospitals(a)	13,845	15,116	16,551	18,095	18,872
Hospital services(b)	2,844	1,950	1,777	1,686	1,705
Health services	6,839	7,109	6,794	6,749	7,040
General administration	3,274	3,214	3,254	3,257	3,300
Aboriginal and Torres Strait Islander health	800	730	749	818	908
Total health	64,511	66,892	68,203	71,797	74,856

(a) The name of this sub-function has changed from the 'National Health Reform Payment' to the 'Assistance to the States for public hospitals'.

(b) 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 former National Health Reform Payment sub-function (now called the 'Assistance to the States for public hospitals' sub-function).

Total expenses for this function are estimated to increase by 1.5 per cent in real terms between 2013-14 and 2014-15. Total expenses are estimated to increase by 3.9 per cent in real terms from 2014-15 to 2017-18. 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 42.2 per cent of total estimated health expenses for 2014-15. Medicare expenses are the major driver of growth in this sub-function. Expenses for Medicare are expected to increase by 2.8 per cent in real terms between 2013-14 and 2014-15. The fall in expenses of 3.1 per cent in real terms from 2014-15 to 2015-16 largely reflects the impact of the Government's decisions to strengthen and improve the sustainability of Medicare. Expenses are still expected to grow by 3.5 per cent in real terms over the period 2014-15 to 2017-18, 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.

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Expenses for PHIR are expected to increase by 2.8 per cent in real terms between 2013-14 and 2014-15, and are expected to grow by 5.9 per cent in real terms over the period 2014-15 to 2017-18 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 grow by 3.0 per cent in real terms over the period 2014-15 to 2017-18, due to the expansion of dental services in the public dental system. Expenses for this activity had not previously been identified separately, but were included in the Medicare Services component of 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^(a)

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Medicare services	19,334	20,317	20,176	21,480	22,647
Private health insurance	5,997	6,302	6,565	6,873	7,187
General medical consultations and services	902	879	860	845	832
Dental services(a)	0	600	620	638	665
Other	157	129	163	147	111
Total	26,390	28,227	28,384	29,982	31,442

(a) Dental services sub function data has previously been included as part of Medicare Services and has not been separately identified.

The **pharmaceutical benefits and services** sub-function is expected to decrease by 1.9 per cent in real terms between 2013-14 and 2014-15 due largely to the current price disclosure policy which requires manufacturers to disclose to the Government the actual price at which they sell medicines to wholesalers and pharmacies. Expenses are expected to grow by 2.1 per cent in real terms over the period 2014-15 to 2017-18. 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

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Pharmaceutical benefits (concessional)(a)	5,641	5,512	5,564	5,852	6,040
Pharmaceutical benefits (general)(b)	1,410	1,378	1,391	1,463	1,510
Pharmaceutical benefits (highly specialised and other drugs dispensed in hospitals)(c)	2,208	2,358	2,452	2,595	2,715
Pharmaceutical benefits - targeted medicine programmes(d)	138	148	154	158	163
Immunisation	156	154	159	160	164
Veterans' pharmaceutical benefits	406	390	368	376	390
Payments for wholesalers and pharmacy programmes	368	406	402	401	401
Other	192	201	204	204	206
Total	10,519	10,547	10,693	11,209	11,589

(a) Concessional benefits are those provided through community pharmacies for Pensioner Concession Card holders, Health Care Card holders and Veterans with a White, Gold or Orange card.

(b) General benefits are those provided through community pharmacies for people without concession cards.

(c) Highly specialised drugs are subsidised by the Australian Government through hospitals.

(d) Targeted medicine programmes include the life saving drugs programme and Herceptin Programme.

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. The increase in expenses of 6.8 per cent in real terms from 2013-14 to 2014-15 reflects the Commonwealth's commitment to provide additional hospital funding from 2014-15 under current agreements with the States. The increase in expenses of 14.0 per cent in real terms over the period 2014-15 to 2016-17 largely reflects growth in the volume of services and changes in the efficient price of those services. The rate of growth in the expenses slows to around 1.8 per cent in real terms between 2016-17 and 2017-18 due to the Government's decision to put hospital funding on a more sustainable footing and to index hospital funding from 1 July 2017 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 32.9 per cent in real terms between 2013-14 and 2014-15, and fall by 18.8 per cent in real terms over the period 2014-15 to 2017-18. This significant fall is primarily due to the conclusion of elements of the National Partnership Agreement on Improving Public Hospital Services at the end of 2013-14, and the cessation of reward funding from 1 July 2015.

Expenses in the **health services** sub-function include Australian Government expenses associated with the delivery of population health, mental health, hearing services, blood and blood products, research and other allied health services, and health

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infrastructure funding through the Health and Hospitals Fund (HHF), which will cease operation on 31 December 2014, with uncommitted funds being transferred to the Medical Research Future Fund. From 2013-14 to 2014-15 expenditure is expected to increase by 1.7 per cent in real terms, and between 2014-15 and 2017-18 expenditure is expected to decrease by 8.0 per cent in real terms. This largely reflects projects funded from the HHF nearing completion. The reduction in Health Infrastructure is partially offset by increased expenditure on the national blood agreement, reflecting both greater costs and demand for blood products, and the expenditure of earnings from the Medical Research Future Fund to support research.

The major components of the health services sub-function are set out in Table 8.3.

Table 8.3: Trends in the major components of health services sub-function expenses

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
National blood agreement management	1,127	1,132	1,205	1,280	1,362
Health infrastructure	422	865	394	82	17
Blood and organ donation	732	737	783	833	884
Mental health	529	643	708	707	725
Other	4,028	3,731	3,704	3,847	4,051
Total	6,839	7,109	6,794	6,749	7,040

The **general administration – health** sub-function includes the Government's investment in health workforce measures and support for rural health initiatives. Expenditure for this sub-function is expected to fall in real terms by 3.9 per cent between 2013-14 and 2014-15, and to fall in real terms by 4.6 per cent over the period 2014-15 to 2017-18. This is a result of the recent measures the Government has undertaken to minimise the growth in programme delivery costs such as improving the efficiency of health workforce development and rebuilding general practice education and training.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function is expected to decrease by 10.7 per cent in real terms from 2013-14 to 2014-15, largely due to efficiencies in Indigenous health programme funding. Expenses are expected to increase by 15.5 per cent in real terms over the period 2014-15 to 2017-18 as Aboriginal and Torres Strait Islander people across Australia continue to access Indigenous-specific services. Substantial investments in Indigenous health also occur through other health sub-functions.

