STATEMENT 4: RECURRENT AND CAPITAL BUDGET

The *Charter of Budget Honesty* requires that budgets be based on external reporting standards. This includes four well accepted measures of fiscal flows – the underlying cash balance, the headline cash balance, the net operating balance and the fiscal balance. All these measures convey important information about the strength and sustainability of the public finances and the impact of government policy on the broader economy.

Since 1996 governments have focused on the underlying cash balance, which indicates whether the government is meeting its spending and physical capital investment from within its recurrent revenues.

The underlying cash balance will continue to be the primary fiscal aggregate reported in the Budget papers. It reflects the impact of government fiscal settings on the macro-economy and the budget's call on cash resources from other sectors.

To complement the underlying cash balance and assist in distinguishing between recurrent and capital spending, this Budget provides increased prominence to the net operating balance to provide better information as to how closely the government is meeting its recurrent obligations from its annual revenues.

This statement explains the net operating balance and sets out an analysis of how the Government funds its recurrent and capital spending.

The Commonwealth has a large capital program, totalling around $50.6 billion in 2017-18 and around $218 billion over the forward estimates, but this is recorded in separate parts of the financial statements and accounting treatment complicates a clear understanding of the purposes of some payments.

Aggregating the total Commonwealth spend for capital purposes helps to show that from 2018-19 the Government will not need to borrow to fund spending for recurrent purposes. By contrast, the period since the Global Financial Crisis has been characterised by government borrowing to fund recurrent as well as capital spending.

This statement also sets out an analysis that attributes government debt and interest payments to individual government portfolios. This analysis mainly attributes the increase in borrowing and interest costs since 2007-08 to the largest areas of government spending – social services, health and education.

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STATEMENT 4: RECURRENT AND CAPITAL BUDGET

INTRODUCTION

As part of its national plan for economic growth and jobs, the Government is investing in a stronger economy by redirecting spending to higher priorities, productivity-enhancing infrastructure and other capital investments. These investments are providing jobs, creating new opportunities and improving the quality of life for Australians.

All government spending, whether for day-to-day operations (recurrent) or capital, should be closely scrutinised for its quality. This requires a strong commitment to rigorous project assessment and program evaluation to determine which spending generates the strongest public benefits.

A broad distinction can be made, however, between investment in capital assets, which provide a stream of benefits over time, and recurrent spending. If the Government cannot meet recurrent spending from today's taxes then this spending must be funded by taking on public debt which will have to be funded by higher taxes in the future. For this reason, it is important to pay attention to recurrent expenses and revenues as recognised in the net operating balance.

This Budget increases the prominence of the net operating balance to provide better information on managing recurrent obligations. In doing so, this enhanced reporting provides important information about the sustainability and intergenerational equity of government spending.

The remainder of this statement is set out in four sections. The first section provides an overview of the net operating balance as a measure of the recurrent budget. The second section provides a stocktake of the Government's capital spending, including its direct and indirect forms. By taking account of direct and indirect forms of capital spending, the third section outlines the progress the Government has made in reducing the need to finance recurrent spending by borrowing. The statement concludes by analysing and presenting information about the areas of government spending that have grown since the Global Financial Crisis and have been the main drivers of increased borrowing and interest costs.

MEASURING THE RECURRENT BUDGET

The net operating balance is an accrual measure of revenue minus expenses, including non-cash items such as the annual depreciation of existing capital stock. It does not include the impact of the Commonwealth's net new capital expenditure (which is incorporated in the wider fiscal flow measures of the fiscal balance and its cash equivalent, the underlying cash balance).

The net operating balance is an important measure of the sustainability of budget settings. A zero balance implies that current revenues are sufficient to fund recurrent costs, including depreciation of the existing capital stock. A net operating surplus means that government is able to use surpluses to fund capital (increase net assets) or pay down debt. A net operating deficit means the government's net assets are being run down over time.

The underlying cash balance continues to be the primary fiscal aggregate reported in the Budget papers. It is an adjusted measure of the cash balance rather than a measure of the recurrent budget balance. In this context, the net operating balance usefully complements the underlying cash balance by helping to distinguish between recurrent and capital spending. Box 1 provides a more detailed comparison of the underlying cash balance and the net operating balance.

