

STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

Statement 6 presents estimates of general government sector expenses and net capital investment, allocated according to the various functions of government, on a fiscal balance basis. These functions are based on an international standard classification of functions of government that is incorporated into the Government Finance Statistics (GFS) reporting framework.

The first part of this statement provides information on trends in estimated expenses. The second part presents trends in net capital investment estimates and is complemented by Statement 4, which includes enhanced reporting on recurrent and capital spending. Estimates are on an Australian Government general government sector basis.

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

The main trends are:

- in 2017-18 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 2017-18 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 1.0 per cent in real terms in 2017-18, with the growth rate increasing to 2.7 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 25.5 per cent in 2017-18 to 25.2 per cent in 2020-21.

Table 1.1: Estimates of general government sector expenses

	MYEFO	Revised	Estimate		Projections	
	2016-17	2016-17	2017-18	2018-19	2019-20	2020-21
Total expenses (\$b)	448.6	450.8	464.3	486.9	503.2	522.9
Real growth on						
previous year (%) ^(a)	3.0	3.4	1.0	2.7	1.1	1.4
Per cent of GDP	25.6	25.7	25.5	25.7	25.4	25.2

(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 four years to 2020-21 and total payments are expected to decline as a percentage of GDP from 25.2 per cent in 2017-18 to 25.0 per cent over the forward estimates.

Table 1.2: Estimates of general government sector payments

	MYEFO	Revised	Estimate		Projections	
	2016-17	2016-17	2017-18	2018-19	2019-20	2020-21
Total payments (\$b)	441.1	440.5	459.7	480.4	495.6	518.9
Real growth on						
previous year (%) ^(a)	2.6	2.3	2.3	2.3	0.9	2.1
Per cent of GDP	25.2	25.1	25.2	25.4	25.0	25.0

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

Over the forward estimates, expenses are expected to decline to 25.2 per cent of GDP in 2020-21 (see Table 1.1), whereas over the period between 2007-08 and 2013-14, total expenditure rose from 23.7 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 2016-17 Budget, the 2016 *Pre-election Economic and Fiscal Outlook* (PEFO), the 2016-17 *Mid-Year Economic and Fiscal Outlook* (MYEFO) and the 2017-18 Budget showing the effect of policy decisions, and economic parameter and other variations.

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Table 2: Reconciliation of expense estimates

	Estimates			Projections	Total
	2016-17	2017-18	2018-19	2019-20	
	\$m	\$m	\$m	\$m	\$m
2016-17 Budget expenses	450,553	464,812	489,324	511,604	1,916,292
Changes from 2016-17 Budget to 2016 PEFO					
Effect of policy decisions(a)	1	-1	-3	-6	-9
Effect of parameter and other variations	0	0	0	0	0
Total variations	1	-1	-3	-6	-9
2016 PEFO expenses	450,554	464,811	489,320	511,598	1,916,283
Changes from 2016 PEFO to 2016-17 MYEFO					
Effect of policy decisions(a)	-927	-1,138	-367	-270	-2,703
Effect of parameter and other variations	-985	-3,291	-5,321	-7,353	-16,949
Total variations	-1,912	-4,429	-5,688	-7,623	-19,652
2016-17 MYEFO expenses	448,642	460,382	483,632	503,975	1,896,631
Changes from 2016-17 MYEFO to 2017-18 Budget					
Effect of policy decisions(a)	1,775	5,004	5,155	3,754	15,688
Effect of economic parameter variations					
Total economic parameter variations	-55	421	-569	-1,042	-1,244
<i>Unemployment benefits</i>	427	714	694	685	2,520
<i>Prices and wages</i>	9	199	138	-111	235
<i>Interest and exchange rates</i>	9	-32	-62	-32	-118
<i>GST payments to the States</i>	-500	-460	-1,339	-1,583	-3,882
Public debt interest	44	-67	-167	-444	-635
Program specific parameter variations	-365	-236	-851	-788	-2,241
Other variations	716	-1,242	-337	-2,257	-3,119
Total variations	2,115	3,880	3,231	-777	8,449
2017-18 Budget expenses	450,757	464,262	486,863	503,198	1,905,080

(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, including the reversal of unlegislated components of certain measures, and variations to program estimates has increased expenses by \$8.4 billion over the four years from 2016-17 to 2019-20 compared to the 2016-17 MYEFO. In the same period, the Government has made policy decisions that increase expenses by \$3.6 billion (excluding the impact of Senate negotiations). Over the four years from 2016-17 to 2019-20, program specific parameter variations, public debt interest and other variations have decreased expenses by \$6.0 billion, and economic parameter variations that have also decreased expenses by \$1.2 billion compared to the 2016-17 MYEFO.

Estimated expenses by function

Table 3 sets out the estimates of Australian Government general government sector expenses by function for the period 2016-17 to 2020-21.

Table 3: Estimates of expenses by function

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
General public services	27,172	20,703	21,207	21,887	20,820
Defence	28,464	30,051	29,877	31,708	33,865
Public order and safety	5,162	5,042	4,940	4,927	4,572
Education	33,237	33,800	34,997	36,161	37,856
Health	73,820	75,277	77,511	80,007	82,590
Social security and welfare	155,698	164,059	178,122	184,975	191,206
Housing and community amenities	4,700	5,351	4,876	4,638	4,088
Recreation and culture	3,609	3,632	3,449	3,344	3,469
Fuel and energy	6,790	6,940	7,080	7,426	7,764
Agriculture, forestry and fishing	2,843	2,972	2,845	2,493	2,408
Mining, manufacturing and construction	3,559	3,825	4,188	4,425	4,583
Transport and communication	9,394	10,420	8,592	7,470	6,545
Other economic affairs	9,840	9,411	8,894	8,569	8,426
Other purposes	86,468	92,780	100,285	105,167	114,715
Total expenses	450,757	464,262	486,863	503,198	522,907

Major expense trends between 2016-17 and 2017-18, and from 2017-18 over the forward years include movements in the following functions:

- **general public services** – the decrease in expenses between 2016-17 and 2017-18 largely reflects the use of different discount rates applied to superannuation expenses. The increase in expenses from 2017-18 to 2019-20 as well as the decrease in expenses from 2019-20 to 2020-21 largely reflects Foreign Aid spending due to multi-year funding cycles for Australia's contributions to multilateral funds;
- **defence** – the increase in expenses between 2017-18 to 2020-21 reflects the funding required to deliver the plans set out in the 2016 Defence White Paper. Defence expenses are projected to grow by 5.3 per cent in real terms (12.7 per cent in nominal terms);
- **education** – the increase in expenses from 2017-18 to 2020-21 largely reflects policy changes announced in the 2017-18 Budget measures *Quality Schools – true needs-based funding for Australia's Schools* and *National Partnership Agreement on Universal Access to Early Childhood Education – extension* and an increase in government school student enrolments;
- **health** – the increase in expenses from 2017-18 to 2020-21 reflects growth in a range of programs within the Medical Services and Benefits, Assistance to the States for public hospitals, and Health Services sub-functions. Higher demand for

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health services from a growing and ageing population continues to drive increasing health costs;

- **social security and welfare** – the increase in expenses from 2017-18 to 2020-21 largely reflects the impact of the transition to the full National Disability Insurance Scheme to support people with a significant and permanent disability, growth in the support and usage of child care by families 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, including access for assistance to veterans and dependants;
- **housing and community amenities** – the decrease in expenses from 2017-18 to 2020-21 largely reflects the scheduled completion of payments made to the States and Territories under National Partnership Agreements and completion of urban and regional development projects;
- **transport and communication** – the declining profile of expenses from 2017-18 to 2020-21 largely reflects the expected completion of major infrastructure projects within the road transport sub-function and the use of innovative financing for some infrastructure projects; and
- **other purposes** – the increase in expenses from 2017-18 to 2020-21 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 2017-18. Further details of spending trends against all functions, including movements in expenses from 2016-17 to 2017-18, are set out under individual function headings.

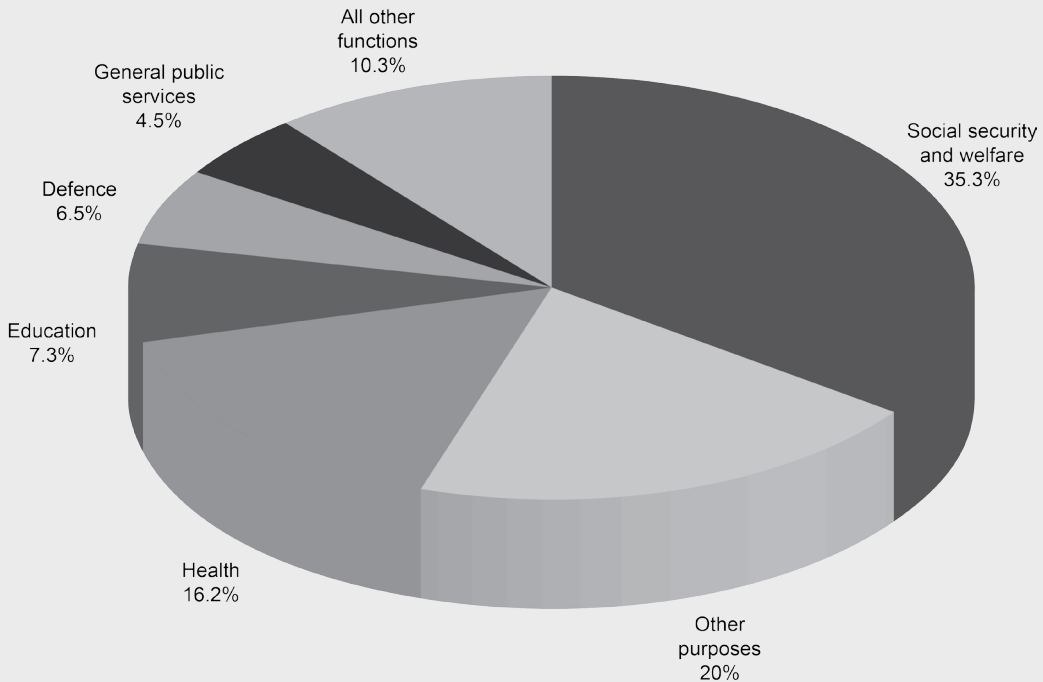
Box 1: Where does government spending go in 2017-18?