Box 5: Medical Research Future Fund

In addition to expenditure on the health function, the Government will create a Medical Research Future Fund (MRFF) from 1 January 2015 to provide a sustainable and growing funding stream to be spent on further medical research in the medium to long term. All savings from health expenditure which have been announced in the 2014-15 Budget and the current uncommitted balance of the Health and Hospitals Fund (HHF) will be reinvested in the MRFF until its balance reaches \$20 billion, which is estimated to occur in 2019-20. The capital and any ongoing capital gains of the MRFF will be preserved in perpetuity.

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. This additional expenditure will grow from \$20 million in 2015-16 to provide an ongoing funding stream of around \$1 billion per year from 2022-23.

Table 8.4: Medical Research Future Fund

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Savings invested in the MRFF	0	1,039(a)	2,680	2,884	3,938
Uncommitted balance from the HHF invested in the MRFF		992			
Total investments each year in the MRFF	0	2,032	2,680	2,884	3,938
Net interest earnings		20	77	179	304
Capital gains		2	9	20	35
Additional funding for Medical Research(b)			-20	-77	-179
Cumulative Balance of the MRFF(c)	0	2,054	4,800	7,807	11,905

(a) Includes \$76 million in 2013-14 savings which will be invested in the MRFF after it is established on 1 January 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.

Table 8.5: Expenditure and investments in health

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Health function expenditure	64,511	66,892	68,203	71,797	74,856
Savings invested in the MRFF	0	1,039	2,680	2,884	3,938
Total expenditure and investments in health	64,511	67,931	70,883	74,681	78,794

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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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Assistance to the aged	54,984	57,967	60,791	64,612	67,718
Assistance to veterans and dependants	6,984	6,933	6,783	6,628	6,356
Assistance to people with disabilities	26,035	27,961	29,802	34,431	42,910
Assistance to families with children	36,131	35,540	34,352	35,022	35,005
Assistance to the unemployed and the sick	10,238	10,233	10,571	10,687	10,610
Other welfare programmes	735	735	843	918	1,003
Assistance for Indigenous Australians nec	1,910	2,161	2,162	2,155	2,107
General administration	3,552	4,242	3,965	3,918	3,876
Total social security and welfare	140,569	145,773	149,269	158,370	169,585

Expenses in the social security and welfare function are estimated to grow by 1.5 per cent in real terms from 2013-14 to 2014-15 and by 8.1 per cent in real terms from 2014-15 to 2017-18.

The sub-functions contributing most to the growth are assistance to the aged, at 8.5 per cent and assistance to people with disabilities at 42.5 per cent in real terms over the period 2014-15 to 2017-18.

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 4.2 per cent in real terms from 2013-14 to 2014-15 and 9.6 per cent in real terms from 2014-15 to 2017-18 due to demographic changes. Real growth in expenses is expected to slow to 2.2 per cent from 2016-17 to 2017-18 due to the impact of 2014-15 Budget measures including changes to indexation and deeming arrangements, which take effect in 2017-18.

Also contributing to growth from 2014-15 to 2017-18 is an increase in expenses associated with home care, home support and residential and flexible aged care programmes, largely reflecting demographic factors.

The reduction in National Partnership Payments — Assistance to the Aged from 2014-15 to 2017-18 reflects the expiry of National Partnership Agreements with Western Australia and Victoria on 30 June 2015. All other States and Territories transferred funding and policy responsibility for aged care to the Australian Government from 1 July 2012, with this funding now included in the Home Support

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Programme. Victoria has now also agreed to transfer these responsibilities, with arrangements still under negotiation.

The estimated increase in the cost of veterans' community care and support over the forward estimates is mainly attributable to a growing number of veterans and war widow(ers) accessing residential aged care.

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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Income Support for Seniors	39,501	42,085	44,658	47,583	49,665
Residential and flexible care	8,978	9,547	10,065	10,610	11,244
Veterans' Community Care and Support	1,615	1,760	1,865	1,986	2,130
Home Support	1,477	1,641	1,716	1,781	1,853
Home Care	1,228	1,365	1,541	1,736	1,942
National Partnership Payments - Assistance to the Aged	841	586	4	0	0
Mature Age Income Support	487	422	342	272	226
Allowances, concessions and services for seniors	299	95	104	113	117
Ageing and service improvement	189	175	203	233	240
Workforce and quality	146	111	123	126	122
Access and information	126	137	134	137	143
Other	96	42	37	35	36
Total	54,984	57,967	60,791	64,612	67,718

Expenses for the **assistance to veterans and dependants sub-function** are estimated to fall over the forward estimates, 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** from 2013-14 across the forward estimates is primarily driven by the National Disability Insurance Scheme (NDIS).

Expenses for the NDIS are estimated to grow substantially in real terms across the forward estimates, reflecting the increase in numbers of people with disabilities entering the scheme as it moves towards full coverage across all jurisdictions. Of the total \$17.4 billion in expenses over the forward estimates, the Commonwealth is contributing funding of \$8.4 billion (\$408 million in 2014-15, \$614 million in 2015-16, \$2.1 billion in 2016-17 and \$5.2 billion in 2017-18), with the remainder contributed by the States and Territories. Information on State and Territory contributions to the NDIS and related expenses is provided in Statement 3 of Budget Paper No. 1.

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Expenses for the Disability Support Pension (DSP) are estimated to grow by 2.7 per cent in real terms from 2013-14 to 2014-15 and 1.7 per cent in real terms from 2014-15 to 2017-18 due to increases in payment rates. Growth is expected to slow from 2017-18 due to changes to indexation arrangements that take effect from that year. The use of DSP impairment tables underpins low growth in DSP recipient numbers, with an estimated average growth of 0.25 per cent per annum over the forward estimates.

