

## 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 estimated expenses while the second part presents trends in net capital investment estimates. Estimates are on an Australian Government general government sector basis.

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

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

The main trends are:

- general government expenses are forecast to remain steady at 21.5 per cent of GDP in 2007-08 and then increase to 21.8 per cent of GDP in 2010-11;
- in 2007-08, the social security and welfare, health, defence and education functions together account for approximately 75 per cent of total expenses, with social security and welfare accounting for approximately 41 per cent of total expenses;
- in real terms, the strongest growth across the budget and forward estimates is expected to occur in the defence, general public services, education, social security and welfare, and health functions, with growth in estimated expenses for other functions either being largely stable or declining; and
- net capital investment in 2007-08 largely reflects continued investment in various construction projects, information technology upgrades and Department of Defence capital works projects.

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## STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

### OVERVIEW

Australian Government general government sector expenses are expected to grow in real terms in 2007-08 and over the forward estimates period to 2010-11 (Table 1). Expenses are forecast to remain steady at 21.5 per cent of GDP in 2007-08, and are projected to increase to 21.8 per cent of GDP in 2010-11.

**Table 1: Estimates of expenses**

	2006-07		2007-08	2008-09	2009-10	2010-11
	MYEFO(a)	Revised	Estimate	Projections		
<b>Total expenses (\$b)</b>	<b>219.2</b>	<b>221.6</b>	<b>235.6</b>	<b>247.5</b>	<b>259.7</b>	<b>272.7</b>
Real growth on						
previous year(%) <sup>(b)</sup>	1.6	2.7	3.7	3.9	3.7	2.8
Per cent of GDP	21.8	21.5	21.5	21.6	21.8	21.8

(a) As published in the *Mid-Year Economic and Fiscal Outlook 2006-07*.

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

### GENERAL GOVERNMENT EXPENSES

#### Reconciliation of expenses since the 2006-07 Budget

Table 2 provides a reconciliation of expense estimates between the 2006-07 Budget, *Mid-Year Economic and Fiscal Outlook 2006-07* (MYEFO) and the 2007-08 Budget, showing the effect of policy decisions and economic parameter and other variations.

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**Table 2: Reconciliation of expense estimates**

	Estimates		Projections	
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
<b>2006-07 Budget expenses</b>	<b>219,730</b>	<b>230,556</b>	<b>240,910</b>	<b>252,592</b>
<b>Changes between 2006-07 Budget and MYEFO</b>				
Effect of policy decisions(a)	1,969	3,648	2,986	2,868
Effect of economic parameter variations				
Unemployment benefits	-507	-348	-382	-503
Prices and wages	-235	542	874	691
Interest and exchange rates	-60	-50	-94	-48
<i>Total economic parameter variations</i>	<i>-802</i>	<i>144</i>	<i>398</i>	<i>139</i>
Public debt interest	103	47	44	51
Programme specific parameter variations	-1,085	-1,309	-1,510	-1,717
Slippage in 2006-07 Budget decisions	0	0	0	0
Other variations	-740	-764	-335	-1,264
<b>Total variations</b>	<b>-554</b>	<b>1,766</b>	<b>1,583</b>	<b>76</b>
<b>2006-07 MYEFO expenses</b>	<b>219,175</b>	<b>232,322</b>	<b>242,493</b>	<b>252,669</b>
<b>Changes between MYEFO and 2007-08 Budget</b>				
Effect of policy decisions(a)	4,189	6,375	7,949	10,468
Effect of economic parameter variations				
Unemployment benefits	-2	-47	-171	-129
Prices and wages	165	926	863	883
Interest and exchange rates	6	-101	-118	-84
<i>Total economic parameter variations</i>	<i>168</i>	<i>778</i>	<i>574</i>	<i>670</i>
Public debt interest	-21	-9	16	20
Programme specific parameter variations	-915	-948	-1,230	-1,060
Slippage in 2006-07 Budget decisions	-60	0	0	0
Other variations	-912	-2,926	-2,313	-3,114
<b>Total variations</b>	<b>2,450</b>	<b>3,268</b>	<b>4,995</b>	<b>6,983</b>
<b>2007-08 Budget expenses</b>	<b>221,625</b>	<b>235,590</b>	<b>247,489</b>	<b>259,652</b>

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

Discussion of the major changes between the 2006-07 MYEFO and the 2007-08 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 2007-08*.

### Estimated expenses by function

Table 3 sets out the estimates of Australian Government general government sector expenses by function for the period 2006-07 to 2010-11.

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

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
General public services	14,539	15,768	16,434	16,905	18,035
Defence	17,358	19,880	21,133	22,054	23,018
Public order and safety	3,314	3,670	3,741	3,780	3,762
Education	16,549	17,752	18,491	19,209	20,228
Health(a)	40,102	42,964	44,520	46,240	48,120
Social security and welfare(a)	93,215	96,450	100,733	104,751	108,936
Housing and community amenities	3,072	3,011	2,962	2,919	2,460
Recreation and culture	2,673	2,979	2,932	2,884	2,933
Fuel and energy	4,711	5,360	5,495	5,636	5,873
Agriculture, forestry and fishing	2,873	2,799	2,085	2,612	2,990
Mining, manufacturing and construction	1,884	2,029	2,018	1,949	1,843
Transport and communication	3,400	4,516	4,823	4,818	4,584
Other economic affairs	5,322	5,617	5,634	5,719	5,895
Other purposes	12,613	12,794	16,486	20,176	23,993
<b>Total expenses</b>	<b>221,625</b>	<b>235,590</b>	<b>247,489</b>	<b>259,652</b>	<b>272,669</b>

(a) There has been a reclassification of some expenditure administered by the Department of Families, Community Services and Indigenous Affairs that was previously reported under the health assistance to the aged sub-function (health) to the assistance to the aged sub-function (social security and welfare).

Major movements within the estimates of expenses by function between 2006-07 and 2007-08, and across the forward estimates, include increases in the following functions:

- **Social security and welfare**, due to the continued effect of the indexation of payments and changes to the aged pension asset taper rate, together with demographic and social factors such as the ageing of the population that affect demand driven programmes;
- **Health**, due to a continued growth in the use of medical services over the forward estimates period and increasing costs for the provision of medical services;
- **Defence**, due to continued funding increases associated with the Government's White Paper *Defence 2000 – Our Future Defence Force* and more recent new measures, including: the Hardened and Networked Army – Phase 2, Heavy Air Lift Capability, the purchase of 24 F/A-18F Super Hornets, military personnel and recruitment and retention initiatives, together with funding in 2007-08 for the major Australian Defence Force deployments in Iraq, Afghanistan and East Timor; and
- **Education**, due to increased schools and higher education funding reflecting increases under the 2007-08 Budget together with increased Quadrennial schools funding provided under the *Schools Assistance Act 2004*, the *Our Universities – Backing Australia's Future* package and the Commonwealth Grants Scheme.

