

STATEMENT 5: EXPENSES AND NET CAPITAL INVESTMENT

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

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

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

The main trends are:

- in 2019-20 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 education and the social security and welfare functions; and
- net capital investment in 2019-20 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 0.7 per cent in real terms in 2019-20, with the growth rate remaining stable in 2020-2021. This reflects slower growth across a range of Government programs, partially offset by growth in 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 25.0 per cent in 2019-20 to 24.6 per cent in 2022-23. 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 23.8 per cent of GDP in 2007-08 to 25.9 per cent of GDP in 2013-14.

Table 1.1: Estimates of general government sector expenses

	MYEFO	Revised	Estimates		Projections	
	2018-19	2018-19	2019-20	2020-21	2021-22	2022-23
Total expenses (\$b)	488.4	487.3	500.9	516.1	535.9	559.9
Real growth on						
previous year (%) ^(a)	4.2	4.2	0.7	0.7	1.5	1.9
Per cent of GDP	25.2	25.1	25.0	24.8	24.7	24.6

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

As set out in *Statement 3: Fiscal Strategy and Outlook* 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 1.3 per cent per annum in real terms over the four years to 2022-23 and total payments are expected to decline as a percentage of GDP from 24.6 per cent in 2019-20 to 24.5 per cent in 2022-23.

Table 1.2: Estimates of general government sector payments

	MYEFO	Revised	Estimates		Projections	
	2018-19	2018-19	2019-20	2020-21	2021-22	2022-23
Total payments (\$b)	483.4	482.7	493.3	511.3	533.2	557.7
Real growth on						
previous year (%) ^(a)	4.8	4.9	0.1	1.3	1.9	2.0
Per cent of GDP	24.9	24.9	24.6	24.6	24.5	24.5

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

Table 2 provides a reconciliation of expense estimates between the 2018-19 Budget, the 2018-19 *Mid-Year Economic and Fiscal Outlook* (MYEFO) and the 2019-20 Budget showing the effect of policy decisions, and economic parameter and other variations.

Table 2: Reconciliation of expense estimates

	Estimates			Projections	
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	Total \$m
2018-19 Budget expenses	488,584	504,171	518,247	540,830	2,051,833
Changes from 2018-19 Budget to 2018-19 MYEFO					
Effect of policy decisions(a)	1,867	4,695	4,559	4,018	15,140
Effect of parameter and other variations	-2,089	-4,475	-5,021	-6,296	-17,881
Total variations	-221	220	-462	-2,278	-2,741
2018-19 MYEFO expenses	488,363	504,392	517,785	538,552	2,049,092
Changes from 2018-19 MYEFO to 2019-20 Budget					
Effect of policy decisions(a)	2,808	1,506	2,688	3,020	10,023
Effect of economic parameter variations					
Total economic parameter variations	-1,224	-2,469	-3,640	-3,908	-11,242
<i>Unemployment benefits</i>	-193	-27	-36	67	-188
<i>Prices and wages</i>	-69	-728	-920	-910	-2,628
<i>Interest and exchange rates</i>	36	105	-82	-161	-102
<i>GST payments to the States</i>	-998	-1,819	-2,603	-2,904	-8,324
Public debt interest	-81	-473	-638	-991	-2,182
Program specific parameter variations	-358	-2,332	243	45	-2,401
Other variations	-2,165	248	-333	-804	-3,054
Total variations	-1,020	-3,519	-1,680	-2,637	-8,856
2019-20 Budget expenses	487,343	500,872	516,105	535,915	2,040,236

(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 decreased expenses by \$8.9 billion over the four years from 2018-19 to 2021-22 compared to the 2018-19 MYEFO. In the same period, program specific parameter variations, public debt interest and other variations have decreased expenses by \$7.6 billion, and economic parameter variations have decreased expenses by \$11.2 billion compared to the 2018-19 MYEFO.

Estimated expenses by function

Table 3 sets out the estimates of Australian Government general government sector expenses by function for the period 2018-19 to 2022-23.