Expenses for income support for carers are estimated to grow by 6.9 per cent in real terms from 2013-14 to 2014-15 and 18.9 per cent in real terms from 2014-15 to 2017-18, 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

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Income Support for People with Disability	16,098	16,891	17,354	17,940	18,500
Income Support for Carers	6,983	7,631	8,266	9,000	9,769
Assistance to the States					
for Disability Services	1,334	1,398	1,455	1,514	1,580
Disability and Carers(a)	1,086	837	987	1,076	1,077
National Disability Insurance Scheme(b)	295	673	1,105	4,196	11,161
National Partnership Payments - Assistance to People with Disabilities	7	16	118	189	298
Other	232	515	517	516	525
Total	26,035	27,961	29,802	34,431	42,910

(a) The Services and Support for People with a Disability and Disability Employment Services programmes are now being reported under the Disability and Carers programme.

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

The main components of the **assistance to families with children sub-function** are family tax benefit payments, child care fee assistance, income support to parents and paid parental leave.

Growth in child care fee assistance expenses is being driven by increases in child care costs flowing through to increased payments under the Child Care Rebate and the growing number of families accessing fee assistance for child care, including the Child Care Benefit. These factors are estimated to result in growth in child care fee assistance expenses of 9.9 per cent in real terms from 2013-14 to 2014-15 and 18.5 per cent in real terms from 2014-15 to 2017-18.

Family Tax Benefit (FTB) expenses are estimated to decline by 6.3 per cent in real terms from 2013-14 to 2014-15 and by 18.7 per cent in real terms from 2014-15 to 2017-18.

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Reductions from 2014-15 reflect the impact of the 2014-15 Budget measures to improve the targeting and sustainability of FTB payments.

The Baby Bonus payment closed on 1 March 2014 resulting in a reduction in expenses between 2013-14 and 2014-15 in the current Paid Parental Leave programme, formerly part of the Parent and Baby Payments programme. A provision has been made for the new Paid Parental Leave Scheme in the Contingency Reserve.

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

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Family tax benefit	20,125	19,270	17,645	17,650	16,861
Parents income support	5,526	5,341	5,392	5,408	5,389
Child Care Fee Assistance(a)	5,612	6,305	6,819	7,412	8,041
<i>Child Care Benefit</i>	2,360	3,141	3,294	3,494	3,722
<i>Child Care Rebate</i>	2,225	3,164	3,525	3,918	4,319
<i>Child Care Fee Assistance</i>	1,027	0	0	0	0
Paid Parental Leave(b)	2,174	1,921	1,995	2,069	2,148
Child support	1,414	1,451	1,482	1,516	1,553
Support for the child care system	663	665	478	432	462
Families and Children(c)	153	246	219	210	214
Family relationship services	161	166	169	172	183
Child Payments(b)	112	132	134	136	139
National Partnership Payments - child care	97	22	nfp	nfp	nfp
Other	94	23	19	17	15
Total	36,131	35,540	34,352	35,022	35,005

(a) Since the machinery of government changes in 2013, Child Care Benefit and Child Care Rebate are reported as separate programmes in Budget documentation.

(b) The Parent and Baby payments programme is now being reported under the Paid Parental Leave and the Child Payments programmes.

(c) The Family support programme is now reported under the Families and Children programme.

Expenses for the **assistance to the unemployed and the sick sub-function** are estimated to decrease by 2.2 per cent in real terms from 2013-14 to 2014-15, and decrease by 3.7 per cent in real terms from 2014-15 to 2017-18. The decrease to expenses is mainly due to government decisions in the 2014-15 Budget including stronger participation incentives for job seekers under 30 and an increase in the age of eligibility for Newstart Allowance from 22 to 25.

Expenses for the **assistance for Indigenous Australians not elsewhere classified (nec)** sub-function are estimated to increase by 10.7 per cent in real terms from 2013-14 to 2014-15. This increase in expenses from 2013-14 to 2014-15 reflects the Government's commitment to bring together Indigenous programmes with a focus on achieving improved education, employment and community safety outcomes for Indigenous Australians. This has resulted in activities previously identified under other

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sub-functions being reclassified under the **assistance for Indigenous Australians (nec)** sub-function. This includes expenses under the Indigenous Employment Programme and the Remote Jobs and Communities Programme, which were previously classified under the **labour market assistance to job seekers and industry** sub-function, and also the Indigenous Education (Targeted Assistance) Programme, which was previously classified under the **schools – non-government schools** and **schools – government schools** sub-functions.

From 2014-15 to 2017-18 funding remains relatively constant in nominal terms, but declines in real terms as a result of efficiencies achieved through programme consolidation.

Expenses for the **general administration sub-function** are estimated to increase slightly in 2014-15, and then decrease over the period 2015-16 to 2017-18 due mainly to administrative efficiencies generated within the Department of Human Services.

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 Payments and related National Partnerships, other Australian Government housing programmes, the expenses of Defence Housing Australia (DHA), and various regional development and environmental protection programmes.

Table 10: Summary of expenses — housing and community amenities

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Housing	3,284	3,231	3,133	3,405	3,498
Urban and regional development	578	695	697	521	431
Environment protection	4,521	910	1,072	1,100	1,176
Total housing and community amenities	8,383	4,835	4,902	5,026	5,105

Total expenses under the housing and community amenities function are estimated to decrease by 43.6 per cent in real terms from 2013-14 to 2014-15 due to a decrease in expenses in the **environment protection** sub-function, and to decrease further by 1.9 per cent in real terms over the period 2014-15 to 2017-18.

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

Expenses for this sub-function are estimated to decrease by 3.7 per cent in real terms from 2013-14 to 2014-15 and then increase by 0.6 per cent in real terms over the period 2014-15 to 2017-18. Housing expenses are estimated to decline in real terms in 2015-16, before increasing from 2016-17, reflecting a re-profiling both of the National Partnership Agreement on Remote Indigenous Housing which brings expenses forward due to accelerated rates of construction and refurbishments, and of the National Rental Affordability Scheme which shifts expenses to later years, due to later than expected delivery dates of affordable rental dwellings.

The **urban and regional development** sub-function comprises regional development programmes and services to territories, including the Community Development Grants programme and the new National Stronger Regions Fund which will fund capital works projects in local communities. Expenses are expected to fluctuate over the forward estimates, consistent with the varying nature of the projects undertaken with payments to correspond to project milestones. Expenses are expected to peak in 2015-16 coinciding with the commencement of the National Stronger Regions Fund and significant estimated expenditure in the Community Development Grants programme.

