

## STATEMENT 5: EXPENSES AND NET CAPITAL INVESTMENT

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

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

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

The main trends are:

- in 2016-17 the social security and welfare, health, defence and education functions account for nearly two thirds of total expenses, with social security and welfare accounting for slightly more than one third of total expenses;
- in real terms, the strongest growth across the budget and forward estimates is expected to occur in the social security and welfare function; and
- net capital investment in 2016-17 largely reflects continued investment in defence capital projects.



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### OVERVIEW

Australian Government general government sector (GGS) accrual expenses are expected to increase by 2.5 per cent in real terms in 2016-17, with the growth rate increasing to 2.9 per cent in 2018-19, predominantly reflecting the implementation of the National Disability Insurance Scheme. Total expenses are expected to decline as a percentage of GDP from 26.2 per cent in 2016-17 to 25.7 per cent in 2019-20.

**Table 1.1: Estimates of general government sector expenses**

	MYEFO	Revised	Estimate		Projections	
	2015-16	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Total expenses (\$b)</b>	<b>432.2</b>	<b>431.5</b>	<b>450.6</b>	<b>464.8</b>	<b>489.3</b>	<b>511.6</b>
Real growth on						
previous year (%) <sup>(a)</sup>	1.5	1.8	2.5	0.9	2.9	2.0
Per cent of GDP	26.2	26.1	26.2	25.7	25.8	25.7

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

As set out in Statement 3 of Budget Paper No. 1, the Government also reports spending on an underlying cash basis. In cash terms, Government spending is forecast to grow by an average of 1.9 per cent per annum in real terms over the five years to 2019-20, and total payments are expected to decline as a percentage of GDP from 25.8 per cent in 2016-17 to 25.2 per cent over the forward estimates.

**Table 1.2: Estimates of general government sector payments**

	MYEFO	Revised	Estimate		Projections	
	2015-16	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Total payments (\$b)</b>	<b>428.3</b>	<b>425.0</b>	<b>445.0</b>	<b>459.9</b>	<b>481.5</b>	<b>502.6</b>
Real growth on						
previous year (%) <sup>(a)</sup>	2.0	1.7	2.8	1.0	2.4	1.8
Per cent of GDP	25.9	25.8	25.8	25.5	25.4	25.2

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

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Over the forward estimates, expenses are expected to decline to 25.7 per cent of GDP in 2019-20 (see Table 1.1), whereas over the period between 2007-08 and 2013-14, total expenditure rose from 23.8 per cent of GDP in 2007-08, to an estimate of 26.1 per cent of GDP in 2013-14.

Table 2 provides a reconciliation of expense estimates between the 2015-16 Budget, the 2015-16 *Mid-Year Economic and Fiscal Outlook* (MYEFO) and the 2016-17 Budget showing the effect of policy decisions, and economic parameter and other variations.

**Table 2: Reconciliation of expense estimates**

	Estimates			Projections	Total
	2015-16	2016-17	2017-18	2018-19	
	\$m	\$m	\$m	\$m	\$m
<b>2015-16 Budget expenses</b>	<b>434,469</b>	<b>452,654</b>	<b>471,816</b>	<b>499,428</b>	<b>1,858,366</b>
<b>Changes from 2015-16 Budget to</b>					
<b>2015-16 MYEFO</b>					
Effect of policy decisions(a)	829	1,015	-2,356	-2,114	-2,627
Effect of parameter and other variations	-3,064	-2,462	-3,567	-5,944	-15,037
<b>Total variations</b>	<b>-2,235</b>	<b>-1,448</b>	<b>-5,923</b>	<b>-8,059</b>	<b>-17,664</b>
<b>2015-16 MYEFO expenses</b>	<b>432,234</b>	<b>451,206</b>	<b>465,892</b>	<b>491,370</b>	<b>1,840,702</b>
<b>Changes from 2015-16 MYEFO to</b>					
<b>2016-17 Budget</b>					
Effect of policy decisions(a)	590	1,097	-721	733	1,699
Effect of economic parameter variations					
Total economic parameter variations	6	-1,901	-2,276	-1,936	-6,106
<i>Unemployment benefits</i>	-171	-719	-620	-408	-1,918
<i>Prices and wages</i>	-53	-1,183	-1,958	-2,308	-5,502
<i>Interest and exchange rates</i>	30	62	52	100	244
<i>GST payments to the States</i>	200	-60	250	680	1,070
Public debt interest	-304	-430	-93	-374	-1,201
Programme specific parameter variations	1,639	1,298	555	1,669	5,160
Other variations	-2,696	-717	1,454	-2,138	-4,096
<b>Total variations</b>	<b>-764</b>	<b>-653</b>	<b>-1,081</b>	<b>-2,046</b>	<b>-4,544</b>
<b>2016-17 Budget expenses</b>	<b>431,470</b>	<b>450,553</b>	<b>464,812</b>	<b>489,324</b>	<b>1,836,158</b>

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

The combined impact of policy decisions and variations has decreased expenses by \$4.5 billion over the four years from 2015-16 to 2018-19 compared to the 2015-16 MYEFO. In the same period, the Government has made policy decisions that increase expenses by \$1.7 billion, (although reducing expenses by \$4.8 billion in the five years from 2015-16 to 2019-20). While over the four years from 2015-16 to 2018-19, program specific parameter variations have increased expenses by \$5.2 billion, this has been offset by economic parameter, public debt interest and other variations that have decreased expenses by \$11.4 billion compared to the 2015-16 MYEFO.

## Estimated expenses by function

Table 3 sets out the estimates of Australian Government general government sector expenses by function for the period 2015-16 to 2019-20.

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

	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
General public services	23,967	22,659	21,790	22,345	23,537
Defence	25,986	27,155	27,937	29,384	31,525
Public order and safety	4,958	4,915	4,766	4,719	4,675
Education	32,515	33,669	33,815	34,494	35,804
Health	69,172	71,413	73,425	76,239	79,260
Social security and welfare	152,838	158,612	166,518	184,260	191,828
Housing and community amenities	4,865	5,282	5,051	4,455	4,412
Recreation and culture	3,512	3,401	3,337	3,249	3,301
Fuel and energy	6,528	6,687	6,782	7,028	7,301
Agriculture, forestry and fishing	2,768	3,122	3,084	2,626	2,269
Mining, manufacturing and construction	3,650	3,545	3,792	3,999	4,277
Transport and communication	8,647	11,131	10,606	6,599	5,400
Other economic affairs	9,626	9,832	8,620	8,600	8,531
Other purposes	82,437	89,129	95,291	101,326	109,483
<b>Total expenses</b>	<b>431,470</b>	<b>450,553</b>	<b>464,812</b>	<b>489,324</b>	<b>511,604</b>

Major expense trends between 2015-16 and 2016-17, and from 2016-17 over the forward years include movements in the following functions:

- **general public services** – the decrease in expenses between 2015-16 and 2016-17 largely reflects the use of different discount rates applied to superannuation expenses. From 2016-17 to 2019-20, expenses in the general public services function are estimated to remain relatively stable;
- **defence** – the increase in expenses from 2016-17 to 2019-20 reflects the funding required to deliver the plans set out in the *2016 Defence White Paper*. Defence expenses are projected to grow by 8.3 per cent in real terms (16.1 per cent in nominal terms);
- **education** – expenses in the education function are estimated to remain relatively stable in real terms from 2015-16 to 2019-20;
- **health** – the increase in expenses from 2016-17 to 2019-20 reflects the growing demand for a range of programs within the medical services and benefits, pharmaceutical benefits and services and assistance to the States for public hospitals sub-functions. Higher demand for health services, and a growing and ageing population, continue to drive increasing health costs;
- **social security and welfare** – the increase in expenses from 2016-17 to 2019-20 largely reflects the impact of the transition to the full National Disability Insurance

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Scheme to support people with a significant and permanent disability, and an ageing population accessing age, disability and carer payments and residential and home care. This increase is partly offset by decreasing expenses in other social security and welfare programs such as Family Tax Benefit and Paid Parental Leave;

- **housing and community amenities** – the decrease in expenses from 2016-17 to 2019-20 largely reflects the scheduled completion of payments made to the States and Territories under National Partnership Agreements and forecast reductions in the management of Defence Housing Australia properties;
- **transport and communication** – the fluctuating profile of expenses from 2015-16 to 2018-19 largely reflects infrastructure projects within the rail transport and road transport sub-functions, where the funded value of projects varies year on year, and payments correspond to project milestones; and
- **other purposes** – the increase in expenses from 2016-17 to 2019-20 largely reflects growing general revenue assistance payments (largely GST) to be made to the States and Territories, increasing public debt interest costs and the conservative bias allowance component of the Contingency Reserve.

Government expenses are strongly influenced by underlying trends in spending in the social security and welfare, health and education functions (see Boxes 1 and 2). Together, these functions account for 58.5 per cent of all government expenses in 2016-17. Further details of spending trends against all functions, including movements in expenses from 2015-16 to 2016-17, are set out under individual function headings.



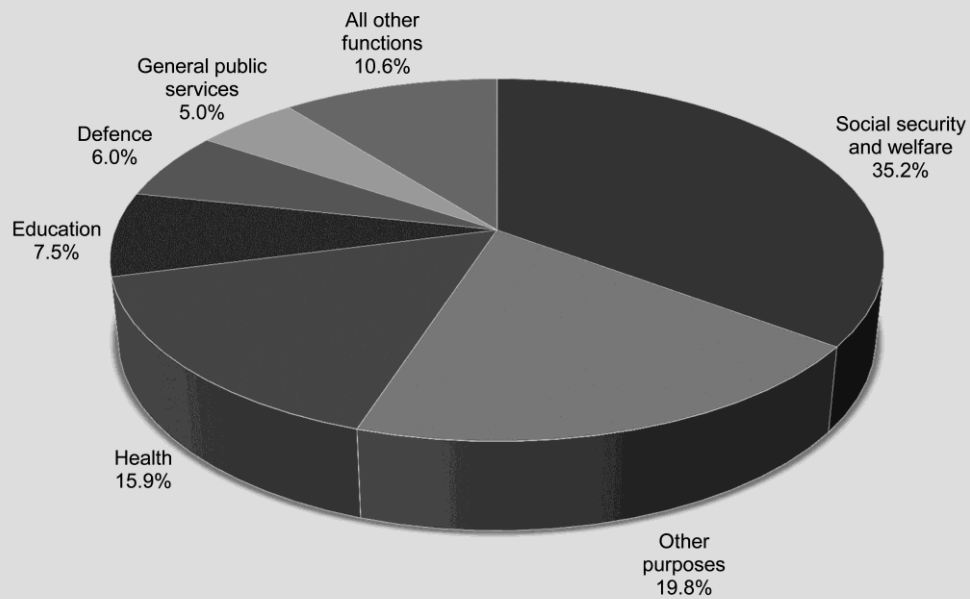
**Box 1: Where does government spending go in 2016-17?**