Table 3: Estimates of expenses by function

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
General public services	26,048	23,614	23,524	23,828	23,802
Defence	31,014	32,243	32,772	34,739	37,629
Public order and safety	5,760	5,919	5,723	5,730	5,613
Education	34,773	36,350	38,047	39,339	40,893
Health	80,569	81,777	82,530	85,552	89,544
Social security and welfare	172,749	180,125	186,852	193,607	200,217
Housing and community amenities	5,278	5,907	5,264	5,523	4,767
Recreation and culture	3,988	3,849	3,738	3,714	3,696
Fuel and energy	7,956	8,171	8,515	8,865	9,285
Agriculture, forestry and fishing	3,149	2,871	3,075	2,983	3,014
Mining, manufacturing and construction	2,592	3,422	3,730	3,408	2,926
Transport and communication	8,105	9,038	9,225	9,717	11,149
Other economic affairs	10,281	9,297	8,987	8,926	8,996
Other purposes	95,081	98,287	104,122	109,984	118,343
Total expenses	487,343	500,872	516,105	535,915	559,874

Major expense trends between 2018-19 and 2019-20, and from 2019-20 over the forward years include movements in the following functions:

- **general public services** – the decrease in expenses between 2018-19 and 2019-20 largely reflects the use of different discount rates applied to superannuation expenses;
- **defence** – the increase in expenses from 2019-20 to 2022-23 reflects the funding required to deliver the plans set out in the *2016 Defence White Paper*;
- **education** – the increase in expenses from 2019-20 to 2022-23 largely reflects the school funding arrangements implemented under the *Quality Schools* package and increased funding for non-government schools under the 2018-19 MYEFO measure *Response to the Review of the Socio-Economic Status Score Methodology*;
- **health** – the increase in expenses from 2019-20 to 2022-23 is largely driven by growth in the **assistance to the States for public hospitals** and **medical services and benefits** sub-functions. The increase in payments for public hospitals reflects higher growth in activity, and the growth in expenditure for medical services reflects the growth in use of high value items as well as the introduction of measures to strengthen primary care, including a new chronic disease care funding model and increased funding for diagnostic imaging services;

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- **social security and welfare** – the increase in expenses from 2019-20 to 2022-23 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 child care support for families;
- **housing and community amenities** – the decrease in expenses from 2018-19 to 2019-20 and the decrease from 2019-20 to 2022-23 largely reflects the scheduled completion of payments to the states and territories under National Partnership Agreements and the completion of urban and regional development projects;
- **transport and communication** – the increased profile of expenses from 2019-20 to 2022-23 largely reflects new and existing commitments to major infrastructure projects within the road and rail transport sub-functions; and
- **other purposes** – the increase in expenses from 2018-19 to 2022-23 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 59.6 per cent of all government expenses in 2019-20. Further details of spending trends against all functions, including movements in expenses from 2018-19 to 2019-20, are set out under individual function headings.

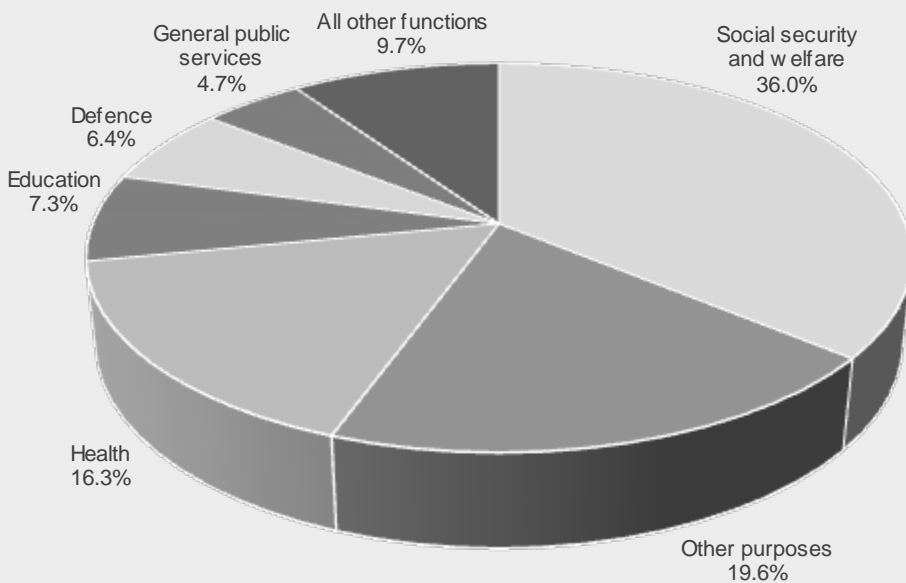
Box 1: Where does government spending go in 2019-20?