Box 1: Comparing the underlying cash balance and the net operating balance

The use of the underlying cash balance is grounded in the *Charter of Budget Honesty* requirement that fiscal policy is conducted in accordance with principles of sound fiscal management, which recognise the importance of the sustainability of government debt and national saving.

The underlying cash balance broadly reflects the Government's call on resources from other sectors of the economy, shows whether the Government has sufficient cash to cover its activities and also reflects the Government's cash investment-saving balance. In doing so, the underlying cash balance records the Government's net capital investment (including direct spending on infrastructure and other productive capital) as a direct worsening of the bottom line.

By contrast, the net operating balance is an accrual measure of revenue less expenses (including the depreciation of prior capital investment) and does not include net new capital investment (such as spending on infrastructure). Leaving aside distinctions between cash and accrual[1], the key difference between the underlying cash balance and the net operating balance is this treatment of capital investment. While the underlying cash balance includes net new capital investment, the net operating balance does not. In this way, the net operating balance provides a basis for distinguishing between most recurrent expenditure and capital investment. However, as discussed further below, neither the net operating balance nor the underlying cash balance adequately account for the Government's grants for capital purposes, including tied grants made to the States to fund their infrastructure.

The net operating balance is required by external reporting standards and it has been reported in the Budget papers since accrual accounting was adopted, consistent with the requirements of the *Charter of Budget Honesty* and the *Uniform Presentation Framework*.

The net operating balance has been adopted for some time by the States and Territories (the States) and some key international counterparts as the principal focus for budget reporting. All the States report against the net operating balance as the primary fiscal aggregate.[2] New Zealand and Canada also focus on similar measures.

A net operating deficit of $19.8 billion (1.1 per cent of GDP) is expected in 2017-18, improving to a surplus of $17.5 billion (0.8 per cent of GDP) in 2020-21. Table 1 provides a summary of the net operating balance and other key aggregates across the forward estimates period.

1 Cash accounts recognise transactions when cash is received or paid out. Accrual accounts recognise transactions that increase or decrease net worth in the form of revenue, expenses and other economic flows.

2 The ACT reports against an adjusted version of the net operating balance.

Table 1: Australian Government general government sector budget aggregates

	Actual	Estimates			Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Receipts	**386.9**	**405.7**	**433.5**	**462.5**	**496.9**	**526.3**	**1,919.2**
Per cent of GDP	23.4	23.2	23.8	24.4	25.1	25.4	
Payments(b)	**423.3**	**440.5**	**459.7**	**480.4**	**495.6**	**518.9**	**1,954.6**
Per cent of GDP	25.6	25.1	25.2	25.4	25.0	25.0	
Net Future Fund earnings(c)	3.2	2.8	3.2	3.5	3.7	na	10.5
Underlying cash balance(d)	**-39.6**	**-37.6**	**-29.4**	**-21.4**	**-2.5**	**7.4**	**-45.9**
Per cent of GDP	-2.4	-2.1	-1.6	-1.1	-0.1	0.4	
Revenue	**395.1**	**412.1**	**444.4**	**476.1**	**510.8**	**540.4**	**1,971.7**
Per cent of GDP	23.9	23.5	24.4	25.2	25.8	26.0	
Expenses	**428.7**	**450.8**	**464.3**	**486.9**	**503.2**	**522.9**	**1,977.2**
Per cent of GDP	25.9	25.7	25.5	25.7	25.4	25.2	
Net operating balance	**-33.6**	**-38.7**	**-19.8**	**-10.8**	**7.6**	**17.5**	**-5.5**
Per cent of GDP	-2.0	-2.2	-1.1	-0.6	0.4	0.8	
Net capital investment	3.8	2.0	0.5	4.8	4.9	6.0	16.2
Fiscal balance	**-37.5**	**-40.7**	**-20.3**	**-15.5**	**2.7**	**11.4**	**-21.7**
Per cent of GDP	-2.3	-2.3	-1.1	-0.8	0.1	0.6	
Memorandum items:							
Net Future Fund earnings(c)	3.2	2.8	3.2	3.5	3.7	4.0	14.5
Headline cash balance	-49.1	-51.1	-48.4	-37.1	-14.8	11.7	-88.7

(a) Total is equal to the sum of amounts from 2017-18 to 2020-21.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(c) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Government superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(d) Excludes expected net Future Fund earnings before 2020-21.