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

## General public services

**Table 4: Summary of expenses**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Legislative and executive affairs	881	1,039	854	875	1,031
Financial and fiscal affairs	4,991	5,244	5,527	5,621	5,872
Foreign affairs and economic aid	3,183	3,693	4,275	4,528	5,197
General research	2,457	2,599	2,593	2,647	2,595
General services	655	706	649	642	669
Government superannuation benefits	2,371	2,487	2,536	2,593	2,672
<b>Total general public services</b>	<b>14,539</b>	<b>15,768</b>	<b>16,434</b>	<b>16,905</b>	<b>18,035</b>

### Nature of expenses and major trends

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

Expenses within the function tend to fluctuate over the budget and forward estimates partly due to factors such as the preparation for a federal election expected in 2007-08 and the Asia-Pacific Economic Cooperation conference in 2007 (legislative and executive affairs sub-function).

The increase in expenses in the financial and fiscal affairs sub-function over the budget and forward estimates relates largely to the growth in the Australian Taxation Office's penalty remission expenses based on the forecast of future remission activity, peaking in 2010-11. Expenses in this sub-function also increase due to increased investment expenses associated with the accumulation of financial assets in the Future Fund for the purposes of offsetting the unfunded superannuation liabilities of the Government.

The increase in expenses in the foreign affairs and economic aid sub-function over the budget and forward estimates is due primarily to the Government's commitment to raise the level of Official Development Assistance to about \$4 billion by 2010. Fluctuations in the foreign affairs and economic aid sub-function over the budget and forward years also reflect the timing of Australia's contributions to multilateral development banks.

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The increases in expenses in the general research sub-function over the budget and forward estimates is mainly the result of a number of new measures to increase the resourcing to: the Commonwealth Scientific and Industrial Research Organisation to expand the National Research Flagship initiative and build an Australian square kilometre array pathfinder radio-telescope; the Australian Nuclear Science and Technology Organisation to cover additional costs associated with the operation of the new open pool Australian light-water reactor (including depreciation costs and upgrades to its radioactive waste conditioning infrastructure); and the Australian Institute of Marine Science to expand its research in north-west Australia. For further details on these new measures please refer to Budget Paper No. 2, *Budget Measures 2007-08* under the Education, Science and Training portfolio.

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## Defence

**Table 5: Summary of expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Defence	17,358	19,880	21,133	22,054	23,018
<b>Total defence</b>	<b>17,358</b>	<b>19,880</b>	<b>21,133</b>	<b>22,054</b>	<b>23,018</b>

### Nature of expenses and major trends

Expenses in this function are all within the Defence portfolio. They support operations overseas 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 are estimated to rise by \$3.1 billion over the period 2007-08 to 2010-11. In real terms, the growth in expenses for this function is 3.5 per cent a year, on average.

The growth and pattern of expenditure is affected by a number of factors. First, the significant funding increases for investment in capability announced by the Government in *Defence 2000 – Our Future Defence Force* (the Defence 2000 White Paper) continue to influence the trend. Secondly, significant funding is being provided for major Australian Defence Force (ADF) deployments, such as the operations in Iraq and Afghanistan and the ADF presence in East Timor. Most additional operational funding for these deployments falls in 2007-08.

The high rate of growth also reflects funding provided in this and previous budgets for logistics, Heavy Air Lift Capability, the Hardened and Networked Army – Phase 2, the purchase of 24 F/A-18F Super Hornets, military personnel costs and recruitment and retention initiatives. Capital expenditure reprogramming from earlier years to the forward estimates (largely associated with slippage in the schedules of some major projects) has also contributed to the estimated high rate of growth.



**Public order and safety****Table 6: Summary of expenses**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Courts and legal services	833	920	938	944	923
Other public order and safety	2,481	2,750	2,803	2,836	2,839
<b>Total public order and safety</b>	<b>3,314</b>	<b>3,670</b>	<b>3,741</b>	<b>3,780</b>	<b>3,762</b>

**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 and intelligence activities, as well as the protection of Australian Government property.

Expenses for the courts and legal services sub-function are expected to increase from 2006-07 to 2007-08 primarily reflecting new measures, including *Strengthening national security – implementing the Anti-Terrorism Act (No. 2) 2005*. For further details on these new measures please refer to Budget Paper No. 2, *Budget Measures 2007-08* under the Attorney-General's portfolio. The increase from 2006-07 to 2007-08 also reflects the growth in funding for the refurbishment of the Sydney Law Courts. Expenses are then relatively constant in nominal terms to 2010-11.

Expenses for the other public order and safety sub-function are expected to steadily increase over the budget and forward estimates reflecting law enforcement and intelligence measures. Key areas of growth include anti-money laundering, the development and implementation of a maritime identification system, aviation security accommodation, and the continued growth in resources for the Australian Security Intelligence Organisation.

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## Education

**Table 7: Summary of expenses**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Higher education	5,372	5,801	6,229	6,367	6,649
Vocational and other education	1,617	1,657	1,673	1,699	1,754
Non-government schools	5,772	6,256	6,591	7,025	7,523
Government schools	3,103	3,230	3,125	3,269	3,449
<i>Schools</i>	<i>8,874</i>	<i>9,486</i>	<i>9,716</i>	<i>10,294</i>	<i>10,973</i>
Student assistance	486	512	533	531	533
General administration	2	6	6	6	6
School education - specific funding	199	290	334	312	313
<b>Total education</b>	<b>16,549</b>	<b>17,752</b>	<b>18,491</b>	<b>19,209</b>	<b>20,228</b>

### Nature of expenses and major trends

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

Total expenses under the education function are estimated to increase by 9.0 per cent in real terms from 2007-08 to 2010-11, or 3.4 per cent annually on average. The major drivers of this growth are the significant new measures for schools and universities announced in the 2007-08 Budget in the *Realising Our Potential* package, the effect of previously announced decisions and relatively high indexation rates for schools funding. For further details on these new measures, refer to Budget Paper No. 2, *Budget Measures 2007-08* under the Education, Science and Training portfolio.

Funding for higher education continues to grow over the forward years primarily reflecting the impact of the *Realising Our Potential* package of measures which increases funding for universities, past increases in expenditure under the Commonwealth Grants Scheme and the Higher Education Contribution Scheme, and past increases in expenditure under the *Our Universities – Backing Australia's Future* package. Higher education funding is estimated to rise by about 9.7 per cent in real terms from 2007-08 to 2010-11 or 3.7 per cent annually on average.

Growth in expenses over the forward estimates in the vocational and other education sub-function is mainly driven by the indexation of Commonwealth funding to maintain real base funding levels over time. Other significant expenses on vocational education and training are included in the vocational and industry training sub-function (other economic affairs function).