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 2019-20



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

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Program expenses

Table 3.1 reports the top 20 expense programs in the 2019-20 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 2019-20

Program(a)	Function	Estimates			Projections	
		2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
Revenue assistance to the States and Territories	Other purposes	67,134	69,053	71,256	75,067	78,608
Income Support for Seniors	SSW	46,741	48,301	50,265	52,285	54,766
Medical benefits Assistance to the States for public hospitals	Health	24,227	25,526	26,858	28,357	30,085
Aged care services	SSW	21,708	22,535	23,622	24,815	26,183
Family tax benefit National Disability Insurance Scheme	SSW	18,764	20,027	20,902	22,374	23,903
Income Support for People with Disability	SSW	17,630	18,013	17,913	18,237	18,333
Income Support for People with Disability	SSW	12,910	17,439	22,181	23,470	24,755
Non-government schools national support	Education	16,699	17,057	17,044	17,618	17,889
Pharmaceutical benefits, services and supply	Health	11,956	12,554	13,518	14,245	14,980
Job seeker income support	SSW	12,728	11,971	10,173	10,152	10,384
Income support for carers	SSW	10,476	10,834	10,861	11,337	11,754
Public sector superannuation(b)	Other purposes; General public services	8,770	9,207	9,493	10,038	10,552
Government schools national support	Education	8,983	8,945	9,064	9,221	9,359
Child Care Subsidy	SSW	7,684	8,326	8,995	9,673	10,385
Fuel Tax Credits Scheme	Fuel and energy	7,725	8,267	8,642	9,108	9,646
Commonwealth Grants Scheme	Education	7,168	7,504	7,937	8,424	8,966
Air Force capabilities	Defence	7,053	7,212	7,341	7,467	7,581
Army Capabilities	Defence	6,534	6,945	7,644	7,894	8,239
Private Health Insurance	Health	6,760	6,888	7,607	7,896	8,507
Sub-total		6,170	6,313	6,423	6,601	6,809
Other programs		327,821	342,916	357,741	374,277	391,684
Total expenses		159,522	157,956	158,364	161,638	168,190
		487,343	500,872	516,105	535,915	559,874

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

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

General government sector expenses

General public services

The general public services function includes expenses to support the organisation and operation of government such as those related to: the Parliament, the Governor-General; the 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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Legislative and executive affairs	1,533	1,196	1,197	1,528	1,199
Financial and fiscal affairs	6,922	7,344	7,287	7,593	7,495
Foreign affairs and economic aid	5,750	6,253	6,211	5,697	5,918
General research	3,012	3,159	3,212	3,330	3,476
General services	665	651	592	597	581
Government superannuation benefits	8,166	5,011	5,025	5,083	5,134
Total general public services	26,048	23,614	23,524	23,828	23,802

Total general public services expenses are estimated to decrease by 11.2 per cent in real terms from 2018-19 to 2019-20 and decrease by 6.1 per cent in real terms over the period 2019-20 to 2022-23.

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 2018-19 to 2022-23. The decrease is partially offset by further enhancements in compliance activities undertaken by the Australian Taxation Office through the 2019-20 Budget measure *Tax Integrity – extension and expansion of the ATO Tax Avoidance Taskforce on Large Corporates, Multinationals and High Wealth Individuals*.

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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Foreign aid(b)	3,517	3,947	3,878	3,465	3,657
Diplomacy(c)	1,019	1,050	1,044	923	959
Payments to international organisations	445	503	525	556	580
Passport services	242	238	240	242	246
International police assistance	204	196	197	179	143
International agriculture research and development	128	121	122	119	117
Consular services	97	104	104	104	104
Finance and insurance services for Australian exporters and investors	11	7	7	6	5
Other	87	88	95	103	107
Total	5,750	6,253	6,211	5,697	5,918

- (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 6.6 per cent in real terms from 2018-19 to 2019-20, and are forecast to decrease by 11.8 per cent in real terms from 2019-20 to 2022-23.

The increase in expenses from 2018-19 to 2019-20 and the decrease over the period 2019-20 to 2022-23 reflects the payment cycles of Australia's contributions under the multi-year funding arrangements for multilateral funds such as the Asian Development Fund and the World Bank's International Development Association. The decrease over the period 2019-20 to 2022-23 is partially offset by the Government's 2018-19 Budget decision *Maintaining the Level of Official Development Assistance* to maintain spending at \$4.0 billion per year over the forward estimates period with indexation to recommence in 2022-23. The Government continues to invest in significant policies including 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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Research - science services and innovation fund	1,153	1,142	1,166	1,191	1,214
Discovery - research and research training	495	508	515	527	538
Science and technology solutions	354	392	370	406	399
Linkage - cross sector research partnerships	272	286	293	298	303
Supporting science and commercialisation	234	283	280	311	282
Research capacity	168	191	245	259	401
Other	337	357	343	340	338
Total	3,012	3,159	3,212	3,330	3,476

(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 Department of Industry, Innovation and Science (DIIS), the Commonwealth Scientific and Industrial Research Organisation (CSIRO), the Australian Nuclear Science and Technology Organisation (ANSTO), the Australian Institute of Marine Science (AIMS), the Department of Education and Training, and the Australian Research Council (ARC).