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 2017-18



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

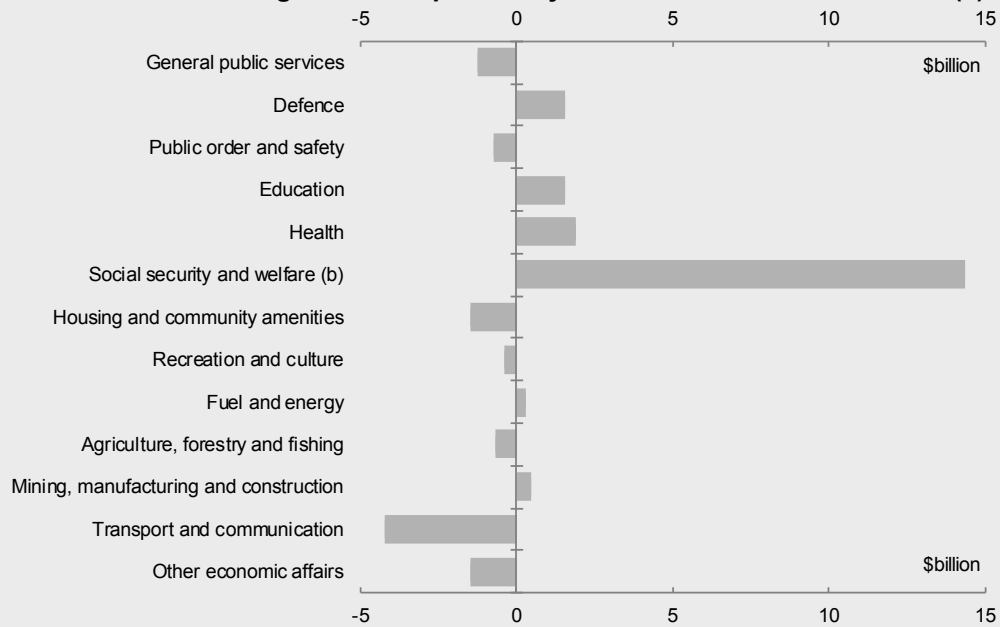
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Box 2: Trends in future spending

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, child care 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 — 2017-18 to 2020-21(a)



(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.

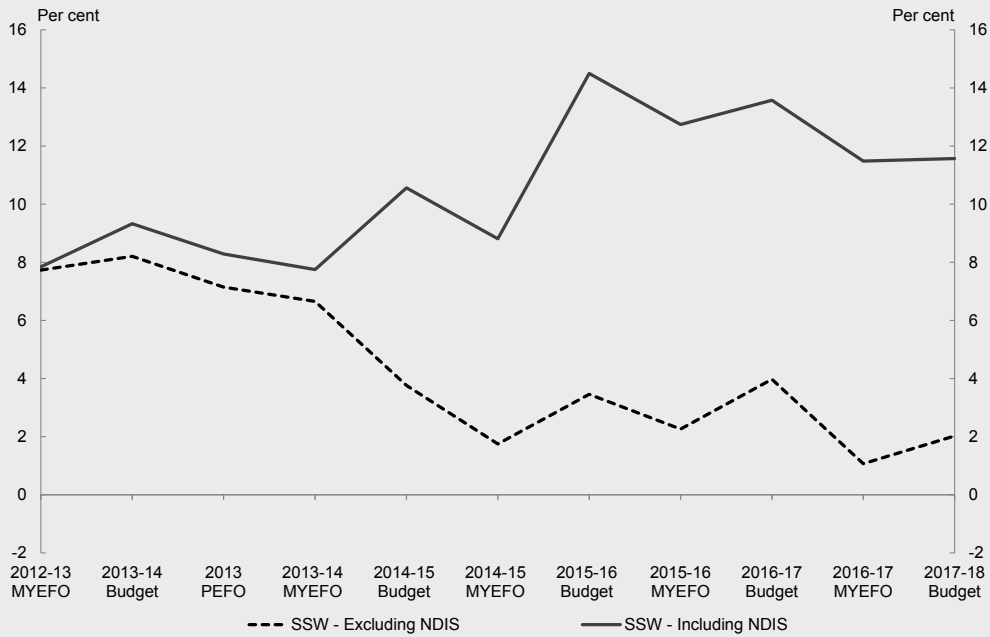
(b) The most significant driver of growth in the social security and welfare function is the implementation of the National Disability Insurance Scheme.

Box 2.1: Trends in social security and welfare spending

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 2017-18 Budget (a)



(a) The 2016 PEFO is not included in this chart as the figures were unchanged from the 2016-17 Budget update.

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Program expenses

Table 3.1 reports the top 20 expense programs in the 2017-18 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 2017-18

Program(a)	Function	Estimates			Projections	
		2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m
Revenue Assistance to the States and Territories	Other purposes	59,976	63,071	66,260	68,325	72,202
Income support for seniors	SSW	44,468	45,391	47,604	49,744	52,304
Medical Benefits(b)	Health	22,197	22,983	24,143	25,815	27,266
Assistance to the States for public hospitals	Health	18,460	19,563	20,639	21,769	22,677
Family tax benefit	SSW	18,601	19,231	18,763	18,845	18,775
Income Support for People with Disability	SSW	16,421	16,923	17,396	18,222	19,140
Residential and flexible care	SSW	11,445	12,014	12,663	13,525	14,270
Pharmaceutical benefits, services and supply	Health	11,995	11,748	11,596	11,631	11,293
Non-government schools National Support	Education	10,597	11,136	11,690	12,309	12,965
Job seeker income support	SSW	10,994	10,038	11,126	11,814	12,547
National Disability Insurance Scheme	SSW	3,435	9,250	15,922	19,502	20,265
Income support for carers	SSW	8,132	8,484	8,801	8,933	9,003
Public sector superannuation(d)	Other purposes; General public services	8,972	7,994	8,181	8,350	8,480
Child Care Fee Assistance(c)		7,207	7,546	0	0	0
Child Care Subsidy(c)	SSW	0	0	8,755	9,566	10,004
Army capabilities	Defence	7,870	7,319	7,365	7,763	8,410
Government schools National Support	Education	6,498	7,081	7,576	8,148	8,743
Commonwealth Grants Scheme	Education	6,922	6,996	6,901	6,931	7,049
Navy capabilities	Defence	6,208	6,480	6,181	6,427	7,153
Fuel Tax Credits Scheme	Fuel and energy	6,194	6,308	6,514	6,884	7,349
National Partnership Payments - Road Transport	Transport and Communication	5,778	6,172	5,163	4,156	2,744
Sub-total		292,370	305,728	323,239	338,659	352,639
Other programs		158,387	158,534	163,624	164,539	170,268
Total expenses		450,757	464,262	486,863	503,198	522,907

(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	
	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m
Legislative and executive affairs	1,376	1,243	1,473	1,164	1,188
Financial and fiscal affairs	6,359	6,383	6,303	6,397	6,301
Foreign affairs and economic aid	6,687	5,669	5,944	6,859	5,858
General research	2,765	2,831	2,926	3,016	3,053
General services	970	828	828	816	820
Government superannuation benefits	9,015	3,749	3,733	3,635	3,601
Total general public services	27,172	20,703	21,207	21,887	20,820

Total general public services expenses are estimated to decrease by 25.3 per cent in real terms from 2016-17 to 2017-18 and decrease by 6.0 per cent in real terms over the period 2017-18 to 2020-21.

Expenses under the **legislative and executive affairs** sub-function partly reflect costs incurred by the Australian Electoral Commission to support federal elections in 2016-17 and 2018-19.

Expenses in the **financial and fiscal affairs** sub-function are expected to decrease in real terms from 2016-17 to 2020-21, reflecting mainly a decrease in funding due to terminating compliance programs for the Australian Taxation Office.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Foreign aid(b)	4,346	3,351	3,650	4,654	3,606
Diplomacy(c)	1,121	1,091	1,078	966	978
Payments to international organisations	439	466	489	520	552
Passport services	251	242	245	249	251
International police assistance	242	209	176	166	164
International agriculture research and development	126	128	128	128	133
Consular services	97	89	88	86	86
Finance and insurance services for Australian exporters and investors	17	14	11	9	8
Other	47	80	80	81	81
Total	6,687	5,669	5,944	6,859	5,858

- (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 decrease by 16.9 per cent in real terms from 2016-17 to 2017-18, and are forecast to decrease by 3.4 per cent in real terms across the forward years from 2017-18.