Total expenses under the government and non-government schools sub-functions are estimated to increase by 10.7 per cent in real terms from 2007-08 to 2010-11 or 3.7 per cent annually on average. The main drivers for the growth in these

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sub-functions are new measures to increase funding for government and non-government schools announced in the 2007-08 Budget and indexation of Commonwealth funding to maintain real base funding levels over time calculated with reference to a special cost index, the Average Government School Recurrent Costs (AGSRC) index. Because the AGSRC index grows at a significantly faster rate than most other indexation parameters, it provides for significant real increases in funding over time. The funding for the Investing In Our Schools programme will be completed in 2008-09.

## Health

**Table 8: Summary of expenses**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Medical services and benefits(a)	17,215	18,361	19,404	20,342	21,374
Hospital services	1,549	1,592	1,625	1,655	1,678
Health care agreements	8,865	9,350	9,461	9,640	9,828
<i>Hospital services and health care agreements</i>	<i>10,414</i>	<i>10,942</i>	<i>11,087</i>	<i>11,295</i>	<i>11,507</i>
Pharmaceutical services and benefits	7,669	8,589	8,611	8,985	9,389
Aboriginal and Torres Strait Islander health	352	433	476	503	534
Health services	1,493	1,670	1,747	1,760	1,842
Other health services	2,304	2,056	2,200	2,311	2,358
<i>Other health services</i>	<i>3,797</i>	<i>3,726</i>	<i>3,947</i>	<i>4,071</i>	<i>4,200</i>
General administration	594	847	920	959	1,000
Health assistance to the aged(b)	61	67	75	85	117
<b>Total health</b>	<b>40,102</b>	<b>42,964</b>	<b>44,520</b>	<b>46,240</b>	<b>48,120</b>

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

(b) There has been a reclassification of some expenditure administered by the Department of Families, Community Services and Indigenous Affairs that was previously reported under the health assistance to the aged sub-function (health) to the assistance to the aged sub-function (social security and welfare).

### Nature of expenses and major trends

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

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

While expenses related to health are likely to be a major contributor to the growth in Australian Government spending in the coming decades, total Australian Government health spending is expected to remain at around 4.0 per cent of GDP in each year over the budget and forward estimates years.

Total expenses for this function are estimated to increase by 7.2 per cent in real terms over the forward years, or on average by around 2.9 per cent annually in real terms.

Medical services and benefits funded through Medicare and the Private Health Insurance Rebate are the main contributors to health function expenses and are estimated to increase by 11.4 per cent in real terms over the forward years, or on

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average by around 3.8 per cent annually in real terms, making up around 43 per cent of total health expenditure in 2007-08 and across the forward estimates.

Expenses in the hospital services sub-function, which is focussed on providing services to veterans, are projected to remain relatively stable, with the impact of an ageing and increasingly frail veteran community requiring more hospital services being offset by declining client numbers in the veteran community.

The trend in the estimated expenses for the health care agreements sub-function is driven by funding growth determined in the Australian Health Care Agreements for the period 1 July 2003 to 30 June 2008. Estimates for base funding in future years have been provided based on standard indexation parameters, pending the negotiation of the extension of the agreements.

Expenses in the general administration sub-function, which is mainly focused on providing health information and education services, are projected to increase in 2007-08 and over the forward years due to the implementation of a range of workforce and general practitioner training programmes, particularly the Council of Australian Governments initiatives.

The pharmaceutical services and benefits sub-function has been one of the fastest growing areas of Australian Government expenditure. However, the introduction of the *Pharmaceutical Benefits Scheme Reform* package at the *Mid-Year Economic and Fiscal Outlook 2006-07* has helped slow growth to 1.5 per cent annually in real terms over the forward estimates. Major components of the pharmaceutical services and benefits sub-function are outlined in further detail below in Box 6.1.

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**Box 1: Pharmaceutical services and benefits**

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

	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Pharmaceutical Benefits (Concessional (a))	4,456	<b>4,849</b>	4,864	5,129	5,456
Pharmaceutical Benefits (General) (a)	1,097	<b>1,177</b>	1,170	1,226	1,297
Highly Specialised Drugs(a)	580	<b>638</b>	695	749	807
Repatriation Pharmaceutical Benefits Scheme(b)	449	<b>446</b>	417	398	382
Essential Vaccines(c)	283	<b>443</b>	253	215	164
Other(d)	583	<b>781</b>	955	1,008	1,037
Sub-total administered items	7,448	<b>8,334</b>	8,354	8,725	9,143
Departmental expenses(e)	221	<b>255</b>	257	260	246
<b>Total</b>	<b>7,669</b>	<b>8,589</b>	8,611	8,985	9,389

(a) For a detailed discussion of the Pharmaceutical Benefits Scheme, refer to Outcome 2 of Health and Ageing Portfolio Budget Statement 2007-08.

(b) Repatriation Pharmaceutical Benefits are covered under Outcome 2 of the Department of Veterans' Affairs (Defence Portfolio) Portfolio Budget Statement 2007-08.

(c) The sharp increase in estimated expenses for 2007-08 is associated with the national human papillomavirus vaccination campaign, which includes a two-year catch up programme commencing from July 2007.

(d) The increase in estimated expenses in 2007-08 and 2008-09 and across the forward years is due to amendments to the 4th Community Pharmacy Agreement providing incentive payments to pharmacists under the *Pharmaceutical Benefits Scheme Reform* package, the delivery of the national human papillomavirus vaccination campaign and the steady growth in hospital dispensed drugs.

(e) Approximately 23 per cent of Medicare Australia departmental expenses and 20 per cent of Health and Ageing departmental expenses are allocated to this sub-function.

## Social security and welfare

**Table 9: Summary of expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Assistance to the aged(a)	32,722	34,517	36,850	38,991	41,199
Assistance to veterans and dependants	6,172	6,070	6,147	6,100	6,021
Assistance to people with disabilities	12,730	13,113	13,627	14,126	14,870
Assistance to families with children	28,522	29,713	30,528	31,100	31,749
Assistance to the unemployed	4,773	5,397	5,925	6,701	6,927
Assistance to the sick	84	87	89	90	92
<i>Assistance to the unemployed and sick</i>	<i>4,857</i>	<i>5,484</i>	<i>6,014</i>	<i>6,791</i>	<i>7,019</i>
Common youth allowance	2,128	2,192	2,210	2,236	2,254
Other welfare programmes	2,446	1,622	1,654	1,697	1,797
Aboriginal advancement nec	1,244	1,261	1,399	1,409	1,590
General administration	2,393	2,478	2,303	2,302	2,437
<b>Total social security and welfare</b>	<b>93,215</b>	<b>96,450</b>	<b>100,733</b>	<b>104,751</b>	<b>108,936</b>

(a) There has been a reclassification of some expenditure administered by the Department of Families, Community Services and Indigenous Affairs that was previously reported under the health assistance to the aged sub-function (health) to the assistance to the aged sub-function (social security and welfare).