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

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

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

**Chart 1: Expenses by function in 2016-17**



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

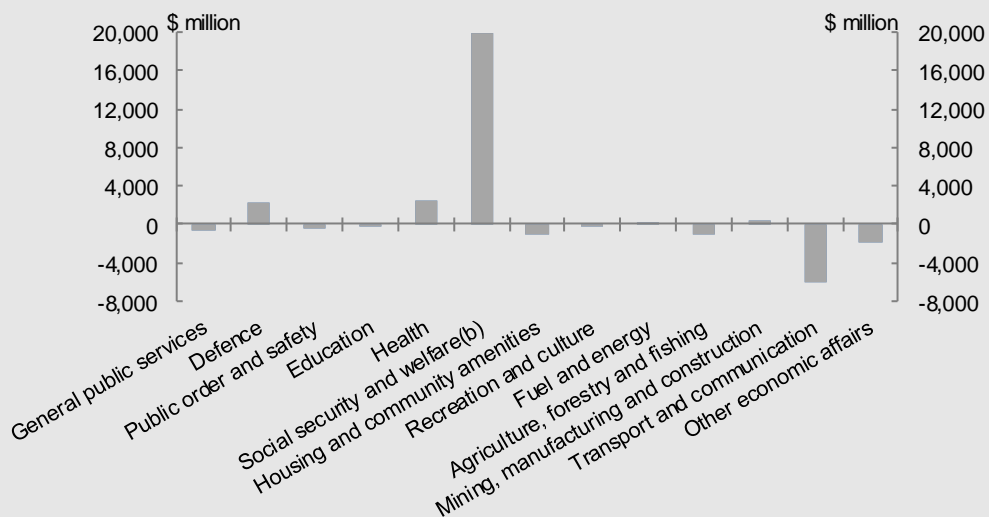
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**Box 2: Trends in future spending**

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

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

**Chart 2: Total real growth in expenses by function — 2016-17 to 2019-20<sup>(a)</sup>**

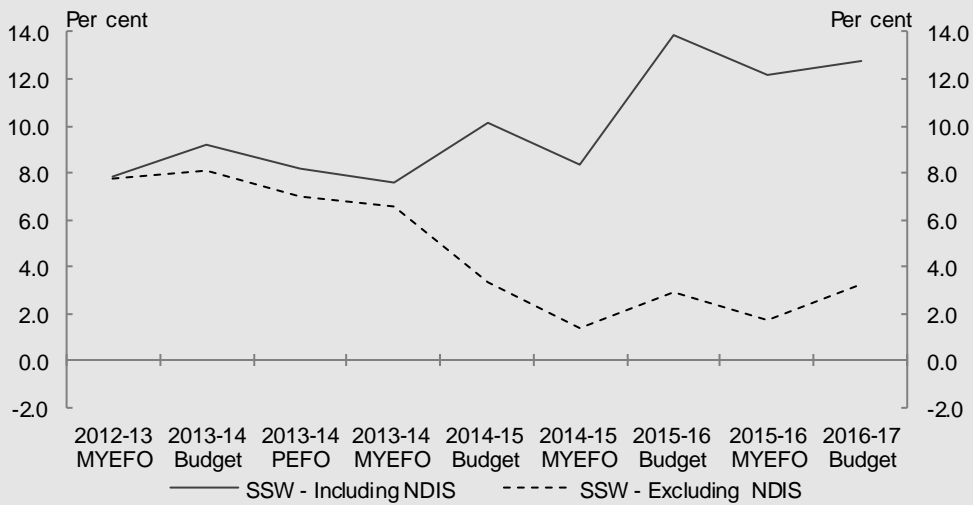


- (a) The other purposes function is not included in this chart as it contains expenses for general revenue assistance to the State and Territory governments (primarily GST), public debt interest, and the conservative bias allowance.
- (b) The most significant driver of growth in the social security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

**Box 2.1: Trends in social security and welfare spending**

Chart 2.1 shows rates of real expenditure growth in the social security and welfare function over the forward estimates at each budget update with and without the National Disability Insurance Scheme. Expenditure growth in the social security and welfare function reflects the costs associated with the substantial ramp up of the implementation of the National Disability Insurance Scheme over the forward estimates period.

**Chart 2.1: Total real growth rates over the forward estimates at each Budget and Economic update from 2012-13 MYEFO to 2016-17 Budget**



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**Program expenses**

Table 3.1 reports the top 20 expense programs in the 2016-17 financial year. These programs represent approximately two thirds of total expenses in that year. More than half of the top 20 expense programs provide financial assistance or services to the aged, families, people with a disability, students, carers and the unemployed.

**Table 3.1: Top 20 programs by expenses in 2016-17**

Program(a)	Function	Estimates			Projections	
		2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
Revenue Assistance to the States and Territories	Other purposes	58,236	61,265	64,529	67,894	70,922
Income support for seniors	SSW	43,235	45,374	46,834	49,547	51,859
Medical benefits(b)	Health	21,094	21,956	22,662	23,669	25,115
Family tax benefit	SSW	20,895	19,341	18,481	18,466	18,685
Assistance to the States for public hospitals	Health	17,196	17,912	18,923	19,987	21,106
Income Support for People with Disability	SSW	16,597	17,056	17,498	17,983	18,633
Residential and flexible care	SSW	10,695	11,319	11,919	12,600	13,469
Pharmaceutical benefits, services and supply	Health	10,362	10,800	10,989	11,322	11,722
Non-government schools National Support	Education	9,869	10,554	11,061	11,556	12,106
Job seeker income support	SSW	10,896	10,458	10,305	11,441	11,828
Income support for carers	SSW	7,832	8,384	8,992	9,534	10,282
Child Care Fee Assistance(c)		7,455	8,159	8,838	0	0
Child Care Subsidy(c)	SSW	0	0	0	11,057	12,192
Public sector superannuation(d)	Other purposes; General public services	8,791	7,883	8,069	8,257	8,432
Army capabilities	Defence	7,085	7,226	7,036	7,188	7,608
Commonwealth Grants Scheme	Education	6,988	7,066	6,868	6,627	6,842
National Partnership Payments - Road Transport	Transport and Communication	4,456	6,981	7,423	4,582	3,556
Private health insurance	Health	6,228	6,502	6,751	7,070	7,061
Government schools National Support	Education	5,767	6,442	6,936	7,277	7,671
Fuel tax credits scheme	Fuel and energy	6,117	6,236	6,466	6,724	7,070
Navy capabilities	Defence	5,446	5,865	5,806	6,028	6,235
<b>Sub-total</b>		<b>285,239</b>	<b>296,777</b>	<b>306,386</b>	<b>318,809</b>	<b>332,396</b>
Other programs		146,230	153,776	158,426	170,514	179,208
<b>Total expenses</b>		<b>431,470</b>	<b>450,553</b>	<b>464,812</b>	<b>489,324</b>	<b>511,604</b>

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

(b) Medical Benefits was formerly the Medicare Services program.

(c) Child Care Fee Assistance includes the Child Care Benefit and Child Care Rebate. From 1 July 2018, the Child Care Benefit and Child Care Rebate will be replaced by the new Child Care Subsidy.

(d) This program is a combination of the public sector superannuation nominal interest and accrual expenses.

## General government sector expenses

### General public services

The general public services function includes expenses to support the organisation and operation of government such as those related to the Parliament, the Governor-General and conduct of elections; the collection of taxes and management of public funds and debt; assistance to developing countries to reduce poverty and achieve sustainable development, particularly countries in the Pacific region; contributions to international organisations; and the operations of the foreign service. It also includes expenses related to research in areas not otherwise connected with a specific function, and those associated with overall economic and statistical services as well as government superannuation benefits (excluding nominal interest expenses on unfunded liabilities, which are included under the nominal superannuation interest sub-function in the other purposes function).

**Table 4: Summary of expenses — general public services**

Sub-function	Estimates			Projections	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
Legislative and executive affairs	1,229	1,334	1,077	1,099	1,331
Financial and fiscal affairs	6,895	7,536	7,502	7,595	7,802
Foreign affairs and economic aid	5,470	6,090	5,522	5,823	6,602
General research	2,866	2,771	2,851	2,968	3,065
General services	977	963	924	940	943
Government superannuation benefits	6,530	3,965	3,913	3,921	3,794
<b>Total general public services</b>	<b>23,967</b>	<b>22,659</b>	<b>21,790</b>	<b>22,345</b>	<b>23,537</b>

Total general public services expenses are estimated to decrease by 7.2 per cent in real terms from 2015-16 to 2016-17, and decrease by 3.1 per cent in real terms over the period 2016-17 to 2019-20.

The uneven profile of expenses under the **legislative and executive affairs** sub-function partly reflects costs that will be incurred by the Australian Electoral Commission in 2016-17 and 2019-20 to support the federal elections.

Expenses in the **financial and fiscal affairs** sub-function are expected to increase from 2015-16 to 2016-17, reflecting an increase in funding for the Australian Bureau of Statistics to conduct the 2016 census, and expenses associated with concessional loans under the Northern Australia Infrastructure Facility. The increase in expenses from 2017-18 to 2019-20 reflects bad and doubtful debts expenses that are expected to increase in line with normal growth in taxation revenue over the forward estimates.

Table 4.1 provides further details of the major components of foreign affairs and economic aid sub-function expenses.

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

Component(a)	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Foreign aid(b)	3,351	3,874	3,448	3,725	4,420
Diplomacy(c)	972	1,015	902	898	929
Payments to international organisations	433	467	491	524	547
Passport services	223	242	238	240	260
International police assistance	215	205	141	135	143
International agriculture research and development	115	130	126	126	129
Consular services	94	95	94	94	96
Finance and insurance services for Australian exporters and investors	20	17	16	14	12
Other	47	45	66	67	68
<b>Total</b>	<b>5,470</b>	<b>6,090</b>	<b>5,522</b>	<b>5,823</b>	<b>6,602</b>

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

Total expenses under the **foreign affairs and economic aid** sub-function are expected to increase by 9.3 per cent in real terms from 2015-16 to 2016-17, and are forecast to increase by 1.1 per cent in real terms across the forward years from 2016-17.

The increase in Foreign Aid spending in 2016-17 and 2019-20 reflects renewed multi-year funding commitments to multilateral funds such as the Asian Development Fund and the World Bank's International Development Association.

