

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 2018-19 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 2018-19 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 1.9 per cent in real terms in 2018-19, with the growth rate decreasing to 0.7 per cent in 2019-2020. This reflects slower growth across a range of Government programs, partially offset by growth in health, education and social security and welfare programs. Reflecting the Government's continued focus on fiscal restraint, total expenses are expected to decline as a percentage of GDP from 25.7 per cent in 2018-19 to 24.9 per cent in 2021-22. The decline in total expense over the forward estimates compares with significant growth in total expenses during the period 2007-08 to 2013-14 when expenses rose from 23.7 per cent of GDP in 2007-08 to 26.1 per cent of GDP in 2013-14.

Table 1.1: Estimates of general government sector expenses

	MYEFO	Revised	Estimate		Projections	
	2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
Total expenses (\$b)	466.9	468.8	488.6	504.2	518.2	540.8
Real growth on						
previous year (%) ^(a)	2.4	2.7	1.9	0.7	0.5	1.8
Per cent of GDP	25.7	25.5	25.7	25.3	24.9	24.9

(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 1.6 per cent per annum in real terms over the four years to 2021-22 and total payments are expected to decline as a percentage of GDP from 25.4 per cent in 2018-19 to 24.7 per cent in 2021-22.

Table 1.2: Estimates of general government sector payments

	MYEFO	Revised	Estimate		Projections	
	2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
Total payments (\$b)	457.6	459.9	484.6	497.5	514.5	537.3
Real growth on						
previous year (%) ^(a)	2.3	2.7	3.1	0.2	1.1	1.9
Per cent of GDP	25.2	25.1	25.4	25.0	24.7	24.7

(a) Real growth is calculated using the Consumer Price Index.

Table 2 provides a reconciliation of expense estimates between the 2017-18 Budget, the 2017-18 *Mid-Year Economic and Fiscal Outlook* (MYEFO) and the 2018-19 Budget showing the effect of policy decisions, and economic parameter and other variations.

Table 2: Reconciliation of expense estimates

	Estimates			Projections	Total
	2017-18	2018-19	2019-20	2020-21	
	\$m	\$m	\$m	\$m	\$m
2017-18 Budget expenses	464,262	486,863	503,198	522,907	1,977,230
Changes from 2017-18 Budget to 2017-18 MYEFO					
Effect of policy decisions(a)	877	40	384	98	1,398
Effect of parameter and other variations	1,798	-1,392	-2,556	-5,687	-7,837
Total variations	2,675	-1,351	-2,172	-5,589	-6,437
2017-18 MYEFO expenses	466,937	485,512	501,026	517,318	1,970,792
Changes from 2017-18 MYEFO to 2018-19 Budget					
Effect of policy decisions(a)	1,530	1,064	735	254	3,582
Effect of economic parameter variations					
Total economic parameter variations	1,105	1,777	1,932	2,126	6,940
<i>Unemployment benefits</i>	-152	-190	-157	-126	-626
<i>Prices and wages</i>	180	584	949	1,110	2,823
<i>Interest and exchange rates</i>	37	87	5	31	160
<i>GST payments to the States</i>	1,040	1,296	1,135	1,111	4,583
Public debt interest	88	10	83	-124	58
Program specific parameter variations	2,637	-2,045	-1,832	-2,530	-3,770
Other variations	-3,509	2,266	2,228	1,203	2,187
Total variations	1,851	3,072	3,145	929	8,998
2018-19 Budget expenses	468,788	488,584	504,171	518,247	1,979,791

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

The combined impact of policy decisions and variations to program estimates has increased expenses by \$9.0 billion over the four years from 2017-18 to 2020-21 compared to the 2017-18 MYEFO. In the same period, the Government has made policy decisions that include increased GST expenditure provided to the states, increasing expenses by \$3.6 billion. Over the four years from 2017-18 to 2020-21, program specific parameter variations, public debt interest and other variations have decreased expenses by \$1.5 billion, and economic parameter variations have increased expenses by \$6.9 billion compared to the 2017-18 MYEFO.

Estimated expenses by function

Table 3 sets out the estimates of Australian Government general government sector expenses by function for the period 2017-18 to 2021-22.

Table 3: Estimates of expenses by function

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
General public services	24,975	23,065	23,621	22,253	22,923
Defence	30,982	31,215	30,866	33,061	35,164
Public order and safety	5,251	5,324	5,263	4,851	4,829
Education	33,746	34,736	36,185	37,730	39,336
Health	77,603	78,825	80,416	82,049	85,041
Social security and welfare	162,621	175,971	182,568	187,535	194,335
Housing and community amenities	5,435	5,382	5,119	4,454	4,225
Recreation and culture	3,793	3,638	3,517	3,470	3,539
Fuel and energy	7,515	7,541	7,814	8,138	8,492
Agriculture, forestry and fishing	3,019	3,070	2,628	2,549	2,678
Mining, manufacturing and construction	2,979	3,260	3,552	3,681	3,484
Transport and communication	9,252	9,062	8,187	7,523	6,976
Other economic affairs	10,212	9,471	8,640	8,400	8,347
Other purposes	91,407	98,023	105,797	112,552	121,460
Total expenses	468,788	488,584	504,171	518,247	540,830

Major expense trends between 2017-18 and 2018-19, and from 2018-19 over the forward years include movements in the following functions:

- **general public services** – the decrease in expenses between 2017-18 and 2018-19 largely reflects the use of different discount rates applied to superannuation expenses. The increase in expenses from 2018-19 to 2019-20 as well as the decrease 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 2018-19 to 2021-22 reflects the funding required to deliver the plans set out in the *2016 Defence White Paper*;
- **education** – the increase in expenses from 2018-19 to 2021-22 largely reflects policy changes announced in the 2017-18 Budget and 2017-18 MYEFO measures *Quality Schools – true needs-based funding for Australia’s Schools* and an increase in school student enrolments;

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- **health** – the increase in expenses from 2018-19 to 2021-22 is largely driven by growth in the **medical services and benefits** and **assistance to the States for public hospitals** sub-functions. This growth is partially offset by a reduction in Pharmaceutical Benefit Scheme (PBS) expenses under the **pharmaceutical benefits and services** sub-function, due largely to the impact of the Government’s decision to improve the payment administration for high-cost medicines to address medicine access and pharmacy cash flow issues raised during the Independent Review of Pharmacy Remuneration and Regulation. This will see a reduction in revenue rebates for high-cost medicines with special pricing arrangements, which reduces PBS revenues and expenses by a corresponding amount. There will be no reduction in the Government’s overall investment in the PBS as a result of these changes.
- **social security and welfare** – the increase in expenses from 2018-19 to 2021-22 largely reflects the impact of an ageing population accessing the Aged Pension and residential and home care, the transition to the full National Disability Insurance Scheme to support people with a significant and permanent disability, and growth in the support and usage of child care by families;
- **housing and community amenities** – the decrease in expenses from 2017-18 to 2018-19 largely reflects the scheduled completion of payments to the States and Territories under National Partnership Agreements while the decrease from 2018-19 to 2021-22 mainly reflects completion of urban and regional development projects;
- **transport and communication** – the declining profile of expenses from 2017-18 to 2021-22 largely reflects the expected completion of existing 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 2021-22 largely reflects growing general revenue assistance payments (largely GST) to be made to the States and Territories 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 Box 1). Together, these functions account for 59.2 per cent of all government expenses in 2018-19. Further details of spending trends against all functions, including movements in expenses from 2017-18 to 2018-19, are set out under individual function headings.

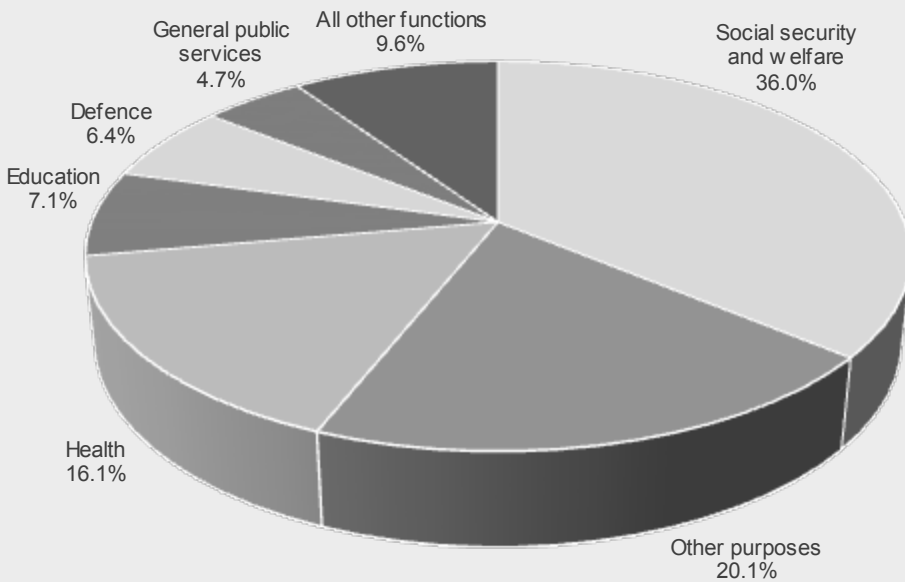
Box 1: Where does government spending go in 2018-19?