### Nature of expenses and major trends

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

Social security and welfare function expenses are estimated to total around \$96.4 billion in 2007-08 and grow significantly over the forward estimates. The sub-functions contributing most to the growth over the forward estimates are assistance to the aged, which is expected to grow at an average annual rate of 4.1 per cent in real terms, assistance to families with children and assistance to people with disabilities. The main driver of growth in the expenses of 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, and in respect of assistance to the aged, changes relating to the aged pension asset taper rate, which will come into effect in September 2007. The growth also reflects demographic and social factors such as the ageing of the population.

Expenses in the assistance to people with disabilities sub-function are expected to grow at an average annual rate of 2.2 per cent, in real terms, over the forward estimates. The Disability Support Pension is a significant contributor to expenses in this sub-function, and together with the carer allowance and carer payment programmes, is a significant driver of increases across the forward estimates.

Expenditure under the assistance to families with children sub-function is expected to grow steadily over the forward estimates. Programmes making the most significant

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contribution to this sub-function include Parenting Payments, the Child Care Benefit and the Maternity Allowance with the Family Tax Benefit also driving increases across the forward estimates.

The main driver of the assistance to the unemployed sub-function is the Newstart Allowance programme. Expected increases over the forward estimates are primarily the result of changes to eligibility criteria for the Newstart Allowance and other payment types such as the Parenting Payment, as part of the Australian Government's *Welfare to Work* changes, announced in the 2005-06 Budget.

The decrease in the other welfare sub-function expenses from 2006-07 to 2007-08 is mainly attributable to a one-off additional superannuation co-contribution for those persons who made eligible contributions in the 2005-06 income year. The increase across the forward estimates is related to labour growth and the effect of growth in average weekly earnings.



## Housing and community amenities

**Table 10: Summary of expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Housing	1,731	1,817	1,871	1,961	1,879
Urban and regional development	181	222	168	151	135
Environment protection	1,160	972	923	807	446
<b>Total housing and community amenities</b>	<b>3,072</b>	<b>3,011</b>	<b>2,962</b>	<b>2,919</b>	<b>2,460</b>

### Nature of expenses and major trends

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

Housing sub-function expenses are estimated to grow over the forward estimates mainly due to the Department of Defence's increasing demand for housing provided by DHA. This is primarily in support of the personnel to be assigned to the Headquarters Joint Operation Command to be located in Bungendore, New South Wales by 2008-09, and in response to changes to the geographical location of the Australian Defence Force personnel. Additionally, DHA expenditure is forecast to grow due to the replacement of expiring leases and the on-going upgrade and maintenance of DHA housing.

Significant contributors to the urban and regional development sub-function are the Regional Partnerships and Bushfire and Natural Disaster Mitigation programmes. The increase in 2007-08 is attributable to an increase in National Disaster Mitigation funding, partly as a result of the Australian Government's contribution to the upgrade of the Launceston levee system. There has also been a movement of funds from 2006-07 for a number of programmes in this sub-function due to the slower than anticipated development and progress of projects. The Sustainable Regions programme is a pilot programme that terminates in 2008-09 and the Natural Disaster Mitigation programme terminates at the end of 2007-08, resulting in a drop in funding after those years.

Expenses under the environment protection sub-function decrease after 2006-07 due mainly to decreasing expenditure in the programmes under the National Water Commission. Water Smart Australia, the largest programme, decreases steadily before ending in 2010. Expenses for the Raising National Water Standards programme peak in 2008-09 but then decrease until completion in 2010. Other significant expenses on water and infrastructure are allocated to the natural resources development sub-function of the agriculture forestry and fishing function.

## Recreation and culture

**Table 11: Summary of expenses**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Broadcasting	1,310	1,423	1,427	1,405	1,419
Arts and cultural heritage	873	980	936	965	979
Sport and recreation	267	322	296	259	225
National estate and parks	223	254	274	254	310
<b>Total recreation and culture</b>	<b>2,673</b>	<b>2,979</b>	<b>2,932</b>	<b>2,884</b>	<b>2,933</b>

### Nature of expenses and major trends

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

Expenses in the broadcasting sub-function are expected to increase over the forward estimates reflecting additional funding for digital services provided to the Australian Broadcasting Corporation and the Special Broadcasting Service from the triennium commencing in 2007-08, which is offset by the completion of the Protecting Australian Families Online programme in 2008-09.

Arts and cultural heritage sub-function expenses are expected to increase over the forward estimates. This is due to the introduction of a new producer tax rebate scheme for the Australian screen media industry. The decrease in expenditure in 2008-09 is largely due to the impact of higher expenses in 2007-08 reflecting one-off expenditures and timing effects in heritage and war graves programmes.

Expenses in the sport and recreation sub-function show a decreasing trend over the forward estimates beginning in 2007-08. This is due to a combination of short-term funding injections provided to develop major sporting infrastructure, including at Adelaide Oval and the Sydney Cricket Ground, and the completion of the Active After-school Communities programme at the end of the 2010 school year.

The national estate and parks sub-function shows an increase in expenses due to spending by the Department of the Environment and Water Resources including for the Australian Antarctic Division, Great Barrier Reef Marine Park Authority and under the Sustainable Future for Tasmania initiative.

## Fuel and energy

**Table 12: Summary of expenses**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Fuel and energy	4,711	5,360	5,495	5,636	5,873
<b>Total fuel and energy</b>	<b>4,711</b>	<b>5,360</b>	<b>5,495</b>	<b>5,636</b>	<b>5,873</b>

### Nature of expenses and major trends

This function includes expenses for Fuel Tax Credits and the Energy Grants (Cleaner Fuels) Scheme, which are administered by the Australian Taxation Office. This function also includes expenses of the Department of the Environment and Water Resources for *Climate Change Strategy* measures, *Securing Australia's Energy Future* measures and other recent decisions. These expenses increase in 2007-08 due to higher funding levels for several greenhouse related programmes, including the Low Emissions Technology Demonstration Fund and the Photovoltaic Rebate programme.

Included within this function are expenses for programmes relating to the production or use of alternative fuels including ethanol and biodiesel, which are administered by the Department of Industry, Tourism and Resources and the Australian Taxation Office.

This function also includes expenses related to the introduction of the Liquefied Petroleum Gas vehicle purchase and conversion rebate scheme, and a reintroduction of company tax compensation payments to New South Wales and Victoria following the decision not to sell the Snowy Hydro Ltd.

Following the implementation of legislation to provide Fuel Tax Credits on 1 July 2006 (which effectively replaced the Energy Grants (Credits) Scheme), expenses in this function reflect significant growth from 2006-07 due to the phased implementation of the Fuel Tax Credits measure over a six year period. From 1 July 2008 eligibility for entitlements expands to include a 50 per cent credit for 'off-road' business use of excisable fuels in newly eligible activities.