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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 decrease in expenses from 2013-14 to 2014-15 is primarily due to the termination of various programmes as part of the abolition of the carbon tax, including the Jobs and Competitiveness Programme, Energy Security Fund and the Biodiversity Fund. The increase in expenses after 2014-15 is primarily due to the implementation of the Emissions Reduction Fund.

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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Broadcasting	1,539	1,549	1,570	1,554	1,588
Arts and cultural heritage	1,239	1,226	1,126	1,172	1,122
Sport and recreation	552	382	335	333	293
National estate and parks	395	355	330	326	340
Total recreation and culture	3,725	3,512	3,360	3,385	3,343

Total expenses under the **recreation and culture** function are estimated to decrease by 7.7 per cent in real terms from 2013-14 to 2014-15 and by 11.6 per cent in real terms over the period 2014-15 to 2017-18.

Expenses under the **broadcasting** sub-function are expected to fall by 4.8 per cent in real terms from 2014-15 through to 2017-18, primarily due to several 2013-14 Budget measures relating to the national broadcasters, such as the *ABC – Continuation of Enhanced News Services* measure, which terminate in 2015-16.

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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
ABC General operational activities	966	972	992	972	990
SBS television	257	250	248	248	257
Access to digital TV services	109	115	118	121	124
SBS digital transmission and distribution	78	85	83	82	83
ABC analog transmission	80	76	77	79	81
SBS Radio	41	43	43	43	45
Other	7	9	9	9	9
Total	1,539	1,549	1,570	1,554	1,588

Expenses under the **arts and cultural heritage** sub-function are estimated to decrease by 3.2 per cent in real terms from 2013-14 to 2014-15 and by 15.0 per cent over the period 2014-15 to 2017-18. This sub-function includes programmes which support funding for the arts and cultural institutions. The estimated decreases are due to the

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implementation of greater efficiencies, and arts-related savings measures, including the reduction from 2014-15 of uncommitted arts programme grants, as well as the cessation of measures from the 2011-12 Budget: *Enhancements from the review of the Australian independent screen production sector and the Contemporary music touring programme*; and the 2012-13 Budget: *Australian National Academy of Music – increased funding and Boosting music industry innovation and exports*.

Expenses under the **sport and recreation** sub-function are estimated to decrease by 32.3 per cent in real terms from 2013-14 to 2014-15 which primarily reflects a return to normal spending following the Government's one-off contribution to the Queensland Government in 2013-14 for permanent infrastructure for the 2018 Gold Coast Commonwealth Games. The completion of preparatory work on the Asian Football Cup and the termination of the 2014-15 Budget measures *Sporting Schools Initiative* on 30 June 2017 are the main reasons for the estimated decrease in expenses of 28.8 per cent in real terms over the period 2014-15 to 2017-18.

Expenses under the **national estate and parks** sub-function are estimated to decrease by 12.1 per cent in real terms from 2013-14 to 2014-15 and by 11.0 per cent in real terms over the period 2014-15 to 2017-18. The decrease from 2013-14 largely reflects a reduction in expenses for the Australian Antarctic Programme. The decline is partly a result of the completion of the initial life-extension works on the *Aurora Australis*, the multi-purpose icebreaking vessel which supports Australia's activities in Antarctica, in 2013-14 and the progressive completion of work on the procurement process for a new icebreaker. The further decline in expenses in 2015-16 relates, in part, to the scheduled termination of one component 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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Fuel and energy	7,047	7,058	7,172	7,439	7,836
Total fuel and energy	7,047	7,058	7,172	7,439	7,836

Fuel and energy expenses are estimated to decrease by 2.0 per cent in real terms from 2013-14 to 2014-15, and increase by 3.1 per cent in real terms over the period 2014-15 to 2017-18.

The major programme within this function is the Fuel Tax Credits Scheme which is expected to increase by 5.4 per cent in real terms from 2013-14 to 2014-15 and increase by 12.8 per cent in real terms from 2014-15 to 2017-18. This reflects the Government's decision to index fuel excise duties on diesel, petrol and other fuel products by the Consumer Price Index, and expected increases in claims by eligible businesses commensurate with higher diesel consumption, particularly in the mining industry.

The reduction in expenses under the resources related initiatives and management component from 2014-15 to 2017-18 reflects the Government's decision to reduce funding for the Carbon Capture and Storage Flagships programme and to abolish the Ethanol Production Grants programme on 30 June 2015.

The reduction in expenses under the energy related initiatives and management component from 2013-14 to 2014-15 is due to the termination of the *Coal Sector Jobs* package on 30 June 2014 (as part of the repeal of the carbon tax and associated measures), and the Government's decision to abolish the Australian Renewable Energy Agency (ARENA). The management of existing ARENA projects will be transferred to the Department of Industry. The fluctuation in expenses under this component from 2014-15 to 2017-18 is driven by the timing of project milestones for the existing ARENA projects.

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

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

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Fuel Tax Credits Scheme	5,823	6,270	6,822	7,211	7,615
Energy related initiatives and management	661	338	164	82	108
Resources related initiatives and management	209	228	100	56	20
Other	354	222	86	89	92
Total	7,047	7,058	7,172	7,439	7,836

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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Wool industry	58	57	57	57	57
Grains industry	184	212	202	194	203
Dairy industry	53	53	54	54	56
Cattle, sheep and pig industry	182	182	183	185	186
Fishing, horticulture and other agriculture	272	283	293	288	282
General assistance not allocated to specific industries	26	26	27	28	28
Rural assistance	144	151	110	113	95
Natural resources development	1,016	1,126	1,280	1,064	993
General administration	695	663	663	661	666
Total agriculture, forestry and fishing	2,629	2,752	2,868	2,642	2,565

Total expenses under this function are estimated to increase by 2.4 per cent in real terms from 2013-14 to 2014-15, but decrease by 13.4 per cent in real terms over the period 2014-15 to 2017-18.

The decrease from 2014-15 is partly due to an estimated reduction in expenses within the **rural assistance** sub-function. Expenses under this sub-function are estimated to decrease by 41.2 per cent in real terms between 2014-15 and 2017-18, primarily due to the funding profile of the Carbon Farming Futures programme declining over the forward estimates. This is partially offset by an expected increase in expenses under the *Farm Household Allowance* due to unfavourable seasonal conditions in affected parts of Australia with a consequent forecast increase in assistance to be provided.