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

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

Component(a)	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Research - national flagships, science and services	1,127	1,097	1,120	1,203	1,226
Discovery - research and research training	528	483	498	499	523
Science and technology solutions	298	318	332	343	355
Linkage - cross sector research partnerships	290	264	266	272	278
Supporting science and commercialisation	198	197	206	235	264
Research capacity	165	150	159	163	167
Other	260	260	269	254	252
<b>Total</b>	<b>2,866</b>	<b>2,771</b>	<b>2,851</b>	<b>2,968</b>	<b>3,065</b>

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

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

Total expenses under this sub-function are expected to decrease by 5.1 per cent in real terms from 2015-16 to 2016-17, and increase by 3.2 per cent in real terms across the forward estimates from 2016-17. The decrease from 2015-16 to 2016-17 primarily reflects decisions taken in the 2014-15 Budget, which reduced funding to a range of science and research organisations. The increase over the forward estimates is primarily due to funding provided for the National Collaborative Research Infrastructure Strategy as part of the National Innovation and Science Agenda which was announced at the 2015-16 MYEFO.

The fall in expenses from 2015-16 to 2016-17 in the **government superannuation benefits** sub-function reflects the use of different discount rates. In accordance with accounting standards, the superannuation expenses for 2015-16 apply a discount rate based on long-term government bonds at the commencement of the financial year (3.7 per cent). Forward years are estimated based on the discount rate applied by the superannuation scheme actuaries in preparing long term cost reports (6 per cent).

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## Defence

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

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

**Table 5: Summary of expenses — defence**

Sub-function	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Defence	25,986	27,155	27,937	29,384	31,525
<b>Total defence</b>	<b>25,986</b>	<b>27,155</b>	<b>27,937</b>	<b>29,384</b>	<b>31,525</b>

Total expenses for the defence function are estimated to increase by 2.6 per cent in real terms from 2015-16 to 2016-17, and by 8.3 per cent in real terms over the period 2016-17 to 2019-20. The increase over the period reflects the funding required to deliver the plans set out in the *2016 Defence White Paper*.

Additional funding of \$686.0 million will be provided in the 2016-17 Budget to support major Australian Defence Force (ADF) operations in the Middle East and the protection of Australia's borders.

Expenses do not include the additional cost of major ADF operations beyond 2016-17, as operations funding is considered on a year-by-year basis and subject to future government decisions.



## Public order and safety

The public order and safety function includes expenses to support the administration of the federal legal system and the provision of legal services, including legal aid, to the community. Public order and safety expenses also include law enforcement, border protection and intelligence activities, and the protection of Australian Government property.

**Table 6: Summary of expenses — public order and safety**

Sub-function	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Courts and legal services	1,217	1,159	1,110	1,084	1,081
Other public order and safety	3,741	3,756	3,656	3,635	3,594
<b>Total public order and safety</b>	<b>4,958</b>	<b>4,915</b>	<b>4,766</b>	<b>4,719</b>	<b>4,675</b>

Total expenses for the public order and safety function are estimated to decrease by 2.7 per cent in real terms from 2015-16 to 2016-17, and decrease by 11.3 per cent in real terms over the period 2016-17 to 2019-20.

Expenses within the **courts and legal services** sub-function are estimated to decrease by 6.5 per cent in real terms from 2015-16 to 2016-17 and decrease by 13.0 per cent in real terms from 2016-17 to 2019-20, mainly reflecting the completion of the Royal Commission into Trade Union Governance and Corruption, and the expected completion of the Royal Commission into Institutional Responses to Child Sexual Abuse in December 2017.

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

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

Component(a)	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Policing and law enforcement	2,535	2,526	2,405	2,396	2,319
Border protection(b)	1,207	1,230	1,250	1,238	1,275
<b>Total</b>	<b>3,741</b>	<b>3,756</b>	<b>3,656</b>	<b>3,635</b>	<b>3,594</b>

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

Total expenses within the **other public order and safety** sub-function are expected to decrease by 1.4 per cent in real terms from 2015-16 to 2016-17, and by 10.8 per cent in real terms from 2016-17 to 2019-20.

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The decrease from 2016-17 to 2019-20 mainly reflects the cessation of up-front capital funding assistance to industry to support telecommunications data retention and the conclusion of the 2013-14 Budget measure *Regional Assistance Mission to Solomon Islands – transition*.

## Education

The education function includes expenses to support the delivery of education services through higher education institutions; vocational education and training providers (including technical and further education institutions); and government (State and Territory) and non-government primary and secondary schools.

**Table 7: Summary of expenses — education**

Sub-function	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Higher education	9,621	9,562	9,518	9,266	9,466
Vocational and other education	1,848	1,992	1,499	1,522	1,548
Schools	15,636	16,996	17,997	18,833	19,777
Non-government schools	9,869	10,554	11,061	11,556	12,106
Government schools	5,767	6,442	6,936	7,277	7,671
School education - specific funding	712	659	498	122	119
Student assistance	4,367	4,114	3,956	4,403	4,551
General administration	331	346	346	348	343
<b>Total education</b>	<b>32,515</b>	<b>33,669</b>	<b>33,815</b>	<b>34,494</b>	<b>35,804</b>

Total education expenses are expected to increase by 1.7 per cent in real terms between 2015-16 and 2016-17, and decrease by 0.8 per cent in real terms from 2016-17 to 2019-20.

Expenses under the **higher education** sub-function are expected to decrease by 2.4 per cent in real terms from 2015-16 to 2016-17 reflecting the Government's decision to delay the full implementation of the higher education reforms announced in the 2014-15 Budget and 2014-15 MYEFO until January 2018. Expenses between 2016-17 and 2019-20 are estimated to decrease by 7.7 per cent in real terms, which relate to the reduction of Commonwealth Grant Scheme subsidies from 2018.

Expenses under the **vocational and other education** sub-function are expected to increase by 5.9 per cent in real terms between 2015-16 to 2016-17, and decrease by 27.6 per cent in real terms from 2016-17 to 2019-20. The forecast overall decline in expenses over the forward estimates primarily reflects the conclusion of funding under the Skills Reform National Partnership Agreement, with the final milestone payments contributing to the one-off increase in expenses in 2016-17.

Aggregate school funding expenses are expected to increase by 6.7 per cent in real terms between 2015-16 to 2016-17, and by 8.5 per cent in real terms from 2016-17 to 2019-20 reflecting the Government's school education policy. For the 2018 to 2020 school years, total school funding will be indexed by an education sector specific indexation rate of 3.56 per cent, with an allowance for changes in enrolments.

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Expenses in the **schools – non-government schools** sub-function are expected to increase by 5.0 per cent in real terms between 2015-16 and 2016-17, and by 7.0 per cent in real terms from 2016-17 to 2019-20. Expenses under the **schools – government schools** sub-function are expected to increase by 9.7 per cent in real terms between 2015-16 and 2016-17, and by 11.1 per cent in real terms from 2016-17 to 2019-20.

Expenses under the **school education – specific funding** sub-function are expected to decrease by 9.2 per cent in real terms between 2015-16 and 2016-17, and by 83.1 per cent in real terms from 2016-17 to 2019-20. The expected decrease in expenses from 2015-16 primarily reflects the conclusion of a number of National Partnerships, including the National Partnership on Trade Training Centres in Schools in 2015-16, the National Partnership Agreement on Universal Access to Early Childhood Education in 2017-18, and the National School Chaplaincy Programme in 2017-18.

Expenses under the **student assistance** sub-function are expected to decrease by 7.5 per cent in real terms from 2015-16 to 2016-17, and increase by 3.2 per cent in real terms from 2016-17 to 2019-20. The decrease from 2015-16 to 2016-17 reflects the impact of converting Student Start-up Scholarships to Student Start-up loans. The increase in expenses from 2016-17 also reflects compliance activities resulting from the 2015-16 Budget measure *Strengthening the Integrity of Welfare Payments* and the 2015-16 MYEFO measure *Enhanced Welfare Payment Integrity*, which conclude in 2017-18 and 2018-19, and are partly offset by a reduction in expenses under the Higher Education Loan Programme (HELP). Expenses under HELP mainly reflect the estimated cost to the Government of providing concessional loans, which will vary with enrolment numbers and the number and value of HELP loans. These expenses are recorded when loans are issued and are based on actuarial advice.

## Health

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

**Table 8: Summary of expenses — health**

Sub-function	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Medical services and benefits	29,025	30,181	31,108	32,437	33,891
Pharmaceutical benefits and services	11,022	11,513	11,623	11,938	12,328
Assistance to the States for public hospitals	17,196	17,912	18,923	19,987	21,106
Hospital services(a)	1,755	1,718	1,690	1,701	1,722
Health services	6,322	6,292	6,264	6,371	6,438
General administration	3,106	3,000	2,961	2,913	2,846
Aboriginal and Torres Strait Islander health	746	798	856	892	929
<b>Total health</b>	<b>69,172</b>	<b>71,413</b>	<b>73,425</b>	<b>76,239</b>	<b>79,260</b>

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

Total expenses for the health function are estimated to increase by 1.4 per cent in real terms between 2015-16 and 2016-17. Total expenses are estimated to increase by 3.5 per cent in real terms from 2016-17 to 2019-20 reflecting higher demand for health services, and a growing and ageing population.

The **medical services and benefits** sub-function, which primarily consists of Medicare and Private Health Insurance Rebate expenses, is 42.3 per cent of total estimated health expenses for 2016-17. Growth in Medicare expenses is the major driver of growth in this sub-function.

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

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

Component(a)	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Medical benefits	21,094	21,956	22,662	23,669	25,115
Private health insurance	6,228	6,502	6,751	7,070	7,061
General medical consultations and services	854	838	823	800	792
Dental services(b)	314	416	416	420	438
Other	535	469	457	477	484
<b>Total</b>	<b>29,025</b>	<b>30,181</b>	<b>31,108</b>	<b>32,437</b>	<b>33,891</b>

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

(b) Payments under the existing dental National Partnership Agreement in 2015-16 are provided for under the health services sub-function in Table 8.

Expenses for medical benefits are expected to increase by 2.2 per cent in real terms between 2015-16 and 2016-17, and by 6.7 per cent in real terms over the period 2016-17 to 2019-20, as a result of ongoing growth in the use of medical services.

Expenses for Private Health Insurance are expected to increase by 2.5 per cent in real terms between 2015-16 and 2016-17, and by 1.3 per cent in real terms over the period 2016-17 to 2019-20 reflecting forecast continued take up of private health insurance. The proportion of Australians with some form of private health insurance is now around 56 per cent, providing a high level of access to private health services and taking pressure off the public system.