## Agriculture, forestry and fishing

**Table 13: Summary of expenses**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Wool industry	67	52	54	55	55
Grains industry	116	109	113	126	134
Dairy industry	103	85	79	91	49
Cattle, sheep and pig industry	156	156	157	146	146
Fishing, horticulture and other agriculture	545	360	234	230	231
General assistance not allocated to specific industries	119	93	85	62	86
Rural assistance	760	810	177	76	74
Natural resources development	394	567	629	1,286	1,677
General administration	613	568	559	541	538
<b>Total agriculture, forestry and fishing</b>	<b>2,873</b>	<b>2,799</b>	<b>2,085</b>	<b>2,612</b>	<b>2,990</b>

### Nature of expenses and major trends

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

Expenses within this function are expected to increase by 2.2 per cent in real terms between 2007-08 and 2010-11, reflecting the increase in expenditure as a result of the recently announced National Plan for Water Security (NPWS) (natural resources development sub-function). The NPWS is focused on modernising irrigation infrastructure and addressing over-allocation in the Murray-Darling Basin. It is conditional on governance arrangements for the Murray-Darling Basin being placed on a national footing. For further details on this new measure, refer to Budget Paper No. 2, *Budget Measures 2007-08* under the Environment and Water Resources portfolio.

The extent of the overall increase is partially offset by the expected decrease in expenditure on drought-related measures over the forward estimates period within the rural assistance sub-function. This reflects an assumed return to normal seasonal conditions in Australia and a consequent cessation of drought assistance outlays. There is also a decrease in expenses under the fishing, horticulture and other agriculture sub-function after 2007-08 which is attributable to the conclusion of the *Tasmanian Community Forest Agreement* package and the *Securing our Fishing Future* package.

Other significant expenses on conservation and the 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).

## Mining, manufacturing and construction

**Table 14: Summary of expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Mining, manufacturing and construction	1,884	2,029	2,018	1,949	1,843
<b>Total mining, manufacturing and construction</b>	<b>1,884</b>	<b>2,029</b>	<b>2,018</b>	<b>1,949</b>	<b>1,843</b>

### Nature of expenses and major trends

Expenses under this function relate to the manufacturing and export sectors, and are designed to improve the efficiency and competitiveness of Australian industries. Major expenses include programmes specific to the automotive, textiles, clothing and footwear (TCF) and pharmaceutical industries. These 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, trade policy, programmes providing research and development assistance grants, and strategic investment incentives. Other assistance under this function relates to measures announced in the Australian Government's 2007 industry statement entitled '*Global Integration*'.

The increase in expenses for 2007-08 relates largely to one-off final payments for a number of projects under the Strategic Investment Coordination Investment process, and increases in payments under the Pharmaceuticals Partnerships programme and the Commercial Ready programme.

From 2008-09 to 2010-11, expenses are expected to decrease due to a downward trend in expenses for the Automotive Competitiveness and Investment Scheme, the cessation of the Pharmaceuticals Partnerships programme in 2008-09 and expenses for the Commercial Ready programme returning to their normal levels.

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**Transport and communication**

**Table 15: Summary of expenses**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Communication	671	815	656	375	349
Rail transport(a)	32	169	170	0	0
Air transport	149	169	156	155	151
Road transport(a)	2,151	2,875	3,409	3,863	3,667
Sea transport	236	308	249	252	257
Other transport and communication	161	179	183	174	160
<b>Total transport and communication</b>	<b>3,400</b>	<b>4,516</b>	<b>4,823</b>	<b>4,818</b>	<b>4,584</b>

(a) All AusLink 2 funding (2009-10 onwards) is currently classified under the road transport sub-function and will be reclassified between the road and rail sub-functions as projects identified under the corridor strategies are selected.

**Nature of expenses and major trends**

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

The increase in expenses in the communication sub-function between 2006-07 and 2007-08 is primarily due to an injection of funds into the Australian Broadband Guarantee programme, which commenced in 2006-07 and concludes in 2007-08. The overall decline in expenses in 2009-10 and 2010-11 reflects the conclusion of telecommunications and information technology initiatives, including the *Connect Australia* package.

The increase in expenses in the rail transport sub-function from 2006-07 to 2008-09 is due to rail expenses associated with the first five-year AusLink programme. These include the construction and upgrade of passing loops, communications systems and bridge over-passes on the inter-state rail networks, including the North-South rail line between Melbourne and Brisbane.

The increased level of expense in the air transport sub-function in 2007-08 is mainly due to aviation security initiatives including assistance for the extension of checked baggage screening to twenty-six regional airports and the introduction of screening for liquids, aerosols and gels carried onboard aircraft flying international routes.

The high level of expenses in the road transport sub-function from 2006-07 to 2010-11 is due to the AusLink programme. This includes funding announced as part of the Government's \$19.1 billion second five-year AusLink programme which includes an injection of \$17.2 billion for projects on the AusLink National Network and the extension of the Black Spot, Roads to Recovery and Strategic Regional programmes. Further information can be found in the AusLink 2 measures, *Building for the future – second five-year AusLink programme*, detailed under the Transport and Regional Services portfolio in Budget Paper No. 2, *Budget Measures 2007-08*. The Government is also providing additional funding of \$695 million under the AusLink 1 programme,

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including \$250 million to the AusLink Strategic Regional programme. Major components of the road transport sub-function are outlined in further detail in Box 2 below.

The increase in expenses in the sea transport sub-function in 2007-08 is a result of the merger of the Australian Maritime College (AMC) and the University of Tasmania. The Government will gift the AMC's assets (valued at \$61.4 million) to the University to facilitate integration of the AMC into the University from 1 January 2008.

**Box 2: Components of road transport funding**

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

	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
AusLink National Network	1,703	<b>2,194</b>	2,634	3,246	3,166
Strategic Regional Programme	40	<b>101</b>	190	145	25
Roads to Recovery Programme	308	<b>461</b>	461	350	350
Black Spot Programme	45	<b>45</b>	45	60	60
Other	55	<b>74</b>	79	62	66
<b>Total(a)</b>	<b>2,151</b>	<b>2,875</b>	<b>3,409</b>	<b>3,863</b>	<b>3,667</b>

(a) See Outcome 1 of the Transport and Regional Services Portfolio Budget Statements 2007-08.

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**Other economic affairs**

**Table 16: Summary of expenses**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Tourism and area promotion	193	197	197	196	198
Vocational and industry training	698	906	965	975	1,021
Labour market assistance to job seekers and industry	1,889	1,956	1,987	2,035	2,083
Industrial relations	465	382	350	364	370
Immigration	1,088	1,106	1,062	1,089	1,113
<i>Total labour and employment affairs</i>	<i>4,139</i>	<i>4,350</i>	<i>4,364</i>	<i>4,463</i>	<i>4,586</i>
Other economic affairs nec	990	1,069	1,073	1,059	1,110
<b>Total other economic affairs</b>	<b>5,322</b>	<b>5,617</b>	<b>5,634</b>	<b>5,719</b>	<b>5,895</b>

**Nature of expenses and major trends**

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

Total expenses for the other economic affairs function are estimated to grow moderately over the period 2006-07 to 2010-11, reflecting continued government funding in most areas.