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 2018-19



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

Program expenses

Table 3.1 reports the top 20 expense programs in the 2018-19 financial year. These programs represent more than two thirds of total expenses in that year. A significant proportion 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 2018-19

Program(a)	Function	Estimates			Projections	
		2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m
Revenue assistance to the States and Territories	Other purposes	64,492	68,196	70,537	74,187	77,895
Income Support for Seniors	SSW	45,095	46,838	49,120	51,560	53,797
Medical benefits	Health	23,284	24,074	25,464	26,778	28,184
Assistance to the States for public hospitals	Health	20,690	21,189	22,301	23,468	24,692
Family tax benefit	SSW	18,472	18,348	18,269	17,978	17,885
Aged care services	SSW	16,584	18,006	19,474	20,589	22,080
National Disability Insurance Scheme	SSW	7,816	16,695	20,734	22,355	23,647
Income Support for People with Disability	SSW	16,578	16,564	17,058	17,222	17,728
Pharmaceutical benefits, services and supply(b)	Health	12,455	12,088	11,760	9,864	9,787
Non-government schools national support	Education	11,181	11,781	12,405	13,098	13,773
Job seeker income support	SSW	11,143	10,165	11,035	11,391	11,915
	Other purposes; General public services					
Public sector superannuation(c)	services	9,195	8,886	8,958	9,137	9,275
Income support for carers	SSW	8,494	8,689	9,137	9,453	9,938
Child Care Fee Assistance	SSW	7,182	0	0	0	0
Child Care Subsidy(d)		0	8,000	8,679	9,025	9,534
Government schools national support	Education	7,118	7,687	8,343	9,036	9,729
Air Force capabilities	Defence	7,003	7,628	7,657	7,935	8,561
Army Capabilities	Defence	7,382	7,494	7,618	8,147	8,701
Commonwealth Grants Scheme	Education	6,993	7,062	7,171	7,290	7,407
	Fuel and energy					
Fuel Tax Credits Scheme	energy	6,913	6,922	7,241	7,654	8,114
	Other purposes; General public services					
Defence Force superannuation(c)	services	6,854	6,665	6,780	6,950	7,122
Sub-total		314,924	332,978	349,740	363,116	379,764
Other programs		153,864	155,606	154,432	155,130	161,066
Total expenses		468,788	488,584	504,171	518,247	540,830

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

(b) Estimates and projections reflect the expected impact of new payment arrangements for the Pharmaceutical Benefits Scheme (PBS). Refer to Box 2 Pharmaceutical Benefits Scheme for further information.

(c) This program is a combination of superannuation nominal interest and accrual expenses.

(d) 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.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Legislative and executive affairs	1,212	1,484	1,142	1,166	1,492
Financial and fiscal affairs	7,352	7,101	7,203	6,860	7,197
Foreign affairs and economic aid	5,582	5,798	6,747	5,664	5,601
General research	3,221	2,995	3,057	3,143	3,207
General services	692	681	684	621	642
Government superannuation benefits	6,917	5,007	4,787	4,800	4,783
Total general public services	24,975	23,065	23,621	22,253	22,923

Total general public services expenses are estimated to decrease by 9.7 per cent in real terms from 2017-18 to 2018-19 and decrease by 7.5 per cent in real terms over the period 2018-19 to 2021-22.

Expenses under the **legislative and executive affairs** sub-function partly reflect costs incurred by the Australian Electoral Commission to support federal elections in 2018-19 and 2021-22.

Expenses in the **financial and fiscal affairs** sub-function are expected to decrease in real terms from 2017-18 to 2021-22. The decrease is partially offset by further enhancements in compliance activities undertaken by the Australian Taxation Office.

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

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

Component(a)	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Foreign aid(b)	3,340	3,566	4,625	3,516	3,484
Diplomacy(c)	1,024	1,049	931	926	899
Payments to international organisations	466	445	468	493	505
Passport services	239	252	258	261	264
International police assistance	202	170	152	153	135
International agriculture research and development	125	129	129	133	133
Consular services	96	100	98	98	98
Finance and insurance services for Australian exporters and investors	8	5	3	2	0
Other	82	82	82	82	83
Total	5,582	5,798	6,747	5,664	5,601

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

Total expenses under the **foreign affairs and economic aid** sub-function are expected to increase by 1.6 per cent in real terms from 2017-18 to 2018-19, and are forecast to decrease by 10.1 per cent in real terms from 2018-19 to 2021-22.

The increase in expenses in 2018-19 and 2019-20 reflects the payment of Australia's contributions under the multi-year funding cycles for multilateral funds such as the Asian Development Fund and the World Bank's International Development Association. The decrease over the period 2018-19 to 2021-22 reflects the Government's decision to maintain official development assistance at \$4.0 billion across the forward estimates period. The Government continues to invest in significant initiatives including assistance to Papua New Guinea in hosting APEC 2018 and in Foreign Policy White Paper initiatives.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Research - science services and innovation fund	1,067	1,123	1,134	1,149	1,160
Discovery - research and research training	494	495	509	517	529
Science and technology solutions	371	365	356	368	374
Linkage - cross sector research partnerships	267	274	285	293	298
Supporting science and commercialisation	278	256	278	284	286
Research capacity	427	168	191	245	260
Other	317	314	302	286	300
Total	3,221	2,995	3,057	3,143	3,207

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

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

Total expenses under this sub-function are expected to decrease by 9.1 per cent in real terms from 2017-18 to 2018-19 and remain unchanged from 2018-19 to 2021-22. The decrease from 2017-18 to 2018-19 is due to bringing forward funding into 2017-18 for upgrades to national research infrastructure facilities, as part of the expanded National Collaborative Research Infrastructure Strategy.

The fall in expenses from 2017-18 to 2018-19 in the **government superannuation benefits** sub-function reflects the use of different discount rates. In accordance with accounting standards, the superannuation expenses for 2017-18 were calculated using the long-term government bond rate as at 1 July 2017 that best matched each individual scheme's liability duration. These rates were broadly between 3.0 and 3.5 per cent per annum. Forward years are estimated based on the discount rate recommended by the superannuation scheme actuaries in preparing the latest Long Term Cost Reports (5 per cent). This is lower than the rate of 6 per cent applied in previous Budgets and reflects the actuary's view that long-term borrowing costs have decreased.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Defence	30,982	31,215	30,866	33,061	35,164
Total defence	30,982	31,215	30,866	33,061	35,164

Total expenses for the **defence** sub-function are estimated to decrease by 1.5 per cent in real terms from 2017-18 to 2018-19 due to additional funding provided to Defence in 2017-18 for the purpose of better aligning existing Defence funding with capability project requirements. The decrease in real terms of 3.5 per cent between 2018-19 and 2019-20 is the result of Defence Operations being funded on a year-to-year basis, where Defence Operations expenses other than those relating to remediation are not included beyond 2018-19. Total expenses are estimated to increase by 4.9 per cent in real terms over the period 2018-19 to 2021-22, reflecting funding to deliver the *2016 Defence White Paper*.

\$787 million will be provided in the 2018-19 Budget to support major Australian Defence Force (ADF) operations in the Middle East and the protection of Australia's borders and offshore maritime interests, and Australia's regional counter-terrorism assistance.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Courts and legal services	1,267	1,224	1,200	920	916
Other public order and safety	3,983	4,100	4,063	3,931	3,914
Total public order and safety	5,251	5,324	5,263	4,851	4,829

Total expenses for the public order and safety function are estimated to decrease by 0.9 per cent in real terms from 2017-18 to 2018-19, and decrease by 15.6 per cent in real terms over the period 2018-19 to 2021-22.

Expenses within the **courts and legal services** sub-function are estimated to decrease by 5.6 per cent in real terms from 2017-18 to 2018-19 and decrease by 30.4 per cent in real terms from 2018-19 to 2021-22, mainly reflecting the end of the current National Partnership on Legal Assistance Services 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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Policing and law enforcement	2,684	2,789	2,742	2,666	2,662
Border protection	1,299	1,311	1,321	1,264	1,252
Total	3,983	4,100	4,063	3,931	3,914

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

Total expenses within the **other public order and safety** sub-function are expected to increase by 0.7 per cent in real terms from 2017-18 to 2018-19. There is an expected decrease of 11.2 per cent in real terms from 2018-19 to 2021-22, which mainly reflects the termination of a number of measures that are subject to future Government consideration. This is partially offset by significant funding increases for the Australian Federal Police for measures announced in the 2018-19 Budget including *Aviation, Air Cargo and International Mail Security Package* and *Australian Centre to Counter Child Exploitation – establishment*.