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. The increase in expenses under the water reform component from 2013-14 largely reflects the continuation of projects under the Sustainable Rural Water Use and Infrastructure Programme, peaking in 2015-16. The decrease in expenses from 2013-14 under the Other component reflects the progressive completion of projects under the Murray-Darling Basin Authority's Environmental Works and Measures programme. The reduction in expenses from 2016-17 to 2017-18 primarily relates to the currently scheduled termination of funding for the Murray-Darling Basin Authority's basin planning functions.

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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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Water reform(a)	719	890	1,041	830	825
Sustainable management - natural resources	33	11	6	2	1
Other	264	225	233	232	167
Total	1,016	1,126	1,280	1,064	993

(a) Water Reform includes the programmes: National Partnership Payments – Water and Natural Resources; Water Reform; and Commonwealth Environment Water.

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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Mining, manufacturing and construction	3,139	2,740	2,580	2,595	2,504
Total mining, manufacturing and construction	3,139	2,740	2,580	2,595	2,504

Total expenses under the mining, manufacturing and construction function are expected to decrease by 14.6 per cent in real terms from 2013-14 to 2014-15 and by 15.1 per cent in real terms from 2014-15 to 2017-18.

The decrease in expenses in 2014-15 for the Research and Development Tax Incentive, administered by the Australian Taxation Office, partially reflects the \$70 million a year estimate of the Government's decision to reduce the refundable tax offset by 1.5 percentage points from 45.0 per cent to 43.5 per cent, effective from 1 July 2014, for expenditure on eligible research and development activities. The increase from 2015-16 reflects an increase in the number and size of expected claims.

Expenses under the industry development and investment component of this function are expected to decrease due to the Government's decision to refocus industry policy by terminating a range of industry and innovation programmes and establishing the Entrepreneurs' Infrastructure Programme. The decrease in expenses also reflects the Government's decision to terminate the Automotive Transformation Scheme from 1 January 2018 and not proceed with funding for the General Motors Holden next generation vehicles project.

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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Research and development tax incentive	2,246	1,940	2,000	2,062	2,126
Industry development and investment	679	611	381	332	213
Other	214	189	199	201	165
Total	3,139	2,740	2,580	2,595	2,504

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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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Communication	732	675	636	580	577
Rail transport	1,602	946	961	566	319
Air transport	212	219	236	223	222
Road transport	5,360	4,805	7,270	8,998	5,773
Sea transport	351	340	349	359	369
Other transport and communication	239	299	244	224	208
Total transport and communication	8,495	7,286	9,697	10,949	7,469

Total expenses under this function are estimated to decrease by 16.1 per cent in real terms between 2013-14 and 2014-15, and decrease by 4.8 per cent in real terms from 2014-15 to 2017-18.

The estimated expenses for the **communication** sub-function relate to communication activities and support for the digital economy through the Department of Communications and the Australian Communications and Media Authority. Total expenses under the communication sub-function are estimated to decrease by 9.8 per cent in real terms between 2013-14 and 2014-15 and decrease by 20.6 per cent in real terms from 2014-15 to 2017-18. These decreases primarily reflect the completion of several digital productivity measures and the planned completion of activities related to the sale of radio frequency spectrum.

Total expenses under the **rail transport** sub-function are estimated to decrease by 42.2 per cent in real terms from 2013-14 to 2014-15 and then decrease sharply each year thereafter (a decrease of 68.7 per cent from 2014-15 to 2017-18) reflecting the completion of projects announced in the 2009-10 Budget.

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 1.1 per cent in real terms between 2013-14 and 2014-15 and decrease by 5.8 per cent in real terms from 2014-15 to 2017-18 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 decrease by 5.2 per cent in real terms between 2013-14 and 2014-15 and increase in real terms by 0.8 per cent from 2014-15 to 2017-18 due to the expansion of the ATSB's safety investigation responsibilities under the National Transport Reforms.

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The expenses under the **road transport** sub-function primarily consist of grants provided under the Infrastructure Investment Programme. Expenses are estimated to decrease by 12.3 per cent in real terms between 2013-14 and 2014-15 and increase by 11.6 per cent in real terms from 2014-15 to 2017-18. The increase in expenses over the forward years is largely driven by additional funding for the *Infrastructure Growth Package* announced in the 2014-15 Budget, in addition to the measures announced at the 2013-14 MYEFO. Measures under the *Infrastructure Growth Package* include the *Infrastructure Growth Package – Asset Recycling Fund*, *Infrastructure Growth Package – Asset Recycling Initiative – establishment*, *Infrastructure Growth Package – addition to the Infrastructure Investment Programme for new investments*, *Infrastructure Growth Package – Western Sydney Infrastructure Plan – Road funding*, *Infrastructure Growth Package – Western Sydney Infrastructure Unit – establishment* and the *Infrastructure Growth Package – WestConnex Stage 2 – provision of a concessional loan*. Projects to be funded under these measures include WestConnex in New South Wales, the East-West Link in Victoria, priority roads around the Badgerys Creek future airport site in Western Sydney, the North South Road in South Australia, the Perth Freight Link in Western Australia and the Toowoomba Second Range Crossing in Queensland. Expense estimates for this sub function fluctuate year on year based on the number and value of projects funded, with payments corresponding to project timelines.

Total expenses under the **other transport and communication** sub-function are estimated to increase by 22.4 per cent in real terms between 2013-14 and 2014-15 as part of Australia's contribution to the costs of the search for Malaysia Airlines flight MH370 and decrease by 35.4 per cent in real terms from 2014-15 to 2017-18. 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 expected reduction in activities in relation to Malaysia Airlines flight MH370 and the cessation of the *Indonesian Transport Safety Assistance Package*.