The growth in expenses in the vocational and industry training sub-function from 2006-07 to 2007-08 and over the forward years is mainly due to the Skills for the Future initiative announced by the Prime Minister on 12 October 2006 and new measures announced in the 2007-08 Budget.

The decrease in expenses for the industrial relations sub-function from 2006-07 to 2007-08 reflects the impact of the initial implementation costs of the *Work Choices* reform package incurred in 2006-07.



## Other purposes

**Table 17: Summary of expenses**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Interest on Australian Government's behalf	3,596	3,485	3,370	3,353	3,219
Interest on behalf of states and territories	0	0	0	0	0
Interest received on Australian Government stock	0	0	0	0	0
<i>Public debt interest</i>	<i>3,596</i>	<i>3,485</i>	<i>3,370</i>	<i>3,353</i>	<i>3,219</i>
Nominal superannuation interest	5,730	6,192	6,294	6,517	6,706
General revenue assistance - states and territories	0	0	0	0	0
General capital assistance - states and territories	0	0	0	0	0
Debt assistance	0	0	0	0	0
Local government assistance	1,703	1,765	1,834	1,904	1,977
Revenue assistance to the states and territories	169	173	178	182	187
Assistance to other governments	725	687	728	756	728
<i>General purpose inter-government   transactions</i>	<i>2,597</i>	<i>2,625</i>	<i>2,739</i>	<i>2,842</i>	<i>2,892</i>
Natural disaster relief	113	103	103	103	103
Contingency reserve(a)	578	389	3,979	7,360	11,073
<b>Total other purposes</b>	<b>12,613</b>	<b>12,794</b>	<b>16,486</b>	<b>20,176</b>	<b>23,993</b>

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

### Nature of expenses and major trends

The other purposes function includes expenses incurred in the servicing of public debt interest, and assistance to the State, Territory and local governments. The function also includes items classified to natural disaster relief, the contingency reserve, costs of asset sales, and expenses related to nominal interest expenses on unfunded liabilities for government superannuation benefits.

The assistance to other governments sub-function includes payments to Western Australia for offshore petroleum royalties. Expenses in this sub-function are expected to fluctuate across the forward years due to the combination of a decrease in estimated production volumes and estimated increases in the prices on which the royalty payments are based.

In reference to expenses in the local government assistance sub-function, the steady increase across the budget and forward estimates is wholly driven by forecast increases in population and the Consumer Price Index. A significant component of local government assistance is categorised under other expense functions (refer to Budget Paper No. 3, *Federal Financial Relations 2007-08* for more information on Australian Government assistance for local governments).

The natural disaster relief sub-function includes business assistance grants for the victims of Tropical Cyclone Larry, which are expected to conclude in 2006-07.

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Nominal superannuation interest grows over time reflecting the growth in the Government's superannuation liability.

Asset sale related expenses decline after 2006-07 in the contingency reserve sub-function reflecting the Telstra asset sales expense in 2006-07. The increase in expenses in the contingency reserve from 2007-08 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

Net capital investment comprises acquisitions of non financial assets (including inventories) less non financial asset disposals and depreciation.

Australian Government general government net capital investment is expected to decline in 2007-08 following a significant peak in 2006-07. Estimates of net capital investment, net of non-financial asset sales and depreciation, remain significantly positive over the forward estimates period to 2010-11 (Table 18).

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

	2006-07		2007-08	2008-09	2009-10	2010-11
	MYEFO(a)	Revised	Estimate	Projections		
<b>Total net capital investment (\$m)</b>	<b>2,290</b>	<b>2,025</b>	<b>1,171</b>	<b>1,377</b>	<b>861</b>	<b>939</b>
Real growth on previous year(%) <sup>(b)</sup>	-	-	-43.6	16.3	-38.2	6.8
Per cent of GDP	0.2	0.2	0.1	0.1	0.1	0.1

(a) As published in the *Mid-Year Economic and Fiscal Outlook 2006-07*.

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

### Reconciliation of net capital investment since the 2006-07 Budget

A reconciliation of the 2006-07 Budget, 2006-07 MYEFO and 2007-08 Budget net capital investment estimates, showing the effect of policy decisions and economic parameter and other variations since the estimates were published in the 2006-07 Budget, is provided in Table 19.

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

	Estimates		Projections	
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
<b>2006-07 Budget net capital investment</b>	<b>1,642</b>	<b>174</b>	<b>602</b>	<b>38</b>
<b>Changes between 2006-07 Budget and MYEFO</b>				
Effect of policy decisions	159	134	106	307
Effect of parameter and other variations	489	169	507	641
<b>Total variations</b>	<b>648</b>	<b>304</b>	<b>612</b>	<b>948</b>
<b>2006-07 MYEFO net capital investment</b>	<b>2,290</b>	<b>478</b>	<b>1,215</b>	<b>986</b>
<b>Changes between MYEFO and 2007-08 Budget</b>				
Effect of policy decisions	26	352	250	80
Effect of parameter and other variations	-291	341	-87	-205
<b>Total variations</b>	<b>-265</b>	<b>693</b>	<b>163</b>	<b>-125</b>
<b>2007-08 Budget net capital investment</b>	<b>2,025</b>	<b>1,171</b>	<b>1,377</b>	<b>861</b>

In 2007-08, forecast net capital investment has increased by \$693 million since the 2006-07 MYEFO. This increase is due to the combined effect of new policy decisions of \$352 million and parameter and other variations of \$341 million.

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Discussion of changes between the 2006-07 MYEFO and the 2007-08 Budget, shown in the table above, can be found in Statement 2 (in the section titled 'Variations in net capital investment estimates'). Further information on capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2007-08*.

**Net capital investment estimates by function**

Estimates for Australian Government general government net capital investment by function for the period 2006-07 to 2010-11 are provided in Table 20.

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

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
General public services	519	173	88	57	-33
Defence	490	296	1,017	800	734
Public order and safety	80	173	83	-130	26
Education	4	8	2	3	0
Health	110	114	2	-11	-9
Social security and welfare	333	287	49	74	-64
Housing and community amenities	41	-112	-39	-24	52
Recreation and culture	87	143	104	33	-32
Fuel and energy	2	4	1	-1	-5
Agriculture, forestry and fishing	15	34	-4	-6	-3
Mining, manufacturing and construction	32	24	4	-2	2
Transport and communications	1	15	10	-12	-10
Other economic affairs	240	63	3	-35	-68
Other purposes	69	-52	58	115	350
<b>Total net capital investment</b>	<b>2,025</b>	<b>1,171</b>	<b>1,377</b>	<b>861</b>	<b>939</b>

Net capital investment of \$2.0 billion is expected in 2006-07, largely reflecting several major projects, including – the construction of the National Portrait Gallery, the Christmas Island Immigration Reception and Processing Centre and various other construction projects managed by the Department of Finance and Administration; the continuing refurbishment and relocation of various overseas missions by the Department of Foreign Affairs and Trade; investment in information technology by several agencies including the Australian Taxation Office, Centrelink and the Department of Immigration and Citizenship; and various Defence capital projects.