Expenses for dental services are expected to increase by 30.1 per cent in real terms between 2015-16 and 2016-17 reflecting the consolidation of funding for dental services under a single sub-function to support the Government's dental reforms. Expenses are expected to decrease by 1.8 per cent in real terms over the period 2016-17 to 2019-20, reflecting the funding profile for the implementation period of the new Child and Adult Public Dental Scheme National Partnership. From 2019-20, capped funding will grow by the Consumer Price Index and population growth.

The **pharmaceutical benefits and services** sub-function is expected to increase by 2.5 per cent in real terms between 2015-16 and 2016-17 due largely to new and amended listings on the Pharmaceutical Benefits Scheme (PBS), and growth in the use of existing listings. Expenses are expected to decrease by 0.1 per cent in real terms over the period 2016-17 to 2019-20 as a result of the successful application of pricing policies that have reduced the cost of medicines listed on the PBS. Estimates for the PBS do not include the potential listing of new medicines or price adjustments to existing listings, which typically increase spending above the original estimates.

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

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

Component(a)	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Pharmaceutical benefits, services and supply	10,362	10,800	10,989	11,322	11,722
Immunisation	294	376	313	305	304
Veterans' pharmaceutical benefits	366	337	321	312	301
<b>Total</b>	<b>11,022</b>	<b>11,513</b>	<b>11,623</b>	<b>11,938</b>	<b>12,328</b>

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

The Australian Government's contribution to public hospital funding is reported through the **assistance to the States for public hospitals** sub-function. Hospital services covered by this sub-function include all admitted services, programs that deliver hospital services in the home and emergency department services. Expenditure for this sub-function is expected to increase by 2.3 per cent in real terms from 2015-16 to 2016-17, largely reflecting growth in the volume of services and changes in the efficient price of those services. Expenditure is expected to increase by 9.9 per cent in real terms over the period 2016-17 to 2019-20, following the Government's agreement with States and Territories for the Commonwealth to fund up to 45 per cent of the growth in the efficient price of activity based services for public hospitals from 2017-18, with growth in total Commonwealth funding capped at 6.5 per cent a year for three years.

The **hospital services** sub-function includes payments to the States and Territories through a range of National Partnership Agreements, and support for veterans' hospital services. Expenditure growth for this sub-function is expected to decrease by 3.9 per cent in real terms between 2015-16 and 2016-17, and by 6.5 per cent in real terms over the period 2016-17 to 2019-20, reflecting the completion of hospital infrastructure projects.

Expenses in the **health services** sub-function include Australian Government expenses associated with the delivery of population health, mental health, blood and blood products, research, other allied health services, and health infrastructure funding. As announced in the 2014-15 Budget, the Health and Hospitals Fund (HHF) ceased operation and \$1.1 billion in uncommitted funds were transferred to the Medical Research Futures Fund (MRFF). The MRFF is expected to reach \$20 billion by 2020-21 and will provide a sustainable and growing funding stream to be invested in additional medical research in the medium to long term.

**Health services** expenditure is expected to decrease by 2.3 per cent in real terms between 2015-16 and 2016-17, and by 4.6 per cent in real terms between 2016-17 and 2019-20 largely reflecting the completion of projects funded from the former HHF.

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The **general administration – health** sub-function includes the Government’s general administrative costs, investment in health workforce measures and support for rural health initiatives. Expenditure for this sub-function is expected to decrease by 5.2 per cent in real terms between 2015-16 and 2016-17, and by 11.5 per cent over the period 2016-17 to 2019-20, largely as a result of streamlining workforce programs.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function are expected to increase by 5.0 per cent in real terms from 2015-16 to 2016-17, and by 8.7 per cent in real terms over the period 2016-17 to 2019-20 as Aboriginal and Torres Strait Islander people across Australia continue to access Indigenous-specific services under the Indigenous Australians Health Program. Substantial investments in Indigenous health will also occur through other health sub-functions.



## Social security and welfare

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

**Table 9: Summary of expenses — social security and welfare**

Sub-function	Estimates			Projections	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
Assistance to the aged	59,995	63,265	65,732	69,407	72,989
Assistance to veterans and dependants	6,619	6,465	6,238	6,065	5,945
Assistance to people with disabilities	29,084	33,395	40,507	51,135	52,922
Assistance to families with children	38,889	37,610	37,345	39,860	41,636
Assistance to the unemployed and the sick	10,896	10,458	10,305	11,441	11,828
Other welfare programs	1,508	1,562	922	993	1,054
Assistance for Indigenous Australians nec	2,153	2,209	2,118	2,046	2,135
General administration	3,694	3,648	3,351	3,312	3,321
<b>Total social security and welfare</b>	<b>152,838</b>	<b>158,612</b>	<b>166,518</b>	<b>184,260</b>	<b>191,828</b>

Expenses in the social security and welfare function are estimated to grow by 1.9 per cent in real terms from 2015-16 to 2016-17, and by 12.8 per cent in real terms from 2016-17 to 2019-20.

The most significant driver of this growth is the **assistance to people with disabilities** sub-function, which grows by 12.7 per cent in real terms between 2015-16 and 2016-17, and by 47.8 per cent in real terms between 2016-17 and 2019-20. This reflects the progressive implementation of the National Disability Insurance Scheme (NDIS) and includes Commonwealth as well as State and Territory contributions to the Scheme. Also contributing to growth in the function are expenses in the **assistance to the aged** sub-function, which is expected to grow by 3.5 per cent in real terms between 2015-16 and 2016-17, and by 7.6 per cent in real terms between 2016-17 and 2019-20; the **assistance to families with children** sub-function, which is expected to increase by 3.3 per cent in real terms between 2016-17 and 2019-20; and the **assistance to the unemployed and the sick** sub-function, which is expected to increase by 5.5 per cent in real terms between 2016-17 and 2019-20.

The principal driver of growth over the forward estimates for the **assistance to the aged** sub-function is income support for seniors, which is estimated to grow by 3.0 per cent in real terms from 2015-16 to 2016-17, and by 6.6 per cent in real terms from 2016-17 to 2019-20, reflecting demographic changes. Growth in these years is partially moderated by the reduction in expenses associated with incremental increases in the age pension age.

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Also contributing to growth from 2016-17 to 2019-20 is an increase in expenses associated with home care, home support and residential and flexible aged care programs, largely reflecting demographic factors.

The estimated decrease of 15.9 per cent in real terms from 2016-17 to 2019-20 for veterans' community care and support is mainly attributable to the decrease in the number of veterans and relevant dependants accessing residential aged care as a proportion of the overall residential aged care population.

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

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

Component(a)	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Income Support for Seniors	43,235	45,374	46,834	49,547	51,859
Residential and flexible care	10,695	11,319	11,919	12,600	13,469
Veterans' Community Care and Support	1,471	1,475	1,422	1,373	1,330
Home Support and Care	3,084	4,137	4,639	5,229	5,726
National Partnership Payments - Assistance to the Aged	619	191	203	0	0
Mature Age Income Support	365	300	240	193	140
Aged Care Quality	211	134	126	127	131
Access and information	129	196	203	208	216
Allowances, concessions and services for seniors	94	105	100	88	74
Other	92	36	47	43	43
<b>Total</b>	<b>59,995</b>	<b>63,265</b>	<b>65,732</b>	<b>69,407</b>	<b>72,989</b>

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

Expenses for the **assistance to veterans and dependants** sub-function are estimated to decrease by 4.1 per cent in real terms from 2015-16 to 2016-17, and by 14.2 per cent in real terms from 2016-17 to 2019-20, predominantly reflecting an expected reduction in the number of beneficiaries.

Expenses for the **assistance to people with disabilities** sub-function are expected to increase by 12.7 per cent in real terms from 2015-16 to 2016-17, and by 47.8 per cent in real terms from 2016-17 to 2019-20, primarily driven by the National Disability Insurance Scheme (NDIS). This reflects the increase in the number of people with disability entering the scheme under transition arrangements with the States and Territories. Of the total \$53.3 billion in NDIS expenses from 2016-17 to 2019-20, the Commonwealth is contributing funding of \$27.1 billion, with the remainder contributed by the States and Territories. Subject to negotiations, the Commonwealth will provide payments to the States and Territories of \$5.4 billion from the DisabilityCare Australia Fund over the forward estimates. The timing of these payments will result in National Partnership Payment expenses peaking at \$3.6 billion in 2018-19.

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The reduction in the assistance to the States for Disability Services component reflects the progressive withdrawal of the National Disability Specific Purpose Payment (ND SPP) once existing clients in each state, except Western Australia, have transitioned to the NDIS. As ND SPP payments terminate for each state, equivalent funding will be redirected to the NDIS. Prior to the ND SPP ceasing, the states will repay part of their ND SPP payments to the Commonwealth to meet its NDIS costs. These arrangements will temporarily increase total Commonwealth payments, as part of the ND SPP funding will be expensed twice – when the payment is made to the States, and when the returned funds are expensed on the NDIS.

Expenses for the Disability Support Pension (DSP) are estimated to increase by 0.9 per cent in real terms from 2015-16 to 2016-17. The moderate growth in DSP recipient numbers is underpinned by the ongoing impact of the revised DSP impairment tables, which were announced in the 2009-10 Budget. Expenses are expected to grow by 1.9 per cent in real terms from 2016-17 to 2019-20 primarily reflecting increases in payment rates.

Expenses for income support for carers are estimated to increase by 5.1 per cent in real terms from 2015-16 to 2016-17, and by 14.4 per cent in real terms from 2016-17 to 2019-20, largely as a result of growth in Carer Payment and Carer Allowance (adult) payments. This reflects the increasing number of frail aged Australians receiving care at home.

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

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

Component(a)	Estimates			Projections	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
Income Support for People with Disability	16,592	17,054	17,498	17,983	18,633
Income Support for Carers	7,832	8,384	8,992	9,534	10,282
Assistance to the States for Disability Services	1,440	1,487	1,516	949	185
Disability and Carers	956	1,068	1,097	1,049	992
National Disability Insurance Scheme(b)	1,142	4,183	10,016	17,573	21,500
National Disability Insurance Scheme					
Transition Programme	587	568	516	405	316
National Partnership Payments - Assistance to People with Disabilities	534	651	873	3,641	1,013
<b>Total</b>	<b>29,084</b>	<b>33,395</b>	<b>40,507</b>	<b>51,135</b>	<b>52,922</b>

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

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

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The expenses for the **assistance to families with children** sub-function are expected to decrease by 5.0 per cent in real terms from 2015-16 to 2016-17, and to grow by 3.3 per cent in real terms between 2016-17 and 2019-20, with growth primarily driven by increased Child Care Fee Assistance and Child Care Subsidy expenses.