Total expenses under this sub-function are expected to increase by 2.7 per cent in real terms from 2018-19 to 2019-20 and will increase by 2.6 percent from 2019-20 to 2022-23. The increase in expenses for this sub-function primarily relates to the 2019-20 Budget measure *Strengthening the Australian Nuclear Science and Technology Organisation* and the 2018-19 Budget measure *National Research Infrastructure Investment Plan – implementation of Government response* that expanded the National Collaborative Research Infrastructure Strategy.

The fall in expenses from 2018-19 to 2019-20 in the **government superannuation benefits** sub-function reflects the use of different discount rates. In accordance with accounting standards, the superannuation expenses for 2018-19 were calculated using the long-term government bond rate as at 1 July 2018 that best matched each individual scheme's liability duration. These rates were broadly between 2.7 and 3.1 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).

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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Defence	31,014	32,243	32,772	34,739	37,629
Total defence	31,014	32,243	32,772	34,739	37,629

Total expenses for the **defence** sub-function are estimated to increase by 1.9 per cent in real terms from 2018-19 to 2019-20, and by 8.8 per cent in real terms over the period 2019-20 to 2022-23, reflecting funding to deliver the 2016 *Defence White Paper*, and the Government's commitment to increase Defence's funding including through the 2019-20 Budget measure *Additional funding to support Defence Capability*.

\$679.4 million will be provided in the 2019-20 Budget to support major Australian Defence Force Operations in the Middle East and the protection of Australia's borders and offshore maritime interests.

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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Courts and legal services	1,266	1,396	1,467	1,455	1,316
Other public order and safety	4,493	4,523	4,256	4,274	4,297
Total public order and safety	5,760	5,919	5,723	5,730	5,613

Total expenses for the public order and safety function are estimated to increase by 0.7 per cent in real terms from 2018-19 to 2019-20, and decrease by 11.6 per cent in real terms over the period 2019-20 to 2022-23.

Expenses within the **courts and legal services** sub-function are estimated to increase by 8.0 per cent in real terms from 2018-19 to 2019-20, mainly reflecting increased resourcing for the Federal Court, including for an expansion of its jurisdiction to include corporate crime, funding for the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability and continued funding under the National Partnership on Legal Assistance Services. Expenses are expected to decrease by 12.1 per cent in real terms from 2019-20 to 2022-23, reflecting that the majority of the funding for the Royal Commission will be provided from 2019-20 to 2021-22.

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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Policing and law enforcement	3,094	3,060	2,929	2,968	2,993
Border protection(b)	1,399	1,463	1,327	1,306	1,304
Total	4,493	4,523	4,256	4,274	4,297

(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 decrease by 1.4 per cent in real terms from 2018-19 to 2019-20. There is an expected decrease of 11.5 per cent in real terms from 2019-20 to 2022-23, which mainly reflects the termination of a number of measures that are subject to future Government consideration and additional short-term funding being provided to Home Affairs in 2019-20 for Border Enforcement activities. The decrease is partially offset by significant

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funding increases for the Australian Federal Police and the National Security Agencies for measures announced in the 2019-20 Budget, the *National Security Agencies – additional resourcing* and *Whole of Government Drug Strategy* measures.

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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Higher education	9,704	9,856	10,118	10,256	10,372
Vocational and other education	1,675	1,699	1,697	1,723	1,620
Schools	19,641	20,880	22,513	23,917	25,365
<i>Non-government schools</i>	<i>11,956</i>	<i>12,554</i>	<i>13,518</i>	<i>14,245</i>	<i>14,980</i>
<i>Government schools</i>	<i>7,684</i>	<i>8,326</i>	<i>8,995</i>	<i>9,673</i>	<i>10,385</i>
School education - specific funding	691	742	561	209	151
Student assistance	2,675	2,753	2,767	2,849	3,011
General administration	388	420	391	385	374
Total education	34,773	36,350	38,047	39,339	40,893

Total education expenses are expected to increase by 2.4 per cent in real terms between 2018-19 and 2019-20, and increase by 4.8 per cent in real terms from 2019-20 to 2022-23.