Net capital investment is expected to decline in 2007-08 following a significant peak in 2006-07 as a result of the progressive conclusion of various construction projects including the Christmas Island Immigration Reception and Processing Centre. It also reflects the finalisation of a significant overseas land purchase and other procurements associated with the upgrade to the security of a number of overseas posts managed by the Department of Foreign Affairs and Trade.

Significant factors contributing to net capital investment by function include:

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- **General Public Services** – the investment by the Department of Finance and Administration in its property portfolio, including construction of the National Portrait Gallery and the new accommodation for the Australian Security Intelligence Organisation and the Office of National Assessments, and the refurbishment of the Royal Australian Mint building;
- **Defence** – the investment by the Department of Defence on various capital projects including the construction of the new Headquarters Joint Operations Command facility near Bungendore, New South Wales, and base infrastructure upgrades in Holsworthy, New South Wales, the Royal Australian Air Force bases in Amberley, Queensland, East Sale, Victoria, Wagga Wagga, New South Wales, and the Royal Australian Navy base in Cairns, Queensland;
- **Public order and safety** – investment by the Australian Security Intelligence Organisation in information technology and expansion of infrastructure to support growth in staff and operations and increasing technical and surveillance capability for national security-related purposes, as well as improvements in office accommodation. Also, investment by the Australian Federal Police in information technology and fit out of purpose-built office, operational and training facilities to accommodate all elements of the Unified Policing Model at airports. The capital investment associated with the Unified Policing Model forms part of the Government's response to the Wheeler Report into airport security and policing arrangements;
- **Health** – continuing investment in the National Medical Stockpile in 2006-07 and 2007-08 to protect against possible disease outbreaks such as pandemic influenza or biosecurity incidents;
- **Social security and welfare** – the investment in general information technology infrastructure in Centrelink and information technology related investment for the health and social services access card in Centrelink and the Department of Human Services;
- **Housing and community amenities** – adjustments to Defence Housing Australia's (DHA) property portfolio including, increased inventory holdings due to fewer property sales, variations to the forecast sale and leaseback programme and changes to DHA's capital programme for construction and replacement of Australian Defence Force housing;
- **Recreation and culture** – investment by the Australian Broadcasting Corporation for replacing and upgrading its technical asset base, the refurbishment of the National Gallery of Australia and the National Library of Australia buildings, and capital acquisitions to fit out the National Archives of Australia new storage facility; and

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- **Other economic affairs** – the continuing development of information technology systems to ensure well trained and supported staff for the Department of Immigration and Citizenship and the continuing upgrade and replacement of various meteorological radar in the Bureau of Meteorology's radar network, as well as the upgrade of computer infrastructure, satellite receiving stations for imagery and data, and a radar rainfall network (as part of the *National Plan for Water Security* measure).

## APPENDIX A: EXPENSE BY FUNCTION AND SUB-FUNCTION

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

	Actuals		Estimates		Projections	
	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>General public services</b>						
Legislative and executive affairs	768	881	1,039	854	875	1,031
Financial and fiscal affairs	3,958	4,991	5,244	5,527	5,621	5,872
Foreign affairs and economic aid	2,955	3,183	3,693	4,275	4,528	5,197
General research	2,346	2,457	2,599	2,593	2,647	2,595
General services	560	655	706	649	642	669
Government superannuation benefits	2,203	2,371	2,487	2,536	2,593	2,672
<b>Total general public services</b>	<b>12,790</b>	<b>14,539</b>	<b>15,768</b>	<b>16,434</b>	<b>16,905</b>	<b>18,035</b>
<b>Defence</b>	<b>16,194</b>	<b>17,358</b>	<b>19,880</b>	<b>21,133</b>	<b>22,054</b>	<b>23,018</b>
<b>Public order and safety</b>						
Courts and legal services	612	833	920	938	944	923
Other public order and safety	1,945	2,481	2,750	2,803	2,836	2,839
<b>Total public order and safety</b>	<b>2,558</b>	<b>3,314</b>	<b>3,670</b>	<b>3,741</b>	<b>3,780</b>	<b>3,762</b>
<b>Education</b>						
Higher education	5,362	5,372	5,801	6,229	6,367	6,649
Vocational and other education	1,617	1,617	1,657	1,673	1,699	1,754
Non-government schools	5,414	5,772	6,256	6,591	7,025	7,523
Government schools	2,910	3,103	3,230	3,125	3,269	3,449
<i>Schools</i>	<i>8,324</i>	<i>8,874</i>	<i>9,486</i>	<i>9,716</i>	<i>10,294</i>	<i>10,973</i>
Student assistance	467	486	512	533	531	533
General administration	0	2	6	6	6	6
School education - specific funding	112	199	290	334	312	313
<b>Total education</b>	<b>15,883</b>	<b>16,549</b>	<b>17,752</b>	<b>18,491</b>	<b>19,209</b>	<b>20,228</b>
<b>Health</b>						
Medical services and benefits	16,398	17,215	18,361	19,404	20,342	21,374
Hospital services	1,540	1,549	1,592	1,625	1,655	1,678
Health care agreements	8,369	8,865	9,350	9,461	9,640	9,828
<i>Hospital services and health care agreements</i>	<i>9,909</i>	<i>10,414</i>	<i>10,942</i>	<i>11,087</i>	<i>11,295</i>	<i>11,507</i>
Pharmaceutical services and benefits	7,130	7,669	8,589	8,611	8,985	9,389
Aboriginal and Torres Strait Islander health	323	352	433	476	503	534
Health services	1,436	1,493	1,670	1,747	1,760	1,842
Other health services	1,526	2,304	2,056	2,200	2,311	2,358
<i>Other health services</i>	<i>2,962</i>	<i>3,797</i>	<i>3,726</i>	<i>3,947</i>	<i>4,071</i>	<i>4,200</i>
General administration	599	594	847	920	959	1,000
Health assistance to the aged(a)	227	61	67	75	85	117
<b>Total health</b>	<b>37,549</b>	<b>40,102</b>	<b>42,964</b>	<b>44,520</b>	<b>46,240</b>	<b>48,120</b>
<b>Social security and welfare</b>						
Assistance to the aged(a)	29,839	32,722	34,517	36,850	38,991	41,199
Assistance to veterans and dependants	5,588	6,172	6,070	6,147	6,100	6,021
Assistance to people with disabilities	12,316	12,730	13,113	13,627	14,126	14,870
Assistance to families with children	26,219	28,522	29,713	30,528	31,100	31,749