Child Care Fee Assistance and Child Care Subsidy expenses are expected to increase by 7.5 per cent in real terms from 2015-16 to 2016-17, and by 39.4 per cent in real terms between 2016-17 and 2019-20. The increase in expenses reflects the expected growth in the number of child care hours used by families. From 2018-19, the projected increase in expenses is also the result of the one year deferral of the commencement of the Child Care Subsidy, as announced in the 2016-17 Budget measure *Jobs for Families Package – deferred implementation*.

The profile of the **assistance to families with children** sub-function includes a decrease in Family Tax Benefit expenses by 9.1 per cent in real terms from 2015-16 to 2016-17, and by 9.9 per cent in real terms from 2016-17 to 2019-20 reflecting the cessation of the Schoolkids Bonus from 1 July 2016 and the impact of the 2015-16 MYEFO measure *Family Payment Reform – a new families package*, which improves the targeting and ongoing sustainability of Family Tax Benefit payments.

Expenses for Paid Parental Leave (PPL) are estimated to decrease by 15.9 per cent in real terms from 2015-16 to 2016-17, and by 4.9 per cent in real terms from 2016-17 to 2019-20. The decrease in 2016-17 mainly reflects the impact of the 2015-16 MYEFO measure *Parental Leave Pay – revised arrangements*, which ensures that parents have access to at least 18 weeks of paid parental leave.

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

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

Component(a)	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Family tax benefit	20,895	19,341	18,481	18,466	18,685
Child Care Fee Assistance(b)	7,455	8,159	8,838	0	0
<i>Child Care Benefit</i>	4,009	4,238	4,438	0	0
<i>Child Care Rebate</i>	3,446	3,921	4,400	0	0
Child Care Subsidy	0	0	0	11,057	12,192
Parents income support	5,690	5,469	5,482	5,761	6,067
Paid Parental Leave	2,043	1,751	1,640	1,731	1,785
Child support	1,850	1,882	1,913	1,960	2,013
Support for the child care system	373	423	425	359	366
Families and Children	260	262	256	247	251
Family relationship services	163	162	164	167	169
Child Payments	126	128	113	103	98
National Partnership Payments - Child care	21	23	22	0	0
Other	12	11	10	11	11
<b>Total</b>	<b>38,889</b>	<b>37,610</b>	<b>37,345</b>	<b>39,860</b>	<b>41,636</b>

(a) The entry for each component includes eliminations for inter-agency transactions within that component.  
(b) From 1 July 2018, Child Care Benefit and Child Care Rebate will be replaced by the new Child Care Subsidy.

Expenses for the **assistance to the unemployed and the sick** sub-function are estimated to decrease by 5.8 per cent in real terms from 2015-16 to 2016-17, and to increase by 5.5 per cent in real terms from 2016-17 to 2019-20. These changes reflect compliance activities resulting from the 2015-16 Budget measure *Strengthening the Integrity of Welfare Payments* and the 2015-16 MYEFO measure *Enhanced Welfare Payment Integrity*, which conclude in 2017-18 and 2018-19.

Expenses for the **assistance for Indigenous Australians not elsewhere classified (nec)** sub-function are estimated to increase by 0.7 per cent in real terms from 2015-16 to 2016-17, and to decrease by 9.9 per cent in real terms from 2016-17 to 2019-20. This decrease largely reflects the conclusion of a number of Indigenous measures, including *Addressing Welfare Reliance in Remote Communities*, and *Permanent Police Presence in Remote Indigenous Communities*, which end on 30 June 2017. Expenditure in 2019-20 is estimated to increase by 1.8 per cent in real terms reflecting the recommencement of indexation of the Indigenous Advancement Strategy.

Expenses for the **general administration** sub-function are estimated to decrease by 15.1 per cent in real terms from 2016-17 to 2019-20. This is mainly attributable to Budget measures to be implemented by the Department of Human Services, involving significant upfront service delivery costs that are projected to decrease over time.

## Housing and community amenities

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

**Table 10: Summary of expenses — housing and community amenities**

Sub-function	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Housing	3,267	3,568	3,517	3,057	3,027
Urban and regional development	703	688	592	439	386
Environment protection	895	1,026	942	960	998
<b>Total housing and community amenities</b>	<b>4,865</b>	<b>5,282</b>	<b>5,051</b>	<b>4,455</b>	<b>4,412</b>

Total expenses under the housing and community amenities function are estimated to increase by 6.6 per cent in real terms from 2015-16 to 2016-17, and to decrease by 22.1 per cent in real terms from 2016-17 to 2019-20. The decrease is primarily driven by a reduction in expenses for the **housing** sub-function of 15.0 per cent in real terms from 2017-18 to 2018-19.

The **housing** sub-function includes the Australian Government's contribution to the National Affordable Housing Specific Purpose Payment and associated National Partnerships, the provision of housing for the general public and people with special needs and the expenses of DHA. Expenses for this sub-function are estimated to increase by 7.2 per cent in real terms from 2015-16 to 2016-17 relating to rescheduling within DHA's work program. This sub-function decreases by 20.9 per cent in real terms from 2016-17 to 2019-20. This largely reflects the scheduled completion of National Partnership payments for remote Indigenous housing and a forecast reduction in the construction and acquisition of DHA properties in 2018-19 and 2019-20.

The **urban and regional development** sub-function comprises regional development programs and services to territories, including Community Development Grants, the National Stronger Regions Fund and the Stronger Communities program. This sub-function also reflects funding for the delivery of services to Norfolk Island under governance reforms, which were announced in the 2015-16 Budget. Expenses are estimated to decrease by 3.9 per cent in real terms from 2015-16 to 2016-17, and by 47.6 per cent in real terms from 2016-17 to 2019-20, largely reflecting the completion of projects under key programs, such as Community Development Grants and the Regional Development Australia Fund.

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The **environment protection** sub-function includes expenses for a variety of initiatives, including the protection and conservation of the environment, water and waste management, pollution abatement and environmental research. Expenses are estimated to increase by 12.6 per cent in real terms from 2015-16 to 2016-17 primarily reflecting the continued implementation of the Emissions Reduction Fund. There is a 9.3 per cent decrease in real terms from 2016-17 to 2019-20 reflecting the profile of contractual commitments for the Emissions Reduction Fund, and limiting the overall number of Green Army projects.

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## Recreation and culture

The recreation and culture function includes expenses to support public broadcasting and cultural institutions, funding for the arts and the film industry, assistance to sport and recreation activities, as well as the management and protection of national parks and other world heritage areas. This function also includes expenses relating to the protection and preservation of historic sites and buildings, including war graves.

**Table 11: Summary of expenses — recreation and culture**

Sub-function	Estimates			Projections	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
Broadcasting	1,496	1,425	1,430	1,431	1,447
Arts and cultural heritage	1,287	1,252	1,219	1,153	1,166
Sport and recreation	349	341	308	298	306
National estate and parks	380	382	381	367	382
<b>Total recreation and culture</b>	<b>3,512</b>	<b>3,401</b>	<b>3,337</b>	<b>3,249</b>	<b>3,301</b>

Total expenses under the recreation and culture function are estimated to decrease by 4.9 per cent in real terms from 2015-16 to 2016-17, and by 9.5 per cent in real terms over the period 2016-17 to 2019-20.

Expenses under the **broadcasting** sub-function are expected to decrease by 6.5 per cent in real terms from 2015-16 to 2016-17 and by 5.3 per cent in real terms from 2016-17 to 2019-20. These reductions primarily reflect the 2014-15 Budget and 2014-15 MYEFO measures *Australian Broadcasting Corporation and Special Broadcasting Service Corporation – efficiency savings* and *Australian Broadcasting Corporation and Special Broadcasting Service Corporation – additional efficiency savings*. These savings measures are partially offset by two measures providing operational funding for the ABC and the SBS at the 2016-17 Budget (*Australian Broadcasting Corporation – operational funding* and *Special Broadcasting Services Corporation – operational funding*).

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

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

Component(a)	Estimates			Projections	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
ABC general operational activities	920	849	853	857	871
SBS general operational activities	300	302	299	294	291
ABC transmission and distribution services	194	198	202	206	210
SBS transmission and distribution services	83	77	76	74	74
<b>Total</b>	<b>1,496</b>	<b>1,425</b>	<b>1,430</b>	<b>1,431</b>	<b>1,447</b>

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



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Expenses under the **arts and cultural heritage** sub-function are estimated to decrease by 4.5 per cent in real terms from 2015-16 to 2016-17, and by 13.2 per cent in real terms over the period 2016-17 to 2019-20. This sub-function includes programs that support funding for the arts and cultural institutions. The estimated decreases reflect the implementation of efficiencies and arts-related savings measures, including the ongoing savings associated with the 2014-15 Budget measure *Arts programmes – reduced funding*, the 2015-16 Budget measure *Arts and Cultural Programmes – efficiencies*, and the 2015-16 MYEFO measure *Communications and the Arts Portfolio – efficiencies*.

Expenses under the **sport and recreation** sub-function are estimated to decrease by 4.2 per cent in real terms from 2015-16 to 2016-17, and by 16.1 per cent in real terms over the period 2016-17 to 2019-20. The decrease in 2016-17 primarily reflects the completion of sporting infrastructure projects which were announced at the 2014-15 MYEFO. Estimated decreases in expenses over the forward estimates reflect the termination of the 2014-15 Budget measure *Sporting Schools Initiative* on 30 June 2017, and ongoing efficiencies at the Australian Sports Commission and the Australian Sports Anti-Doping Authority.

Expenses under the **national estate and parks** sub-function are estimated to decrease by 1.2 per cent in real terms from 2015-16 to 2016-17, and by 6.8 per cent in real terms over the period 2016-17 to 2019-20. The decrease from 2015-16 to 2016-17 largely reflects a reduction in expenses for the Australian Antarctic Program. The increase in expenses in 2019-20 primarily reflects changes in operating and maintenance costs for the new icebreaker.

## Fuel and energy

The fuel and energy function includes expenses for the Fuel Tax Credits and Product Stewardship Waste (Oil) schemes, administered by the Australian Taxation Office. It also includes expenses related to improving Australia's energy efficiency, resource related initiatives, and programs to support the production and use of renewable energy.

**Table 12: Summary of expenses — fuel and energy**

Sub-function	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Fuel and energy	6,528	6,687	6,782	7,028	7,301
<b>Total fuel and energy</b>	<b>6,528</b>	<b>6,687</b>	<b>6,782</b>	<b>7,028</b>	<b>7,301</b>

Fuel and energy expenses are estimated to increase by 0.6 per cent in real terms from 2015-16 to 2016-17, and increase by 1.8 per cent in real terms over the period 2016-17 to 2019-20.