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	
	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m
Higher education	9,676	9,756	9,891	10,201	10,292
Vocational and other education	1,795	1,810	1,832	1,901	1,885
Schools	18,299	19,468	20,748	22,134	23,502
<i>Non-government schools</i>	11,181	11,781	12,405	13,098	13,773
<i>Government schools</i>	7,118	7,687	8,343	9,036	9,729
School education - specific funding	673	674	536	191	163
Student assistance	2,923	2,654	2,823	2,956	3,149
General administration	380	373	354	347	344
Total education	33,746	34,736	36,185	37,730	39,336

Total education expenses are expected to increase by 0.7 per cent in real terms between 2017-18 and 2018-19, and increase by 5.4 per cent in real terms from 2018-19 to 2021-22.

Expenses under the **higher education** sub-function are expected to decrease by 1.4 per cent in real terms from 2017-18 to 2018-19, and decrease by 1.8 per cent in real terms between 2018-19 and 2021-22. The forecast decline in expenses over the forward estimates relates to the Government's policy changes announced in the 2017-18 MYEFO measure *Higher Education Reforms – revised implementation*.

Expenses under the **vocational and other education** sub-function are expected to decrease by 1.4 per cent in real terms from 2017-18 to 2018-19, and decrease by 3.1 per cent in real terms from 2018-19 to 2021-22. The change in expenses over the forward estimates primarily reflects the revised profile of the National Agreement on Skills and Workforce Development and the Government's policy changes announced in the 2018-19 Budget measure *Managing the Skilling Australians Fund – revised implementation arrangements*.

Aggregate schools funding expenses are expected to increase by 4.0 per cent in real terms between 2017-18 to 2018-19, and by 12.4 per cent in real terms from 2018-19 to 2021-22. Expenses in the **schools – non-government schools** sub-function are expected to increase by 3.0 per cent in real terms between 2017-18 and 2018-19, and by 8.8 per cent in real terms from 2018-19 to 2021-22. Expenses under the **schools – government schools** sub-function are expected to increase by 5.6 per cent in real terms between 2017-18 and 2018-19, and by 17.8 per cent in real terms from 2018-19 to 2021-22. The increase in expenses over the forward years is primarily due to policy changes announced in the 2017-18 Budget and 2017-18 MYEFO measures *Quality Schools – true needs-based funding for Australia's schools* and an increase in student enrolments.

Expenses under the **school education – specific funding** sub-function are expected to decrease by 2.1 per cent in real terms between 2017-18 and 2018-19, and by 77.5 per cent in real terms from 2018-19 to 2021-22. The expected decrease in expenses primarily reflects the conclusion of the *National Partnership Agreement on Universal Access to Early Childhood Education* on 30 June 2020.

Expenses under the **student assistance** sub-function are expected to decrease by 11.2 per cent in real terms from 2017-18 to 2018-19, and increase by 10.5 per cent in real terms from 2018-19 to 2021-22. The decrease from 2017-18 to 2018-19 reflects the impact of compliance activities announced in previous economic updates.

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	
	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m
Medical services and benefits	31,110	32,012	33,519	34,983	36,574
Pharmaceutical benefits and services	13,206	12,822	12,483	11,044	11,050
Assistance to the States for public hospitals	20,690	21,189	22,301	23,468	24,692
Hospital services(a)	1,658	1,458	1,393	1,339	1,330
Health services	6,885	7,081	6,637	7,096	7,204
General administration	3,172	3,350	3,131	3,127	3,168
Aboriginal and Torres Strait Islander health	882	914	952	992	1,024
Total health	77,603	78,825	80,416	82,049	85,041

(a) The hospital services sub-function predominantly reflects Commonwealth funding to the States and Territories for veterans' hospital services.

Expenses for the health function are estimated to increase by 0.4 per cent in real terms from 2018-19 to 2021-22. This is largely driven by growth in the **medical services and benefits** and **assistance to the States for public hospitals** sub-functions. This growth is partially offset by a reduction in Pharmaceutical Benefits Scheme (PBS) expenses under the **pharmaceutical benefits and services** sub-function, due largely to the impact of the Government's decision to improve the payment administration for high-cost medicines to address medicine access and pharmacy cash flow issues raised during the Independent Review of Pharmacy Remuneration and Regulation. This will see a reduction in revenue rebates for high-cost medicines with special pricing arrangements, which reduces PBS revenues and expenses by a corresponding amount. There will be no reduction in the Government's overall investment in the PBS as a result of these changes.

The reduction in PBS revenue rebates and corresponding reduction in expenses associated with improved payment administration amounts to \$5.4 billion from 2018-19 to 2021-22. Removing the impact of this decision (which has no effect on the Government's overall investment in the PBS), expenses for the health function are estimated to increase by 2.4 per cent in real terms from 2018-19 to 2021-22.

The **medical services and benefits** sub-function, which primarily consists of Medicare and Private Health Insurance Rebate expenses, comprises 40.6 per cent of total estimated health expenses for 2018-19. Growth in Medicare expenses is the major driver of growth in this sub-function.

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

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

Component(a)	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Medical benefits	23,284	24,074	25,464	26,778	28,184
Private health insurance	6,248	6,395	6,538	6,701	6,870
General medical consultations and services	790	763	739	719	715
Dental services(b)	326	321	316	311	321
Other	462	459	463	474	485
Total	31,110	32,012	33,519	34,983	36,574

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

(b) Payments under the dental National Partnership Agreement from 2017-18 are provided for under the health services sub-function in Table 8

Expenses for medical benefits are expected to increase by 1.1 per cent in real terms between 2017-18 and 2018-19, and increase by 9.0 per cent in real terms over the period 2018-19 to 2021-22, as a result of ongoing growth in the use of medical services and the use of high value items on the Medicare Benefits Schedule.

Expenses for private health insurance are expected to increase by 0.1 per cent in real terms between 2017-18 and 2018-19, and remain relatively unchanged in real terms over the period 2018-19 to 2021-22. The proportion of Australians with private health insurance is around 54.6 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 decrease by 3.7 per cent in real terms between 2017-18 and 2018-19 and decrease by 7.0 per cent in real terms over the period 2018-19 to 2021-22, reflecting lower growth in utilisation of the Child Dental Benefits Schedule (CDBS).

Expenses for the **pharmaceutical benefits and services** sub-function (but not the Government's overall investment in **pharmaceutical benefits and services** sub-function) is expected to decrease by 19.8 per cent in real terms over the period 2018-19 to 2021-22. This is due largely to the impact of the Government's decision to improve the payment administration for high-cost medicines to address medicine access and pharmacy cash flow issues raised during the Independent Review of Pharmacy Remuneration and Regulation. This will see a reduction in revenue rebates for high-cost medicines with special pricing arrangements, which reduces PBS revenues and expenses by a corresponding amount. There will be no reduction in the Government's overall investment in the PBS as a result of these changes.

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The reduction in PBS revenue rebates and corresponding reduction in expenses associated with improved payment administration amounts to \$5.4 billion from 2018-19 to 2021-22. Removing the impact of this decision (which has no effect on the Government's overall investment in the PBS), expenses for the **pharmaceutical benefits and services** sub-function are estimated to decrease by 7.3 per cent in real terms over the period 2018-19 to 2021-22.

The **pharmaceutical benefits and services** sub-function also includes an increase of \$1.0 billion reflecting the Government's decision to provision this amount for new medicine listings.

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

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

Component(a)	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Pharmaceutical benefits, services and supply	12,459	12,088	11,760	10,338	10,344
Immunisation	411	411	411	403	404
Veterans' pharmaceutical benefits	336	323	312	303	303
Total	13,206	12,822	12,483	11,044	11,050

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

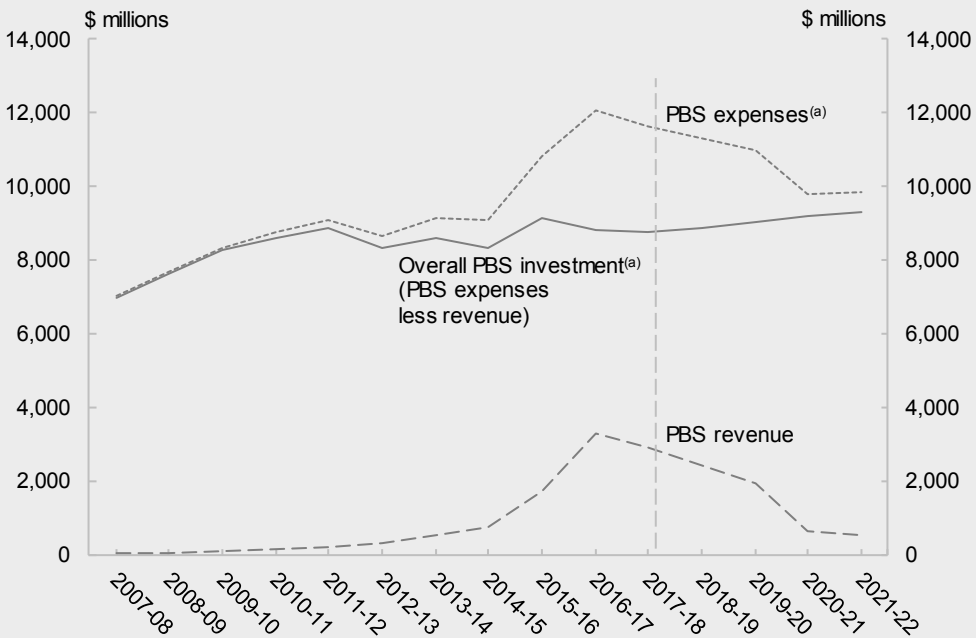
Box 2: Pharmaceutical Benefits Scheme

Chart 2 shows the positive impact that improved Pharmaceutical Benefits Scheme (PBS) payment administration is expected to have on the Government’s overall investment in the PBS, including the Government’s decision to provision \$1.0 billion for new medicine listings.