Statement 6: Expenses and net capital investment

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

	Actuals		Estimates		Projections	
	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Social security and welfare (continued)</b>						
Assistance to the unemployed	4,844	4,773	5,397	5,925	6,701	6,927
Assistance to the sick	85	84	87	89	90	92
<i>Assistance to the unemployed and the sick</i>	<i>4,929</i>	<i>4,857</i>	<i>5,484</i>	<i>6,014</i>	<i>6,791</i>	<i>7,019</i>
Common youth allowance	2,102	2,128	2,192	2,210	2,236	2,254
Other welfare programmes	1,629	2,446	1,622	1,654	1,697	1,797
Aboriginal advancement nec	1,403	1,244	1,261	1,399	1,409	1,590
General administration	2,193	2,393	2,478	2,303	2,302	2,437
<b>Total social security and welfare</b>	<b>86,219</b>	<b>93,215</b>	<b>96,450</b>	<b>100,733</b>	<b>104,751</b>	<b>108,936</b>
<b>Housing and community amenities</b>						
Housing	1,634	1,731	1,817	1,871	1,961	1,879
Urban and regional development	175	181	222	168	151	135
Environment protection	439	1,160	972	923	807	446
<b>Total housing and community amenities</b>	<b>2,248</b>	<b>3,072</b>	<b>3,011</b>	<b>2,962</b>	<b>2,919</b>	<b>2,460</b>
<b>Recreation and culture</b>						
Broadcasting	1,245	1,310	1,423	1,427	1,405	1,419
Arts and cultural heritage	812	873	980	936	965	979
Sport and recreation	314	267	322	296	259	225
National estate and parks	213	223	254	274	254	310
<b>Total recreation and culture</b>	<b>2,585</b>	<b>2,673</b>	<b>2,979</b>	<b>2,932</b>	<b>2,884</b>	<b>2,933</b>
<b>Fuel and energy</b>	<b>4,046</b>	<b>4,711</b>	<b>5,360</b>	<b>5,495</b>	<b>5,636</b>	<b>5,873</b>
<b>Agriculture, forestry and fishing</b>						
Wool industry	49	67	52	54	55	55
Grains industry	130	116	109	113	126	134
Dairy industry	105	103	85	79	91	49
Cattle, sheep and pig industry	145	156	156	157	146	146
Fishing, horticulture and other agriculture	300	545	360	234	230	231
General assistance not allocated to specific industries	399	119	93	85	62	86
Rural assistance	570	760	810	177	76	74
Natural resources development	886	394	567	629	1,286	1,677
General administration	194	613	568	559	541	538
<b>Total agriculture, forestry and fishing</b>	<b>2,780</b>	<b>2,873</b>	<b>2,799</b>	<b>2,085</b>	<b>2,612</b>	<b>2,990</b>
<b>Mining, manufacturing &amp; construction</b>	<b>1,905</b>	<b>1,884</b>	<b>2,029</b>	<b>2,018</b>	<b>1,949</b>	<b>1,843</b>
<b>Transport and communication</b>						
Communication	636	671	815	656	375	349
Rail transport	305	32	169	170	0	0
Air transport	155	149	169	156	155	151
Road transport	1,616	2,151	2,875	3,409	3,863	3,667
Sea transport	198	236	308	249	252	257
Other transport and communication	165	161	179	183	174	160
<b>Total Transport and Communication</b>	<b>3,075</b>	<b>3,400</b>	<b>4,516</b>	<b>4,823</b>	<b>4,818</b>	<b>4,584</b>



Statement 6: Expenses and net capital investment

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

	Actuals		Estimates		Projections	
	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Other economic affairs</b>						
Tourism and area promotion	209	193	197	197	196	198
Vocational and industry training	648	698	906	965	975	1,021
Labour market assistance to job seekers and industry	1,919	1,889	1,956	1,987	2,035	2,083
Industrial relations	355	465	382	350	364	370
Immigration	903	1,088	1,106	1,062	1,089	1,113
<i>Total labour and employment affairs</i>	<i>3,825</i>	<i>4,139</i>	<i>4,350</i>	<i>4,364</i>	<i>4,463</i>	<i>4,586</i>
Other economic affairs nec	840	990	1,069	1,073	1,059	1,110
<b>Total other economic affairs</b>	<b>4,874</b>	<b>5,322</b>	<b>5,617</b>	<b>5,634</b>	<b>5,719</b>	<b>5,895</b>
<b>Other purposes</b>						
Interest on Australian Government's behalf	3,627	3,596	3,485	3,370	3,353	3,219
Interest on behalf of states and territories	1	0	0	0	0	0
Interest received on Australian Government stock	0	0	0	0	0	0
<i>Public debt interest</i>	<i>3,628</i>	<i>3,596</i>	<i>3,485</i>	<i>3,370</i>	<i>3,353</i>	<i>3,219</i>
Nominal superannuation interest	5,582	5,730	6,192	6,294	6,517	6,706
General revenue assistance - states and territories	1,258	0	0	0	0	0
General capital assistance - states and territories	0	0	0	0	0	0
Debt assistance	220	0	0	0	0	0
Local government assistance	1,630	1,703	1,765	1,834	1,904	1,977
Revenue assistance to the states and territories	164	169	173	178	182	187
Assistance to other governments	664	725	687	728	756	728
<i>General purpose inter-government transactions</i>	<i>3,936</i>	<i>2,597</i>	<i>2,625</i>	<i>2,739</i>	<i>2,842</i>	<i>2,892</i>
Natural disaster relief	211	113	103	103	103	103
Contingency reserve(b)	36	578	389	3,979	7,360	11,073
<b>Total other purposes</b>	<b>13,393</b>	<b>12,613</b>	<b>12,794</b>	<b>16,486</b>	<b>20,176</b>	<b>23,993</b>
<b>Total expenses</b>	<b>206,096</b>	<b>221,625</b>	<b>235,590</b>	<b>247,489</b>	<b>259,652</b>	<b>272,669</b>

(a) There has been a reclassification of some expenditure administered by the Department of Families, Community Services and Indigenous Affairs that was previously reported under the health assistance to the aged sub-function (health) to the assistance to the aged sub-function (social security and welfare).

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

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

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

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

The contingency reserve makes allowance in 2007-08 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;
- commercial-in-confidence and national security-in-confidence items that cannot be disclosed separately and programmes that are yet to be renegotiated with State and Territory governments;
- decisions made too late for inclusion against individual agency estimates;
- the effect on the budget and forward estimates of economic parameter revisions received late in the process and hence not able to be allocated to individual agencies or functions; and
- provision for events and pressures that are reasonably expected to affect the budget estimates.

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