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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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Tourism and area promotion	189	186	177	171	168
Total labour and employment affairs	4,064	3,904	4,224	4,361	4,433
Vocational and industry training	1,724	1,465	1,467	1,490	1,509
Labour market assistance to job seekers and industry	1,579	1,631	1,978	2,100	2,168
Industrial relations	760	807	779	770	756
Immigration	4,656	4,172	3,663	2,862	2,621
Other economic affairs nec	2,355	2,408	2,302	2,253	2,263
Total other economic affairs	11,263	10,670	10,366	9,646	9,485

Total expenses under the other economic affairs function are expected to decrease by 7.3 per cent in real terms from 2013-14 to 2014-15 and by 17.4 per cent in real terms from 2014-15 to 2017-18.

Tourism and area promotion sub-function expenses are expected to decrease from 2014-15 due to the finalisation of several tourism related initiatives, including the T-QUAL Grants programme component of the *Programmes to promote Australia's Tourism interest* programme.

Expenses under the **vocational and industry training** sub-function are expected to decrease in real terms by 16.9 per cent from 2013-14 to 2014-15 and by 4.3 per cent from 2014-15 to 2017-18. The decline largely reflects the net effect of the measure *Tools For Your Trade – cessation*, with the Government instead providing financial assistance to apprentices through *Trade Support Loans – establishment*, and *Industry Skills Fund – establishment* which provides more targeted support to small and medium enterprises to up-skill their workforce. Further information on these measures can be found in Budget Paper No. 2, *Budget Measures 2014-15*.

Expenses under the **labour market assistance to job seeker and industry** sub-function between 2014-15 and 2017-18 are expected to increase by 23.5 per cent in real terms due to the net impact of the *Job Commitment Bonus* measure announced in the 2013-14 MYEFO and the measures *Restart Wage – boosting the wage subsidy for mature age job seekers* and *Stronger participation incentives for job seekers under 30* (see Budget Paper No. 2, *Budget Measures 2014-15*).

Expenses under the **industrial relations** sub-function are expected to increase by 3.9 per cent in real terms between 2013-14 and 2014-15 due to forecast higher demand for assistance to claimants under the Fair Entitlements Guarantee scheme (FEG).

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Expenses between 2014-15 and 2017-18 are expected to decrease by 13.0 per cent in real terms, mainly due to the measure *Fair Entitlements Guarantee – aligning redundancy payments to national employment standards* (see Budget Paper No. 2, *Budget Measures 2014-15*).

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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Illegal maritime arrivals asylum seeker management	3321	2935	2419	1651	1334
Migration, border management and citizenship	819	796	843	848	930
Refugee humanitarian assistance and settlement services	322	285	252	262	255
Other	193	156	150	102	103
Total	4,656	4,172	3,663	2,862	2,621

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

Expenses under this sub-function are expected to decrease by 12.3 per cent in real terms between 2013-14 and 2014-15 and by 41.6 per cent in real terms from 2014-15 to 2017-18. This is mainly due to a reduction in actual and forecast numbers of Illegal Maritime Arrivals. Expenses for migration, border management and citizenship services are expected to increase in line with estimated growth in visas issued.

Expenses under the **other economic affairs (nec)** sub-function are expected to be relatively stable in real terms from 2013-14 to 2014-15 and decrease by 12.7 per cent in real terms from 2014-15 to 2017-18. This decrease is primarily due to the Government's decision to cease the Commercialisation Australia and Enterprise Solutions programmes and reduce funding for the Cooperative Research Centres programme. The terminated programmes will be replaced by the Entrepreneurs' Infrastructure Programme. Further information can be found in the measure *Entrepreneurs' Infrastructure Programme – establishment* in Budget Paper No. 2, *Budget Measures 2014-15*.

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

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Promotion of Australia's export and other international economic interests(a)	330	339	339	335	336
Innovative industry	254	216	176	157	141
Operating costs for:					
Department of Industry	353	563	515	490	532
Australian Securities and Investments Commission	399	351	334	334	332
Bureau of Meteorology	335	335	325	320	291
IP Australia	161	164	169	171	175
Australian Competition and Consumer Commission	139	139	136	136	135
Australian Prudential Regulation Authority	120	122	125	125	129
Other	264	179	183	185	192
Total	2,355	2,408	2,302	2,253	2,263

(a) 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.

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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Public debt interest	13,454	14,708	16,134	17,157	17,876
Interest on Commonwealth Government's behalf	13,454	14,708	16,134	17,157	17,876
Nominal superannuation interest	8,320	9,275	9,630	9,979	10,333
General purpose inter-government transactions	53,224	57,148	60,452	63,884	67,295
General revenue assistance -					
States and Territories	52,056	54,861	58,165	61,598	64,909
Local government assistance	1,168	2,287	2,287	2,287	2,385
Natural disaster relief(a)	183	98	18	0	0
Contingency reserve	-793	773	4,161	5,963	9,675
Total other purposes	74,388	82,002	90,395	96,984	105,178

(a) 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.

Total expenses under the other purposes function are estimated to increase by 7.9 per cent in real terms from 2013-14 to 2014-15, and by 19.1 per cent over the period 2014-15 to 2017-18. 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 2014-15*.

The increase in expenses under the **public debt interest** sub-function in 2013-14 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 7 of Budget Paper No. 1.

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

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direct the grants to local priorities. Expenses are reduced in 2013-14 reflecting the decision in the 2013-14 Budget to pay the first two instalments of the 2013-14 grants in 2012-13. 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 to pause indexation of the 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 agencies 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 2014-15 is largely due to the CBA. Since the 2013-14 MYEFO, the allowance has been drawn down to:

- zero in the Budget year (2014-15);
- ½ of a percentage point of total general government sector expenses (excluding GST payments to the States) in the first forward year (2015-16);
- 1 per cent of expenses in the second forward year (2016-17); and
- a 2 per cent provision has been included in the third forward year (2017-18).

The drawdown of the allowance reduced expenses by \$910 million in 2014-15, \$971 million in 2015-16 and \$2.0 billion in 2016-17. The drawdown of the allowance is

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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 agencies 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 agencies or functions;
- decisions taken but not yet announced by the Government, and decisions made too late for inclusion against individual agency estimates; and
- provisions for other specific events and pressures that are reasonably expected to affect the budget estimates.

The provision made for election commitments at the time of the 2013-14 MYEFO has been removed as these decisions are included in the 2014-15 Budget, with the exception of Paid Parental Leave scheme, the Paid Parental Leave Levy and a company tax rate reduction. An adjustment has been made to the cost of the Paid Parental Leave scheme, on the basis of a reduction on the payment threshold from \$150,000 to \$100,000 per annum.