Under the improved administration arrangements, the Government will continue to pay the existing negotiated price for medicines. However, rather than paying higher prices for medicines with special pricing arrangements and receiving discounts negotiated with manufacturers as revenue rebates, the Government will instead pay the negotiated price. This will reduce the PBS revenue received by the Government, with a corresponding reduction in PBS expenses, and no change to the Government’s overall investment in the PBS.

All other aspects of the PBS, including existing co-payment rates, safety nets and indexation arrangements, will remain unchanged. The cost to patients of medicines listed on the PBS will not change as a result of improved payment administration for high-cost medicines, which addresses medicine access and pharmacy cash flow issues raised during the Independent Review of Pharmacy Remuneration and Regulation.

Chart 2: Impact of new payment arrangements on medicines spending



(a) Expenses include \$1.0 billion that the Government has provisioned for new medicine listings.

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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 0.1 per cent in real terms from 2017-18 to 2018-19, largely reflecting growth in the volume of services and changes in the efficient price of those services. Expenditure is expected to increase by 8.5 per cent in real terms over the period 2018-19 to 2021-22, following the Government's agreement with States and Territories for the Commonwealth to fund 45.0 per cent of the efficient growth in activity based services for public hospitals from 2017-18 to 2019-20, with growth in total Commonwealth funding capped at 6.5 per cent a year. New funding arrangements for public hospitals using the same parameters from 2020-21 are currently under negotiation and are expected to be finalised during 2018.

The **hospital services** sub-function consists mainly of payments to the States and Territories to deliver veterans' hospital services. Expenditure for this sub-function is expected to decrease by 14.0 per cent in real terms between 2017-18 and 2018-19, and by 15.1 per cent in real terms over the period 2018-19 to 2021-22. The decrease in expenses reflects an expected reduction in the number of beneficiaries and efficiencies achieved in the pricing arrangements.

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).

Health services expenditure is expected to increase by 0.6 per cent in real terms between 2017-18 and 2018-19, and decrease by 5.3 per cent in real terms between 2018-19 and 2021-22, largely reflecting the completion of National Partnership payments and digital health program support.

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 increase by 3.3 per cent in real terms between 2017-18 and 2018-19 largely as a result of new measures in the 2018-19 Budget for health workforce, and decrease by 12 per cent over the period 2018-19 to 2021-22 as a result of funding reverting to longer term trends for departmental funding.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function are expected to increase by 1.3 per cent in real terms from 2017-18 to 2018-19, and by 4.2 per cent in real terms over the period 2018-19 to 2021-22 as Aboriginal and Torres Strait Islander people across Australia continue to access Indigenous-specific services under the Indigenous Australians Health Program.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Assistance to the aged	63,865	66,771	70,385	73,837	77,422
Assistance to veterans and dependants	6,504	6,213	6,011	5,914	5,857
Assistance to people with disabilities	36,958	47,966	49,667	51,110	53,389
Assistance to families with children	36,119	36,845	38,007	38,183	38,845
Assistance to the unemployed and the sick	11,143	10,165	11,035	11,391	11,915
Other welfare programs	1,838	1,741	1,656	1,639	1,406
Assistance for Indigenous Australians nec	2,184	2,130	2,153	2,186	2,196
General administration	4,010	4,141	3,654	3,276	3,304
Total social security and welfare	162,621	175,971	182,568	187,535	194,335

Expenses in the social security and welfare function are estimated to increase by 5.8 per cent in real terms from 2017-18 to 2018-19, and by 2.8 per cent in real terms from 2018-19 to 2021-22.

The most significant drivers of this growth are the **assistance to people with disabilities** and **assistance to the aged** sub-functions. The **assistance to people with disabilities** sub-function is expected to grow by 26.9 per cent in real terms from 2017-18 to 2018-19, and by 3.6 per cent in real terms from 2018-19 to 2021-22 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. The **assistance to the aged** sub-function is expected to grow by 2.2 per cent in real terms between 2017-18 and 2018-19, and by 7.9 per cent in real terms between 2018-19 and 2021-22.

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 1.6 per cent in real terms from 2017-18 to 2018-19, and by 6.9 per cent in real terms from 2018-19 to 2021-22. This reflects demographic changes and the impact of the 2018-19 Budget measure *More Choices for a Longer Life – finances for a longer life* that commences from 1 July 2019. Growth in these years is moderated by a reduction in expenses associated with incremental increases in the Age Pension qualifying age, as well as the increase in the Pension Assets Test taper rate from 1 January 2017.

Also contributing to growth from 2018-19 to 2021-22 is an increase in expenses associated with the aged care services program, largely reflecting demographic factors.

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The estimated decrease of 17.5 per cent in real terms from 2018-19 to 2021-22 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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Income Support for Seniors	45,095	46,838	49,120	51,560	53,797
Aged Care Services	16,584	18,006	19,474	20,589	22,080
Veterans' Community Care and Support	1,267	1,188	1,140	1,130	1,053
Access and information	208	273	240	221	224
Mature Age Income Support	252	180	140	76	14
Aged Care Quality	121	160	153	138	138
Allowances, concessions and services for seniors	93	81	68	61	55
National Partnership Payments - Assistance to the Aged	203	0	10	10	11
Other	41	43	38	51	51
Total	63,865	66,771	70,385	73,837	77,422

(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 6.6 per cent in real terms from 2017-18 to 2018-19, and by 12.3 per cent in real terms from 2018-19 to 2021-22, predominantly reflecting an expected reduction in the number of beneficiaries. The Government will continue to transform and improve veterans' services, including \$111.9 million provided in the 2018-19 Budget measure *Delivering Australia's Digital Future – Veteran Centric Reform – continuation*.

Expenses for the **assistance to people with disabilities** sub-function are expected to increase by 26.9 per cent in real terms from 2017-18 to 2018-19, and by 3.6 per cent in real terms from 2018-19 to 2021-22, 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. Growth in NDIS expenses will stabilise in the latter part of the forward estimates, with the NDIS scheduled to achieve national coverage from 2019-20. Of the total \$83.4 billion in NDIS expenses from 2018-19 to 2021-22, the Commonwealth is contributing funding of \$43.2 billion, with the States and Territories contributing the remaining funding. Following the agreement with Western Australia in December 2017 for that State to join a nationally delivered NDIS, the State and Territory expenses reflect contributions by all jurisdictions.

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 \$3.4 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 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.

Expenses for the Income Support for People with Disability program, which primarily consists of Disability Support Pension (DSP) are estimated to decrease by 2.3 per cent in real terms from 2017-18 to 2018-19. The reduction in the Income Support for People with Disability program is underpinned by the ongoing impact of a range of measures, which have better targeted DSP eligibility and assessment processes.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Income Support for People with Disability	16,578	16,564	17,058	17,222	17,728
National Disability Insurance Scheme(b)	7,816	16,695	20,734	22,355	23,647
Income Support for Carers	8,494	8,689	9,137	9,453	9,938
Assistance to the States for Disability Services	1,522	954	173	0	0
Disability and Carers	1,064	1,076	1,061	1,031	1,016
National Disability Insurance Scheme Transition Programme	519	435	97	46	16
National Partnership Payments - Assistance to People with Disabilities	965	3,553	1,407	1,003	1,044
Total	36,958	47,966	49,667	51,110	53,389

(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 0.2 per cent in real terms from 2017-18 to 2018-19, and decrease by 1.9 per cent in real terms from 2018-19 to 2021-22, with the decrease driven primarily by reduced expenditure on the Family Tax Benefit (FTB). FTB expenses are expected to decrease by 2.9 per cent in real terms from 2017-18 to 2018-19, and decrease by 9.3 per cent in real terms from 2018-19 to 2021-22. The decrease in expenses to 2021-22 is driven by the cumulative impact of policy amendments to target payment eligibility, (including the 2017-18 MYEFO measures *Encouraging Self-Sufficiency for Newly Arrived Migrants* and *Family Tax Benefit and Paid Parental Leave – maintaining income thresholds*).

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The **assistance to families with children** sub-function profile includes an increase in Child Care Fee Assistance expenses of 8.9 per cent in real terms from 2017-18 to 2018-19, and by 10.9 per cent in real terms from 2018-19 to 2021-22. The increase 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) Act 2017*.