MEASURING THE CAPITAL BUDGET

The Commonwealth's capital spending is significant, totalling around $50.6 billion in 2017-18. This spending is funded and financed in three main ways.

- First, the Government directly spends to acquire physical assets. This spending appears in the cash flow statement as an investment in non-financial assets. It detracts from the underlying cash balance, but not the net operating balance. The resulting assets are recorded on the Commonwealth's balance sheet.
- Second, the Commonwealth provides grants to others (primarily the States) for capital purposes (that is, to acquire their own assets). This spending appears as a grant and detracts from the underlying cash balance and the net operating balance.
- Third, the Government directly spends to acquire financial assets. This spending takes the form of a loan or equity contribution to a third party. It appears in the cash flow statement as an investment in financial assets for policy purposes and

does not impact on the underlying cash balance or the net operating balance. It creates a financial asset on the Commonwealth's balance sheet. In some instances, these loan and equity contributions result in another entity investing in physical infrastructure.

Spending in the first category will be around $13.5 billion (or around 3.2 per cent of total government spending) in 2017-18. Much of it relates to military equipment, but it also includes direct spending by Commonwealth Government departments on acquiring infrastructure, buildings, equipment and software.

Spending in the second category will be around $14.2 billion (or around 3.4 per cent of total government spending) in 2017-18. A significant component represents tied funding which goes to the States for capital purposes (such as projects through the Infrastructure Investment Programme, including the Western Sydney Infrastructure Plan, the Toowoomba Second Range Crossing, the North-South Corridor in Adelaide and the Midland Highway in Tasmania). While this Commonwealth spending is for capital purposes, it is recorded as grant spending that reduces the Commonwealth's underlying cash balance, fiscal balance and net operating balance. In effect, this spending creates a financial liability (debt) on the Commonwealth's balance sheet, while contributing to physical assets on the States' balance sheets.[3]

Spending in the third category will be around $22.9 billion (or around 5.5 per cent of total government spending) in 2017-18. This includes cases in which the Government funds capital investment through equity injections and loans. For example, the loan to NBN Co. announced in the 2016-17 MYEFO. Other examples announced in this Budget include an equity investment of $8.4 billion in the Australian Rail Track Corporation to deliver Inland Rail and an equity investment of up to $5.3 billion in WSA Co to develop Western Sydney Airport. These are major infrastructure items presented as financial assets on the Government's balance sheet.

Taking account of all these forms of direct and indirect capital spending, Table 2 outlines estimates of recurrent and capital spending as a proportion of total spending from 2007-08 to 2020-21.

3 If Australia had one level of government, this 'artificial' classification would not occur as the single government would directly fund capital. Reporting of the total Federal and State government accounts (as the OECD does) also produces the same result, as intergovernmental transfers would be eliminated on the consolidation of accounts.

