

STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

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

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

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

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

The key points are:

- general government expenses are forecast to fall from 22.4 per cent of gross domestic product (GDP) in 2004-05 to 21.9 per cent of GDP in 2007-08;
- in 2004-05, the Social Security and Welfare, Health and Education functions make up just over two-thirds of total expenses – some major trend determinants of long-term growth, for example, population ageing and demand for new technology in the area of health care, were highlighted in the Budget Paper No. 5, Intergenerational Report, 2002-03;
- in real terms, the strongest growth across the Budget and forward estimates years is occurring in the Defence, Education, Social Security and Welfare and Health functions, with other functions in general either being stable or declining; and
- net capital investment is moderately positive in 2004-05 but tends to decline over the forward years as various projects and asset acquisitions come to a conclusion.

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STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

OVERVIEW

Australian Government general government expenses are expected to grow moderately in real terms in 2004-05 (Table 1). Expenses are forecast to fall slightly from 22.6 per cent of gross domestic product (GDP) in 2003-04 to 22.4 per cent of GDP in 2004-05, and are projected to fall as a proportion of GDP over the forward estimates period to 2007-08.

Table 1: Estimates of expenses

	2003-04		2004-05	2005-06	2006-07	2007-08
	MYEFO(a)	Revised	Estimate	Projections		
Total expenses (\$b)	178.9	183.1	192.3	200.6	210.0	220.9
Real growth on						
previous year(%) ^(b)	3.0	4.0	2.4	2.4	2.7	3.2
Per cent of GDP	22.4	22.6	22.4	22.1	22.0	21.9

(a) As published in the *Mid-Year Economic and Fiscal Outlook 2003-04*.

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

GENERAL GOVERNMENT EXPENSES

Reconciliation of expenses since the 2003-04 Budget

Table 2 provides a reconciliation of expense estimates between the 2003-04 Budget, *Mid-Year Economic and Fiscal Outlook 2003-04* (MYEFO) and the 2004-05 Budget, showing the effect of policy decisions and economic parameter and other variations.

Part 3: Revenue, Expenses and Budget Funding

Table 2: Reconciliation of expense estimates

	2003-04	2004-05	2005-06	2006-07
	\$m	\$m	\$m	\$m
2003-04 Budget expenses	178,031	186,521	194,176	202,351
Changes between 2003-04 Budget and MYEFO				
Effect of policy decisions(a)	1,005	1,461	1,224	1,285
Effect of economic parameter variations				
Unemployment benefits	4	4	6	4
Prices and wages	-493	-489	-628	-276
Interest and exchange rates	-342	-384	-404	-456
<i>Total economic parameter variations</i>	<i>-831</i>	<i>-868</i>	<i>-1,026</i>	<i>-727</i>
Public debt interest	-122	-71	23	125
Programme specific parameter variations	4	-150	7	248
Slippage in 2003-04 Budget decisions	25	78	96	-41
Other variations	745	601	1,539	1,395
Total variations	827	1,050	1,862	2,284
2003-04 MYEFO expenses	178,858	187,571	196,039	204,635
Changes between MYEFO and 2004-05 Budget				
Effect of policy decisions(a)	5,969	6,209	6,835	7,766
Effect of economic parameter variations				
Unemployment benefits	-71	-132	-92	-37
Prices and wages	295	393	720	708
Interest and exchange rates	-30	14	90	87
<i>Total economic parameter variations</i>	<i>194</i>	<i>276</i>	<i>718</i>	<i>757</i>
Public debt interest	10	94	171	183
Programme specific parameter variations	-600	-777	-879	-861
Slippage in 2003-04 Budget decisions	-9	17	97	121
Other variations	-1,287	-1,085	-2,356	-2,568
Total variations	4,278	4,734	4,587	5,398
2004-05 Budget expenses	183,136	192,306	200,626	210,033

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

Discussion of the changes between 2003-04 MYEFO and the 2004-05 Budget, shown in the above table can be found in Statement 2 (in the section titled 'Variations in expense estimates'). Further information on expense measures can be found in Budget Paper No. 2, *Budget Measures 2004-05*.

Expense estimates by function

Table 3 sets out the estimates of Australian Government general government expenses by function for the period 2003-04 to 2007-08.

Table 3: Estimates of expenses by function

	Estimates		Projections		
	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
General public services	10,914	11,864	11,734	11,909	12,307
Defence	13,687	14,425	14,569	15,384	16,423
Public order and safety	2,381	2,727	2,560	2,528	2,485
Education	13,338	14,221	15,024	15,800	16,400
Health	32,355	34,986	36,194	37,763	39,657
Social security and welfare	79,949	82,678	86,995	90,824	94,706
Housing and community amenities	1,652	1,671	1,647	1,624	1,621
Recreation and culture	2,233	2,342	2,417	2,341	2,352
Fuel and energy	3,692	3,922	4,001	3,914	4,036
Agriculture, forestry and fishing	2,158	2,400	1,811	1,665	1,549
Mining, manufacturing and construction	1,717	1,830	1,791	1,705	1,705
Transport and communication	2,731	2,550	2,273	2,437	2,414
Other economic affairs	4,241	4,512	4,556	4,607	4,730
Other purposes	12,088	12,177	15,053	17,533	20,554
Total expenses	183,136	192,306	200,626	210,033	220,939

Major movements within the estimates of expenses by function between 2003-04 and 2004-05, and across the forward estimates, include increases in the following functions:

- **Defence** due to funding increases flowing from the Government's White Paper *Defence 2000 – Our Future Defence Force* and additional funding being provided in this and previous Budgets for logistics, Defence facilities, military personnel costs and personnel initiatives;
- **Education** due to the impact of indexation arrangements and the announcement of a range of recent policy decisions including increases in funding for higher education, science and innovation and schools;
- **Health** due to a steady increase in the use of medical and pharmaceutical services over the forward estimates period, increasing costs for the provision of medical services and a continuing trend towards newer and more expensive drugs under the Pharmaceutical Benefits Scheme; and
- **Social Security and Welfare** due to the new package of assistance for families – *More help for families*, the on-going effect of indexation of payments, as well as demographic and social factors which affect demand-driven programmes.