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

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

Component(a)	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Fuel Tax Credits Scheme	6,117	6,236	6,466	6,724	7,070
Resources and Energy	112	108	37	55	25
Clean and Renewable Energy Innovation	188	236	168	133	89
Other	112	107	111	116	116
<b>Total</b>	<b>6,528</b>	<b>6,687</b>	<b>6,782</b>	<b>7,028</b>	<b>7,301</b>

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

The major program within this function is the Fuel Tax Credits Scheme, which is expected to remain constant in real terms from 2015-16 to 2016-17, and increase by 5.7 per cent in real terms from 2016-17 to 2019-20.

The decrease in expenses under the resources and energy component from 2015-16 to 2019-20 reflects the Government's 2014-15 Budget decisions to reduce funding for the Carbon Capture and Storage Flagships program as well as the closure of the Low Emissions Technology Demonstration Fund and the Low Carbon Communities program in 2015-16 and Coal Mining Technology Abatement Support Package in 2016-17.

The overall decrease in expenses under the clean and renewable energy innovation component over 2015-16 to 2019-20 reflects the Government's 2014-15 Budget decision to reduce grant funding for the Australian Renewable Energy Agency (ARENA), which is partly offset by an increase in expenses, reflecting the Government's 2016-17 Budget decision to retain the Clean Energy Finance Corporation and ARENA.

### Agriculture, forestry and fishing

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

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

Sub-function	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Wool industry	69	69	69	69	69
Grains industry	224	221	214	214	214
Dairy industry	58	58	59	59	59
Cattle, sheep and pig industry	212	184	183	187	189
Fishing, horticulture and other agriculture	322	314	327	327	329
General assistance not allocated to specific industries	26	31	32	31	35
Rural assistance	170	200	153	161	148
Natural resources development	976	1,295	1,295	850	540
General administration	712	750	752	729	686
<b>Total agriculture, forestry and fishing</b>	<b>2,768</b>	<b>3,122</b>	<b>3,084</b>	<b>2,626</b>	<b>2,269</b>

Total expenses under this function are estimated to increase by 10.7 per cent in real terms from 2015-16 to 2016-17, and decrease by 32.2 per cent in real terms over the period 2016-17 to 2019-20.

The **rural assistance** sub-function is expected to increase by 15.1 per cent in real terms from 2015-16 to 2016-17, and decrease by 30.9 per cent in real terms over the period 2016-17 to 2019-20. The increase followed by the large decrease mainly reflects the Farm Household Allowance (FHA), which is available to eligible farm households for a maximum of three years. Many households that have received payment since the program's inception will no longer qualify beyond 2016-17.

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

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

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

Component(a)	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Water reform(b)	720	1,030	1,095	670	385
Sustainable management - natural resources	13	15	13	7	0
Other	243	250	187	173	155
<b>Total</b>	<b>976</b>	<b>1,295</b>	<b>1,295</b>	<b>850</b>	<b>540</b>

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

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

Expenses under the natural resources development sub-function are estimated to increase by 30.3 per cent in real terms from 2015-16 to 2016-17, and decrease by 61.1 per cent in real terms from 2016-17 to 2019-20. The increase in expenses from 2015-16 to 2016-17 reflects a re-phasing of expenditure in the Sustainable Rural Water Use and Infrastructure Program (SRWUIP) to better reflect the need for increased expenditure in 2016-17 and 2017-18. The subsequent reduction in expenses primarily relates to the currently scheduled cessation of funding for the Murray-Darling Basin Authority's basin planning functions in 2017-18 and SRWUIP in 2018-19.

### Mining, manufacturing and construction

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

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

Sub-function	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Mining, manufacturing and construction	3,650	3,545	3,792	3,999	4,277
<b>Total mining, manufacturing and construction</b>	<b>3,650</b>	<b>3,545</b>	<b>3,792</b>	<b>3,999</b>	<b>4,277</b>

Total expenses under the mining, manufacturing and construction function are expected to decrease by 4.6 per cent in real terms from 2015-16 to 2016-17, and increase by 12.5 per cent in real terms from 2016-17 to 2019-20.

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

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

Component(a)	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Research and Development Tax Incentive	2,885	2,901	3,290	3,567	3,873
Growing business investment	562	427	317	237	208
Other	203	218	185	195	197
<b>Total</b>	<b>3,650</b>	<b>3,545</b>	<b>3,792</b>	<b>3,999</b>	<b>4,277</b>

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

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

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

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## Transport and communication

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

**Table 15: Summary of expenses — transport and communication**

Sub-function	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Communication	632	692	638	568	567
Rail transport	1,555	1,533	742	97	0
Air transport	222	245	224	201	198
Road transport	5,501	7,971	8,300	5,079	3,979
Sea transport	388	426	428	432	437
Other transport and communication	350	264	274	223	220
<b>Total transport and communication</b>	<b>8,647</b>	<b>11,131</b>	<b>10,606</b>	<b>6,599</b>	<b>5,400</b>

Total expenses under this function are estimated to increase by 26.4 per cent in real terms between 2015-16 and 2016-17, and to decrease by 54.7 per cent in real terms from 2016-17 to 2019-20.

The estimated expenses for the **communication** sub-function relate to communication activities and support for the digital economy through the Department of Communications, the Australian Communications and Media Authority and the Digital Transformation Office. Total expenses under the **communication** sub-function are estimated to increase by 7.4 per cent in real terms between 2015-16 and 2016-17, and decrease by 23.6 per cent in real terms from 2016-17 to 2019-20. The estimated decrease primarily reflects the cessation of the Mobile Black Spots program from 30 June 2018.

Total expenses under the **rail transport** sub-function are estimated to decrease by 3.2 per cent in real terms from 2015-16 to 2016-17, and decrease by 93.9 per cent from 2016-17 to 2018-19 reflecting payments against project milestones. Expenses on rail transport will cease from 2018-19 reflecting the completion of existing rail projects, and the Government's decision to provide equity investment in future rail projects.

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The estimated expenses for the **air transport** and **sea transport** sub-functions primarily relate to activities of the safety regulators – the Civil Aviation Safety Authority, the Australian Maritime Safety Authority and the Australian Transport Safety Bureau (ATSB). Total expenses under the **air transport** sub-functions are estimated to increase by 8.4 per cent in real terms between 2015-16 and 2016-17, and decrease by 24.7 per cent in real terms from 2016-17 to 2019-20 primarily reflecting the completion of airstrip improvements under the Regional Aviation Access program and preparatory work associated with the Western Sydney Airport site at Badgerys Creek. Total expenses under the **sea transport** sub-function are estimated to increase by 7.9 per cent in real terms between 2015-16 and 2016-17 reflecting the expansion of the Tasmanian Freight Equalisation Scheme to include exports, and to decrease by 4.4 per cent in real terms from 2016-17 to 2019-20 reflecting reduced levy collections.

The expenses under the **road transport** sub-function primarily consist of grants provided under the Infrastructure Investment Programme. Expenses are estimated to increase by 42.3 per cent in real terms between 2015-16 and 2016-17, and decrease by 53.4 per cent in real terms from 2016-17 to 2019-20. The increase in expenses over 2015-16 to 2016-17 is largely driven by additional funding for the Roads to Recovery Programme announced in the 2015-16 MYEFO. The decline from 2017-18 to 2019-20 reflects the expected completion of projects such as the Toowoomba Second Range Crossing in Queensland, and reduced Commonwealth contributions to major projects, including the NorthConnex in NSW, which are near completion.

Total expenses under the **other transport and communication** sub-function are estimated to decrease by 26.0 per cent in real terms between 2015-16 and 2016-17 and by 22.4 per cent in real terms from 2016-17 to 2019-20. This sub-function primarily reflects a decrease in departmental funding for the Department of Infrastructure and Regional Development over the forward estimates, in line with the estimated decline in road and rail expenses.

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**Other economic affairs**

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

**Table 16: Summary of expenses — other economic affairs**

Sub-function	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Tourism and area promotion	186	188	188	177	180
Total labour and employment affairs	3,528	3,884	3,941	3,963	3,981
Vocational and industry training	1,238	1,325	1,322	1,343	1,353
Labour market assistance to job seekers and industry	1,477	1,873	1,953	1,958	1,953
Industrial relations	813	686	666	663	676
Immigration	3,792	3,659	2,409	2,344	2,203
Other economic affairs nec	2,119	2,100	2,082	2,115	2,166
<b>Total other economic affairs</b>	<b>9,626</b>	<b>9,832</b>	<b>8,620</b>	<b>8,600</b>	<b>8,531</b>

Total expenses under the other economic affairs function are expected to increase by 0.3 per cent in real terms from 2015-16 to 2016-17, and decrease by 19.1 per cent in real terms from 2016-17 to 2019-20.

Expenses under the **vocational and industry training** sub-function are expected to increase by 5.0 per cent in real terms from 2015-16 to 2016-17, in line with the forecast increase in Trade Support Loans recipients. Expenses between 2016-17 and 2019-20 are expected to decrease by 4.8 per cent in real terms, largely reflecting a reduction in funding available under the Industry Skills Fund.

Expenses under the **labour market assistance to job seeker and industry** sub-function are expected to increase by 24.5 per cent in real terms from 2015-16 to 2016-17 reflecting larger increases in the uptake of wage subsidies and Work for the Dole placements in 2016-17 as a result of the introduction of *jobactive* from 1 July 2015. Expenses between 2016-17 and 2019-20 are expected to decrease by 2.8 per cent in real terms, mainly driven by the lower number of unemployment benefit recipients.

Expenses under the **industrial relations** sub-function are expected to decrease by 17.2 per cent in real terms from 2015-16 to 2016-17 reflecting a forecast reduction in assistance payments to claimants under the Fair Entitlements Guarantee scheme. Expenses between 2016-17 and 2019-20 are expected to decrease by 8.1 per cent in real terms, mainly reflecting the measure *Fair Entitlements Guarantee – aligning redundancy payments to national employment standards* announced in the 2014-15 Budget.

The main components of the **immigration** sub-function relate to the management of unlawful non-citizens and providing migration, border management and citizenship services.



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

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

Component(a)	Estimates			Projections	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
Management of unlawful non-citizens	2,729	2,508	1,452	1,406	1,312
Citizenship, visas and migration(b)	656	623	610	571	550
Regional co-operation and refugee and humanitarian assistance	407	528	347	367	341
<b>Total other economic affairs</b>	<b>3,792</b>	<b>3,659</b>	<b>2,409</b>	<b>2,344</b>	<b>2,203</b>

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

Expenses under this sub-function are expected to decrease by 5.3 per cent in real terms between 2015-16 and 2016-17, and by 43.8 per cent in real terms from 2016-17 to 2019-20. The key driver is the reduction in expenditure for managing unlawful non-citizens, reflecting forecast lower occupancy rates in the detention network.