Expenses under the **higher education** sub-function are expected to decrease by 0.5 per cent in real terms from 2018-19 to 2019-20, and decrease by 1.9 per cent in real terms between 2019-20 and 2022-23. The forecast decline in expenses over the forward estimates relates to downward revisions to expected claims by universities for superannuation payments and the 2018-19 MYEFO measure *Research Block Grants – growth adjustment*.

Expenses under the **vocational and other education** sub-function are expected to decrease by 0.7 per cent in real terms from 2018-19 to 2019-20, and decrease by 11.1 per cent in real terms from 2019-20 to 2022-23. The change in expenses over the forward estimates primarily reflects the revised funding profile of the National Agreement for Skills and Workforce Development. The expected decrease in expenses in 2022-23 primarily reflects the conclusion of the Skilling Australians Fund National Partnership Agreement on 30 June 2022. The Government is providing additional funding to vocational education and training in the 2019-20 Budget measure *Skills Package – Delivering Skills for Today and Tomorrow* which is reflected in the **vocational and industry training** sub-function under the other economic affairs function below.

Aggregate schools funding expenses are expected to increase by 4.2 per cent in real terms between 2018-19 and 2019-20, and by 13.2 per cent in real terms from 2019-20 to 2022-23. Expenses in the **schools – non-government schools** sub-function are expected to increase by 2.9 per cent in real terms between 2018-19 and 2019-20, and by 11.2 per cent in real terms from 2019-20 to 2022-23. Expenses under the **schools – government schools** sub-function are expected to increase by 6.2 per cent in real terms

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between 2018-19 and 2019-20, and by 16.2 per cent in real terms from 2019-20 to 2022-23. The increase in expenses over the forward years is primarily due to the school funding arrangements implemented under the *Quality Schools* package and increased funding for non-government schools under the 2018-19 MYEFO measure *Response to the Review of the Socio-Economic Status Score Methodology*.

Expenses under the **school education – specific funding** sub-function are expected to increase by 5.3 per cent in real terms between 2018-19 and 2019-20, and decrease by 81.1 per cent in real terms from 2019-20 to 2022-23. The increase in expenses in 2019-20 is primarily due to the 2019-20 Budget measure *Local School Community Fund*. The decrease in expenses over the forward years primarily reflects the conclusion of the 2019-20 Budget measure *National Partnership Agreement on Universal Access to Early Childhood Education – further extension* on 30 June 2021.

Expenses under the **student assistance** sub-function are expected to increase by 0.8 per cent in real terms from 2018-19 to 2019-20, and increase by 2.0 per cent in real terms from 2019-20 to 2022-23. The increase from 2018-19 to 2022-23 largely reflects changes in population trends.

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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Medical services and benefits	32,197	33,687	35,121	36,823	38,814
Pharmaceutical benefits and services	13,457	12,688	10,877	10,862	11,085
Assistance to the States for public hospitals	21,708	22,535	23,622	24,815	26,183
Hospital services(a)	1,385	1,298	1,218	1,181	1,149
Health services	7,505	7,371	7,441	7,646	8,021
General administration	3,395	3,236	3,252	3,194	3,228
Aboriginal and Torres Strait Islander health	922	962	998	1,031	1,065
Total health	80,569	81,777	82,530	85,552	89,544

(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 2.0 per cent in real terms from 2019-20 to 2022-23. This is largely driven by growth in the **assistance to the States for public hospitals**, and **medical services and benefits** sub-functions. The **medical services and benefits** sub-function, which primarily consists of Medicare and Private Health Insurance Rebate expenses, comprises 41.2 per cent of total estimated health expenses for 2019-20. 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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Medical benefits	24,227	25,526	26,858	28,357	30,085
Private health insurance	6,393	6,574	6,694	6,883	7,103
General medical consultations and services	764	740	720	717	730
Dental services(b)	345	346	341	345	364
Other	468	500	509	521	532
Total	32,197	33,687	35,121	36,823	38,814

(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

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Expenses for medical benefits are expected to increase by 3.2 per cent in real terms between 2018-19 and 2019-20, and increase by 9.8 per cent in real terms over the period 2019-20 to 2022-23, 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 0.7 per cent in real terms between 2018-19 and 2019-20, and increase by 0.7 per cent in real terms over the period 2019-20 to 2022-23. The proportion of Australians with private health insurance is around 53.9 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 1.7 per cent in real terms between 2018-19 and 2019-20, and decrease by 2.0 per cent in real terms over the period 2019-20 to 2022-23, reflecting lower 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) is expected to decrease by 18.6 per cent in real terms over the period 2019-20 to 2023-23. This largely reflects the improved payments administration announced in the 2018-19 Budget which reduces PBS revenues and expenses by a corresponding amount for high-cost medicines with special pricing arrangements. There will be no reduction in the Government's overall investment in the PBS as a result of these changes.