Estimates presented in Table 3 above are more fully explained for each individual function in the following pages. Consistent with the short to medium-term focus of Statement 6, analytical commentary focuses on year-on-year changes across the forward estimates.

General public services

Table 4: Summary of expenses

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Legislative and executive affairs	754	865	746	771	891
Financial and fiscal affairs(a)	3,304	3,445	3,493	3,583	3,519
Foreign affairs and economic aid	2,238	2,465	2,322	2,249	2,375
General research	2,066	2,202	2,394	2,478	2,621
General services	606	674	618	727	741
Government superannuation benefits	1,946	2,213	2,162	2,101	2,160
Total general public services	10,914	11,864	11,734	11,909	12,307

(a) Debt redemption assistance expenses, paid by the Australian Office of Financial Management to the states and territories under the *Financial Agreement Act 1994*, have been reclassified from the Financial and Fiscal Affairs Sub-function to the Debt Assistance Sub-function (Other Purposes Function).

Nature of expenses and major trends

General public services include expenses on activities concerned with the organisation and operation of government. The function covers legislative and executive affairs, financial and fiscal affairs, foreign economic aid, general research, general services and government superannuation benefits (excluding nominal interest expenses on the unfunded liabilities of Australian Government superannuation schemes which are included under the Nominal Superannuation Interest Sub-function in the Other Purposes Function).

Expenses for the function tend to fluctuate over the budget and forward estimates period partly due to one-off factors such as the preparations for federal elections in 2004-05 and 2007-08 (Legislative and Executive Affairs Sub-function) and the 2006 Census (Financial and Fiscal Affairs Sub-function). General Research Sub-function expenses also grow over the forward estimates period reflecting the on-going impact of the *Backing Australia's Ability – An Innovation Plan for the Future* package, announced in January 2001 and the *Backing Australia's Ability – Building Our Future Through Science and Innovation* package. Increases in the Foreign Affairs and Economic Aid Sub-Function in 2004-05 and 2007-08 are driven by increases in Australia's contributions to multilateral development banks.

Defence

Table 5: Summary of expenses

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Defence	13,687	14,425	14,569	15,384	16,423
Total defence	13,687	14,425	14,569	15,384	16,423

Nature of expenses and major trends

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

Total annual expenses for the Defence Function rise by \$2 billion over the period 2004-05 to 2007-08. In real terms, the growth in expenses for this function is 2.4 per cent a year on average.

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

The remaining growth in expenses is largely due to additional funding being provided in this and previous budgets for logistics, military personnel costs and personnel initiatives along with Defence’s review and refinement of the accounting treatment of expenses and capital to reflect Defence’s long-term capital investment programmes. Defence’s expenses are partially offset by savings in 2004-05 from the reduction in the cost of equipment purchased overseas due to the appreciation of the Australian dollar.

Public order and safety

Table 6: Summary of expenses

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Courts and legal services	586	635	629	657	672
Other public order and safety	1,795	2,091	1,931	1,871	1,813
Total public order and safety	2,381	2,727	2,560	2,528	2,485

Nature of expenses and major trends

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

Expenses for this function peak in 2004-05, reflecting various assistance initiatives in the Pacific. The growth in Other Public Order and Safety Sub-function expenses in 2004-05 reflects the impact of funding for the Regional Assistance Mission to Solomon Islands (RAMSI), and the introduction of the Australia-Papua New Guinea Enhanced Co-operation Programme to help Papua New Guinea address key challenges. Expenses decline from 2005-06 reflecting the fact that various domestic security initiatives and programmes, introduced after the 11 September 2001 and Bali attacks, will require less funding as they move beyond their establishment phase and the year-by-year consideration of RAMSI funding.

The growth in the Courts and Legal Services Sub-function includes measures to maintain equitable access to Commonwealth Legal Aid, establishment of a National Community Crime Prevention Programme, and a one-off increase in resourcing for workload increases in the Attorney-General's Department.

Education

Table 7: Summary of expenses

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Higher education	4,447	4,735	4,968	5,252	5,296
Vocational and other education	1,417	1,466	1,525	1,517	1,551
Non-government schools	4,450	4,876	5,260	5,639	6,037
Government schools	2,290	2,440	2,596	2,728	2,869
<i>Schools</i>	<i>6,740</i>	<i>7,316</i>	<i>7,856</i>	<i>8,367</i>	<i>8,906</i>
Student assistance	596	588	561	562	546
General administration	1	1	1	1	1
School education - specific funding	137	114	112	100	101
Total education	13,338	14,221	15,024	15,800	16,400

Nature of expenses and major trends

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

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

Total expenses for this function are estimated to increase by 8.9 per cent in real terms over the period from 2004-05 to 2007-08, or 2.9 per cent annually on average, with expenses on higher education and schools being the main drivers.

Growth in Higher Education expenses reflect the impact of higher education indexation arrangements and the announcement of policy decisions, including *Our Universities – Backing Australia's Future* announced in the 2003-04 Budget.

Growth in expenses relating to schools is driven by a combination of indexation and the effect of announced policy decisions. Both government and non-government school funding increases according to agreed indexation parameters, incorporated in legislation, which are linked to movements in the Average Government School Recurrent Cost Index. The integration of Catholic systemic schools in the socio-economic status funding model will increase expenses by \$356.2 million over four years and a range of measures in this Budget will increase expenses by \$160.3 million over four years.

The Student Assistance Sub-function is expected to decline across the forward estimates because of the closure of the Student Financial Supplement Scheme to new borrowers.