Parents Income Support expenses are expected to decrease by 7.5 per cent in real terms from 2017-18 to 2018-19, and increase by 3.5 per cent from 2018-19 to 2021-22. These changes reflect compliance activities, including the 2018-19 Budget measure *Social Welfare Debt Recovery*.

Expenses for Paid Parental Leave (PPL) are estimated to increase by 0.8 per cent in real terms from 2017-18 to 2018-19, and decrease by 2.5 per cent in real terms from 2018-19 to 2021-22. The decrease from 2018-19 to 2021-22 is largely due to the 2017-18 MYEFO measure *Encouraging Self-Sufficiency for Newly Arrived Migrants*.

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

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

Component(a)	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Family tax benefit	18,472	18,348	18,269	17,978	17,885
Child Care Fee Assistance(b)	7,182	8,000	8,679	9,025	9,534
<i>Child Care Benefit</i>	3,418	0	0	0	0
<i>Child Care Rebate</i>	3,764	0	0	0	0
<i>Child Care Subsidy</i>	0	8,000	8,679	9,025	9,534
Parents income support	5,450	5,153	5,299	5,409	5,729
Paid Parental Leave	2,185	2,252	2,288	2,327	2,360
Child support	1,902	1,915	1,948	1,985	2,027
Support for the child care system	354	340	342	341	348
Families and Children	266	556	904	841	685
Family relationship services	166	167	167	169	171
Child Payments	107	100	96	92	92
National Partnership Payments - Child Care	22	0	0	0	0
Other	13	15	15	15	16
Total	36,119	36,845	38,007	38,183	38,845

(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 10.8 per cent in real terms from 2017-18 to 2018-19 and to increase by 9.1 per cent in real terms from 2018-19 to 2021-22. These changes reflect compliance activities, including the 2018-19 Budget measure *Social Welfare Debt Recovery*.

Expenses for the **assistance for Indigenous Australians (nec)** sub-function are estimated to decrease by 4.6 per cent in real terms from 2017-18 to 2018-19 and decrease by 4.0 per cent in real terms from 2018-19 to 2021-22. This decrease largely reflects the conclusion of a number of Indigenous measures.

Expenses for the **general administration** sub-function are estimated to decrease by 25.7 per cent in real terms from 2018-19 to 2021-22. This is mainly attributable to 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 Housing and Homelessness Agreement, 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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Housing	3,340	3,124	3,208	3,161	3,097
Urban and regional development	845	1,315	992	444	254
Environment protection	1,250	944	919	849	875
Total housing and community amenities	5,435	5,382	5,119	4,454	4,225

Total expenses under the housing and community amenities function are estimated to decrease by 3.2 per cent in real terms from 2017-18 to 2018-19 and decrease by 26.9 per cent in real terms from 2018-19 to 2021-22. The decrease is primarily driven by reduced expenses for the **urban and regional development** sub-function reflecting completion of projects under key programs, and reduced expenses for the **housing** sub-function related to the scheduled completion of National Partnership payments.

The **housing** sub-function includes the Australian Government's contribution to the National Housing and Homelessness Agreement, 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 decrease by 8.5 per cent in real terms from 2017-18 to 2018-19 due to the scheduled completion of National Partnership payments. The expenses for this sub-function are expected to decrease by 7.7 per cent in real terms from 2018-19 to 2021-22, largely reflecting a forecast reduction in the construction and acquisition of DHA properties in 2020-21. The decrease is partially offset by the ongoing 2017-18 Budget measure *Reducing Pressure on Housing Affordability – a new National Housing and Homelessness Agreement* and the 2018-19 Budget measure *Remote Indigenous Housing in the Northern Territory*.

The **urban and regional development** sub-function comprises services to territories and regional development programs, including Community Development Grants and the Building Better Regions Fund. Expenses are estimated to increase by 52.1 per cent in real terms from 2017-18 to 2018-19 reflecting a number of 2018-19 Budget measures including *Building Better Regions Fund – round three, Stronger Communities Programme – round four, Indian Ocean Territories – essential infrastructure and air services*, and *Norfolk Island – additional funding*. Expenses are expected to reduce by 82.0 per cent in real terms from 2018-19 to 2021-22, largely reflecting the completion of projects under key programs, such as Community Development Grants, the National Stronger Regions Fund and the Regional Jobs and Investment packages.

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 26.2 per cent in real terms from 2017-18 to 2018-19 and decrease by 13.7 per cent from 2018-19 to 2021-22. The decrease from 2017-18 to 2018-19 reflects the substantial funding being provided in 2017-18 (\$443.8 million) for the Government's commitment to the Great Barrier Reef, as described in the 2018-19 Budget measure *Great Barrier Reef 2050 Partnership Program*. Decreases from 2018-19 to 2021-22 are primarily due to funding from the Natural Heritage Trust being redirected to the Red Imported Fire Ant Eradication program, Indigenous Partnerships Australia program and World Heritage Properties program. Reductions are partly offset by increased expenses relating to the Emissions Reduction Fund.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Broadcasting	1,426	1,411	1,407	1,404	1,419
Arts and cultural heritage	1,501	1,339	1,323	1,283	1,310
Sport and recreation	438	465	370	331	332
National estate and parks	427	422	418	452	478
Total recreation and culture	3,793	3,638	3,517	3,470	3,539

Total expenses under the recreation and culture function are estimated to decrease by 6.2 per cent in real terms from 2017-18 to 2018-19, and by 9.4 per cent in real terms over the period 2018-19 to 2021-22.

Expenses under the **broadcasting** sub-function are expected to decrease by 3.2 per cent in real terms from 2017-18 to 2018-19, and by 6.4 per cent in real terms from 2018-19 to 2021-22. This reflects the Government's decision to maintain the Australian Broadcasting Corporation's (ABC) operational funding at 2018-19 levels from 2019-20 to 2021-22, which has no impact on funding for transmission and distribution, and the impact of previous efficiency measures applied to the ABC and the Special Broadcasting Corporation (SBS). This indexation pause is partially offset by additional funding for the SBS announced in the 2017-18 Budget and the 2018-19 Budget, and by 2016-17 Budget measures which provided additional operational funding for the ABC and 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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
ABC general operational activities	856	850	851	849	855
SBS general operational activities	318	307	299	294	298
ABC transmission and distribution services	178	181	184	187	190
SBS transmission and distribution services	74	73	73	75	76
Total	1,426	1,411	1,407	1,404	1,419

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

Expenses under the **arts and cultural heritage** sub-function are estimated to decrease by 12.8 per cent in real terms from 2017-18 to 2018-19, and by 8.9 per cent in real terms over the period 2018-19 to 2021-22. This sub-function includes funding for the arts and cultural institutions. The estimated decreases reflect fewer productions applying for and receiving taxation rebates through the Australian Screen Production Incentive and the effect of implementation of efficiencies in previous economic updates. These decreases are partially offset by the 2018-19 Budget measure *Location Incentive Funding Program* which provides funding to encourage large-budget international productions to film in Australia, 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 3.9 per cent in real terms from 2017-18 to 2018-19, and decrease by 33.5 per cent in real terms over the period 2018-19 to 2021-22. The increase in 2018-19 primarily reflects the 2018-19 Budget measure *Sport – building a more active Australia* to provide additional funding for a range of sport initiatives, with the majority of the Government's investment occurring in 2018-19 and 2019-20. The reduction in expenditure over the forward estimates results primarily from a reduction in infrastructure expenditure including the completion of the North Queensland Stadium.

Expenses under the **national estate and parks** sub-function are estimated to decrease by 3.3 per cent in real terms from 2017-18 to 2018-19, and increase by 5.3 per cent in real terms over the period 2018-19 to 2021-22. The decrease from 2017-18 to 2018-19 largely reflects a reduction in short-term expenses for the Australian Antarctic Program. The increase from 2018-19 to 2021-22 reflects 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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Fuel and energy	7,515	7,541	7,814	8,138	8,492
Total fuel and energy	7,515	7,541	7,814	8,138	8,492

Fuel and energy expenses are estimated to decrease by 1.9 per cent in real terms from 2017-18 to 2018-19 and increase by 4.8 per cent in real terms over the period 2018-19 to 2021-22.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Fuel Tax Credits Scheme	6,913	6,922	7,241	7,654	8,114
Resources and Energy	156	122	88	69	64
Renewable Energy	298	342	320	260	172
Other	148	156	165	154	143
Total	7,515	7,541	7,814	8,138	8,492

(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 2.1 per cent in real terms from 2017-18 to 2018-19 and increase by 9.1 per cent in real terms from 2018-19 to 2021-22.

Expenses under the Resources and Energy component are estimated to decrease by 23.8 per cent in real terms from 2017-18 to 2018-19 and decrease by 51.2 per cent in real terms from 2018-19 to 2021-22. This reflects a number of terminating measures, including 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, and the cessation of the Coal Mining Abatement Technology Support Package in 2019-20. The decrease in expenses is partly offset by the Government's decision to fund emerging energy priorities as part of the 2018-19 Budget measure *Powering Forward – delivering more affordable, reliable and sustainable energy*.