The decline in expenses from 2016-17 to 2017-18 and from 2019-20 to 2020-21 reflect multi-year funding cycles for Australia's contributions to multilateral funds such as the Asian Development Fund and the World Bank's International Development Association. The decrease over the forward estimates reflects the Government's decision to maintain official development assistance at 2018-19 levels in 2019-20 and 2020-21; and the 2017-18 Budget measures *Australia's diplomatic engagement and security arrangements in Iraq - continuation* and *Australia's diplomatic engagement and security arrangements in Afghanistan - continuation* ending in 2018-19.

Table 4.2 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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Research - science services and innovation fund	1,080	1,060	1,117	1,146	1,154
Discovery - research and research training	483	494	495	513	524
Science and technology solutions	318	340	341	353	366
Linkage - cross sector research partnerships	255	267	267	277	283
Supporting science and commercialisation	194	208	246	274	277
Research capacity	176	178	181	185	188
Other	259	284	278	269	261
Total	2,765	2,831	2,926	3,016	3,053

- (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 increase by 0.4 per cent in real terms from 2016-17 to 2017-18 and increase by 0.8 per cent in real terms from 2017-18 to 2020-21. The increase from 2016-17 to 2020-21 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 2016-17 to 2017-18 in the **government superannuation benefits** sub-function reflects the use of different discount rates. In accordance with accounting standards, the superannuation expenses for 2016-17 apply a discount rate based on long-term government bonds at the commencement of the financial year (2.7 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	
	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m
Defence	28,464	30,051	29,877	31,708	33,865
Total defence	28,464	30,051	29,877	31,708	33,865

Total expenses for the **defence** sub-function are estimated to increase by 3.5 per cent in real terms from 2016-17 to 2017-18, and by 5.3 per cent in real terms over the period 2017-18 to 2020-21. The increase over the period reflects the funding required to deliver the *2016 Defence White Paper*. This increase in expenses, together with the increase in Defence's net capital investment, will allow Defence funding to reach two per cent of GDP by 2020-21.

\$970.2 million will be provided in the 2017-18 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 2017-18, other than remediation costs, as operations funding is provided on a year-by-year basis.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Courts and legal services	1,221	1,182	1,151	1,134	882
Other public order and safety	3,941	3,860	3,789	3,794	3,690
Total public order and safety	5,162	5,042	4,940	4,927	4,572

Total expenses for the **public order and safety** function are estimated to decrease by 4.2 per cent in real terms from 2016-17 to 2017-18, and decrease by 15.3 per cent in real terms over the period 2017-18 to 2020-21.

Expenses within the **courts and legal services** sub-function are estimated to decrease by 5.1 per cent in real terms from 2016-17 to 2017-18 and decrease by 30.2 per cent in real terms from 2017-18 to 2020-21, mainly reflecting the end of the current National Partnership on Legal Aid on 30 June 2020. Funding beyond this period is not for publication pending negotiations.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Policing and law enforcement	2,695	2,623	2,590	2,582	2,531
Border protection(b)	1,246	1,238	1,199	1,211	1,159
Total	3,941	3,860	3,789	3,794	3,690

(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 4.0 per cent in real terms from 2016-17 to 2017-18, which reflects a cessation of capital assistance to industry for the data retention initiative on 30 June 2017. There is an expected decrease of 10.7 per cent in real terms from 2017-18 to 2020-21, which mainly reflects the expected termination of a number of measures that are subject to future Government consideration. This is partially offset by an increase in funding for the Australian Federal Police announced in the 2017-18 Budget.

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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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Higher education	9,395	9,627	9,533	9,656	9,891
Vocational and other education	2,003	1,845	1,877	1,930	1,933
Schools	17,095	18,218	19,266	20,457	21,707
<i>Non-government schools</i>	10,597	11,136	11,690	12,309	12,965
<i>Government schools</i>	6,498	7,081	7,576	8,148	8,743
School education - specific funding	673	663	473	151	102
Student assistance	3,760	3,144	3,556	3,688	3,941
General administration	311	304	293	280	282
Total education	33,237	33,800	34,997	36,161	37,856

Total education expenses are expected to decrease by 0.3 per cent in real terms between 2016-17 and 2017-18, and increase by 4.7 per cent in real terms from 2017-18 to 2020-21.

Expenses under the **higher education** sub-function are expected to increase by 0.5 per cent in real terms from 2016-17 to 2017-18, and to decrease by 4.0 per cent in real terms between 2017-18 and 2020-21. The forecast overall decline in expenses over the forward estimates relates to the reduction of Commonwealth Grant Scheme subsidies and the Government's policy changes announced in the 2017-18 Budget measures *Higher Education Reform – a more sustainable higher education sector* and *Higher Education Reform – a fairer and student-focused higher education system*.

Expenses under the **vocational and other education** sub-function are expected to decrease by 9.7 per cent in real terms from 2016-17 to 2017-18, and decrease by 2.1 per cent in real terms from 2017-18 to 2020-21. The decrease from 2016-17 to 2017-18 reflects the impact of the milestone payments under the ceasing National Partnership Agreement on Skills Reform. The change in expenses over the forward estimates reflects the profile of the National Agreement on Skills and Workforce Development. The expenses over the forward estimates also reflect the Government's policy changes announced in the 2017-18 Budget measure *Skilling Australians Fund*, which will provide an estimated \$1.5 billion over four years to establish an ongoing fund to support the skilling of Australian workers.

Aggregate schools funding expenses are expected to increase by 4.5 per cent in real terms between 2016-17 to 2017-18, and by 11.4 per cent in real terms from 2017-18 to 2020-21 reflecting the Government's policy changes announced in the 2017-18 Budget measure *Quality Schools – true needs-based funding for Australia's schools*.

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Expenses in the **schools – non-government schools** sub-function are expected to increase by 3.0 per cent in real terms between 2016-17 and 2017-18, and by 8.8 per cent in real terms from 2017-18 to 2020-21. Expenses under the **schools – government schools** sub-function are expected to increase by 6.8 per cent in real terms between 2016-17 and 2017-18, and by 15.4 per cent in real terms from 2017-18 to 2020-21. The increase in expenses over the forward years is attributable to an increase in government student enrolments as well as the impact of the 2017-18 Budget measure *Quality Schools – true needs-based funding for Australia’s schools*.

Expenses under the **school education – specific funding** sub-function are expected to decrease by 3.4 per cent in real terms between 2016-17 and 2017-18, and decrease by 85.6 per cent in real terms from 2017-18 to 2020-21. The expected decreases in expenses primarily reflects the conclusion of a number of National Partnerships. The 2017-18 Budget measure *National Partnership Agreement on Universal Access to Early Childhood Education – extension* provides for an additional year of support until 31 December 2018.

Expenses under the **student assistance** sub-function are expected to decrease by 18.0 per cent in real terms from 2016-17 to 2017-18, and increase by 17.1 per cent in real terms from 2017-18 to 2020-21. The decrease from 2016-17 to 2017-18 reflects the impact of converting Student Start-up Scholarships to Student Start-up loans and compliance activities from the 2015-16 Budget measure *Strengthening the Integrity of Welfare Payments*, the 2015-16 MYEFO measure *Enhanced Welfare Payment Integrity* and the 2016-17 MYEFO measure *Better Management of the Social Welfare System*. This activity will continue to influence expense levels in 2018-19 and 2019-20. Thereafter, it is expected that the key influence on expenses will be the increase in Higher Education Loan Program (HELP) Loans due to policy changes announced in the 2017-18 Budget measure *Higher Education Reform – a more sustainable higher education sector*.

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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	
	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m
Medical services and benefits	30,102	30,995	32,287	34,094	35,714
Pharmaceutical benefits and services	12,670	12,393	12,220	12,246	11,898
Assistance to the States for public hospitals	18,460	19,563	20,639	21,769	22,677
Hospital services(a)	2,285	1,487	1,450	1,388	1,346
Health services	6,444	6,911	7,055	6,738	7,113
General administration	3,062	3,047	2,966	2,841	2,874
Aboriginal and Torres Strait Islander health	798	881	895	932	968
Total health	73,820	75,277	77,511	80,007	82,590

(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.

Expenses for the health function are estimated to remain unchanged in real terms between 2016-17 and 2017-18 and increase by 2.5 per cent in real terms from 2017-18 to 2020-21 reflecting higher demand for health services. This is driven by growth in Medicare under the **medical services and benefits** sub-function and growth in **assistance to the States for public hospitals** sub-function. This growth is partially mitigated in the **pharmaceutical benefits and services** sub-function, due to a decline in spending on high cost Hepatitis C medications from a peak in 2016-17 and savings from the 2016-17 MYEFO measure *Pharmaceutical Benefits Scheme – agreement with Medicines Australia*.

The **medical services and benefits** sub-function, which primarily consists of Medicare and Private Health Insurance Rebate expenses, comprises 41.2 per cent of total estimated health expenses for 2017-18. Growth in Medicare expenses is the major driver of growth in this sub-function.