Health

Table 8: Summary of expenses

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Medical services and benefits(a)(b)	13,122	14,154	14,615	15,023	15,457
Hospital services	1,603	1,697	1,837	1,991	2,160
Health care agreements(b)	7,535	7,937	8,331	8,746	9,189
<i>Hospital services and health care agreements</i>	<i>9,138</i>	<i>9,634</i>	<i>10,168</i>	<i>10,737</i>	<i>11,350</i>
Pharmaceutical services and benefits(b)	6,931	7,593	7,767	8,276	9,036
Aboriginal and Torres Strait Islander health(b)	283	293	301	312	325
Health services(b)	962	1,084	1,028	1,029	1,032
Other health services(b)	1,256	1,473	1,542	1,590	1,635
<i>Other health services</i>	<i>2,218</i>	<i>2,557</i>	<i>2,570</i>	<i>2,618</i>	<i>2,667</i>
General administration(b)	524	598	611	625	638
Health assistance to the aged(c)	138	156	163	172	183
Total health	32,355	34,986	36,194	37,763	39,657

(a) The financial impact of premium growth on the forward estimates for the 30 per cent Private Health Insurance Rebate has been allocated to the Contingency Reserve.

(b) The Department of Health and Ageing and the Health Insurance Commission have revised the split of their departmental resourcing across sub-functions and this significantly reduces their impact on the General Administration Sub-function and increases their impact on other health sub-functions.

(c) The bulk of Department of Health and Ageing and Department of Veterans' Affairs expenses for assistance to the aged are now classified to the Assistance to the Aged Sub-function (Social Security and Welfare Function).

Nature of expenses and major trends

The Health Function includes expenses relating to: medical services funded through Medicare and the Private Health Insurance Rebate (Medical Services and Benefits Sub-function); provision of in-hospital services to eligible veterans and their dependants (Hospital Services Sub-function); funding under Australian Health Care Agreements between the Australian Government and the States and Territories (Health Care Agreements Sub-function); and the Pharmaceutical Benefits and Repatriation Pharmaceutical Benefits Schemes (Pharmaceutical Services and Benefits Sub-function).

Expenses related to health are likely to be a major, if not the major, contributor to increased Australian Government spending in the future. Total Government health spending is currently around 4 per cent of GDP.

Health Function expenses are expected to grow on average by around 2.3 per cent per annum in real terms over the budget and forward years. This growth is most pronounced in the areas of medical services and benefits, hospital services and pharmaceutical services and benefits.

Growth in the Medical Services and Benefits Sub-function is largely explained by the increasing costs of medical services, increasing per capita utilisation of medical services, general population growth and the impact of the Government's *MedicarePlus* package.

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

Growth in Hospital Services Sub-function expenses is due to an ageing and increasingly frail veteran community requiring more hospital services.

Expenses for the Pharmaceutical Services and Benefits Sub-function are forecast to grow at an average of around 4.0 per cent per annum in real terms, driven by a combination of an ageing population and demand for newer and more expensive drugs (see Box 6.1 below).

Box 6.1: Pharmaceutical Services and Benefits

Table 8.1: Trends in major components of the Pharmaceutical Services and Benefits Sub-function

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Pharmaceutical Benefits (Concessional)(a)	4,195	4,510	4,660	4,943	5,420
Pharmaceutical Benefits (General)(a)	1,004	1,092	1,131	1,233	1,384
Repatriation Pharmaceutical Benefits Scheme(b)	472	533	579	647	720
Highly Specialised Drugs(a)	399	429	457	489	520
Other(c)	437	589	504	522	546
Sub-total Administered Items	6,507	7,153	7,330	7,834	8,590
Departmental Expenses(d)	424	440	437	441	446
Total	6,931	7,593	7,767	8,276	9,036

(a) For a detailed discussion of the Pharmaceutical Benefits Scheme, refer to Outcome 2 of *Health and Ageing 2004-05 Portfolio Budget Statements*.

(b) Veterans' Pharmaceutical Services are covered under Outcome 2 of the *Department of Veterans' Affairs (Defence Portfolio) 2004-05 Portfolio Budget Statements*.

(c) Subsumed within Outcomes 1 and 2 of *Health and Ageing 2004-05 Portfolio Budget Statements*. The decrease in 'Other' from 2004-05 to 2005-06 is attributable to the fulfilment of prevalence cohort immunisations for the *Meningococcal C Vaccination Programme*.

(d) A significant proportion of Health and Ageing Outcome 2 Departmental expenses and approximately half of Health Insurance Commission Departmental expenses are now attributed to this sub-function.

Social security and welfare

Table 9: Summary of expenses

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Assistance to the aged(a)	27,173	28,460	30,170	31,847	33,720
Assistance to veterans and dependents	5,745	5,993	6,086	6,151	6,226
Assistance to people with disabilities	10,669	11,096	11,810	12,239	12,826
Assistance to families with children	24,489	24,463	25,493	26,584	27,513
Assistance to the unemployed	5,428	5,701	5,733	6,078	6,293
Assistance to the sick	84	86	93	112	128
<i>Assistance to the unemployed and sick</i>	5,512	5,787	5,826	6,190	6,421
Common youth allowance	2,247	2,318	2,391	2,442	2,513
Other welfare programmes	339	578	1,207	1,351	1,408
Aboriginal advancement nec	1,391	1,502	1,545	1,565	1,582
General administration	2,384	2,480	2,468	2,455	2,496
Total social security and welfare	79,949	82,678	86,995	90,824	94,706

(a) The bulk of Department of Health and Ageing and Department of Veterans' Affairs expenses for assistance to the aged are classified to this sub-function.

Nature of expenses and major trends

The Social Security and Welfare Function includes pensions and services to the aged, services to the unemployed, assistance to people with disabilities, a variety of assistance to families with children, income support and compensation for veterans and their dependants, and advancement programmes for reconciliation and more generally for Aboriginal and Torres Strait Islander people.

Social Security and Welfare Function expenses are estimated to total around \$82.7 billion in 2004-05 and grow significantly over the forward years. There has been a substantial base increase in the Assistance to Families with Children Sub-function in 2003-04, 2004-05 and the forward years due to the new package of assistance to families – *More help for families*. This package includes large increases in Family Tax Benefit Part A assistance, relaxing the income tests for both Family Tax Benefit Part (A) and Family Tax Benefit Part (B), and a new lump sum Maternity Payment.