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The overall decrease in expenses under the renewable energy component from 2018-19 to 2021-22 reflects the decrease in grants expenses for the Australian Renewable Energy Agency, which is partly offset by an increase in expenses 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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Wool industry	89	89	89	89	89
Grains industry	171	177	179	178	179
Dairy industry	54	52	51	52	52
Cattle, sheep and pig industry	238	241	245	250	253
Fishing, horticulture and other agriculture	432	436	424	411	414
General assistance not allocated to specific industries	36	50	32	25	25
Rural assistance	136	173	160	160	164
Natural resources development	1,098	1,081	706	645	754
General administration	766	772	741	740	746
Total agriculture, forestry and fishing	3,019	3,070	2,628	2,549	2,678

Total expenses under this function are estimated to decrease by 0.5 per cent in real terms from 2017-18 to 2018-19, and decrease by 18.8 per cent in real terms over the period 2018-19 to 2021-22. While expenses under this function are estimated to decrease over the forward estimates, the decrease is partially offset by significant new commitments in the 2018-19 Budget in biosecurity and export services through the *Australian Agriculture and Export Growth Plan*.

The **rural assistance** sub-function is expected to increase by 24.6 per cent in real terms from 2017-18 to 2018-19, and decrease by 11.7 per cent in real terms over the period 2018-19 to 2021-22. The increase in expenses is related to the Regional Investment Corporation which, from 1 July 2018, 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.

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

Component(a)	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Water reform(b)	839	824	475	445	544
Sustainable management - natural resources	21	8	4	0	0
Other	237	248	227	201	211
Total	1,098	1,081	706	645	754

(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 decrease by 3.7 per cent in real terms from 2017-18 to 2018-19 and decrease by 35.0 per cent in real terms from 2018-19 to 2021-22. The decrease 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, including the Australian Technology and Science Growth Plan which supports the Government's commitment to science and innovation as key drivers of business growth, economic prosperity and job opportunities.

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

Sub-function	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Mining, manufacturing and construction	2,979	3,260	3,552	3,681	3,484
Total mining, manufacturing and construction	2,979	3,260	3,552	3,681	3,484

Total expenses under the mining, manufacturing and construction function are expected to increase by 7.0 per cent in real terms from 2017-18 to 2018-19, and decrease by 0.6 per cent in real terms from 2018-19 to 2021-22.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Research and Development Tax Incentive	2,377	2,373	2,466	2,566	2,689
Growing Business Investment	344	314	251	208	190
Northern Australia Infrastructure Facility	41	318	561	641	378
Other	218	255	274	267	226
Total	2,979	3,260	3,552	3,681	3,484

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

Expenses for the Research and Development Tax Incentive, administered by the Australian Taxation Office, are expected to decrease by 2.4 per cent in real terms from 2017-18 to 2018-19, reflecting the *Better targeting the Research and Development Tax Incentive* measure announced in the 2018-19 Budget, which comes into effect on 1 July 2018. Expenses are expected to increase by 5.5 per cent from 2018-19 to 2021-22, reflecting 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 and a combination of terminating measures from 2018-19 to 2020-21.

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 increase by 14.5 per cent in real terms from 2017-18 to 2018-19, reflecting the implementation of new Government initiatives in delivering better Global Positioning System services to support Australian businesses and regional Australians, and the Government's investment of \$497.9 million over five years from 2017-18 for the Australian Technology and Science Growth Plan. The decrease by 17.4 per cent in real terms from 2018-19 to 2021-22 is partially driven by the completion of the Junior Minerals Exploration Incentive 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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Communication	911	1,450	1,471	1,450	1,442
Rail transport	1,547	1,198	1,137	997	647
Air transport	245	426	328	293	282
Road transport	5,895	5,324	4,588	4,133	3,947
Sea transport	413	434	439	444	462
Other transport and communication	241	230	222	207	197
Total transport and communication	9,252	9,062	8,187	7,523	6,976

Total expenses under this function are estimated to decrease by 4.2 per cent in real terms between 2017-18 and 2018-19, and by 28.4 per cent in real terms from 2018-19 to 2021-22.

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 this sub-function are estimated to increase by 55.6 per cent in real terms between 2017-18 and 2018-19, and decrease by 7.4 per cent in real terms from 2018-19 to 2021-22. The increase primarily reflects commencement in 2018-19 of the Regional Broadband Scheme, which provides funding for regional fixed wireless and satellite connections through the National Broadband Network. The expected decrease in expenses from 2020-21 to 2021-22 reflects the anticipated completion of projects, phased funding for the Digital Transformation Agency and the conclusion of the Regional and Small Publishers Innovation Fund in 2020-21.

The expenses under the **rail transport** sub-function primarily consist of grants provided under the Infrastructure Investment Programme. Expenses are estimated to decrease by 24.3 per cent in real terms between 2017-18 to 2018-19, and decrease by 49.8 per cent in real terms from 2018-19 to 2021-22. The decrease in expenditure largely reflects the expected completion of projects including the Ballarat Rail Line Upgrade and the Goodwood and Torrens junction in South Australia. In addition to expenditure on rail transport, the Government is providing an equity investment of \$9.0 billion for the delivery of Inland Rail. In the 2018-19 Budget the Government has made substantial new commitments to major rail projects over the next 10 years, including a commitment of up to \$5.0 billion to the Melbourne Airport Rail Link, \$475.0 million for a rail connection to the Monash employment centre in Melbourne’s south-east and \$390.0 million for the Beerburum to Nambour Rail Upgrade.

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 increase by 70.0 per cent in real terms between 2017-18 and 2018-19, primarily due to expenditure for Western Sydney Airport preparatory works and the 2018-19 Budget measure *Aviation, Air Cargo and International Mail Security Package*. Total expenses under the sub-function are expected to decrease by 38.5 per cent in real terms from 2018-19 to 2021-22 as the Western Sydney Airport preparatory works are completed. In addition, however, the Government is providing an equity investment of up to \$5.3 billion in WSA Co to complete the construction of the airport. Total expenses under the **sea transport** sub-function are estimated to increase by 2.7 per cent in real terms between 2017-18 and 2018-19, reflecting implementation of the National System for Domestic Commercial Vessel Safety, but decrease by 1.0 per cent in real terms from 2018-19 to 2021-22 due to slower growth in the forecast demand for the Tasmanian Freight Equalisation Scheme.

The expenses under the **road transport** sub-function primarily consist of grants provided under the Infrastructure Investment Programme. Expenses are estimated to decrease by 11.7 per cent in real terms between 2017-18 and 2018-19, and decrease by 31.0 per cent in real terms from 2018-19 to 2021-22. The decrease in expenses reflects the expected completion of projects including the Woolgoolga to Ballina section of the Pacific Highway and the Northern Connector and other current North-South corridor projects in Adelaide. This decrease is partially offset by existing funding for the Bruce Highway. In the 2018-19 Budget the Government has made substantial new commitments to major road initiatives over the next 10 years, including \$3.5 billion for the Roads of Strategic Importance, \$1.8 billion for the North-East Link in Victoria, an additional \$1.4 billion for the Adelaide North-South Corridor, \$581 million for the Tonkin Highway and \$560 million for the Bunbury Outer Ring Road in Western Australia.

Total expenses under the **other transport and communication** sub-function are estimated to decrease by 6.5 per cent in real terms between 2017-18 and 2018-19 and decrease by 20.5 per cent in real terms from 2018-19 to 2021-22. This primarily reflects a decrease in departmental funding for the Infrastructure, Regional Development and Cities portfolio associated with the expected completion of the Government's preparatory works for the Western Sydney Airport.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Tourism and area promotion	182	164	162	173	177
Total labour and employment affairs	3,832	3,782	3,647	3,608	3,637
<i>Vocational and industry training</i>	1,201	1,214	1,163	1,152	1,158
<i>Labour market assistance to job seekers and industry</i>	1,948	1,899	1,788	1,755	1,764
<i>Industrial relations</i>	683	669	696	700	715
Immigration	3,960	3,048	2,504	2,393	2,378
Other economic affairs nec	2,238	2,476	2,327	2,225	2,154
Total other economic affairs	10,212	9,471	8,640	8,400	8,347

Total expenses under the other economic affairs function are expected to decrease by 9.3 per cent in real terms from 2017-18 to 2018-19, and decrease by 18.0 per cent in real terms from 2018-19 to 2021-22.

Expenses under the **vocational and industry training** sub-function are expected to decrease by 1.1 per cent in real terms from 2017-18 to 2018-19, and decrease by 11.2 per cent in real terms between 2018-19 and 2021-22. The decline in expenses primarily reflects policy changes announced in the 2018-19 Budget measures *Industry Workforce Training Program – efficiencies* and *National Training System – Commonwealth Own Purpose Expenses Program – efficiencies*.

Expenses under the **labour market assistance to job seekers and industry** sub-function are expected to decrease by 4.7 per cent in real terms from 2017-18 to 2018-19. Expenses between 2018-19 and 2021-22 are expected to decrease by 13.5 per cent in real terms mainly as a result of the reduction in the number of unemployment benefit recipients.