Table 2: Recurrent and capital spending as a proportion of total spending

	Recurrent spending				Capital spending					Total
	Operating payments	Recurrent grants	Total recurrent	Per cent of total spending	Direct capital investment (a)	Capital grants	Financial asset investments (policy purposes)	Total capital	Per cent of total spending	
	$b	$b	$b	%	$b	$b	$b	$b	%	$b
2007-08	164.6	50.0	**214.6**	***95.6%***	7.3	7.6	-5.1	**9.9**	***4.4%***	**224.4**
2008-09	195.8	55.1	**250.9**	***88.8%***	9.7	13.9	7.9	**31.6**	***11.2%***	**282.5**
2009-10	195.2	60.4	**255.6**	***86.2%***	11.2	25.5	4.3	**41.0**	***13.8%***	**296.6**
2010-11	210.6	64.4	**275.1**	***89.3%***	10.0	16.1	7.0	**33.0**	***10.7%***	**308.1**
2011-12	224.8	72.2	**297.0**	***89.8%***	10.5	17.5	5.9	**33.9**	***10.2%***	**330.9**
2012-13	231.5	68.4	**299.9**	***92.6%***	8.0	11.2	4.8	**24.0**	***7.4%***	**323.9**
2013-14	247.8	73.3	**321.1**	***88.0%***	9.6	24.6	9.4	**43.7**	***12.0%***	**364.8**
2014-15	256.2	79.5	**335.7**	***90.7%***	11.4	10.6	12.6	**34.6**	***9.3%***	**370.3**
2015-16	267.0	78.0	**345.0**	***90.9%***	10.5	10.1	14.1	**34.7**	***9.1%***	**379.7**
2016-17(e)	270.9	84.9	**355.8**	***89.3%***	12.0	13.6	17.1	**42.7**	***10.7%***	**398.5**
2017-18(e)	**285.0**	**84.7**	**369.7**	***88.0%***	**13.5**	**14.2**	**22.9**	**50.6**	***12.0%***	**420.3**
2018-19(e)	299.7	89.9	**389.5**	***89.6%***	13.8	11.5	19.8	**45.1**	***10.4%***	**434.6**
2019-20(p)	314.0	89.8	**403.9**	***90.9%***	14.7	9.4	16.4	**40.5**	***9.1%***	**444.4**
2020-21(p)	331.0	92.5	**423.4**	***91.6%***	15.8	8.2	14.8	**38.7**	***8.4%***	**462.2**

(a) Non-financial asset purchases and net acquisition of assets under finance leases.
(e) Estimates.
(p) Projections.
Note: Recurrent payments include pension and income support payments, payments to government employees, payments for goods and services, grants and subsidies not made for capital purposes and specific purpose payments to States for recurrent purposes. Capital payments include the purchase of land and buildings, software and other facilities, grants and subsidies made for capital purposes and specific purpose payments to States for capital purposes.
Note: Investments in financial assets for policy purposes are shown on a gross basis where available after 2012-13, before which data is only available on a net basis.

This analysis shows that the Commonwealth's capital spend is much larger than just its own purchases of non-financial assets – which is often the smallest of the three categories.

In 2017-18, all forms of capital spending will total $50.6 billion, or around 12.0 per cent of total spending. This comprises $13.5 billion of investment in non-financial assets, $14.2 billion of capital grants and $22.9 billion of investments in financial assets.

The three categories of capital spending appear in different places in the financial statements and impact differently on the various measures of the Budget bottom line. As a result, the choice of fiscal measure is important, as each one sheds different light on how the Government is funding its capital spending and the extent to which it is borrowing to meet recurrent or capital costs.

As noted above, the net operating balance is not affected by spending to acquire physical assets. However, neither the net operating balance nor the underlying cash balance adequately account for the Government's payments for capital purposes, such as grants made to the States that are used to fund infrastructure or other capital investments (the second category of capital expenditure described above). These payments are treated as an expense in the Government's operating statement, given that they contribute to assets on the balance sheets of other entities (such as the States) rather than that of the Commonwealth.

By deducting these payments for capital purposes by the Commonwealth, it is possible to construct an adjusted net operating balance, which better reflects the extent to which the Commonwealth is funding its own recurrent budget. Table 3 below presents estimates of an adjusted net operating balance from 2007-08 to 2020-21.

Table 3: Adjusted net operating balance

	Net operating balance	Capital spending within net operating balance	Adjusted net operating balance
	$b	$b	$b
2007-08	23.5	7.1	**30.6**
2008-09	-25.9	12.9	**-13.0**
2009-10	-47.4	23.9	**-23.6**
2010-11	-46.9	15.4	**-31.4**
2011-12	-39.9	15.5	**-24.4**
2012-13	-22.9	10.1	**-12.8**
2013-14	-40.3	21.4	**-19.0**
2014-15	-38.1	9.3	**-28.8**
2015-16	-33.6	8.8	**-24.9**
2016-17 (e)	-38.7	11.9	**-26.8**
2017-18 (e)	**-19.8**	**12.6**	**-7.3**
2018-19 (e)	-10.8	10.2	**-0.6**
2019-20 (p)	7.6	8.4	**16.0**
2020-21 (p)	17.5	7.2	**24.6**

(e) Estimates.
(p) Projections.
Note: Capital spending within net operating balance includes capital grants to the States and other entities.