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

Component(a)	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Medical benefits	22,197	22,983	24,143	25,815	27,266
Private health insurance	6,288	6,427	6,561	6,696	6,849
General medical consultations and services	800	774	759	744	733
Dental services(b)	332	346	359	370	387
Other	484	465	465	470	480
Total	30,102	30,995	32,287	34,094	35,714

(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 1.5 per cent in real terms between 2016-17 and 2017-18, and by 10.9 per cent in real terms over the period 2017-18 to 2020-21, as a result of ongoing growth in the use of medical services and the phased reintroduction of indexation of the Medicare Benefits Schedule.

Expenses for private health insurance are expected to remain relatively unchanged in real terms between 2016-17 and 2017-18, and decrease by 0.4 per cent in real terms over the period 2017-18 to 2020-21. The proportion of Australians with private health insurance is around 55.4 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 2.2 per cent in real terms between 2016-17 and 2017-18 and by 4.6 per cent in real terms over the period 2017-18 to 2020-21, reflecting growth in utilisation of the Child Dental Benefits Schedule (CDBS).

The **pharmaceutical benefits and services** sub-function is expected to decrease by 4.1 per cent in real terms between 2016-17 and 2017-18. This is due largely to demand for Hepatitis C medications being brought forward into 2016-17 from across the forward estimates period, as previously reflected in the 2016-17 MYEFO. Expenses are expected to decrease by 10.3 per cent in real terms over the period 2017-18 to 2020-21 largely as a result of amendments to existing pricing policies through the 2017-18 Budget measure *Improving Access to Medicines - cheaper medicines*, that will reduce 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.

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

Component(a)	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Pharmaceutical benefits, services and supply	11,995	11,748	11,596	11,631	11,293
Immunisation	339	316	311	311	310
Veterans' pharmaceutical benefits	336	330	314	304	296
Total	12,670	12,393	12,220	12,246	11,898

(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 3.9 per cent in real terms from 2016-17 to 2017-18, largely reflecting growth in the volume of services and changes in the efficient price of those services. Expenditure is expected to increase by 8.3 per cent in real terms over the period 2017-18 to 2020-21, following the Government's agreement with States and Territories for the Commonwealth to fund up to 45.0 per cent of the growth in the efficient price of activity based services for public hospitals from 2017-18 to 2019-20, with nominal growth in total Commonwealth funding capped at 6.5 per cent a year for three years. New funding arrangements for public hospitals from 2020-21 are expected to be agreed by the Council of Australian Governments (COAG) in 2018.

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 36.2 per cent in real terms between 2016-17 and 2017-18, and by 15.4 per cent in real terms over the period 2017-18 to 2020-21, 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, medical research, mental health, blood and blood products, other allied health services, health infrastructure and disbursement from the Medical Research Future Fund (MRFF). MRFF disbursements are expected to reach \$642.9 million by 2020-21 and will provide a sustainable funding stream for medical research.

Health services expenditure is expected to increase by 5.2 per cent in real terms between 2016-17 and 2017-18, and decrease by 3.8 per cent in real terms between 2017-18 and 2020-21 largely reflecting the completion of health infrastructure projects.

The **general administration** 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

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2.4 per cent in real terms between 2016-17 and 2017-18, and by 11.9 per cent over the period 2017-18 to 2020-21, largely as a result of streamlining workforce programs.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function are expected to increase by 8.3 per cent in real terms from 2016-17 to 2017-18, and by 2.7 per cent in real terms over the period 2017-18 to 2020-21 as Aboriginal and Torres Strait Islander people across Australia continue to access Indigenous-specific services under the Indigenous Australians Health Program.

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Social security and welfare

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

Table 9: Summary of expenses — social security and welfare

Sub-function	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Assistance to the aged	62,270	64,279	67,652	71,071	74,776
Assistance to veterans and dependants	6,475	6,272	6,033	5,913	5,881
Assistance to people with disabilities	31,721	38,538	47,840	49,522	50,710
Assistance to families with children	36,404	36,936	38,020	39,420	40,214
Assistance to the unemployed and the sick	10,994	10,038	11,126	11,814	12,547
Other welfare programs	1,745	1,737	1,711	1,638	1,649
Assistance for Indigenous Australians nec	2,210	2,153	2,083	2,128	2,136
General administration	3,879	4,105	3,657	3,468	3,293
Total social security and welfare	155,698	164,059	178,122	184,975	191,206

Expenses in the social security and welfare function are estimated to increase by 3.3 per cent in real terms from 2016-17 to 2017-18, and by 8.9 per cent in real terms from 2017-18 to 2020-21.

The most significant driver of this growth is the **assistance to people with disabilities** sub-function, which is expected to grow by 19.1 per cent in real terms from 2016-17 to 2017-18, and by 23.0 per cent in real terms from 2017-18 to 2020-21, reflecting the progressive implementation of the National Disability Insurance Scheme (NDIS). This sub-function includes Commonwealth as well as State and Territory contributions to the NDIS. Other drivers include the **assistance to the aged** sub-function, which is expected to grow by 1.2 per cent in real terms between 2016-17 and 2017-18, and by 8.7 per cent in real terms between 2017-18 and 2020-21; the **assistance to families with children** sub-function, which is expected to increase by 1.7 per cent in real terms between 2017-18 and 2020-21; and the **assistance to the unemployed and the sick** sub-function, which is expected to increase by 16.8 per cent in real terms between 2017-18 and 2020-21.

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 0.1 per cent in real terms from 2016-17 to 2017-18, and by 7.7 per cent in real terms from 2017-18 to 2020-21, 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 2017-18 to 2020-21 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 13.3 per cent in real terms from 2017-18 to 2020-21 for veterans' community care and support is mainly attributable to the decrease in the number of veterans and relevant dependants accessing residential aged care. The major components of the assistance to the aged sub-function are outlined below in Table 9.1.

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

Component(a)	Estimates			Projections	
	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m
Income Support for Seniors	44,468	45,391	47,604	49,744	52,304
Residential and flexible care	11,445	12,014	12,663	13,525	14,270
Veterans' Community Care and Support	1,389	1,363	1,313	1,270	1,265
Home Support and Care	4,055	4,604	5,464	5,969	6,392
National Partnership Payments - Assistance to the Aged	191	203	0	0	0
Mature Age Income Support	287	242	159	119	93
Aged Care Quality	115	114	117	119	121
Access and information	191	209	210	219	221
Allowances, concessions and services for seniors	102	93	81	68	61
Other	26	46	41	38	49
Total	62,270	64,279	67,652	71,071	74,776

(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 5.0 per cent in real terms from 2016-17 to 2017-18, and by 12.4 per cent in real terms from 2017-18 to 2020-21, 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 19.1 per cent in real terms from 2016-17 to 2017-18, and by 23.0 per cent in real terms from 2017-18 to 2020-21, primarily driven by the NDIS. This reflects the increase in the number of people with a disability entering the NDIS under transition arrangements with the States and Territories. Of the total \$64.9 billion in NDIS expenses from 2017-18 to 2020-21, the Commonwealth is contributing funding of \$33.7 billion, with the States and Territories contributing the remaining funding. Estimates of NDIS expenses in Western Australia only reflect the Commonwealth contribution from 2017-18 to 2019-20 through a state-run NDIS model. NDIS expenses in 2020-21 for Western Australia are not reflected in the sub-function table as full Scheme arrangements in this state are subject to ongoing negotiations. Further information can be found in Budget Paper No. 3.

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Subject to negotiations, the Commonwealth will provide payments to the States and Territories of \$6.4 billion from the DisabilityCare Australia Fund over the forward estimates. The timing of these payments will result in DisabilityCare Australia Fund expenses peaking at \$3.2 billion in 2018-19.

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 or Territory, except Western Australia, have transitioned to the NDIS. As ND SPP payments terminate for each State or Territory, equivalent funding will be redirected to the NDIS. Prior to the ND SPP ceasing, the States and Territories 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 Territories, and when the returned funds are expensed on the NDIS. Western Australia will continue to receive the ND SPP, and progressively redirect this funding to the WA NDIS on behalf of the Commonwealth as existing clients enter the Scheme over the three year transition in that state to 30 June 2020.

Expenses for the Disability Support Pension (DSP) are estimated to increase by 1.0 per cent in real terms from 2016-17 to 2017-18. 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 5.7 per cent in real terms from 2017-18 to 2020-21, reflecting moderate increases to recipient numbers and payment rates over this period.

Expenses for income support for carers are estimated to increase by 2.3 per cent in real terms from 2016-17 to 2017-18, and are expected to decrease by 0.8 per cent in real terms from 2017-18 to 2020-21. This reflects the flattening growth rate in Carer Payment recipient numbers in recent years and the tightening of assessment processes for carer payments, which was announced in the 2015-16 Budget and will commence on 1 January 2018.

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	
	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m
Income Support for People with Disability	16,421	16,923	17,396	18,222	19,140
National Disability Insurance Scheme(b)	3,435	9,250	15,922	19,502	20,265
Income Support for Carers	8,132	8,484	8,801	8,933	9,003
Assistance to the States for Disability Services	1,475	1,481	913	147	-39
Disability and Carers	1,008	1,067	1,072	1,061	1,058
National Disability Insurance Scheme Transition Programme	530	473	388	285	268
National Partnership Payments - Assistance to People with Disabilities	721	860	3,349	1,373	1,014
Total	31,721	38,538	47,840	49,522	50,710

(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.