Expenses under the **industrial relations** sub-function are expected to decrease by 4.2 per cent in real terms from 2017-18 to 2018-19, reflecting a forecast reduction in long service leave payments to employees in the coal mining industry under the *Coal Mining Industry (Long Service Leave) Administration Act 1992*.

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.

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

Component(a)	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Management of unlawful non-citizens	2,690	1,873	1,439	1,379	1,376
Citizenship, visas and migration	807	744	687	640	625
Regional co-operation and refugee and humanitarian assistance	462	432	378	375	378
Total other economic affairs	3,960	3,048	2,504	2,393	2,378

(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 24.7 per cent in real terms between 2017-18 and 2018-19, and by 27.4 per cent in real terms from 2018-19 to 2021-22. 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 8.2 per cent in real terms from 2017-18 to 2018-19, and decrease by 19.0 per cent in real terms from 2018-19 to 2021-22.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Promotion of Australia's export and other international economic interests(b)	344	358	350	349	348
Operating costs for:					
Department of Industry, Innovation and Science	516	498	481	469	440
Australian Securities and Investments Commission	442	438	455	440	418
Bureau of Meteorology	352	357	359	359	338
IP Australia	190	191	215	217	222
Australian Competition and Consumer Commission	147	150	142	135	136
Australian Prudential Regulation Authority	142	145	144	142	142
National Partnership Payments - Competition and Productivity Enhancing Reform	0	225	70	5	0
Other	104	113	112	110	111
Total	2,238	2,476	2,327	2,225	2,154

(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 Department of Industry, Innovation and Science are expected to decrease by 5.6 per cent in real terms from 2017-18 to 2018-19 and decrease by 17.9 per cent in real terms from 2018-19 to 2021-22. The decrease in expenses reflect efficiencies associated with implementing Whole-of-Government initiatives such as the Shared Services Program and the Business Grants Hub, and a number of terminating measures over the 2017-18 to 2020-21 period.

Expenses for the Bureau of Meteorology (the Bureau) are projected to decrease by 11.9 per cent in real terms from 2018-19 to 2021-22. The decrease in expenses largely reflects the expected completion of information and communications technology (ICT) projects, including the first tranche of investment to strengthen the Bureau's ICT security and resilience announced in the 2017-18 Budget. The Government is making a further significant capital investment (tranche two) to further improve the Bureau's ICT systems and observations network infrastructure in the 2018-19 Budget measure *Bureau of Meteorology – improved security and resilience for ICT systems – tranche two*.

Expenses for National Partnership Payments – Competition and Productivity Enhancing Reform are expected to increase from 2017-18 to 2018-19 reflecting payments to the States for the Small Business Regulatory Reform Agenda, which provides \$300 million to reduce the regulatory burden on small businesses.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
Public debt interest	17,047	17,811	18,355	18,047	17,806
<i>Interest on Commonwealth Government's behalf</i>	17,047	17,811	18,355	18,047	17,806
Nominal superannuation interest	9,241	10,648	11,049	11,387	11,715
General purpose inter-government transactions	66,925	69,446	73,096	76,847	80,665
<i>General revenue assistance - States and Territories</i>	64,492	68,196	70,537	74,187	77,895
<i>Local government assistance</i>	2,433	1,249	2,560	2,660	2,770
Natural disaster relief(a)	109	17	10	0	0
Contingency reserve	-1,916	101	3,287	6,271	11,274
Total other purposes	91,407	98,023	105,797	112,552	121,460

(a) Amounts for the Natural Disaster Relief and Recovery Arrangements (NDRRA) reflect 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 4.9 per cent in real terms from 2017-18 to 2018-19, and by 15.3 per cent over the period 2018-19 to 2021-22.

Expenses under the **public debt interest** sub-function are expected to increase by 2.2 per cent in real terms from 2017-18 to 2018-19 and decrease by 7.0 per cent from 2018-19 to 2021-22. The increase in expenses reflects expected issuance of Australian Government Securities. The decrease in expenses reflects a drop in expected 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 2.4 per cent from 2018-19 to 2021-22, reflecting the growth in the Australian Government's superannuation liability. Further information on the Future Fund can be found in Statement 7.

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Expenses under the **general purpose inter-government transactions** sub-function are expected to grow by 8.1 per cent from 2018-19 to 2021-22. Nearly all of the expenses under this sub-function relate 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 general revenue assistance to the States and Territories can be found in Budget Paper No. 3, *Federal Financial Relations 2018-19*.

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 49.8 per cent in real terms from 2017-18 to 2018-19, reflecting the bringing forward of the first two instalments of the 2018-19 Financial Assistance Grants program for payment in 2017-18. 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. 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. The Contingency Reserve also makes provision for future increases in new medicine listings. However, in this budget statement, those expenses are allocated to the pharmaceutical benefits and services sub-function (see page 6-19 for further information).

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 2018-19 Budget increases expenses by \$101 million in 2018-19, and increases expenses by \$3.3 billion in 2019-20, \$6.3 billion in 2020-21 and \$11.3 billion in 2021-22. 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 2018-19 Budget includes a provision of:

- zero in the Budget year 2018-19;
- ½ of a percentage point of total general government sector expenses (excluding GST payments to the States) in the first forward year 2019-20 (\$2.2 billion);
- 1 per cent of expenses in the second forward year 2020-21 (\$4.4 billion); and
- 2 per cent provision of expenses in the third forward year 2021-22 (\$9.2 billion).

The drawdown of the CBA reduced expenses by \$1.1 billion in 2018-19; \$1.1 billion in 2019-20 and \$2.2 billion in 2020-21. 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: Public Investment and Productivity* 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 \$4.9 billion in 2018-19, \$4.8 billion higher than the net capital investment in 2017-18. This change is largely due to funding associated with the implementation of the *2016 Defence White Paper*.

Details of movements are further explained in the following section.

Table 18: Estimates of total net capital investment

	MYEFO	Revised	Estimates		Projections	
	2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
Total net capital investment (\$m)	193	748	4,989	4,923	6,720	8,000
Per cent of GDP	0.0	0.0	0.3	0.2	0.3	0.4

Reconciliation of net capital investment since the 2017-18 Budget

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2017-18 Budget, is provided in Table 19.

Table 19: Reconciliation of net capital investment estimates

	Estimates			Projections	Total
	2017-18	2018-19	2019-20	2020-21	
	\$m	\$m	\$m	\$m	\$m
2017-18 Budget net capital investment	484	4,770	4,892	6,037	16,183
Changes from 2017-18 Budget to 2017-18 MYEFO					
Effect of policy decisions(a)	70	72	-29	13	126
Effect of parameter and other variations	-361	-19	398	44	63
Total variations	-290	53	369	57	189
2017-18 MYEFO net capital investment	193	4,823	5,261	6,094	16,371
Changes from 2017-18 MYEFO to 2018-19 Budget					
Effect of policy decisions(a)	91	279	243	135	748
Effect of parameter and other variations	464	-113	-581	491	260
Total variations	554	165	-338	626	1,008
2018-19 Budget net capital investment	748	4,989	4,923	6,720	17,379

(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 2018-19 has increased by \$165 million since the 2017-18 MYEFO. This increase is driven by the effect of new policy decisions of \$279 million, partially offset by a decrease of \$113 million resulting from parameter and other variations.

Further information on the capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2018-19*.

Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2017-18 to 2021-22 are provided in Table 20.

Table 20: Estimates of net capital investment by function

	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
General public services	-222	-165	-63	-118	-248
Defence	2,693	3,876	5,788	7,023	8,609
Public order and safety	179	135	-29	-125	-195
Education	-2	17	3	-3	-3
Health	94	48	3	-32	-31
Social security and welfare	285	49	-60	-154	-172
Housing and community amenities	-10	-18	-27	-38	36
Recreation and culture	115	178	66	-100	-117
Fuel and energy	3	1	-1	-1	-1
Agriculture, forestry and fishing	459	741	235	220	124
Mining, manufacturing and construction	11	10	15	12	-1
Transport and communication	-3,104	32	-19	-38	-18
Other economic affairs	235	40	4	-55	-110
Other purposes	12	45	-992	129	129
Total net capital investment	748	4,989	4,923	6,720	8,000

A significant component of the Government's net capital investment occurs in the defence function, and relates to 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** – reflects the divestment of the Commonwealth Science and Industrial Research Organisation (CSIRO)'s property portfolio, whereby the funding received will be used for capital upgrades on a number of CSIRO's research facilities. The decreasing trend also reflects the Australian Taxation Office shifting to ICT fee for service arrangements;
- **defence** – funding associated with the implementation of the *2016 Defence White Paper* to build the future Defence Force and capability over 10 years from 2016. These investments are guided through the Defence Integrated Investment Program. Major investments include military equipment such as ships, aircraft and armoured vehicles, ICT capabilities and infrastructure;
- **public order and safety** – reflects the completion of investment in national security capabilities from previous Budgets for law enforcement agencies, and funding from 2018-19 for the Australian Criminal Intelligence Commission to enhance its technological capability to detect and disrupt serious and organised crime and terrorist threats;

- **social security and welfare** – continues to reflect the Commonwealth’s investment in ICT capabilities and infrastructure for the Department of Human Services, including for the 2018-19 Budget measure *Delivering Australia’s Digital Future – Welfare Payment Infrastructure Transformation – Tranche Three*, and for the National Disability Insurance Agency for the ongoing rollout of the National Disability Insurance Scheme;
- **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 2019-20 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 and water infrastructure investment under the Sustainable Rural Water Use and Infrastructure Program in 2017-18 and 2018-19; and
- **transport and communication** – reflects the reissue and auction by the Australian Communications and Media Authority of spectrum licences in the 700 MHz and 2.1 GHz bands, and multiband residual lots.