This adjusted measure shows a significant deficit since the Global Financial Crisis but is estimated to move towards a broad balance in 2018-19 and a surplus in the remainder of the forward estimates. In other words, the Commonwealth's recurrent budget position (even allowing for non-cash expenses) is broadly in balance from 2018-19, once account is taken of grants for capital purposes to the States and other entities.

The implication of Table 3 is that from the Global Financial Crisis up to 2018-19, grants for capital purposes to the States have been funded by Commonwealth Government debt – effectively generating a liability on the Commonwealth Government's balance sheet and assets on State governments' balance sheets. In a similar vein, the amounts in the middle column of Table 3 include grants that boost States' net operating balances, by appearing as revenue in their operating statements but not expenses.[4]

4 Under accounting standards the States' capital expenditures using these grants are reported below the net operating balance in the operating statement.

Increasingly, Commonwealth Government policy is moving in the direction of seeking greater returns from these capital funding arrangements, identifying instances where loans and equity contributions (for which interest or dividends are paid and legal interests exist) can be made instead of grants.

IMPACT OF CAPITAL AND RECURRENT SPENDING ON DEBT

The analysis of the Commonwealth Government's capital budget and the adjusted net operating balance leads to an important question: for what purposes is the Government borrowing? Is the debt incurred today mainly paying for benefits consumed in the present, or in the future?

There are no simple answers to these questions. Three important qualifications should be noted.

First, spending (whether capital or recurrent) can be of high or low quality. Some recurrent spending can generate longer term benefits. Nonetheless, the distinction between borrowing for recurrent purposes, as against capital, can be useful to provide a broad indication of the sustainability of debt raised.

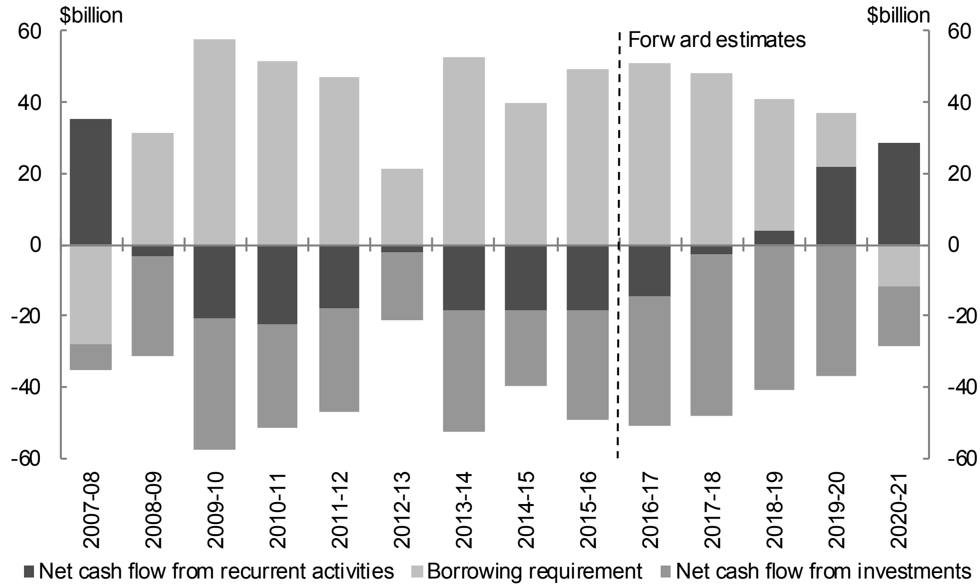
Second, it should not be assumed that all capital spending can or should be funded through debt. Close attention should be paid to overall debt levels and their sustainability, as well as the quality of the investment in generating long-term benefits.