Expenses for the **assistance to families with children** sub-function are expected to decrease by 0.5 per cent in real terms from 2016-17 to 2017-18, and increase by 1.7 per cent in real terms from 2017-18 to 2020-21, with growth primarily driven by increased Child Care Fee Assistance expenses. The profile includes an increase in Child Care Fee Assistance expenses of 2.7 per cent in real terms from 2016-17 to 2017-18, and by 23.9 per cent in real terms from 2017-18 to 2020-21. The increase in expenses reflects continued growth in the usage of child care by families and also reflects the commencement of the more generous Child Care Subsidy from 2 July 2018, following the passage of the *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2016*.

Family Tax Benefit (FTB) expenses are expected to increase by 1.4 per cent in real terms from 2016-17 to 2017-18, and decrease by 8.8 per cent in real terms from 2017-18 to 2020-21. The growth in 2017-18 is primarily due to the impact of not proceeding with unlegislated elements of the 2015-16 MYEFO measure *Family Payment Reform – a new families package*. The decrease in expenses to 2020-21 is driven by the net impact of policy amendments in the 2016-17 MYEFO measure, *Budget Savings (Omnibus) Bill - amendments*, and the 2017-18 Budget measures *Unlegislated Budget Repair Measures - not proceeding*, *Family Tax Benefit Part A rate increase – not proceeding*, *Consistent income treatment for families receiving Family Tax Benefit Part A* and *Funding the Jobs for Families Package*.

Expenses for Paid Parental Leave (PPL) are estimated to increase by 1.0 per cent in real terms from 2016-17 to 2017-18, and by 3.6 per cent in real terms from 2017-18 to 2020-21. The growth from 2017-18 to 2020-21 is primarily being driven by increasing numbers of eligible primary carers and the impact of the 2017-18 Budget measure *Unlegislated Budget Repair Measures – not proceeding*.

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

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

Component(a)	Estimates			Projections	
	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m
Family tax benefit	18,601	19,231	18,763	18,845	18,775
Child Care Fee Assistance(b)	7,207	7,546	8,755	9,566	10,004
<i>Child Care Benefit</i>	3,623	3,609	0	0	0
<i>Child Care Rebate</i>	3,584	3,938	0	0	0
<i>Child Care Subsidy</i>	0	0	8,755	9,566	10,004
Parents income support	5,629	5,098	5,400	5,796	6,090
Paid Parental Leave	2,169	2,234	2,323	2,389	2,478
Child support	1,878	1,893	1,915	1,945	1,982
Support for the child care system	331	357	346	351	356
Families and Children	265	267	247	250	253
Family relationship services	163	167	169	168	169
Child Payments	125	110	102	98	94
National Partnership Payments - Child care	23	22	0	0	0
Other	11	11	0	12	12
Total	36,404	36,936	38,020	39,420	40,214

(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 10.5 per cent in real terms from 2016-17 to 2017-18 and to increase by 16.8 per cent in real terms from 2017-18 to 2020-21. These changes reflect compliance activities resulting from the 2015-16 Budget measure *Strengthening the Integrity of Welfare Payments*, the 2015-16 MYEFO measure *Enhanced Welfare Payment Integrity* and the 2016-17 MYEFO measure *Better Management of the Social Welfare System*, which peak in 2017-18 and conclude by 2019-20.

Expenses for the **assistance for Indigenous Australians (nec)** sub-function are estimated to decrease by 4.4 per cent in real terms from 2016-17 to 2017-18 and decrease by 7.3 per cent in real terms from 2017-18 to 2020-21. This decrease largely reflects the conclusion of a number of Indigenous measures.

Expenses for the **general administration** sub-function are estimated to decrease by 25.0 per cent in real terms from 2017-18 to 2020-21. There is a minor increase in 2017-18 followed by a decrease from 2018-19 to 2020-21, which largely reflects the implementation of measures 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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Housing	3,215	3,359	2,998	3,053	2,924
Urban and regional development	582	1,083	1,023	691	311
Environment protection	904	909	855	894	853
Total housing and community amenities	4,700	5,351	4,876	4,638	4,088

Total expenses under the housing and community amenities function are estimated to increase by 11.6 per cent in real terms from 2016-17 to 2017-18 and decrease by 28.6 per cent in real terms from 2017-18 to 2020-21. The decrease is primarily driven by reduced expenses for the **housing** sub-function related to the scheduled completion of National Partnership payments, and reduced expenses for the **urban and regional development** sub-function driven by the completion of projects under key programs.

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 DHA expenses. The expenses for this sub-function are estimated to increase by 2.4 per cent in real terms from 2016-17 to 2017-18 due to rescheduling of DHA's work program. This sub-function decreases by 18.6 per cent in real terms from 2017-18 to 2020-21. 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 2019-20. The decrease is partially offset by the 2017-18 Budget measure *Reducing Pressure on Housing Affordability – a new National Housing and Homelessness Agreement*.

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 a number of election commitments announced in the 2016-17 MYEFO, including the Building Better Regions Fund and the Regional Jobs and Investment Packages, and the 2017-18 Budget measure *Regional Growth Fund*. Expenses are estimated to increase by 82.6 per cent in real terms from 2016-17 to 2017-18, but reduce by 73.2 per cent in real terms from 2017-18 to 2020-21, largely reflecting the completion of projects under key programs, such as Community Development Grants, the Building Better Regions Fund and the Regional Jobs and Investment Packages.

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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 decrease by 1.4 per cent in real terms from 2016-17 to 2017-18, primarily reflecting the reprofiling of expenses relating to the Emissions Reduction Fund. There is a 12.4 per cent decrease in real terms from 2017-18 to 2020-21, reflecting the profile of contractual commitments for the Emissions Reduction Fund, and the termination of the Green Army program in 2017-18.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Broadcasting	1,461	1,445	1,418	1,422	1,453
Arts and cultural heritage	1,369	1,361	1,280	1,219	1,282
Sport and recreation	366	416	363	311	307
National estate and parks	414	411	388	392	428
Total recreation and culture	3,609	3,632	3,449	3,344	3,469

Total expenses under the recreation and culture function are estimated to decrease by 1.3 per cent in real terms from 2016-17 to 2017-18, and by 10.7 per cent in real terms over the period 2017-18 to 2020-21.

Expenses under the **broadcasting** sub-function are expected to decrease by 3.0 per cent in real terms from 2016-17 to 2017-18, and by 6.0 per cent in real terms from 2017-18 to 2020-21. These reductions primarily reflect previous efficiency measures from the 2014-15 Budget and the 2014-15 MYEFO. These have been partially offset by 2016-17 Budget measures which provide operational funding for the Australian Broadcasting Corporation and the Special Broadcasting Service Corporation (SBS), and a 2017-18 Budget measure providing supplementary funding to the SBS.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
ABC general operational activities	898	885	867	880	902
SBS general operational activities	311	305	297	284	289
ABC transmission and distribution services	175	178	181	184	187
SBS transmission and distribution services	77	75	74	74	75
Total	1,461	1,445	1,418	1,422	1,453

(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 2.6 per cent in real terms from 2016-17 to 2017-18, and by 12.0 per cent in real terms over the period 2017-18 to 2020-21. 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 from the 2014-15 Budget, 2015-16 Budget and the 2015-16 MYEFO. This is partially offset by the 2016-17 MYEFO measure *Public Service Modernisation Fund – National Library of Australia and Australian War Memorial* and the 2017-18 Budget measure *Public Service Modernisation Fund – agency sustainability*, which provide funding to support agencies in transitioning to more modern, sustainable and productive operating models.

Expenses under the **sport and recreation** sub-function are estimated to increase by 11.5 per cent in real terms from 2016-17 to 2017-18, and decrease by 31.1 per cent in real terms over the period 2017-18 to 2020-21. The increase in 2017-18 primarily reflects the 2017-18 Budget measure, *Gold Coast 2018 Commonwealth Games – additional Australian Government support*, the 2016-17 MYEFO measure *Sporting Schools Program – extension* and the Government's contribution to the construction of the Townsville Integrated Stadium through the 2016-17 MYEFO measure *Revitalise Jobs and Growth in Townsville*. Estimated decreases in expenses over the forward estimates reflect the termination of the *Sporting Schools Program* on 31 December 2018, the funding for the Townsville Integrated Stadium terminating on 30 June 2020, 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 2.6 per cent in real terms from 2016-17 to 2017-18, and decrease by 2.7 per cent in real terms over the period 2017-18 to 2020-21. The decrease from 2016-17 to 2017-18 largely reflects a reduction in expenses for the Australian Antarctic Program. The decrease in expenses from 2017-18 to 2020-21 primarily reflects the cessation of a number of measures over the period, including *Commonwealth Marine Reserves – implementation*, partly offset by an increase in expenses for the Australian Antarctic Program.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Fuel and energy	6,790	6,940	7,080	7,426	7,764
Total fuel and energy	6,790	6,940	7,080	7,426	7,764

Fuel and energy expenses are estimated to increase by 0.2 per cent in real terms from 2016-17 to 2017-18 and increase by 4.5 per cent in real terms over the period 2017-18 to 2020-21.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Fuel Tax Credits Scheme	6,194	6,308	6,514	6,884	7,349
Resources and Energy	148	135	102	70	61
Renewable Energy	327	357	299	327	214
Other	121	139	164	145	139
Total	6,790	6,940	7,080	7,426	7,764

(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 estimated to decrease by 0.1 per cent in real terms from 2016-17 to 2017-18 and increase by 8.9 per cent in real terms from 2017-18 to 2020-21.