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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 \$2.4 billion in 2014-15; \$1.7 billion lower than the net capital investment in 2013-14. This change is largely due to the auction for most of the 700MHz and all 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	
	2013-14	2013-14	2014-15	2015-16	2016-17	2017-18
Total net capital investment (\$m)	3,706	4,027	2,359	708	2,630	3,962
Per cent of GDP	0.2	0.3	0.1	0.0	0.1	0.2

Reconciliation of net capital investment since the 2013-14 Budget

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2013-14 Budget, is provided in Table 19.

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Table 19: Reconciliation of net capital investment estimates

	Estimates			Projections	Total
	2013-14	2014-15	2015-16	2016-17	
	\$m	\$m	\$m	\$m	\$m
2013-14 Budget net capital investment	2,945	2,204	1,126	3,003	9,279
Changes from 2013-14 Budget to 2013 PEFO					
Effect of policy decisions(a)	314	-3	-2	-2	307
Effect of parameter and other variations	711	1,631	-617	-678	1,046
Total variations	1,024	1,629	-619	-681	1,353
2013 PEFO net capital investment	3,970	3,833	507	2,322	10,631
Changes from 2013 PEFO to 2013-14 MYEFO					
Effect of policy decisions(a)	283	285	-90	-161	317
Effect of parameter and other variations	-547	-2,490	-237	217	-3,057
Total variations	-263	-2,205	-327	56	-2,740
2013-14 MYEFO net capital investment	3,706	1,628	180	2,378	7,891
Changes from 2013-14 MYEFO to 2014-15 Budget					
Effect of policy decisions(a)	460	388	688	216	1,753
Effect of parameter and other variations	-139	343	-160	36	80
Total variations	321	731	528	252	1,833
2014-15 Budget net capital investment	4,027	2,359	708	2,630	9,724

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

Forecast net capital investment for 2014-15 has increased by \$731 million since the 2013-14 MYEFO. This increase is driven by the effect of new policy decisions of \$388 million, and parameter and other variations of \$343 million.

A discussion of changes between the 2013-14 MYEFO and the 2014-15 Budget, shown in the table above, can be found in Statement 3. Further information on the capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2014-15*.

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Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2013-14 to 2017-18 are provided in Table 20.

Table 20: Estimates of net capital investment by function

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
General public services	546	615	140	-56	-183
Defence	2,825	3,315	3,219	2,883	3,892
Public order and safety	44	119	53	-36	-121
Education	9	-18	-15	-4	-4
Health	-14	-15	-34	-38	-18
Social security and welfare	-22	6	19	35	31
Housing and community amenities	96	35	-99	10	-128
Recreation and culture	31	86	8	-13	-40
Fuel and energy	-1	-1	-1	-1	0
Agriculture, forestry and fishing	78	64	59	78	580
Mining, manufacturing and construction	4	-3	-1	-4	-3
Transport and communication	-1	-2,136	-86	-12	-20
Other economic affairs	452	345	-44	-96	-86
Other purposes	-22	-53	-2,510	-114	63
Total net capital investment	4,027	2,359	708	2,630	3,962

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** – a number of factors contribute to the pattern of net capital investment in this function, including additional capital funding provided in the 2013-14 Budget to the Department of Foreign Affairs and Trade to upgrade the International Communications Network and construction of a number of overseas facilities, and increased investment in 2013-14 and 2014-15 associated with the Commonwealth Scientific and Industrial Research Organisation Property Strategy;
- **defence** – as part of the Government's commitment to rebuild Defence, capital funding will be brought forward from 2017-18 into the period 2013-14 to 2016-17 to recapitalise it after a number of years of underinvestment and deferred funding of major capability projects. Capital funds from the Approved Major Capital Investment Programme and the Defence Capability Plan will be brought forward to address underinvestment in a range of important capabilities. This also includes funding brought forward into 2013-14 to meet capital requirements, especially in relation to foreign military purchases;
- **public order and safety** – this sub-function includes additional funding for the Australian Customs and Border Protection Service for the acquisition of *Cape Class* patrol vessels and to reform its border protection services, together with a

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reduction in 2015-16 following completion of the fit-out associated with the new Australian Security Intelligence Organisation (ASIO) Central Office;

- **transport and communication** – the negative investment in 2014-15 is 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 are recognised as revenue during 2014-15 when licences will be 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** – capital investment in 2013-14 and 2014-15 is largely for the construction of offshore processing facilities for the accommodation of Illegal Maritime Arrivals, in support of Operation Sovereign Borders; 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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
General public services	1,220	1,257	1,081	832	620
Defence	6,640	7,285	7,408	7,312	8,398
Public order and safety	384	487	440	347	288
Education	29	-11	-10	-2	-2
Health	74	75	61	54	57
Social security and welfare	306	327	361	391	368
Housing and community amenities	184	39	53	34	63
Recreation and culture	305	313	454	296	268
Fuel and energy	3	1	1	0	1
Agriculture, forestry and fishing	105	92	86	105	607
Mining, manufacturing and construction	10	8	8	5	5
Transport and communication	65	62	43	52	39
Other economic affairs	897	770	375	315	321
Other purposes	17	-24	-145	-114	63
General government purchases of non-financial assets	10,240	10,679	10,215	9,626	11,094