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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Pharmaceutical benefits, services and supply	12,731	11,971	10,173	10,152	10,384
Immunisation	393	395	394	400	391
Veterans' pharmaceutical benefits	333	322	309	309	309
Total	13,457	12,688	10,877	10,862	11,085

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

The Australian Government's contribution to public hospital funding is reported through the **assistance to the States for public hospitals** sub-function. Hospital services covered by this sub-function include all admitted services, programs that deliver hospital services in the home and emergency department services. Expenditure for this sub-function is expected to increase by 1.7 per cent in real terms from 2018-19 to 2019-20, largely reflecting higher anticipated growth in the volume of services. Expenditure also reflects the impact of the *National Efficient Price 2019* determination. Expenditure is expected to increase by 8.3 per cent in real terms over the period 2019-20 to 2022-23, reflecting 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.

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 8.2 per cent in real terms between 2018-19 and 2019-20, and by 17.5 per cent in real terms over the period 2019-20 to 2022-23. The decrease in expenses reflects an expected reduction in the number of veterans requiring treatment 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*.

Health services expenditure is expected to decrease by 3.8 per cent in real terms between 2018-19 and 2019-20, largely reflecting the schedule of payments made under the National Partnership Agreements for the National Health Innovation Fund and for the *Community Health and Hospitals Program*, and the schedule of payments for the Proton Beam Facility, as well as reduced expenditure on health infrastructure. Expenses for this sub-function are expected to increase by 1.4 per cent in real terms between 2019-20 and 2022-23, largely reflecting projected expenditure on blood and blood products under the National Supply Plan and Budget agreed with the states and territories.

The **general administration** sub-function includes the Government's general administrative costs, investment in health workforce measures and support for rural health initiatives. Expenditure for this sub-function is expected to decrease by 6.6 per cent in real terms between 2018-19 and 2019-20 largely as a result of revised payment arrangements to the Royal Flying Doctor Service, and decrease by 7.0 per cent over the period 2019-20 to 2022-23 as a result of the conclusion of the Health Care Home trial.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function are expected to increase by 2.2 per cent in real terms from 2018-19 to 2019-20, and by 3.2 per cent in real terms over the period 2019-20 to 2022-23 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	
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
Assistance to the aged	67,449	70,151	72,884	76,293	80,215
Assistance to veterans and dependants	6,717	6,707	6,560	6,509	6,309
Assistance to people with disabilities	44,079	47,005	51,209	53,641	55,499
Assistance to families with children	35,754	37,412	37,740	38,659	39,471
Assistance to the unemployed and the sick	10,476	10,834	10,861	11,337	11,754
Other welfare programs	1,791	1,729	1,743	1,418	1,396
Assistance for Indigenous Australians nec	2,288	2,269	2,231	2,252	2,274
General administration	4,196	4,016	3,625	3,498	3,300
Total social security and welfare	172,749	180,125	186,852	193,607	200,217

Expenses in the social security and welfare function are estimated to increase by 2.2 per cent in real terms from 2018-19 to 2019-20, and by 3.6 per cent in real terms from 2019-20 to 2022-23.

The most significant drivers of this growth are the **assistance to the aged** and **assistance to people with disabilities** sub-functions. The **assistance to the aged** sub-function is expected to grow by 1.9 per cent in real terms between 2018-19 and 2019-20, and by 6.6 per cent in real terms from 2019-20 to 2022-23. The **assistance to people with disabilities** sub-function is expected to grow by 4.5 per cent in real terms from 2018-19 to 2019-20, and by 10.0 per cent in real terms from 2019-20 to 2022-23 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 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 1.2 per cent in real terms from 2018-19 to 2019-20, and by 5.7 per cent in real terms from 2019-20 to 2022-23. Growth in these years is moderated by a reduction in expenses associated with incremental increases in the Age Pension age. Contributing to growth from 2019-20 to 2022-23 is an increase of 11.2 per cent in real terms in expenses associated with the Aged Care Services program, largely reflecting demographic factors and the impact of the 2018-19 Budget measure *More Choices for a Longer Life – healthy ageing and high quality care*.