Expenses under the Resources and Energy component are estimated to decrease by 10.5 per cent in real terms from 2016-17 to 2017-18 and decrease by 57.8 per cent in real terms from 2017-18 to 2020-21. This reflects a number of terminating measures, including the cessation of the Low Emissions Technology Demonstration Fund and Coal Mining Abatement Technology Support Package in 2016-17, and the cessation of funding for the development of a detailed business case for the National Radioactive Waste Management Facility and Carbon Capture and Storage Flagships programs in 2018-19. The decrease in expenditure is partly offset by the Government's decision to fund emerging energy priorities as part of the 2017-18 Budget.

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The overall decrease in expenses under the renewable energy component from 2017-18 to 2020-21 reflects the decrease in grants expenses for the Australian Renewable Energy Agency, which is partly offset by an increase in expenditure for the Clean Energy Finance Corporation.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Wool industry	70	70	70	70	70
Grains industry	217	214	212	213	206
Dairy industry	53	51	51	53	53
Cattle, sheep and pig industry	225	238	242	247	252
Fishing, horticulture and other agriculture	331	345	347	352	334
General assistance not allocated to specific industries	34	35	43	37	36
Rural assistance	165	125	161	146	146
Natural resources development	995	1,133	991	695	624
General administration	754	761	728	681	688
Total agriculture, forestry and fishing	2,843	2,972	2,845	2,493	2,408

Total expenses under this function are estimated to increase by 2.5 per cent in real terms from 2016-17 to 2017-18, and decrease by 24.3 per cent in real terms over the period 2017-18 to 2020-21.

The **rural assistance** sub-function is expected to decrease by 25.5 per cent in real terms from 2016-17 to 2017-18, and increase by 8.8 per cent in real terms over the period 2017-18 to 2020-21. The initial decrease mainly reflects changes to the Farm Household Allowance, which is available to eligible farm households for a maximum of three years. Households that have received the payment continuously since the program's inception will not qualify beyond 2016-17. The subsequent increase in 2018-19 is related to the 2017-18 Budget measure, *Regional Investment Corporation - establishment*, which will administer the Government's Farm Business Concessional Loans Scheme and the National Water Infrastructure Loan Facility.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Water reform(b)	751	886	748	484	439
Sustainable management - natural resources	13	10	6	0	0
Other	231	236	237	211	186
Total	995	1,133	991	695	624

(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 11.6 per cent in real terms from 2016-17 to 2017-18 and decrease by 48.5 per cent in real terms from 2017-18 to 2020-21. The increase in expenses from 2016-17 to 2017-18 reflects increased funding under the program National Partnership Payments - Water and Natural Resources. The subsequent reduction in expenses primarily relates to the scheduled wind down of funding for the Sustainable Rural Water Use and Infrastructure Program from 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 industry assistance programs.

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

Sub-function	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Mining, manufacturing and construction	3,559	3,825	4,188	4,425	4,583
Total mining, manufacturing and construction	3,559	3,825	4,188	4,425	4,583

Total expenses under the mining, manufacturing and construction function are expected to increase by 5.4 per cent in real terms from 2016-17 to 2017-18, and increase by 12.0 per cent in real terms from 2017-18 to 2020-21.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Research and Development Tax Incentive	2,874	3,003	3,219	3,461	3,737
Growing Business Investment	485	400	297	252	208
Northern Australia Infrastructure Facility	6	222	471	521	471
Other	194	199	201	192	167
Total	3,559	3,825	4,188	4,425	4,583

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

The increase in expenses for the Research and Development Tax Incentive, administered by the Australian Taxation Office, reflects 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 reduced demand for assistance under the Automotive Transformation Scheme associated with the closure of vehicle manufacturing firms by the end of 2017, and reduced expenditure in Industry Growth Centres, following their establishment over the period 2015-16 to 2016-17.

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The Northern Australia Infrastructure Facility (NAIF) was established on 1 July 2016. The NAIF offers concessional finance of up to \$5 billion to encourage and complement private sector investment in infrastructure that benefits northern Australia. The estimated increase in expenses reflects the accounting treatment of concessions expected to be provided as part of the NAIF's operations.

Expenses under the 'Other' component are expected to remain steady over the forward estimates with a decrease in 2020-21, reflecting the completion of the National Resources Development Strategy - Exploring for the Future program.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Communication	696	1,248	1,354	1,458	1,467
Rail transport	1,045	1,218	716	553	1,058
Air transport	239	219	208	205	203
Road transport	6,726	7,024	5,642	4,586	3,163
Sea transport	404	436	423	428	422
Other transport and communication	284	274	249	240	232
Total transport and communication	9,394	10,420	8,592	7,470	6,545

Total expenses under this function are estimated to increase by 8.7 per cent in real terms between 2016-17 and 2017-18, and to decrease by 41.3 per cent in real terms from 2017-18 to 2020-21.

The estimated expenses for the **communication** sub-function relate to communication activities and support for the digital economy through the Department of Communications and the Arts and the Australian Communications and Media Authority. Total expenses under the this sub-function are estimated to increase by 75.7 per cent in real terms between 2016-17 and 2017-18, and increase by 9.9 per cent in real terms from 2017-18 to 2020-21. The estimated increase primarily reflects movement of funds for the Mobile Black Spots Program from 2016-17 into 2017-18 and increased expenditure for the Regional Broadband Scheme.

Total expenses under the **rail transport** sub-function are estimated to increase by 14.4 per cent in real terms from 2016-17 to 2017-18. This primarily reflects the 2017-18 Budget measure *Infrastructure Investment Programme - Victorian Infrastructure Investment* and movement of funds for rail projects in South Australia. In addition to expenditure on rail transport, in this Budget the Government is investing in the delivery of Inland Rail.

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 (AMSA) and the Australian Transport Safety Bureau (ATSB). Total expenses under the **air transport** sub-functions are estimated to decrease by 9.9 per cent in real terms between 2016-17 and 2017-18, and decrease by 13.5 per cent in real terms from 2017-18 to 2020-21, 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. In addition to expenditure on air transport, the Government in this Budget is investing in the delivery of the Western Sydney Airport. Total expenses under the **sea transport**

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sub-function are estimated to increase by 5.8 per cent in real terms between 2016-17 and 2017-18, and decrease by 9.6 per cent in real terms from 2017-18 to 2020-21, reflecting reductions in levy revenue and costs associated with the implementation of the National System for Domestic Commercial Vessel Safety for AMSA.

The expenses under the **road transport** sub-function primarily consist of grants provided under the Infrastructure Investment Programme. Expenses are estimated to increase by 2.4 per cent in real terms between 2016-17 and 2017-18, and decrease by 57.9 per cent in real terms from 2017-18 to 2020-21. The increase in expenses over 2016-17 to 2017-18 is largely driven by additional funding for the Roads to Recovery Program announced in the 2015-16 MYEFO. The decrease from 2017-18 to 2020-21 reflects the expected completion of projects including the Toowoomba Second Range Crossing and the Mackay Ring Road - Stage 1 in Queensland, and WestConnex - Stage 1 in New South Wales. This decrease is partially offset by funding for the Bruce Highway.

Total expenses under the **other transport and communication** sub-function are estimated to decrease by 5.4 per cent in real terms between 2016-17 and 2017-18 and by 20.8 per cent in real terms from 2017-18 to 2020-21. This primarily reflects a decrease in departmental funding for the Infrastructure and Regional Development portfolio over the forward estimates, including the cessation of the MH370 funding for the ATSB.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Tourism and area promotion	192	182	160	161	172
Total labour and employment affairs	3,644	3,794	3,799	3,724	3,705
<i>Vocational and industry training</i>	1,185	1,222	1,200	1,154	1,144
<i>Labour market assistance to job seekers and industry</i>	1,733	1,847	1,886	1,853	1,847
<i>Industrial relations</i>	727	725	713	718	713
Immigration	3,847	3,113	2,612	2,512	2,393
Other economic affairs nec	2,157	2,322	2,323	2,172	2,156
Total other economic affairs	9,840	9,411	8,894	8,569	8,426

Total expenses under the other economic affairs function are expected to decrease by 6.2 per cent in real terms from 2016-17 to 2017-18, and by 16.3 per cent in real terms from 2017-18 to 2020-21.

Expenses under the **vocational and industry training** sub-function are expected to increase by 1.1 per cent in real terms from 2016-17 to 2017-18, and decrease by 12.5 per cent in real terms between 2017-18 and 2020-21. The decline in expenses primarily relates to the cessation of the Industry Skills Fund.

Expenses under the **labour market assistance to job seekers and industry** sub-function are expected to increase by 4.5 per cent in real terms from 2016-17 to 2017-18. Expenses between 2017-18 and 2020-21 are expected to decrease by 6.5 per cent in real terms mainly as a result of the introduction of new pre-employment training arrangements.

Expenses under the **industrial relations** sub-function are expected to decrease by 2.2 per cent in real terms from 2016-17 to 2017-18 and by 8.0 per cent in real terms between 2017-18 and 2020-21, mainly reflecting lower expenditure by the Fair Work Ombudsman.