The sub-functions contributing to the growth in the forward years are the Assistance to the Aged, Assistance to Families with Children and Assistance to People with Disabilities Sub-functions. The main driver for growth in these sub-functions is the indexation of payments, including maintaining the single rate of age and disability pensions at a minimum of 25 per cent of Male Total Average Weekly Earnings (MTAWE). In addition, demographic and social factors, including the ageing of the population, contribute to growth in the forward year estimates.

Growth across the forward years in the Assistance to the Aged Sub-function is largely due to indexation of the Age Pension, the major component of expenses, by MTAWE. A secondary factor impacting on expenses relating to assistance for the aged is the additional funding for the *Investing in Australia's Aged Care: More Places, Better Care* package.

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Growth in the Assistance to Families with Children Sub-function is due to the *More help for families* package and the indexation of the Family Tax Benefit (FTB) Parts A and B, Parenting Payments (partnered and single) and Child Care Benefit.

Similarly, growth in expenses in the Assistance to People with Disabilities Sub-function is driven largely by indexation of major payments including the Disability Support Pension, the Carer Payment, Carer Allowances, and the Commonwealth State Territory Disability Agreement.

Housing and community amenities

Table 10: Summary of expenses

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Housing	1,227	1,240	1,246	1,263	1,286
Urban and regional development	142	174	142	107	102
Environment protection	284	257	259	254	233
Total housing and community amenities	1,652	1,671	1,647	1,624	1,621

Nature of expenses and major trends

The Housing and Community Amenities Function includes the Australian Government's contribution to the Commonwealth State Housing Agreement, expenses of the Defence Housing Authority and various regional development and environment protection programmes.

Expenses under the Housing and Community Amenities Function increase in 2004-05 but decrease over the forward years reflecting reductions in expenses in the Urban and Regional Development Sub-function.

This, in turn, reflects the conclusion of funding currently provided for several regional development programmes including the Rural Transaction Centres Programme, the Small Business Interest Rate Relief programmes and the pilot Sustainable Regions Programme.

Expenses for the Environment Protection Sub-function remain relatively stable across 2004-05 to 2007-08 with the Natural Heritage Trust being a major driver.

Other significant expenses on conservation and sustainable use and repair of Australia's natural environment are included in the National Estates and Parks Sub-function (Recreation and Culture Function) and the Natural Resources Development Sub-function (Agriculture, Forestry and Fishing Function).

Recreation and culture

Table 11: Summary of expenses

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Broadcasting	1,108	1,152	1,164	1,151	1,166
Arts and cultural heritage	713	799	805	808	813
Sport and recreation	206	169	224	159	162
National estate and parks	206	222	224	223	211
Total recreation and culture	2,233	2,342	2,417	2,341	2,352

Nature of expenses and major trends

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

Total expenses for the Recreation and Culture Function are steady across the forward estimates period although there are some fluctuations within some sub-functions. The large increases in the Sport and Recreation Sub-function in 2003-04 and 2005-06 reflect the contribution provided to the Victorian Government to assist with the costs associated with staging the 2006 Melbourne Commonwealth Games.

The increase in Arts and Cultural Heritage Sub-function expenses relates to the Refundable Film Tax Offset which is part of the integrated Film Industry Package and provides a 12.5 per cent financial incentive for producers of high-budget films, with qualifying levels of Australian expenditure of at least \$15 million per annum, to locate and produce their films in Australia. It also includes a new initiative aimed at strengthening the film and television production sector.

Other significant expenses on conservation and sustainable use and repair of Australia's natural environment are included in the Environment Protection Sub-function (Housing and Community Amenities Function) and the Natural Resources Development Sub-function (Agriculture, Forestry and Fishing Function).

Fuel and energy

Table 12: Summary of expenses

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Fuel and energy	3,692	3,922	4,001	3,914	4,036
Total fuel and energy	3,692	3,922	4,001	3,914	4,036

Nature of expenses and major trends

This function includes expenses for the Energy Grants Credits Scheme (EGCS), Cleaner Fuels Grants Scheme and the Fuels Sales Grants Scheme, which are administered by the Australian Taxation Office. The EGCS was introduced on 1 July 2003 and replaced the Diesel Fuel Rebate Scheme and the Diesel and Alternative Fuels Grants Scheme. This function also includes expenses of the Australian Greenhouse Office for programmes funded under *The New Tax System – Measures for a Better Environment Package* and the *Climate Change Strategy* measures. Also included within this function are expenses for programmes relating to the production of alternative fuels including ethanol and biodiesel, that are administered by the Department of Industry, Tourism and Resources and the Australian Taxation Office respectively.

Expenses within this function are expected to increase relatively slowly from 2004-05 to 2007-08. The slow growth in this function and the decline in total expenses in 2006-07 reflect the cessation of the Fuel Sales Grants Scheme. However, significant growth in the EGCS and the impact of the Cleaner Fuels Grants Scheme, decided in the 2003-04 Budget, result in real growth in expenses in 2007-08.

Agriculture, forestry and fishing

Table 13: Summary of expenses

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Wool industry	57	58	61	61	61
Grains industry	127	131	135	135	135
Dairy industry	267	271	273	275	277
Cattle, sheep and pig industry	113	113	112	112	112
Fishing, horticulture and other agriculture	172	177	180	180	182
General assistance not allocated to specific industries	338	335	270	257	244
Rural assistance	513	675	196	112	54
Natural resources development	388	447	435	387	344
General administration	184	192	150	145	141
Total agriculture, forestry and fishing	2,158	2,400	1,811	1,665	1,549

Nature of expenses and major trends

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

Expenses decline over the forward years primarily due to progressively lower expenses within the Rural Assistance and General Assistance Sub-functions. The decline in the Rural Assistance Sub-function after 2004-05 reflects the expected return to normal seasonal conditions in Australia. The decline in the General Assistance Sub-function after 2004-05 reflects the stabilisation of quarantine border controls following a period of higher funding.

Other significant expenses on conservation and sustainable use and repair of Australia's natural environment are included in the Environment Protection Sub-function (Housing and Community Amenities Function) and the National Estate and Parks Sub-function (Recreation and Culture Function).