Expenses under the **other economic affairs (nec)** sub-function are expected to decrease by 2.7 per cent in real terms from 2015-16 to 2016-17, and by 3.8 per cent in real terms from 2016-17 to 2019-20.

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

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

Component(a)	Estimates			Projections	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
Promotion of Australia's export and other international economic interests(b)	376	359	358	359	355
<b>Operating costs for:</b>					
Department of Industry, Innovation and Science	446	438	476	512	502
Australian Securities and Investments Commission	422	420	410	404	448
Bureau of Meteorology	338	339	294	295	292
IP Australia	177	185	187	188	209
Australian Competition and Consumer Commission	143	135	134	135	132
Australian Prudential Regulation Authority	131	131	138	135	137
Other	85	94	85	89	90
<b>Total</b>	<b>2,119</b>	<b>2,100</b>	<b>2,082</b>	<b>2,115</b>	<b>2,166</b>

- (a) The entry for each component includes eliminations for inter-agency transactions within that component.  
(b) The programs Export market development grants scheme and Trade, education and investment development have been moved into the Promotion of Australia's export and other international economic interests.

The decrease in expenses under this sub-function from 2015-16 to 2016-17 mainly reflects the change in the way unclaimed money in savings accounts and life insurance policies is managed. This decrease reflects the 2015-16 Budget measure *Reversal of Banking and Life Insurance unclaimed provisions*. The decrease for the Bureau of Meteorology (BOM) beyond 2016-17 reflects the scheduled termination on 30 June 2017 of funding to improve the detail and scope of nationally available water information and the shift from acquisition to operation of the BOM's new supercomputer.

## Other purposes

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

**Table 17: Summary of expenses — other purposes**

Sub-function	Estimates			Projections	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
Public debt interest	15,376	16,644	17,627	18,346	18,684
Interest on Commonwealth Government's behalf	15,376	16,644	17,627	18,346	18,684
Nominal superannuation interest	9,167	9,959	10,330	10,706	11,085
General purpose inter-government transactions	59,380	63,553	66,910	70,368	73,497
General revenue assistance - States and Territories	58,236	61,265	64,529	67,894	70,922
Local government assistance	1,144	2,289	2,381	2,474	2,575
Natural disaster relief(a)	49	27	11	0	0
Contingency reserve	-1,536	-1,055	412	1,906	6,217
<b>Total other purposes</b>	<b>82,437</b>	<b>89,129</b>	<b>95,291</b>	<b>101,326</b>	<b>109,483</b>

(a) Amounts for the Natural Disaster Relief and Recovery Arrangements (NDRRA) reflect an estimate of expenses being recorded in the year in which the disaster occurs rather than when payments are made to State or Territory governments in relation to Australian Government financial obligations under the NDRRA.

Total expenses under the other purposes function are estimated to increase by 6.2 per cent in real terms from 2015-16 to 2016-17, and by 14.6 per cent over the period 2016-17 to 2019-20. This increase in expenses is primarily driven by **general revenue assistance** paid to State and Territory governments, nearly all of which comprise payments of GST entitlements provided on an 'untied' basis. Payments to State and Territory governments tied to specific purposes are reported under the relevant sections in this statement. Further information on general revenue assistance to the States and Territories can be found in Budget Paper No. 3, *Federal Financial Relations 2016-17*.

The increase in expenses under the **public debt interest** sub-function in 2016-17 and over the forward years reflects the increased issuance of Australian Government Securities. Expenses under the **nominal superannuation interest** sub-function are projected to increase over time, reflecting the growth in the Australian Government's superannuation liability. The Future Fund was established to assist in meeting the cost of this liability. Further information on the Future Fund can be found in Statement 6 of Budget Paper No. 1.

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Expenses in the **local government assistance** sub-function relate to financial assistance grants made to the States and Territories and consist of a general purpose component and an identified local road component, both of which are untied, allowing councils to direct the grants to local priorities. The increase in expenses from 2015-16 to 2016-17 reflects a decision to bring forward the first two instalments of the 2015-16 Financial Assistance Grants program estimate for payment in 2014-15, which assisted councils to provide important services through early access to funding for critical infrastructure. The growth in local government funding over the forward estimates reflects the forecast estimated resident population growth. Further information on Australian Government assistance to local governments can be found in Budget Paper No. 3, *Federal Financial Relations 2016-17*.

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

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

Allowances that are included in the Contingency Reserve can only be drawn upon once they have been appropriated by Parliament. These allowances are allocated to specific entities for appropriation closer to the time when the associated events occur.

The **Contingency Reserve** sub-function in the 2016-17 Budget reduces expenses by \$1.1 billion in 2016-17, and increases expenses by \$412 million in 2017-18, \$1.9 billion in 2018-19 and \$6.2 billion in 2019-20. The largest component of this is the conservative bias allowance (CBA), which makes provision for the tendency for the estimate of expenses for existing Government policy to be revised upwards in the forward years. The 2016-17 Budget includes a provision of:

- zero in the Budget year 2016-17;
- ½ of a percentage point of total general government sector expenses (excluding GST payments to the states) in the first forward year 2017-18 (\$2.0 billion);
- 1 per cent of expenses in the second forward year 2018-19 (\$4.2 billion); and

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- a 2 per cent provision has been included in the third forward year 2019-20 (\$8.7 billion).

The drawdown of the CBA reduced expenses by \$976 million in 2016-17; \$1.0 billion in 2017-18 and \$2.1 billion in 2018-19. This is consistent with long standing practice and does not represent a saving or offset to spending measures.

The Contingency Reserve includes a provision of \$729 million over four years to 2019-20 for a number of items, including continuation of some expiring National Partnerships and possible by-election and redistribution costs for the Australian Electoral Commission. A provision is also included for the effects of economic parameter revisions received too late in the process for inclusion in entity estimates, and an underspend provision in 2015-16 that reflects the tendency for budgeted expenses for some entities or functions not to be met.

The Contingency Reserve also includes estimates for measures which cannot yet be included in entity estimates usually due to some uncertainty as to their final cost and/or outcomes, or are subject to negotiations. Significant spending items include funding for *Investing in ChildCare - ICT system* and *Better Management of Biosecurity Risks - advanced analytical capability*. Savings items include the *Public Sector Transformation* and the *Efficiency Dividend* and the *New Veteran Public Hospital Pricing Agreement*.

The Contingency Reserve also includes a number of items that cannot be disclosed for commercial-in-confidence or national security reasons.

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### General government net capital investment

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

Australian Government general government sector net capital investment is expected to be \$3.4 billion in 2016-17; \$0.9 billion lower than the net capital investment in 2015-16. This change is largely due to the reissue and auction by the Australian Communications and Media Authority of spectrum licences in the 2.3GHz, 3.4 GHz and 1800 MHz bands.

Details of movements are further explained in the following section.

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

	MYEFO	Revised	Estimates		Projections	
	2015-16	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Total net capital investment (\$m)</b>	<b>4,484</b>	<b>4,355</b>	<b>3,437</b>	<b>3,388</b>	<b>4,885</b>	<b>5,517</b>
Per cent of GDP	0.3	0.3	0.2	0.2	0.3	0.3

### Reconciliation of net capital investment since the 2015-16 Budget

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2015-16 Budget, is provided in Table 19.

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

	Estimates			Projections	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	Total \$m
<b>2015-16 Budget net capital investment</b>	<b>3,854</b>	<b>4,198</b>	<b>3,598</b>	<b>5,090</b>	<b>16,740</b>
<b>Changes from 2015-16 Budget to 2015-16 MYEFO</b>					
Effect of policy decisions(a)	128	46	-56	-75	43
Effect of parameter and other variations	502	501	560	918	2,482
<b>Total variations</b>	<b>630</b>	<b>547</b>	<b>505</b>	<b>843</b>	<b>2,525</b>
<b>2015-16 MYEFO net capital investment</b>	<b>4,484</b>	<b>4,745</b>	<b>4,103</b>	<b>5,933</b>	<b>19,265</b>
<b>Changes from 2015-16 MYEFO to 2016-17 Budget</b>					
Effect of policy decisions(a)	7	216	12	-116	120
Effect of parameter and other variations	-136	-1,524	-728	-932	-3,320
<b>Total variations</b>	<b>-129</b>	<b>-1,308</b>	<b>-715</b>	<b>-1,048</b>	<b>-3,200</b>
<b>2016-17 Budget net capital investment</b>	<b>4,355</b>	<b>3,437</b>	<b>3,388</b>	<b>4,885</b>	<b>16,065</b>

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

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Forecast net capital investment for 2016-17 has decreased by \$1.3 billion since the 2015-16 MYEFO. This decrease is driven by the effect of parameter and other variations of \$1.5 billion, and an increase relating to new policy decisions of \$0.2 billion.

Further information on the capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2016-17*.

### Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2015-16 to 2019-20 are provided in Table 20.

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

	Estimates			Projections	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
General public services	458	47	-279	-202	-104
Defence	3,597	3,426	5,060	5,813	6,168
Public order and safety	101	160	63	-44	-148
Education	20	-9	-15	-20	-24
Health	35	59	-10	-27	-20
Social security and welfare	65	74	13	-88	-113
Housing and community amenities	1	39	-107	-116	-4
Recreation and culture	87	120	132	30	54
Fuel and energy	-3	-2	-1	-1	0
Agriculture, forestry and fishing	84	193	455	299	231
Mining, manufacturing and construction	-2	7	4	0	-3
Transport and communication	-158	-524	-9	-19	-18
Other economic affairs	148	131	-33	-70	-39
Other purposes	-78	-284	-1,887	-670	-463
<b>Total net capital investment</b>	<b>4,355</b>	<b>3,437</b>	<b>3,388</b>	<b>4,885</b>	<b>5,517</b>

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

- **defence** – funding associated with the 2016 Defence White Paper and the accompanying 2016 Integrated Investment Program, which identifies spending over the next 10 years on equipment such as ships, aircraft and armoured vehicles, ICT capabilities and infrastructure;
- **public order and safety** – funding in 2016-17 to enhance protective security arrangements for law enforcement agencies and the establishment of a Crimtrac Biometric Identification Services system;

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- **recreation and culture** – reflects the completion of the ABC’s Melbourne Accommodation Project to rationalise existing property holdings in 2017-18, funding for the Department of the Environment from 2015-16 for the acquisition of the new icebreaker to replace the existing Aurora Australis, which is nearing the end of its operational life, and the purchase of assets by arts and cultural heritage entities;
- **agriculture, forestry and fishing** – reflects an increase in water purchases under the Sustainable Rural Water Use and Infrastructure Programme in 2016-17 and 2017-18;
- **transport and communication** – the negative investment in 2015-16 and 2016-17 is largely due to the reissue and auction by the Australian Communications and Media Authority of spectrum licences in the 2.3GHz, 3.4 GHz and 1800 MHz bands;
- **other economic affairs** – the increase in investment in 2015-16, largely reflecting previous decisions relating to construction of offshore immigration facilities, and the positive investment in 2016-17, which is largely due to the Government’s decision to reconfigure and consolidate the onshore network; and
- **other purposes** – the negative investments in this function largely reflect the Government’s intention to sell the remaining 700MHz spectrum and the renewal of the telecommunications carrier’s 15 year licences for 2.0 GHz spectrum, with expected receipts in 2015-16 being moved to the forward estimates.