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

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

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

Component(a)	Estimates			Projections	
	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m
Management of unlawful non-citizens	2,594	1,943	1,534	1,472	1,413
Citizenship, visas and migration(b)	711	753	700	662	602
Regional co-operation and refugee and humanitarian assistance	543	418	378	378	377
Other	-2	0	0	0	0
Total other economic affairs	3,847	3,113	2,612	2,512	2,393

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

Expenses under this sub-function are expected to decrease by 20.7 per cent in real terms between 2016-17 and 2017-18, and by 28.2 per cent in real terms from 2017-18 to 2020-21. The key driver is the reduction in expenditure for managing unlawful non-citizens reflecting forecast lower occupancy rates in onshore and offshore detention.

Expenses under the **other economic affairs (nec)** sub-function are expected to increase by 5.5 per cent in real terms from 2016-17 to 2017-18, and decrease by 13.2 per cent in real terms from 2017-18 to 2020-21.

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

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

Component(a)	Estimates			Projections	
	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m
Promotion of Australia's export and other international economic interests(b)	362	356	355	350	349
Operating costs for:					
Department of Industry, Innovation and Science	435	482	475	461	453
Australian Securities and Investments Commission	459	424	414	453	444
Bureau of Meteorology	342	352	340	328	326
IP Australia	195	191	190	208	217
Australian Competition and Consumer Commission	135	152	139	136	132
Australian Prudential Regulation Authority	132	142	143	141	142
National Partnership Payments - Competition and Productivity Enhancing Reform	0	125	175	0	0
Other	96	99	93	93	93
Total	2,157	2,322	2,323	2,172	2,156

(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.

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Expenses for the Bureau of Meteorology are projected to decrease by 13.5 per cent in real terms from 2017-18 to 2020-21 following the implementation of the new supercomputer and other information and communications technology.

Expenses for the Australian Securities and Investment Commission are estimated to decrease by 2.0 per cent in real terms from 2017-18 to 2020-21, due to a number of 2016-17 Budget measures transitioning from implementation to maintenance phases. The impact of the transitioning measures is offset in part by additional funding provided in 2017-18 Budget measures.

Expenses for the Australian Competition and Consumer Commission are expected to increase by 10.0 per cent in real terms from 2016-17 to 2017-18 due to additional funding provided in the 2017-18 Budget.

Expenses for the Department of Industry, Innovation and Science are expected to increase by 8.6 per cent in real terms from 2016-17 to 2017-18 and decrease by 12.2 per cent in real terms from 2017-18 to 2020-21. The changes in expenses reflect the current cost associated with implementing Whole-of-Government initiatives such as the Shared and Common Services Program and the Business Grants Hub, and a combination of terminating measures over the 2018-19 to 2020-21 period.

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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	
	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m
Public debt interest	16,028	17,154	18,090	18,702	18,761
<i>Interest on Commonwealth Government's behalf</i>	16,028	17,154	18,090	18,702	18,761
Nominal superannuation interest	8,446	10,392	10,761	11,133	11,502
General purpose inter-government transactions	63,448	64,274	68,736	70,902	74,794
<i>General revenue assistance - States and Territories</i>	59,976	63,071	66,260	68,325	72,202
<i>Local government assistance</i>	3,472	1,203	2,476	2,576	2,592
Natural disaster relief(a)	82	9	2	0	0
Contingency reserve	-1,536	951	2,696	4,431	9,659
Total other purposes	86,468	92,780	100,285	105,167	114,715

(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 5.2 per cent in real terms from 2016-17 to 2017-18, and by 15.5 per cent over the period 2017-18 to 2020-21.

Expenses under the **public debt interest** sub-function are expected to increase by 4.9 per cent in real terms from 2016-17 to 2017-18 and by 2.2 per cent from 2017-18 to 2020-21, reflecting the increased issuance of Australian Government Securities. Statements 4 and 7 of Budget Paper No. 1 provide further information on Government debt, including estimates of the relative contribution of capital and recurrent spending to the Government's annual borrowing task. Expenses under the **nominal superannuation interest** sub-function are projected to increase by 3.4 per cent from 2017-18 to 2020-21, reflecting the growth in the Australian Government's superannuation liability. The Future Fund was established to assist in meeting the cost of this liability. Further information on the Future Fund can be found in Statement 7.

Expenses under the **general purpose inter-government transactions** sub-function are expected to grow by 8.7 per cent from 2017-18 to 2020-21. Nearly all of the expense under this sub-function relates to **general revenue assistance** paid to state and territory governments, 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

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general revenue assistance to the States and Territories can be found in Budget Paper No. 3, *Federal Financial Relations 2017-18*.

Expenses under **local government assistance** 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 expenses are expected to decrease by 66.0 per cent in real terms from 2016-17 to 2017-18, reflecting the bringing forward of the first two instalments of the 2017-18 Financial Assistance Grants program for payment in 2016-17. Further information on Australian Government assistance to local governments can be found in Budget Paper No. 3.

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. The financial implications of Tropical Cyclone Debbie, which affected New South Wales and Queensland, has not yet been included in these estimates as costs have not yet been quantified. 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 2017-18 Budget increases expenses by \$951 million in 2017-18, and increases expenses by \$2.7 billion in 2018-19, \$4.4 billion in 2019-20 and \$9.7 billion in 2020-21. 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 2017-18 Budget includes a provision of:

- zero in the Budget year 2017-18;
- ½ of a percentage point of total general government sector expenses (excluding GST payments to the States) in the first forward year 2018-19 (\$2.1 billion);
- 1 per cent of expenses in the second forward year 2019-20 (\$4.3 billion); and

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- a 2 per cent provision has been included in the third forward year 2019-20 (\$8.8 billion).

The drawdown of the CBA reduced expenses by \$996 million in 2017-18; \$1.0 billion in 2018-19 and \$2.1 billion in 2019-20. This is consistent with long standing practice and does not represent a saving or offset to spending measures.

In general, the Contingency Reserve can also include:

- a provision for underspends in the current financial year reflecting the tendency for budgeted expenses for some entities or functions not to be met;
- commercial-in-confidence and national security-in-confidence items that cannot be disclosed separately and programs that are yet to be renegotiated with state and territory governments;
- the effect, on the budget and forward estimates, of economic parameter revisions received late in the process and hence not able to be allocated to individual entities or functions;
- decisions taken but not yet announced by the Government, and decisions made too late for inclusion against individual entity estimates; and
- provisions for other specific events and pressures that are reasonably expected to affect the budget estimates.

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.

Government capital spending involves acquisition of physical assets, financial assets and provision of grants and subsidies to others (primarily state and territory government), which they use to acquire assets. Statement 4, includes enhanced reporting of recurrent and capital spending, which complements the information presented below on movements in net capital investment by illustrating the Government's overall investment in infrastructure and other assets.

Australian Government general government sector net capital investment is expected to be \$484 million in 2017-18; \$1.6 billion lower than the net capital investment in 2016-17. This change is largely due to the reissue and auction by the Australian Communications and Media Authority of spectrum licences in the 700 MHz, 1800 MHz and 2.1GHz bands.

Details of movements are further explained in the following section.

Table 18: Estimates of total net capital investment

	MYEFO	Revised	Estimates		Projections	
	2016-17	2016-17	2017-18	2018-19	2019-20	2020-21
Total net capital investment (\$m)	3,953	2,047	484	4,770	4,892	6,037
Per cent of GDP	0.2	0.1	0.0	0.3	0.2	0.3

Reconciliation of net capital investment since the 2016-17 Budget

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2016-17 Budget, is provided in Table 19.

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Table 19: Reconciliation of net capital investment estimates

	Estimates			Projections	Total
	2016-17	2017-18	2018-19	2019-20	
	\$m	\$m	\$m	\$m	\$m
2016-17 Budget net capital investment	3,437	3,388	4,885	5,517	17,227
Changes from 2016-17 Budget to 2016 PEFO					
Effect of policy decisions(a)	1	1	0	0	2
Effect of parameter and other variations	0	0	0	0	0
Total variations	1	1	0	0	2
2016 PEFO net capital investment	3,438	3,389	4,885	5,517	17,229
Changes from 2016 PEFO to 2016-17 MYEFO					
Effect of policy decisions(a)	62	64	8	-10	125
Effect of parameter and other variations	453	-334	-166	-347	-394
Total variations	515	-270	-158	-357	-269
2016-17 MYEFO net capital investment	3,953	3,119	4,727	5,161	16,960
Changes from 2016-17 MYEFO to 2017-18 Budget					
Effect of policy decisions(a)	1	-105	144	63	102
Effect of parameter and other variations	-1,907	-2,531	-101	-331	-4,869
Total variations	-1,906	-2,635	43	-268	-4,767
2017-18 Budget net capital investment	2,047	484	4,770	4,892	12,193

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

Forecast net capital investment for 2017-18 has decreased by \$2.6 billion since the 2016-17 MYEFO. This decrease is driven by the effect of parameter and other variations of \$2.5 billion, and a decrease relating to new policy decisions of \$105 million.

Further information on the capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2017-18*.

Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2017-18 to 2020-21 are provided in Table 20.