Manufacturing and mining

Table 14: Summary of expenses

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Mining, manufacturing and construction	1,717	1,830	1,791	1,705	1,705
Total mining, manufacturing and construction	1,717	1,830	1,791	1,705	1,705

Nature of expenses and major trends

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

The increase in expenses in 2004-05 is mainly due to increases in research and development grants and specific strategic investment incentives. The decline in expenses from 2004-05 to 2005-06 is mainly due to a reduction in strategic investment incentives. The further decrease in 2006-07 is due to the renewal and redesign of the TCF programme to more strategically target beneficiaries.

Transport and communication

Table 15: Summary of expenses

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Communication	412	356	293	250	209
Rail transport(a)	451	3	28	6	0
Air transport	194	158	110	111	111
Road transport(a)	1,372	1,702	1,546	1,777	1,803
Sea transport	201	212	212	212	211
Other transport and communication	101	120	82	82	81
Total transport and communication	2,731	2,550	2,273	2,437	2,414

(a) Splits of additional AusLink funding between road and rail from 2005-06 onwards are yet to be determined.

Nature of expenses and major trends

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

Expenses fluctuate from 2003-04 to 2007-08 reflecting the irregular expenditure patterns associated with the commencement and/or completion of major programmes or one-off projects. The function includes expenses associated with the Government's new land transport development plan, AusLink, which will involve expenditure on both road and rail for which detailed splits are yet to be determined.

The decline in the Communication Sub-function over the period to 2007-08 reflects the conclusion of programmes associated with several Australian Government initiatives that provided innovative telecommunications infrastructure and services in metropolitan, rural, regional and remote areas of Australia. These included initiatives associated with the sale of the 49.9 per cent of Telstra through two sales of shares in 1997 and 1999 (including the Networking the Nation Programme and the Untimed Local Calls Access Programme), the Telecommunications Service (Besley) Inquiry (including the National Communications Fund and the mobile phones programmes), and the Regional Telecommunications (Estens) Inquiry. The decline is, in part, offset by funding announced as part of the *Backing Australia's Ability – Building Our Future Through Science and Innovation* package.

Rail Transport Sub-function expenses reflect the one-off payment made by the Government to the Australian Trail Track Corporation for new rail infrastructure projects on the interstate rail system in 2003-04. Rail Transport Sub-function expenses will increase from 2004-05 when rail projects to be funded under the new land transport development plan, AusLink are identified.

The Air Transport Sub-function in 2003-04 is higher than 2004-05 and forward years due to a one-off \$35 million boost to regional airport security grants.

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The impact of AusLink involves an increase in Road Transport expenses from 2004-05 to 2007-08. However, the level of Road Transport expenses in 2004-05 also reflects a one-off \$200 million movement of funds from 2002-03 and 2003-04 for the National Highways Programme. AusLink will encompass the National Highways and Roads of National Importance programmes, a redirection of savings from the abolition of the Fuel Sales Grants Scheme to roads funding from 2006-07, increased Government funding of \$630 million for the five years to 2008-09, and an extension of the Roads to Recovery Programme for a further four years from 2005-06 to 2008-09, which will provide assistance of \$1.2 billion over that period to local councils for the construction, upgrade and maintenance of local roads.

The Government also provides untied funding to local government through Financial Assistance Grants that are identified for roads – see the General Purpose Inter-Government Transactions Sub-function (Other Purposes Function).

Major components of the Road Transport Sub-function are outlined in further detail in Box 6.2 below.

Box 6.2: Components of Road Transport Funding

Table 15.1: Trends in major components of the Road Transport Sub-function

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
AusLink(a)					
National Highway and Roads of National Importance	932	1,247	1,049	1,011	1,034
Roads to Recovery	302	253	300	300	300
Redirection of savings from the abolition of the Fuel Sales Grants Scheme to roads	-	-	-	265	270
AusLink Increased Funding(b)	-	80	100	150	150
Road Safety Black Spot Programme	45	45	45	-	-
Other	93	77	52	51	49
Total(c)	1,372	1,702	1,546	1,777	1,803

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

(b) Increased funding for AusLink will be available for both road and rail.

(c) See Outcome 1 of the Transport and Regional Services 2004-2005 Portfolio Budget Statements.

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Other economic affairs

Table 16: Summary of expenses

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Tourism and area promotion	142	175	174	163	165
Vocational and industry training	582	616	642	670	711
Labour market assistance to job seekers and industry	1,721	1,798	1,797	1,819	1,876
Industrial relations	271	291	305	307	309
Immigration	743	816	835	853	864
<i>Total labour and employment affairs</i>	3,317	3,521	3,578	3,649	3,760
Other economic affairs nec	782	816	803	795	804
Total other economic affairs	4,241	4,512	4,556	4,607	4,730

Nature of expenses and major trends

The Other Economic Affairs Function includes expenses on tourism and area promotion, labour market assistance, immigration, industrial relations and other economic affairs not elsewhere classified (nec).

Expenses over the Budget and forward estimates are relatively stable.

Estimates for the Labour Market Assistance to Job Seekers and Industry Sub-function reflect increases in Job Network Programme funding.

Continuing growth in the Vocational and Industry Training Sub-function is due to an increase in apprenticeship/traineeship commencements.

Other purposes

Table 17: Summary of expenses

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Interest on Australian Government's behalf	3,995	3,881	3,618	3,548	3,593
Interest on behalf of States and Territories	19	11	1	0	0
Interest received on Australian Government stock	0	0	0	0	0
<i>Public debt interest</i>	<i>4,014</i>	<i>3,891</i>	<i>3,619</i>	<i>3,548</i>	<i>3,593</i>
Nominal superannuation interest	5,155	4,702	5,322	5,446	5,673
General revenue assistance -					
States and Territories	697	1,122	793	0	0
General capital assistance -					
States and Territories	0	0	0	0	0
Debt assistance(a)	37	54	196	0	0
Local government assistance	1,511	1,539	1,613	1,675	1,721
Revenue assistance to the States and Territories	156	160	164	168	172
Assistance to other governments	376	393	364	361	369
<i>General purpose inter-government transactions</i>	<i>2,775</i>	<i>3,269</i>	<i>3,129</i>	<i>2,204</i>	<i>2,262</i>
Natural disaster relief	144	97	97	97	91
Contingency reserve(b)	0	218	2,887	6,238	8,935
Total other purposes	12,088	12,177	15,053	17,533	20,554

(a) Debt redemption assistance expenses, paid by the Australian Office of Financial Management to the States and Territories under the *Financial Agreement Act 1994*, have been reclassified from the Financial and Fiscal Affairs Sub-function (General Public Services Function) to the Debt Assistance Sub-function.