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

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

	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
General public services	1,318	1,028	773	665	742
Defence	7,969	8,073	9,879	11,021	11,913
Public order and safety	536	593	513	419	338
Education	47	28	26	25	25
Health	125	121	76	52	58
Social security and welfare	404	440	359	240	230
Housing and community amenities	56	36	35	32	32
Recreation and culture	379	429	590	335	366
Fuel and energy	2	2	2	2	2
Agriculture, forestry and fishing	131	237	499	343	272
Mining, manufacturing and construction	6	15	11	7	5
Transport and communication	50	69	56	45	45
Other economic affairs	612	532	353	330	321
Other purposes	-78	-186	-179	-260	-304
<b>General government purchases of non-financial assets</b>	<b>11,559</b>	<b>11,416</b>	<b>12,993</b>	<b>13,255</b>	<b>14,046</b>



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

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

	Actuals		Estimates		Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
<b>General public services</b>						
Legislative and executive affairs	1,124	1,229	1,334	1,077	1,099	1,331
Financial and fiscal affairs	7,145	6,895	7,536	7,502	7,595	7,802
Foreign affairs and economic aid	6,393	5,470	6,090	5,522	5,823	6,602
General research	2,766	2,866	2,771	2,851	2,968	3,065
General services	720	977	963	924	940	943
Government superannuation benefits	6,457	6,530	3,965	3,913	3,921	3,794
<b>Total general public services</b>	<b>24,605</b>	<b>23,967</b>	<b>22,659</b>	<b>21,790</b>	<b>22,345</b>	<b>23,537</b>
<b>Defence</b>	<b>23,790</b>	<b>25,986</b>	<b>27,155</b>	<b>27,937</b>	<b>29,384</b>	<b>31,525</b>
<b>Public order and safety</b>						
Courts and legal services	1,021	1,217	1,159	1,110	1,084	1,081
Other public order and safety	3,422	3,741	3,756	3,656	3,635	3,594
<b>Total public order and safety</b>	<b>4,443</b>	<b>4,958</b>	<b>4,915</b>	<b>4,766</b>	<b>4,719</b>	<b>4,675</b>
<b>Education</b>						
Higher education	9,078	9,621	9,562	9,518	9,266	9,466
Vocational and other education	1,823	1,848	1,992	1,499	1,522	1,548
Schools	14,706	15,636	16,996	17,997	18,833	19,777
<i>Non-government schools</i>	<i>9,474</i>	<i>9,869</i>	<i>10,554</i>	<i>11,061</i>	<i>11,556</i>	<i>12,106</i>
<i>Government schools</i>	<i>5,232</i>	<i>5,767</i>	<i>6,442</i>	<i>6,936</i>	<i>7,277</i>	<i>7,671</i>
School education - specific funding	886	712	659	498	122	119
Student assistance	4,372	4,367	4,114	3,956	4,403	4,551
General administration	235	331	346	346	348	343
<b>Total education</b>	<b>31,101</b>	<b>32,515</b>	<b>33,669</b>	<b>33,815</b>	<b>34,494</b>	<b>35,804</b>
<b>Health</b>						
Medical services and benefits	27,768	29,025	30,181	31,108	32,437	33,891
Pharmaceutical benefits and services	10,322	11,022	11,513	11,623	11,938	12,328
Assistance to the States for public hospitals	15,466	17,196	17,912	18,923	19,987	21,106
Hospital services(a)	2,007	1,755	1,718	1,690	1,701	1,722
Health services	6,335	6,322	6,292	6,264	6,371	6,438
General administration	3,103	3,106	3,000	2,961	2,913	2,846
Aboriginal and Torres Strait Islander health	695	746	798	856	892	929
<b>Total health</b>	<b>65,696</b>	<b>69,172</b>	<b>71,413</b>	<b>73,425</b>	<b>76,239</b>	<b>79,260</b>
<b>Social security and welfare</b>						
Assistance to the aged	57,506	59,995	63,265	65,732	69,407	72,989
Assistance to veterans and dependants	6,865	6,619	6,465	6,238	6,065	5,945
Assistance to people with disabilities	27,465	29,084	33,395	40,507	51,135	52,922
Assistance to families with children	38,080	38,889	37,610	37,345	39,860	41,636

Statement 5: Expenses and Net Capital Investment

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

	Actuals		Estimates		Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
<b>Social security and welfare (continued)</b>						
Assistance to the unemployed and the sick	10,728	10,896	10,458	10,305	11,441	11,828
Other welfare programmes	1,441	1,508	1,562	922	993	1,054
Assistance for Indigenous Australians nec	2,102	2,153	2,209	2,118	2,046	2,135
General administration	3,601	3,694	3,648	3,351	3,312	3,321
<b>Total social security and welfare</b>	<b>147,787</b>	<b>152,838</b>	<b>158,612</b>	<b>166,518</b>	<b>184,260</b>	<b>191,828</b>
<b>Housing and community amenities</b>						
Housing	3,269	3,267	3,568	3,517	3,057	3,027
Urban and regional development	679	703	688	592	439	386
Environment protection	887	895	1,026	942	960	998
<b>Total housing and community amenities</b>	<b>4,835</b>	<b>4,865</b>	<b>5,282</b>	<b>5,051</b>	<b>4,455</b>	<b>4,412</b>
<b>Recreation and culture</b>						
Broadcasting	1,555	1,496	1,425	1,430	1,431	1,447
Arts and cultural heritage	1,175	1,287	1,252	1,219	1,153	1,166
Sport and recreation	401	349	341	308	298	306
National estate and parks	402	380	382	381	367	382
<b>Total recreation and culture</b>	<b>3,534</b>	<b>3,512</b>	<b>3,401</b>	<b>3,337</b>	<b>3,249</b>	<b>3,301</b>
<b>Fuel and energy</b>	<b>6,799</b>	<b>6,528</b>	<b>6,687</b>	<b>6,782</b>	<b>7,028</b>	<b>7,301</b>
<b>Agriculture, forestry and fishing</b>						
Wool industry	61	69	69	69	69	69
Grains industry	197	224	221	214	214	214
Dairy industry	57	58	58	59	59	59
Cattle, sheep and pig industry	205	212	184	183	187	189
Fishing, horticulture and other agriculture	276	322	314	327	327	329
General assistance not allocated to specific industries	27	26	31	32	31	35
Rural assistance	142	170	200	153	161	148
Natural resources development	848	976	1,295	1,295	850	540
General administration	599	712	750	752	729	686
<b>Total agriculture, forestry and fishing</b>	<b>2,411</b>	<b>2,768</b>	<b>3,122</b>	<b>3,084</b>	<b>2,626</b>	<b>2,269</b>
<b>Mining, manufacturing and construction</b>	<b>3,550</b>	<b>3,650</b>	<b>3,545</b>	<b>3,792</b>	<b>3,999</b>	<b>4,277</b>
<b>Transport and communication</b>						
Communication	636	632	692	638	568	567
Rail transport	724	1,555	1,533	742	97	0
Air transport	205	222	245	224	201	198
Road transport	4,207	5,501	7,971	8,300	5,079	3,979
Sea transport	345	388	426	428	432	437
Other transport and communication	315	350	264	274	223	220
<b>Total transport and communication</b>	<b>6,433</b>	<b>8,647</b>	<b>11,131</b>	<b>10,606</b>	<b>6,599</b>	<b>5,400</b>

Statement 5: Expenses and Net Capital Investment

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

	Actuals		Estimates		Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
<b>Other economic affairs</b>						
Tourism and area promotion	186	186	188	188	177	180
Total labour and employment affairs	3,673	3,528	3,884	3,941	3,963	3,981
<i>Vocational and industry training</i>	1,288	1,238	1,325	1,322	1,343	1,353
<i>Labour market assistance to job seekers and industry</i>	1,573	1,477	1,873	1,953	1,958	1,953
<i>Industrial relations</i>	811	813	686	666	663	676
Immigration	4,036	3,792	3,659	2,409	2,344	2,203
Other economic affairs nec	2,151	2,119	2,100	2,082	2,115	2,166
<b>Total other economic affairs</b>	<b>10,046</b>	<b>9,626</b>	<b>9,832</b>	<b>8,620</b>	<b>8,600</b>	<b>8,531</b>
<b>Other purposes</b>						
Public debt interest	14,491	15,376	16,644	17,627	18,346	18,684
<i>Interest on Commonwealth Government's behalf</i>	14,491	15,376	16,644	17,627	18,346	18,684
Nominal superannuation interest	8,999	9,167	9,959	10,330	10,706	11,085
General purpose inter-government transactions	58,859	59,380	63,553	66,910	70,368	73,497
<i>General revenue assistance - States and Territories</i>	55,425	58,236	61,265	64,529	67,894	70,922
<i>Local government assistance</i>	3,433	1,144	2,289	2,381	2,474	2,575
Natural disaster relief(b)	522	49	27	11	0	0
Contingency reserve	0	-1,536	-1,055	412	1,906	6,217
<b>Total other purposes</b>	<b>82,871</b>	<b>82,437</b>	<b>89,129</b>	<b>95,291</b>	<b>101,326</b>	<b>109,483</b>
<b>Total expenses</b>	<b>417,898</b>	<b>431,470</b>	<b>450,553</b>	<b>464,812</b>	<b>489,324</b>	<b>511,604</b>

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

(b) Amounts for the Natural Disaster Relief and Recovery Arrangements (NDRRA) reflect an estimate of expenses being recorded in the year in which the disaster occurs rather than when payments are made to State or Territory governments in relation to Australian Government financial obligations under the NDRRA.