Finally, money is fungible. Except in limited circumstances, government revenue is not tied to specific recurrent or capital expenditure. All of the money flowing to the government – from taxes or borrowing – funds the full suite of government spending, capital and recurrent. Nonetheless, this analysis proceeds on the basis that where borrowing is greater than capital spending, the government can be said to be financing recurrent spending from debt.

The following chart sets out estimates of the government's annual borrowing for capital and recurrent cash spending. It does this by analysing the net cash flows from recurrent activities and the cash flows for investment. Together they indicate the government's requirement for new borrowing in each year to fund the total of capital and recurrent spending.

In this analysis, investment reflects all three of the categories of spending outlined above. Where the net cash flow from recurrent activities is negative, the government can be said to be borrowing for both recurrent and capital purposes. If the net cash flow from recurrent activities is positive, then this is effectively helping to fund some investment activity and the need for new borrowing is less than would otherwise be required for a given level of investment.

Chart 1: Contributions of recurrent and capital spending to government borrowing needs



Note: Net cash flow from investments includes spending to acquire physical assets, spending to acquire financial assets and capital grants to the States and other entities.
Note: The borrowing requirement reflects the amounts to be financed to cover net cash flows from recurrent activities and net cash flows from investments, but does not include the funding required for liquidity purposes or refinancing.

This analysis effectively illustrates that until 2018-19, the Government has been borrowing to pay for both recurrent and capital purposes. In 2018-19 and over the remainder of the forward estimates, the Commonwealth will not need to borrow to raise the cash needed for recurrent spending. In these years, net cash flows from recurrent activities effectively make a contribution to funding capital spending. This would be the first time since the Global Financial Crisis that this has been the case. This reflects the Government's policy to stabilise net debt while still maintaining a strong capital investment program.

IMPACT OF PORTFOLIO SPENDING ON DEBT

Another approach is to attribute government debt and associated interest payments to areas of government spending to get a better sense of the drivers of increased debt.

Governments have run underlying cash deficits since 2008-09, which have been predominantly financed by the issuance of public debt. The face value of Commonwealth Government Securities on issue was around $55 billion in 2007-08 and is projected to increase to around $540 billion in 2017-18. These borrowings help to fund the operations of government across all the portfolios through which government services are provided, such as social security and welfare, health, education and infrastructure. Accordingly, these borrowing needs and their costs can notionally be attributed to different government portfolios and functions, as outlined in Tables 4 to 7.

Table 4 notionally allocates the annual change in borrowing requirements according to portfolios' share of total expenses in each year, over the period from 2008-09 to 2017-18. This approach suggests that the largest share of increased debt is attributable to the Social Services portfolio, followed by the Health and Aged Care portfolio and the Commonwealth's tied payments to the States which are accounted for in the Treasury portfolio.