(b) Asset Sale related expenses are now treated as a component of the Contingency Reserve.

Nature of expenses and major trends

The Other Purposes Function includes expenses incurred in the servicing of public debt interest, and assistance to the State and Territory governments and local government. The function also includes items classified to natural disaster relief, the Contingency Reserve, and costs of asset sales.

Excluding the Contingency Reserve and Nominal Superannuation Interest Sub-functions, the general trend is for a real decline in expenses over the forward years, mainly associated with reductions in Australian Government debt servicing costs – as a result of higher interest bearing debt being settled on maturity and replaced by lower interest bearing debt.

The fall in the General Purpose Inter-Government Transactions Sub-function from 2004-05 reflects trends in Budget Balancing Assistance (BBA) and other payments to the States. BBA payments are expected to cease from 2004-05 onwards as all States are expected to be better off as a result of tax reform in line with increases in GST revenue. However, the estimate for 2004-05 also reflects an Australian Government decision to compensate the States for a measure related to annual lodgement of the GST for some taxpayers.

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The decline between 2003-04 and 2004-05 in the nominal superannuation interest expense for civilian superannuation reflects the pay-out of liabilities to the Telstra Superannuation Scheme and the Australia Post Superannuation Scheme. The increase in the nominal interest expense between 2004-05 and 2005-06 reflects the impact of Consumer Price Index movements on the nominal interest rate.

The increase in the Contingency Reserve from 2004-05 over the forward years is largely due to the conservative bias allowance – an allowance that compensates for the trend in expenses on existing Australian Government programmes to be underestimated by agencies in the forward years. The nature of the Contingency Reserve is discussed in more detail at Appendix B.

GENERAL GOVERNMENT NET CAPITAL INVESTMENT

In 2004-05, forecast net capital investment has increased by \$463 million since the 2003-04 MYEFO. This increase is due to the combined effect of new policy decisions of \$189 million and parameter and other variations of \$274 million.

Net capital investment estimates for the period from 2003-04 to 2007-08 are provided in Table 18.

Table 18: Estimates of total net capital investment

	2003-04		2004-05	2005-06	2006-07	2007-08
	MYEFO(a)	Revised	Estimate	Projections		
Total net capital investment (\$m)	-205	18	148	45	-125	-429
Real growth on previous year%(b)	10.1	107.8	715.3	-70.0	-370.2	-237.8
Per cent of GDP	0.0	0.0	0.0	0.0	0.0	0.0

(a) As published in the *Mid-Year Economic and Fiscal Outlook 2003-04*.

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

Net capital investment of \$18 million is expected in 2003-04, largely reflecting investment in inventory to protect national public health against possible disease outbreaks such as Avian influenza, various construction projects, including activities associated with the construction of a nuclear reactor by the Australian Nuclear Science and Technology Organisation and asset acquisitions and parameter and other effects. Asset acquisitions include: investment by the Department of Finance and Administration in its property portfolio; investment in computer equipment and software by the Australian Customs Service, the Health Insurance Commission and Centrelink; investment in accommodation, transport and communications equipment by the Australian Federal Police; investment in new meteorological radars; and provision of infrastructure in Australia's Indian Ocean territories. These investments are partly offset by ongoing property sales programmes by the Department of Defence and the Defence Housing Authority.

Reconciliation of net capital investment since the 2003-04 Budget

Table 19 provides a reconciliation of the 2003-04 Budget, 2003-04 MYEFO and 2004-05 Budget net capital investment estimates, showing the effect of policy decisions and economic parameter and other variations since the estimates were published in the 2003-04 Budget.

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Table 19: Reconciliation of net capital investment

	2003-04	2004-05	2005-06	2006-07
	\$m	\$m	\$m	\$m
2003-04 Budget net capital investment	-417	-381	-256	-448
Changes between 2003-04 Budget and MYEFO				
Effect of policy decisions	45	18	-3	-3
Effect of parameter and other variations	168	48	130	250
Total variations	212	66	127	247
2003-04 MYEFO net capital investment	-205	-315	-129	-201
Changes between MYEFO and 2004-05 Budget				
Effect of policy decisions	169	189	151	45
Effect of parameter and other variations	53	274	24	31
Total variations	222	463	175	76
2004-05 Budget net capital investment	18	148	45	-125

Discussion of changes between the 2003-04 MYEFO and the 2004-05 Budget, shown in the table above, can be found in Statement 2 (in the section titled 'Variations in net capital investment estimates'). For further information on capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2004-05*.

Net capital investment estimates by function

Table 20 provides estimates for Australian Government general government net capital investment by function for the period 2003-04 to 2007-08.

Table 20: Estimates of net capital investment by function

	Estimates		Projections		
	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
General public services	94	228	204	34	-13
Defence	-189	-284	-237	-233	-280
Public order and safety	76	103	45	-13	-15
Education	5	2	2	1	0
Health	153	47	10	6	-5
Social security and welfare	31	76	-29	3	-34
Housing and community amenities	-59	9	-80	9	-18
Recreation and culture	-192	2	88	1	-8
Fuel and energy	1	0	0	-1	0
Agriculture, forestry and fishing	2	-1	-2	-11	-3
Mining, manufacturing and construction	5	-1	1	-4	-2
Transport and communications	27	9	5	52	-13
Other economic affairs	38	45	1	9	-22
Other purposes	26	-87	38	22	-16
Total net capital investment	18	148	45	-125	-429

Net capital investment is expected to rise between 2003-04 and 2004-05 reflecting: various construction projects, including those in the Department of Finance and Administration's property portfolio, investment by the Australian Nuclear Science and Technology Organisation in a new nuclear reactor; investment in information

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technology by the Australian Customs Service, Centrelink, the Department of Family and Community Services and the Health Insurance Commission; and investment in meteorological radars by the Bureau of Meteorology and equipment by the Australian Federal Police. This is partially offset by receipts received from property sales by the Department of Defence.