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	
	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m
General public services	1,034	803	826	750	677
Defence	8,863	10,184	12,142	14,009	16,148
Public order and safety	636	601	457	359	308
Education	24	45	30	27	26
Health	156	115	64	56	58
Social security and welfare	632	432	319	225	222
Housing and community amenities	68	70	95	100	46
Recreation and culture	469	516	408	275	275
Fuel and energy	6	6	4	3	4
Agriculture, forestry and fishing	503	785	279	264	167
Mining, manufacturing and construction	17	19	24	22	9
Transport and communication	96	96	49	30	44
Other economic affairs	684	506	435	365	306
Other purposes	12	45	63	129	129
General government purchases of non-financial assets	13,199	14,222	15,197	16,613	18,419

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

	Actuals		Estimates		Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m	\$m
General public services						
Legislative and executive affairs	1,251	1,212	1,484	1,142	1,166	1,492
Financial and fiscal affairs	6,515	7,352	7,101	7,203	6,860	7,197
Foreign affairs and economic aid	6,383	5,582	5,798	6,747	5,664	5,601
General research	2,695	3,221	2,995	3,057	3,143	3,207
General services	625	692	681	684	621	642
Government superannuation benefits	8,811	6,917	5,007	4,787	4,800	4,783
Total general public services	26,280	24,975	23,065	23,621	22,253	22,923
Defence	28,051	30,982	31,215	30,866	33,061	35,164
Public order and safety						
Courts and legal services	1,188	1,267	1,224	1,200	920	916
Other public order and safety	4,001	3,983	4,100	4,063	3,931	3,914
Total public order and safety	5,189	5,251	5,324	5,263	4,851	4,829
Education						
Higher education	9,390	9,676	9,756	9,891	10,201	10,292
Vocational and other education	2,003	1,795	1,810	1,832	1,901	1,885
Schools	17,081	18,299	19,468	20,748	22,134	23,502
<i>Non-government schools</i>	<i>10,586</i>	<i>11,181</i>	<i>11,781</i>	<i>12,405</i>	<i>13,098</i>	<i>13,773</i>
<i>Government schools</i>	<i>6,495</i>	<i>7,118</i>	<i>7,687</i>	<i>8,343</i>	<i>9,036</i>	<i>9,729</i>
School education - specific funding	647	673	674	536	191	163
Student assistance	3,104	2,923	2,654	2,823	2,956	3,149
General administration	369	380	373	354	347	344
Total education	32,594	33,746	34,736	36,185	37,730	39,336
Health						
Medical services and benefits	30,016	31,110	32,012	33,519	34,983	36,574
Pharmaceutical benefits and services	13,379	13,206	12,822	12,483	11,044	11,050
Assistance to the States for public hospitals	18,638	20,690	21,189	22,301	23,468	24,692
Hospital services(a)	2,343	1,658	1,458	1,393	1,339	1,330
Health services	6,198	6,885	7,081	6,637	7,096	7,204
General administration	3,063	3,172	3,350	3,131	3,127	3,168
Aboriginal and Torres Strait Islander health	807	882	914	952	992	1,024
Total health	74,445	77,603	78,825	80,416	82,049	85,041

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

	Actuals		Estimates		Projections	
	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m
Social security and welfare						
Assistance to the aged	61,754	63,865	66,771	70,385	73,837	77,422
Assistance to veterans and dependants	6,580	6,504	6,213	6,011	5,914	5,857
Assistance to people with disabilities	30,555	36,958	47,966	49,667	51,110	53,389
Assistance to families with children	36,001	36,119	36,845	38,007	38,183	38,845
Assistance to the unemployed and the sick	11,046	11,143	10,165	11,035	11,391	11,915
Other welfare programmes	1,343	1,838	1,741	1,656	1,639	1,406
Assistance for Indigenous Australians nec	2,167	2,184	2,130	2,153	2,186	2,196
General administration	3,748	4,010	4,141	3,654	3,276	3,304
Total social security and welfare	153,192	162,621	175,971	182,568	187,535	194,335
Housing and community amenities						
Housing	3,094	3,340	3,124	3,208	3,161	3,097
Urban and regional development	533	845	1,315	992	444	254
Environment protection	998	1,250	944	919	849	875
Total housing and community amenities	4,625	5,435	5,382	5,119	4,454	4,225
Recreation and culture						
Broadcasting	1,484	1,426	1,411	1,407	1,404	1,419
Arts and cultural heritage	1,348	1,501	1,339	1,323	1,283	1,310
Sport and recreation	382	438	465	370	331	332
National estate and parks	409	427	422	418	452	478
Total recreation and culture	3,623	3,793	3,638	3,517	3,470	3,539
Fuel and energy	6,726	7,515	7,541	7,814	8,138	8,492
Agriculture, forestry and fishing						
Wool industry	75	89	89	89	89	89
Grains industry	201	171	177	179	178	179
Dairy industry	54	54	52	51	52	52
Cattle, sheep and pig industry	200	238	241	245	250	253
Fishing, horticulture and other agriculture	315	432	436	424	411	414
General assistance not allocated to specific industries	34	36	50	32	25	25
Rural assistance	136	136	173	160	160	164
Natural resources development	867	1,098	1,081	706	645	754
General administration	745	766	772	741	740	746
Total agriculture, forestry and fishing	2,626	3,019	3,070	2,628	2,549	2,678

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

	Actuals		Estimates		Projections	
	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m
Mining, manufacturing and construction	3,253	2,979	3,260	3,552	3,681	3,484
Transport and communication						
Communication	663	911	1,450	1,471	1,450	1,442
Rail transport	1,383	1,547	1,198	1,137	997	647
Air transport	216	245	426	328	293	282
Road transport	6,256	5,895	5,324	4,588	4,133	3,947
Sea transport	369	413	434	439	444	462
Other transport and communication	252	241	230	222	207	197
Total transport and communication	9,139	9,252	9,062	8,187	7,523	6,976
Other economic affairs						
Tourism and area promotion	189	182	164	162	173	177
Total labour and employment affairs	3,444	3,832	3,782	3,647	3,608	3,637
<i>Vocational and industry training</i>	<i>1,074</i>	<i>1,201</i>	<i>1,214</i>	<i>1,163</i>	<i>1,152</i>	<i>1,158</i>
<i>Labour market assistance to job seekers and industry</i>	<i>1,667</i>	<i>1,948</i>	<i>1,899</i>	<i>1,788</i>	<i>1,755</i>	<i>1,764</i>
<i>Industrial relations</i>	<i>703</i>	<i>683</i>	<i>669</i>	<i>696</i>	<i>700</i>	<i>715</i>
Immigration	3,594	3,960	3,048	2,504	2,393	2,378
Other economic affairs nec	2,126	2,238	2,476	2,327	2,225	2,154
Total other economic affairs	9,354	10,212	9,471	8,640	8,400	8,347
Other purposes						
Public debt interest	16,076	17,047	17,811	18,355	18,047	17,806
<i>Interest on Commonwealth Government's behalf</i>	<i>16,076</i>	<i>17,047</i>	<i>17,811</i>	<i>18,355</i>	<i>18,047</i>	<i>17,806</i>
Nominal superannuation interest	8,445	9,241	10,648	11,049	11,387	11,715
General purpose inter-government transactions	64,027	66,925	69,446	73,096	76,847	80,665
<i>General revenue assistance - States and Territories</i>	<i>60,554</i>	<i>64,492</i>	<i>68,196</i>	<i>70,537</i>	<i>74,187</i>	<i>77,895</i>
<i>Local government assistance</i>	<i>3,473</i>	<i>2,433</i>	<i>1,249</i>	<i>2,560</i>	<i>2,660</i>	<i>2,770</i>
Natural disaster relief(b)	162	109	17	10	0	0
Contingency reserve	0	-1,916	101	3,287	6,271	11,274
Total other purposes	88,710	91,407	98,023	105,797	112,552	121,460
Total expenses	447,807	468,788	488,584	504,171	518,247	540,830

- (a) The hospital services sub-function predominantly reflects Commonwealth funding to the States and Territories for veterans' hospital services.
- (b) Amounts for the Natural Disaster Relief and Recovery Arrangements (NDRRA) reflect 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.