Table 20: Estimates of net capital investment by function

	Estimates			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
General public services	295	-204	-108	-69	-138
Defence	1,356	2,946	4,299	5,182	6,659
Public order and safety	77	174	-19	-148	-190
Education	13	6	-1	-2	-9
Health	42	85	29	-3	-28
Social security and welfare	188	162	-51	-170	-172
Housing and community amenities	56	57	-91	-181	134
Recreation and culture	48	209	53	63	-118
Fuel and energy	0	3	0	0	-1
Agriculture, forestry and fishing	426	513	641	233	218
Mining, manufacturing and construction	4	10	0	-3	-3
Transport and communication	-555	-3,034	-22	-32	-32
Other economic affairs	84	-17	-147	-135	-154
Other purposes	13	-428	187	158	-128
Total net capital investment	2,047	484	4,770	4,892	6,037

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

- **general public services** – the negative investments in 2017-18 reflects divestment in the Commonwealth's overseas property portfolio, and the decreasing trend in the forward estimates is mainly due to the Australian Taxation Office shifting to ICT fee for service arrangements;
- **defence** – funding associated with the 2016 *Defence White Paper* and the Defence 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 2017-18 to enhance protective security arrangements for law enforcement agencies and to strengthen Australian Federal Police and national security agency capabilities;
- **social security and welfare** – reflects the Commonwealth's investment in ICT capabilities and infrastructure for the Department of Human Services, including for the following measures published since the 2016-17 Budget: *Welfare Payment Infrastructure Transformation - Tranche 2*, *Better Management of the Social Welfare System* and *Veteran Centric Reform*;

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- **housing and community amenities** – reflects movements in Defence Housing Australia’s acquisition and construction activities to meet Defence housing needs;
- **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 and Energy for the acquisition of a new icebreaker, which reduces from 2018-19 over the forward estimates, 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 Program in 2016-17 and 2017-18; and
- **transport and communication** – the negative investment in 2016-17 and 2017-18 is largely due to the reissue and auction by the Australian Communications and Media Authority of spectrum licences in the 700 MHz, 1800 MHz and 2.1 GHz bands.

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	
	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
General public services	1,142	945	711	750	690
Defence	8,191	9,458	10,621	12,019	13,679
Public order and safety	534	635	453	350	299
Education	41	36	30	29	24
Health	103	150	89	55	56
Social security and welfare	532	540	357	233	222
Housing and community amenities	103	104	77	67	95
Recreation and culture	406	543	381	396	241
Fuel and energy	4	6	4	4	3
Agriculture, forestry and fishing	466	561	688	276	261
Mining, manufacturing and construction	11	17	8	5	5
Transport and communication	55	76	44	33	30
Other economic affairs	580	471	353	326	303
Other purposes	13	40	141	112	-174
General government purchases of non-financial assets	12,181	13,582	13,958	14,655	15,735

APPENDIX A: EXPENSE BY FUNCTION AND SUB-FUNCTION**Table A1: Estimates of expenses by function and sub-function**

	Actuals		Estimates		Projections	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m
General public services						
Legislative and executive affairs	1,239	1,376	1,243	1,473	1,164	1,188
Financial and fiscal affairs	6,598	6,359	6,383	6,303	6,397	6,301
Foreign affairs and economic aid	5,484	6,687	5,669	5,944	6,859	5,858
General research	2,711	2,765	2,831	2,926	3,016	3,053
General services	731	970	828	828	816	820
Government superannuation benefits	7,447	9,015	3,749	3,733	3,635	3,601
Total general public services	24,209	27,172	20,703	21,207	21,887	20,820
Defence	26,013	28,464	30,051	29,877	31,708	33,865
Public order and safety						
Courts and legal services	1,153	1,221	1,182	1,151	1,134	882
Other public order and safety	3,670	3,941	3,860	3,789	3,794	3,690
Total public order and safety	4,823	5,162	5,042	4,940	4,927	4,572
Education						
Higher education	9,581	9,395	9,627	9,533	9,656	9,891
Vocational and other education	1,837	2,003	1,845	1,877	1,930	1,933
Schools	15,703	17,095	18,218	19,266	20,457	21,707
<i>Non-government schools</i>	9,958	10,597	11,136	11,690	12,309	12,965
<i>Government schools</i>	5,746	6,498	7,081	7,576	8,148	8,743
School education - specific funding	618	673	663	473	151	102
Student assistance	4,054	3,760	3,144	3,556	3,688	3,941
General administration	328	311	304	293	280	282
Total education	32,121	33,237	33,800	34,997	36,161	37,856
Health						
Medical services and benefits	28,848	30,102	30,995	32,287	34,094	35,714
Pharmaceutical benefits and services	12,032	12,670	12,393	12,220	12,246	11,898
Assistance to the States for public hospitals	17,185	18,460	19,563	20,639	21,769	22,677
Hospital services(a)	1,071	2,285	1,487	1,450	1,388	1,346
Health services	6,488	6,444	6,911	7,055	6,738	7,113
General administration	2,952	3,062	3,047	2,966	2,841	2,874
Aboriginal and Torres Strait Islander health	725	798	881	895	932	968
Total health	69,301	73,820	75,277	77,511	80,007	82,590
Social security and welfare						
Assistance to the aged	59,962	62,270	64,279	67,652	71,071	74,776
Assistance to veterans and dependants	6,634	6,475	6,272	6,033	5,913	5,881
Assistance to people with disabilities	28,815	31,721	38,538	47,840	49,522	50,710
Assistance to families with children	38,341	36,404	36,936	38,020	39,420	40,214

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

	Actuals		Estimates		Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m	\$m
Social security and welfare (continued)						
Assistance to the unemployed and the sick	11,032	10,994	10,038	11,126	11,814	12,547
Other welfare programmes	1,504	1,745	1,737	1,711	1,638	1,649
Assistance for Indigenous Australians nec	2,199	2,210	2,153	2,083	2,128	2,136
General administration	3,638	3,879	4,105	3,657	3,468	3,293
Total social security and welfare	152,124	155,698	164,059	178,122	184,975	191,206
Housing and community amenities						
Housing	3,192	3,215	3,359	2,998	3,053	2,924
Urban and regional development	663	582	1,083	1,023	691	311
Environment protection	886	904	909	855	894	853
Total housing and community amenities	4,742	4,700	5,351	4,876	4,638	4,088
Recreation and culture						
Broadcasting	1,483	1,461	1,445	1,418	1,422	1,453
Arts and cultural heritage	1,228	1,369	1,361	1,280	1,219	1,282
Sport and recreation	356	366	416	363	311	307
National estate and parks	395	414	411	388	392	428
Total recreation and culture	3,462	3,609	3,632	3,449	3,344	3,469
Fuel and energy	6,423	6,790	6,940	7,080	7,426	7,764
Agriculture, forestry and fishing						
Wool industry	64	70	70	70	70	70
Grains industry	188	217	214	212	213	206
Dairy industry	58	53	51	51	53	53
Cattle, sheep and pig industry	202	225	238	242	247	252
Fishing, horticulture and other agriculture	290	331	345	347	352	334
General assistance not allocated to specific industries	28	34	35	43	37	36
Rural assistance	134	165	125	161	146	146
Natural resources development	636	995	1,133	991	695	624
General administration	661	754	761	728	681	688
Total agriculture, forestry and fishing	2,259	2,843	2,972	2,845	2,493	2,408
Mining, manufacturing and construction	3,103	3,559	3,825	4,188	4,425	4,583
Transport and communication						
Communication	592	696	1,248	1,354	1,458	1,467
Rail transport	267	1,045	1,218	716	553	1,058
Air transport	218	239	219	208	205	203
Road transport	5,321	6,726	7,024	5,642	4,586	3,163
Sea transport	367	404	436	423	428	422
Other transport and communication	318	284	274	249	240	232
Total transport and communication	7,083	9,394	10,420	8,592	7,470	6,545

Statement 6: Expenses and Net Capital Investment

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

	Actuals		Estimates		Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m	\$m
Other economic affairs						
Tourism and area promotion	199	192	182	160	161	172
Total labour and employment affairs	3,078	3,644	3,794	3,799	3,724	3,705
<i>Vocational and industry training</i>	1,021	1,185	1,222	1,200	1,154	1,144
<i>Labour market assistance to job seekers and industry</i>	1,275	1,733	1,847	1,886	1,853	1,847
<i>Industrial relations</i>	782	727	725	713	718	713
Immigration	3,741	3,847	3,113	2,612	2,512	2,393
Other economic affairs nec	2,180	2,157	2,322	2,323	2,172	2,156
Total other economic affairs	9,199	9,840	9,411	8,894	8,569	8,426
Other purposes						
Public debt interest	15,339	16,028	17,154	18,090	18,702	18,761
<i>Interest on Commonwealth Government's behalf</i>	15,339	16,028	17,154	18,090	18,702	18,761
Nominal superannuation interest	9,106	8,446	10,392	10,761	11,133	11,502
General purpose inter-government transactions	59,160	63,448	64,274	68,736	70,902	74,794
<i>General revenue assistance - States and Territories</i>	58,016	59,976	63,071	66,260	68,325	72,202
<i>Local government assistance</i>	1,144	3,472	1,203	2,476	2,576	2,592
Natural disaster relief(b)	224	82	9	2	0	0
Contingency reserve	0	-1,536	951	2,696	4,431	9,659
Total other purposes	83,829	86,468	92,780	100,285	105,167	114,715
Total expenses	428,691	450,757	464,262	486,863	503,198	522,907

(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.