While the bulk of Defence's current property sales programme is expected to conclude by 2004-05, rephasing of the Department of Defence's capital investment programme beyond the current forward estimates results in negative net capital investment in the Defence function across the Budget and forward estimates years.

Net capital investment decreases across the forward years as a result of: the rephasing of Defence's capital investment; and the conclusion of various construction projects and information technology-based projects or other asset acquisitions.

Significant investments by function include:

- **General Public Services** for the investment by the Department of Finance and Administration for its property portfolio including construction of the Adelaide Law Courts building, Christmas Island Immigration Reception and Processing Centre, Villawood Detention Centre and ANZAC Park East and West, investment by the Australian Nuclear Science and Technology Organisation in a new nuclear reactor at Lucas Heights and construction, refurbishment and relocation of some overseas posts by the Department of Foreign Affairs and Trade;
- **Public Order and Safety** for investment in computer equipment and software by the Australian Customs Service, including for the Cargo Management Re-engineering Programme, and investment in accommodation, transport and communications equipment associated with overseas deployments by the Australian Federal Police;
- **Health** for investment in inventory to protect national public health against possible disease outbreaks such as Avian influenza, and for investment in information technology infrastructure by the Health Insurance Commission;
- **Social Security and Welfare** for investment in information technology infrastructure for Centrelink;
- **Recreation and Culture** due to the sale of three FM radio broadcasting licenses in 2003-04, delays in the divestment of Australian Broadcasting Corporation properties at Adelaide Terrace in Perth and at Gore Hill in Sydney, capital works at the Australian Institute of Sport and the National Gallery of Australia and the redevelopment of the Australian War Memorial's post-1945 galleries;

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- **Housing and Community Amenities** due mainly to changes within the Defence Housing Authority's property portfolio including increased acquisitions and construction and variations to the forecast sale and leaseback programme;
- **Transport and Communications** for the provision of infrastructure on the Indian Ocean Territories and for investment in information technology infrastructure in the Department of Transport and Regional Services, the Civil Aviation and Safety Authority, and the Australian Communications Authority; and
- **Other Economic Affairs** for investment by the Bureau of Meteorology in replacing older equipment with new meteorological radars and by the Department of Immigration and Multicultural and Indigenous Affairs for upgrade, development and redevelopment work associated with immigration detention facilities.

APPENDIX A: EXPENSE ESTIMATES BY FUNCTION AND SUB-FUNCTION

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

	Actuals		Estimates		Projections	
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m	\$m
General public services						
Legislative and executive affairs	732	754	865	746	771	891
Financial and fiscal affairs(a)	3,476	3,304	3,445	3,493	3,583	3,519
Foreign affairs and economic aid	2,334	2,238	2,465	2,322	2,249	2,375
General research	1,790	2,066	2,202	2,394	2,478	2,621
General services	566	606	674	618	727	741
Government superannuation benefits	2,090	1,946	2,213	2,162	2,101	2,160
Total general public services	10,988	10,914	11,864	11,734	11,909	12,307
Defence	13,307	13,687	14,425	14,569	15,384	16,423
Public order and safety						
Courts and legal services	589	586	635	629	657	672
Other public order and safety	1,378	1,795	2,091	1,931	1,871	1,813
Total public order and safety	1,968	2,381	2,727	2,560	2,528	2,485
Education						
Higher education	4,017	4,447	4,735	4,968	5,252	5,296
Vocational and other education	1,323	1,417	1,466	1,525	1,517	1,551
Non-government schools	3,869	4,450	4,876	5,260	5,639	6,037
Government schools	2,143	2,290	2,440	2,596	2,728	2,869
<i>Schools</i>	<i>6,013</i>	<i>6,740</i>	<i>7,316</i>	<i>7,856</i>	<i>8,367</i>	<i>8,906</i>
Student assistance	641	596	588	561	562	546
General administration	0	1	1	1	1	1
School education - specific funding	115	137	114	112	100	101
Total education	12,109	13,338	14,221	15,024	15,800	16,400
Health						
Medical services and benefits	11,726	13,122	14,154	14,615	15,023	15,457
Hospital services	1,537	1,603	1,697	1,837	1,991	2,160
Health care agreements	7,240	7,535	7,937	8,331	8,746	9,189
<i>Hospital services and health care agreements</i>	<i>8,776</i>	<i>9,138</i>	<i>9,634</i>	<i>10,168</i>	<i>10,737</i>	<i>11,350</i>
Pharmaceutical services and benefits	5,732	6,931	7,593	7,767	8,276	9,036
Aboriginal and Torres Strait Islander health	209	283	293	301	312	325
Health services	667	962	1,084	1,028	1,029	1,032
Other health services	892	1,256	1,473	1,542	1,590	1,635
<i>Other health services</i>	<i>1,559</i>	<i>2,218</i>	<i>2,557</i>	<i>2,570</i>	<i>2,618</i>	<i>2,667</i>
General administration	1,333	524	598	611	625	638
Health assistance to the aged(b)	64	138	156	163	172	183
Total health	29,400	32,355	34,986	36,194	37,763	39,657
Social security and welfare						
Assistance to the aged(b)	24,834	27,173	28,460	30,170	31,847	33,720
Assistance to veterans and dependents	5,579	5,745	5,993	6,086	6,151	6,226
Assistance to people with disabilities	9,551	10,669	11,096	11,810	12,239	12,826
Assistance to families with children	19,595	24,489	24,463	25,493	26,584	27,513