Table 4: Change in borrowing requirements notionally allocated by portfolio

	Actuals								Estimates		Cumulated
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
	$b	$b	$b	$b	$b	$b	$b	$b	$b	$b	$b
Change in borrowing requirement	**45.7**	**46.0**	**44.2**	**42.7**	**23.4**	**62.1**	**49.3**	**51.7**	**80.6**	**38.9**	**484.5**
Allocation by portfolio											
Agriculture and Water Resources	0.4	0.3	0.3	0.2	0.1	0.3	0.3	0.3	0.5	0.2	**2.9**
Attorney-General's	0.5	0.5	0.6	0.4	0.2	0.6	0.5	0.5	0.8	0.4	**5.2**
Communications and the Arts	0.4	0.4	0.4	0.4	0.2	0.5	0.4	0.4	0.6	0.3	**4.0**
Defence	5.9	6.1	5.6	5.4	3.0	7.4	6.1	6.6	10.5	4.9	**61.3**
Education and Training	6.0	6.0	6.1	4.7	2.3	5.4	4.8	5.2	8.0	4.0	**52.4**
Employment	0.5	0.5	0.6	0.4	0.2	0.6	0.4	0.3	0.6	0.3	**4.4**
Environment	0.4	0.7	0.3	0.3	0.3	1.0	0.2	0.3	0.4	0.2	**4.0**
Finance	1.1	1.2	1.2	1.1	0.7	1.8	1.5	1.6	2.3	1.0	**13.5**
Foreign Affairs and Trade	0.9	0.8	1.0	0.9	0.5	1.2	1.0	0.9	1.6	0.6	**9.4**
Health and Aged Care	8.5	6.9	7.0	7.0	3.9	9.9	8.2	8.9	14.1	6.9	**81.3**
Immigration and Border Protection	0.4	0.5	0.5	0.5	0.4	1.0	0.7	0.7	1.1	0.4	**6.2**
Industry, Innovation and Science	0.8	0.8	0.8	1.8	1.3	1.5	0.6	0.5	0.7	0.4	**9.1**
Infrastructure and Regional Development	1.3	0.6	0.2	0.2	0.1	0.5	0.8	0.5	1.3	0.4	**5.9**
Parliament	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	**0.3**
Prime Minister and Cabinet	0.1	0.1	0.1	0.1	0.1	0.3	0.4	0.4	0.6	0.3	**2.4**
Social Services	13.0	11.3	11.3	11.7	6.5	19.4	16.7	17.6	26.2	13.1	**146.9**
Treasury	5.6	9.3	8.3	7.4	3.6	10.6	6.7	6.9	11.3	5.5	**75.2**

Note: The impact of most machinery of government changes on portfolios is included from 2013-14, but due to data limitations portfolios that no longer exist are not included in earlier years (other than Education, Employment and Workplace Relations).
Note: The Treasury portfolio excludes General Revenue Assistance to the States and Territories and Australian Government interest payments.

An alternative approach is to examine the changes in government spending by portfolio since 2007-08. Table 5 attributes the total increase in borrowings from 2007-08 to 2017-18 by portfolio, according to the change in portfolio expenses as a share of the change in total expenses over the same period. The table also attributes interest payments in 2017-18 to government portfolios on that same basis. Under this approach, the Social Services portfolio is again attributed the largest component, followed by the Treasury portfolio. Machinery of government changes would have some impact on these outcomes.

Table 5: Total increase in borrowings from 2007-08 to 2017-18 and interest payments in 2017-18 notionally allocated by portfolio

	Increase in borrowings	Interest in 2017-18
	$b	$b
	484.5	**16.6**
Attribution to portfolios		
Agriculture and Water Resources	-2.6	-0.1
Attorney-General's	1.7	0.1
Communications and the Arts	2.9	0.1
Defence	33.0	1.1
Education and Training	2.8	0.1
Employment	-0.4	0.0
Environment	-0.8	0.0
Finance	12.2	0.4
Foreign Affairs and Trade	5.7	0.2
Health and Aged Care	65.7	2.2
Immigration and Border Protection	5.5	0.2
Industry, Innovation and Science	-1.7	-0.1
Infrastructure and Regional Development	-4.8	-0.2
Parliament	0.2	0.0
Prime Minister and Cabinet	7.1	0.2
Social Services	233.0	8.0
Treasury	125.1	4.3

Note: The impact of most machinery of government changes on portfolios is included from 2013-14, but due to data limitations portfolios that no longer exist are not included in earlier years (other than Education, Employment and Workplace Relations).
Note: The Treasury portfolio excludes General Revenue Assistance to the States and Territories and Australian Government interest payments.

A shortcoming of this approach is the difficulty of fully adjusting for machinery of government changes since 2007-08, which impact on the growth in portfolio expenses.

A further approach, which overcomes the impacts of machinery of government changes, is to attribute the rise in debt according to different government functions rather than portfolios. Table 6 notionally allocates the change in borrowing requirements since 2007-08 according to different government functions' shares of total expenses in each year, over the period from 2008-09 to 2017-18. Similar to the portfolio results presented above, this approach would attribute the largest share of increased debt to the social security and welfare, health and education functions.