APPENDIX A: EXPENSE BY FUNCTION AND SUB-FUNCTION

Table A1: Estimates of expenses by function and sub-function

	Actuals		Estimates		Projections	
	2012-13 \$m	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
General public services						
Legislative and executive affairs	959	1,334	1,191	1,015	1,222	1,045
Financial and fiscal affairs	7,843	17,652	8,513	8,585	8,797	8,799
Foreign affairs and economic aid	5,796	6,060	6,299	6,125	6,704	6,733
General research	2,651	2,724	2,651	2,554	2,343	2,387
General services	759	714	821	757	773	797
Government superannuation benefits	7,947	5,667	3,709	3,715	3,516	3,290
Total general public services	25,956	34,151	23,185	22,752	23,357	23,051
Defence	21,146	22,840	24,197	25,249	25,719	27,632
Public order and safety						
Courts and legal services	852	1,080	1,043	957	871	882
Other public order and safety	3,071	3,366	3,346	3,141	3,184	3,168
Total public order and safety	3,923	4,446	4,389	4,098	4,054	4,051
Education						
Higher education	8,714	8,970	9,223	9,274	9,282	9,465
Vocational and other education	1,887	1,766	1,824	1,837	2,003	1,515
Schools	12,442	13,567	14,374	15,646	17,032	18,149
<i>Non-government schools</i>	8,116	8,764	9,260	9,957	10,685	11,277
<i>Government schools</i>	4,326	4,803	5,114	5,689	6,348	6,872
School education - specific funding	1,552	1,151	734	282	194	163
Student assistance	3,597	3,998	3,338	3,110	3,264	3,431
General administration	276	255	61	56	67	65
Total education	28,468	29,707	29,553	30,206	31,843	32,788
Health						
Medical services and benefits	25,342	26,390	28,227	28,384	29,982	31,442
Pharmaceutical benefits and services	9,832	10,519	10,547	10,693	11,209	11,589
Assistance to the States for public hospitals(a)	13,309	13,845	15,116	16,551	18,095	18,872
Hospital services(b)	2,632	2,844	1,950	1,777	1,686	1,705
Health services	6,294	6,839	7,109	6,794	6,749	7,040
General administration	3,164	3,274	3,214	3,254	3,257	3,300
Aboriginal and Torres Strait Islander health	730	800	730	749	818	908
Total health	61,302	64,511	66,892	68,203	71,797	74,856
Social security and welfare						
Assistance to the aged	50,688	54,984	57,967	60,791	64,612	67,718
Assistance to veterans and dependants	6,968	6,984	6,933	6,783	6,628	6,356
Assistance to people with disabilities	24,018	26,035	27,961	29,802	34,431	42,910
Assistance to families with children	35,119	36,131	35,540	34,352	35,022	35,005

Statement 6: Expenses and Net Capital Investment

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

	Actuals		Estimates		Projections	
	2012-13 \$m	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Social security and welfare (continued)						
Assistance to the unemployed and the sick	8,518	10,238	10,233	10,571	10,687	10,610
Other welfare programmes	1,555	735	735	843	918	1,003
Assistance for Indigenous Australians nec	1,172	1,910	2,161	2,162	2,155	2,107
General administration	3,863	3,552	4,242	3,965	3,918	3,876
Total social security and welfare	131,901	140,569	145,773	149,269	158,370	169,585
Housing and community amenities						
Housing	2,844	3,284	3,231	3,133	3,405	3,498
Urban and regional development	531	578	695	697	521	431
Environment protection	3,391	4,521	910	1,072	1,100	1,176
Total housing and community amenities	6,766	8,383	4,835	4,902	5,026	5,105
Recreation and culture						
Broadcasting	1,665	1,539	1,549	1,570	1,554	1,588
Arts and cultural heritage	1,167	1,239	1,226	1,126	1,172	1,122
Sport and recreation	403	552	382	335	333	293
National estate and parks	389	395	355	330	326	340
Total recreation and culture	3,625	3,725	3,512	3,360	3,385	3,343
Fuel and energy	5,954	7,047	7,058	7,172	7,439	7,836
Agriculture, forestry and fishing						
Wool industry	57	58	57	57	57	57
Grains industry	184	184	212	202	194	203
Dairy industry	51	53	53	54	54	56
Cattle, sheep and pig industry	168	182	182	183	185	186
Fishing, horticulture and other agriculture	217	272	283	293	288	282
General assistance not allocated to specific industries	25	26	26	27	28	28
Rural assistance	119	144	151	110	113	95
Natural resources development	951	1,016	1,126	1,280	1,064	993
General administration	635	695	663	663	661	666
Total agriculture, forestry and fishing	2,407	2,629	2,752	2,868	2,642	2,565
Mining, manufacturing and construction	2,920	3,139	2,740	2,580	2,595	2,504
Transport and communication						
Communication	637	732	675	636	580	577
Rail transport	1,025	1,602	946	961	566	319
Air transport	213	212	219	236	223	222
Road transport	2,521	5,360	4,805	7,270	8,998	5,773
Sea transport	310	351	340	349	359	369
Other transport and communication	316	239	299	244	224	208
Total transport and communication	5,023	8,495	7,286	9,697	10,949	7,469

Statement 6: Expenses and Net Capital Investment

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

	Actuals		Estimates		Projections	
	2012-13 \$m	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Other economic affairs						
Tourism and area promotion	190	189	186	177	171	168
Total labour and employment affairs	4,156	4,064	3,904	4,224	4,361	4,433
<i>Vocational and industry training</i>	1,628	1,724	1,465	1,467	1,490	1,509
<i>Labour market assistance to job seekers and industry</i>	1,727	1,579	1,631	1,978	2,100	2,168
<i>Industrial relations</i>	801	760	807	779	770	756
Immigration	3,533	4,656	4,172	3,663	2,862	2,621
Other economic affairs nec	2,752	2,355	2,408	2,302	2,253	2,263
Total other economic affairs	10,631	11,263	10,670	10,366	9,646	9,485
Other purposes						
Public debt interest	12,521	13,454	14,708	16,134	17,157	17,876
<i>Interest on Commonwealth Government's behalf</i>	12,521	13,454	14,708	16,134	17,157	17,876
Nominal superannuation interest	6,729	8,320	9,275	9,630	9,979	10,333
General purpose inter-government transactions	51,480	53,224	57,148	60,452	63,884	67,295
<i>General revenue assistance - States and Territories</i>	49,244	52,056	54,861	58,165	61,598	64,909
<i>Local government assistance</i>	2,236	1,168	2,287	2,287	2,287	2,385
Natural disaster relief(c)	1,893	183	98	18	0	0
Contingency reserve	0	-793	773	4,161	5,963	9,675
Total other purposes	72,623	74,388	82,002	90,395	96,984	105,178
Total expenses	382,644	415,294	414,845	431,118	453,806	475,447

- (a) The name of this sub-function has changed from the 'National Health Reform Payment' to the 'Assistance to the States for public hospitals'.
- (b) 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 former National Health Reform Payment sub-function (now called the 'Assistance to the States for public hospitals' sub-function).
- (c) 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.