Statement 6: Expenses and Net Capital Investment

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

	Actuals		Estimates		Projections	
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m	\$m
Social security and welfare (continued)						
Assistance to the unemployed	5,565	5,428	5,701	5,733	6,078	6,293
Assistance to the sick	86	84	86	93	112	128
<i>Assistance to the unemployed and the sick</i>	5,651	5,512	5,787	5,826	6,190	6,421
Common youth allowance	2,235	2,247	2,318	2,391	2,442	2,513
Other welfare programmes	309	339	578	1,207	1,351	1,408
Aboriginal advancement nec	1,275	1,391	1,502	1,545	1,565	1,582
General administration	2,233	2,384	2,480	2,468	2,455	2,496
Total social security and welfare	71,263	79,949	82,678	86,995	90,824	94,706
Housing and community amenities						
Housing	1,381	1,227	1,240	1,246	1,263	1,286
Urban and regional development	113	142	174	142	107	102
Environment protection	268	284	257	259	254	233
Total housing and community amenities	1,763	1,652	1,671	1,647	1,624	1,621
Recreation and culture						
Broadcasting	1,030	1,108	1,152	1,164	1,151	1,166
Arts and cultural heritage	671	713	799	805	808	813
Sport and recreation	151	206	169	224	159	162
National estate and parks	210	206	222	224	223	211
Total recreation and culture	2,062	2,233	2,342	2,417	2,341	2,352
Fuel and energy	3,395	3,692	3,922	4,001	3,914	4,036
Agriculture, forestry and fishing						
Wool industry	76	57	58	61	61	61
Grains industry	115	127	131	135	135	135
Dairy industry	276	267	271	273	275	277
Cattle, sheep and pig industry	121	113	113	112	112	112
Fishing, horticulture and other agriculture	178	172	177	180	180	182
General assistance not allocated to specific industries	299	338	335	270	257	244
Rural assistance	224	513	675	196	112	54
Natural resources development	318	388	447	435	387	344
General administration	164	184	192	150	145	141
Total agriculture, forestry and fishing	1,772	2,158	2,400	1,811	1,665	1,549
Mining, manufacturing & construction	1,502	1,717	1,830	1,791	1,705	1,705
Transport and communication						
Communication	429	412	356	293	250	209
Rail transport(c)	17	451	3	28	6	0

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

	Actuals		Estimates		Projections	
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m	\$m
Transport and communication (continued)						
Air transport	153	194	158	110	111	111
Road transport(c)	1,271	1,372	1,702	1,546	1,777	1,803
Sea transport	203	201	212	212	212	211
Other transport and communication	100	101	120	82	82	81
Total Transport and Communication	2,174	2,731	2,550	2,273	2,437	2,414
Other economic affairs						
Tourism and area promotion	156	142	175	174	163	165
Vocational and industry training	491	582	616	642	670	711
Labour market assistance to job seekers and industry	1,539	1,721	1,798	1,797	1,819	1,876
Industrial relations	270	271	291	305	307	309
Immigration	705	743	816	835	853	864
<i>Total labour and employment affairs</i>	<i>3,005</i>	<i>3,317</i>	<i>3,521</i>	<i>3,578</i>	<i>3,649</i>	<i>3,760</i>
Other economic affairs nec	642	782	816	803	795	804
Total other economic affairs	3,803	4,241	4,512	4,556	4,607	4,730
Other purposes						
Interest on Australian Government's behalf	4,602	3,995	3,881	3,618	3,548	3,593
Interest on behalf of States and Territories	27	19	11	1	0	0
Interest received on Australian Government stock	0	0	0	0	0	0
<i>Public debt interest</i>	<i>4,629</i>	<i>4,014</i>	<i>3,891</i>	<i>3,619</i>	<i>3,548</i>	<i>3,593</i>
Nominal superannuation interest	5,409	5,155	4,702	5,322	5,446	5,673
General revenue assistance - States and Territories	1,537	697	1,122	793	0	0
General capital assistance - States and Territories	0	0	0	0	0	0
Debt assistance(a)	0	37	54	196	0	0
Local government assistance	1,457	1,511	1,539	1,613	1,675	1,721
Revenue assistance to the States and Territories	166	156	160	164	168	172
Assistance to other governments	438	376	393	364	361	369
<i>General purpose inter-government transactions</i>	<i>3,598</i>	<i>2,775</i>	<i>3,269</i>	<i>3,129</i>	<i>2,204</i>	<i>2,262</i>
Natural disaster relief	95	144	97	97	97	91
Contingency reserve(d)	11	0	218	2,887	6,238	8,935
Total other purposes	13,743	12,088	12,177	15,053	17,533	20,554
Total expenses	169,247	183,136	192,306	200,626	210,033	220,939

(a) Debt redemption assistance expenses, paid by the Australian Office of Financial Management to the States and Territories under the *Financial Agreement Act 1994*, have been reclassified from the Financial and Fiscal Affairs Sub-function (General Public Services Function) to the Debt Assistance Sub-function (Other Purposes Function).

(b) The bulk of Department of Health and Ageing and Department of Veterans' Affairs expenses for assistance to the aged are now classified to the Assistance to the Aged sub-function (Social Security and Welfare Function).

(c) Splits of additional AusLink funding between road and rail from 2005-06 onwards are yet to be determined.

(d) Asset Sale related expenses are now treated as a component of the Contingency Reserve.

APPENDIX B: THE CONTINGENCY RESERVE

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

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

The Contingency Reserve makes allowance in 2004-05 and the forward years for anticipated events including the following:

- an allowance for the tendency for estimates of expenses for existing government policy to be revised upwards in the forward years;
- an allowance for the tendency for the estimates of administered expenses for some specific agencies or functions to be overstated in the budget year;
- commercial-in-confidence and national security-in-confidence items that cannot be disclosed separately;
- decisions made too late for inclusion against individual agency estimates;
- the effect on the budget and forward estimates of economic parameter revisions received late in the process and hence not able to be allocated to individual agencies or functions;
 - An example of a late parameter revision is the estimated impact of the Australian Industrial Relations Commission's Living Wage Case Decision released on 5 May 2004; and
- provision for events and pressures that are reasonably expected to affect the budget estimates.

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