Table 6: Change in borrowing requirements notionally allocated by function

	Actuals								Estimates		Cumulated
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
	$b	$b	$b	$b	$b	$b	$b	$b	$b	$b	$b
Change in borrowing requirement	**45.7**	**46.0**	**44.2**	**42.7**	**23.4**	**62.1**	**49.3**	**51.7**	**80.6**	**38.9**	**484.5**
Allocation by function											
General public services	2.9	3.2	3.5	3.2	2.0	6.2	3.6	3.6	6.0	2.2	**36.4**
Defence	3.3	3.3	3.2	3.0	1.6	4.1	3.5	3.9	6.3	3.1	**35.3**
Public order and safety	0.6	0.6	0.6	0.6	0.3	0.8	0.7	0.7	1.1	0.5	**6.5**
Education	3.8	5.8	5.0	4.0	2.1	5.4	4.6	4.8	7.4	3.5	**46.5**
Health	8.4	8.5	8.7	8.6	4.6	11.7	9.7	10.4	16.3	7.9	**94.8**
Social security and welfare	21.2	18.0	18.2	17.6	10.0	25.8	21.7	22.8	34.4	17.2	**206.9**
Housing and community amenities	0.9	1.5	0.9	0.9	0.5	1.5	0.7	0.7	1.0	0.6	**9.1**
Recreation and culture	0.5	0.5	0.5	0.5	0.3	0.7	0.5	0.5	0.8	0.4	**5.3**
Fuel and energy	1.0	1.4	0.9	0.9	0.4	1.2	1.0	1.0	1.5	0.7	**10.1**
Agriculture, forestry and fishing	0.5	0.5	0.4	0.4	0.2	0.4	0.4	0.3	0.6	0.3	**4.0**
Mining, manufacturing and construction	0.3	0.3	0.2	0.3	0.2	0.6	0.5	0.5	0.8	0.4	**4.2**
Transport and communication	1.2	1.1	0.7	1.3	0.4	1.5	0.9	1.1	2.1	1.1	**11.4**
Other economic affairs	1.1	1.4	1.4	1.4	0.8	2.0	1.5	1.4	2.2	1.0	**14.1**

Note: The other purposes function is not included in this table as it contains expenses for General Revenue Assistance to the State and Territory governments (primarily GST), public debt interest, and the conservative bias allowance.

Table 7 attributes the total increase in borrowings from 2007-08 to 2017-18 to government functions, according to the change in functions' expenses as a share of the change in total expenses over the same period. The table also attributes interest payments in 2017-18 to government functions on that same basis. Similar to above, this approach would attribute the largest share of increased debt to the social security and welfare function, followed by the health, education and defence functions.

Table 7: Total increase in borrowings from 2007-08 to 2017-18 and interest payments in 2017-18 allocated by functions

	Increase in borrowings	Interest in 2017-18
	$b	$b
	484.5	**16.6**
Attribution to functions		
General public services	13.5	0.5
Defence	41.0	1.4
Public order and safety	5.1	0.2
Education	50.9	1.7
Health	102.3	3.5
Social security and welfare	219.4	7.5
Housing and community amenities	8.1	0.3
Recreation and culture	1.4	0.0
Fuel and energy	5.2	0.2
Agriculture, forestry and fishing	-2.9	-0.1
Mining, manufacturing and construction	8.0	0.3
Transport and communication	20.8	0.7
Other economic affairs	11.5	0.4

Note: The other purposes function is not included in this table as it contains expenses for General Revenue Assistance to the State and Territory governments (primarily GST), public debt interest, and the conservative bias allowance.

The key message to be taken from the analysis above is that since 2007-08 – whether considered on a portfolio or a functional basis, on a share of total expenses or a growth in expenses basis – government borrowing can be notionally attributed mainly to the areas of social services, education and health. Notwithstanding this overall conclusion, in recent years the Government's strategy of maintaining fiscal discipline has helped constrain spending growth across portfolios and functions. As illustrated in the previous section, this discipline has helped reduce the need to fund the recurrent budget through debt while still maintaining an overall capital investment program of around $218 billion over the forward estimates.