The estimated decrease of 15.4 per cent in real terms from 2019-20 to 2022-23 for Veterans' Community Care and Support is mainly attributable to the decrease in the

number of veterans and relevant dependants accessing residential aged care reflecting demographic changes. 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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Income Support for Seniors	46,741	48,301	50,265	52,285	54,766
Aged Care Services	18,764	20,027	20,902	22,374	23,903
Veterans' Community Care and Support	1,202	1,130	1,136	1,109	1,025
Access and information	234	245	221	225	228
Mature Age Income Support	171	131	54	10	0
Aged Care Quality	242	221	215	207	210
Allowances, concessions and services for seniors	92	83	75	68	61
National Partnership Payments - Assistance to the Aged	3	13	15	15	21
Total	67,449	70,151	72,884	76,293	80,215

(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 2.2 per cent in real terms from 2018-19 to 2019-20, and by 12.3 per cent in real terms from 2019-20 to 2022-23, predominantly reflecting an expected reduction in the number of beneficiaries. The Government is continuing to transform and improve veterans' services, including the 2019-20 Budget measure *Veteran Centric Reform – putting veterans and their families first*.

Expenses for the **assistance to people with disabilities** sub-function are expected to increase by 4.5 per cent in real terms from 2018-19 to 2019-20, and by 10.0 per cent in real terms from 2019-20 to 2022-23, 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. Of the total \$88.1 billion in NDIS expenses from 2019-20 to 2022-23, the Commonwealth is contributing funding of \$45.7 billion, with the states and territories contributing the remaining funding.

Subject to negotiations, the Commonwealth will provide payments to the states and territories of \$5.4 billion from the *DisabilityCare Australia Fund* over the forward estimates. The timing of these payments will result in *DisabilityCare Australia Fund* expenses of \$1.7 billion in 2019-20.

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

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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 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 increase by 0.1 per cent in real terms from 2018-19 to 2019-20, and decrease by 2.3 per cent in real terms from 2019-20 to 2022-23. This is driven by the ongoing impact of a range of measures, which have better targeted DSP eligibility and assessment processes to ensure those in need receive the support they need.

Expenses for the Income for Carers component are estimated to increase by 2.9 per cent in real terms from 2018-19 to 2019-20, and 6.8 per cent in real terms from 2019-20 to 2022-23. Recipient numbers for the largest component of this, Carer Payment, continue to increase but are expected to moderate once the 2018-19 Budget measure, *Integrated Carer Support Services*, is fully implemented.

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	
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
Income Support for People with Disability	16,699	17,057	17,044	17,618	17,889
National Disability Insurance Scheme(b)	12,989	17,524	22,253	23,523	24,806
Income Support for Carers	8,770	9,207	9,493	10,038	10,552
Assistance to the States for Disability Services	958	173	0	0	0
Disability and Carers	1,012	1,084	1,085	1,095	1,112
National Disability Insurance Scheme Transition Programme	500	219	38	32	37
National Partnership Payments - Assistance to People with Disabilities	3,151	1,742	1,295	1,336	1,104
Total	44,079	47,005	51,209	53,641	55,499

(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 increase by 2.5 per cent in real terms from 2018-19 to 2019-20, and decrease by 1.7 per cent in real terms from 2019-20 to 2022-23, with the decrease driven primarily by reduced expenditure on the Family Tax Benefit (FTB). FTB expenses are expected to increase by 0.1 per cent in real terms from 2018-19 to 2019-20, and decrease by 5.1 per cent in real terms from 2019-20 to 2022-23. The decrease in expenses to 2022-23 is driven by the cumulative impact of policy amendments to target payment eligibility.

The **assistance to families with children** sub-function profile includes an increase in Child Care Fee Assistance expenses of 4.8 per cent in real terms from 2018-19 to 2019-20, and by 8.7 per cent in real terms from 2019-20 to 2022-23. The increase reflects continued growth in the usage of child care by families and also reflects expected increases in fees charged by child care providers.

Families and Children expenses are expected to increase by 165.3 per cent in real terms from 2018-19 to 2019-20, and decrease by 35.3 per cent in real terms from 2019-20 to 2022-23. Both the initial increase and the subsequent decrease in expenses reflect the expected profiles for payments from the National Redress Scheme that commenced on 1 July 2018. Excluding the impact of the Scheme, Families and Children expenses are broadly stable over the forward estimates.

Expenses for Paid Parental Leave (PPL) are estimated to increase by 1.3 per cent in real terms from 2018-19 to 2019-20, and increase by 2.2 per cent in real terms from 2019-20 to 2022-23. These changes from 2018-19 to 2022-23 are largely due to the projected increase in the number of PPL recipients and the 2018-19 MYEFO measure *Women's Economic Security Package*, which provided primary carers of children with better access to PPL and more flexibility in how it is used.

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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Family tax benefit	17,630	18,013	17,913	18,237	18,333
Child Care Subsidy	7,725	8,267	8,642	9,108	9,646
Parents income support	5,171	5,190	5,202	5,376	5,487
Paid Parental Leave	2,250	2,326	2,397	2,477	2,551
Child support	1,983	2,002	2,045	2,082	2,118
Support for the child care system	329	342	336	342	350
Families and Children	361	979	913	738	679
Family relationship services	168	182	182	185	188
Child Payments	103	96	95	99	103
Other	15	14	14	15	15
Total	35,754	37,412	37,740	38,659	39,471

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

Expenses for the **assistance to the unemployed and the sick** sub-function are estimated to increase by 1.3 per cent in real terms from 2018-19 to 2019-20 and to increase by 1.1 per cent in real terms from 2019-20 to 2022-23.

Expenses for the **assistance for Indigenous Australians (nec)** sub-function are estimated to decrease by 2.8 per cent in real terms from 2018-19 to 2019-20, and decrease by 6.6 per cent in real terms from 2019-20 to 2022-23. This decrease is largely attributed to significant expenditure from the Aboriginals Benefit Account in 2018-19

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that is expected to decrease over time, and the 2019-20 Budget measure *Single National Mechanism for Commonwealth Legal Assistance* which changes the mechanism by which Aboriginal and Torres Strait Islander legal services are funded, and the sub-function, with funding to be provided via State & Territory governments through a single mechanism, which is now recorded against the Courts and Legal Services sub-function from 2020-21.

Expenses for the **general administration** sub-function are estimated to decrease by 23.4 per cent in real terms from 2019-20 to 2022-23. This is mainly attributable to the implementation of measures by the Department of Human Services and Department of Social 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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Housing	3,051	3,141	3,107	3,057	3,096
Urban and regional development	1,288	1,773	1,152	1,399	570
Environment protection	939	992	1,005	1,068	1,101
Total housing and community amenities	5,278	5,907	5,264	5,523	4,767

Total expenses under the housing and community amenities function are estimated to increase by 9.6 per cent in real terms from 2018-19 to 2019-20, and decrease by 24.8 per cent in real terms from 2019-20 to 2022-23. The decrease is primarily driven by reduced expenses for the **urban and regional development** sub-function reflecting completion of projects under key programs.

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 increase by 0.9 per cent in real terms from 2018-19 to 2019-20, and decrease by 8.2 per cent in real terms from 2019-20 to 2022-23, reflecting decreasing payments under the *National Rental Affordability Scheme* which is now closed to new applicants and a forecast reduction in the construction and acquisition of DHA properties in 2020-21. The Government also provides housing support through the National Housing Finance and Investment Corporation, which is not reflected in this sub-function.

The **urban and regional development** sub-function comprises of City and Regional Deals, services to territories and regional development programs, including Community Development Grants and the *Building Better Regions Fund*. Expenses are estimated to increase by 34.9 per cent in real terms from 2018-19 to 2019-20 reflecting a number of 2019-20 Budget measures including *Community Development Grants Programme – additional projects*, *Building Better Regions Fund – round four*, *Stronger Communities Programme – round five*, and *Implementing Sport 2030*, and projects under various City Deals. Expenses are expected to reduce by 70.0 per cent in real terms from 2019-20 to 2022-23, largely reflecting the expected completion of projects under key programs, such as the *Building Better Regions Fund*, the *National Stronger Regions Fund*, the *Regional Jobs and Investment* packages, the *Regional Growth Fund*, and various City Deals.

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The **environment protection** sub-function includes expenses for a variety of initiatives, including the protection and conservation of the environment, water and waste management, pollution abatement and environmental research. Expenses are estimated to increase by 3.5 per cent in real terms from 2018-19 to 2019-20, and increase by 3.5 per cent from 2019-20 to 2022-23. The increase from 2018-19 to 2019-20 is primarily due to additional funding provided through the 2019-20 Budget measure *Practical Environment Restoration* and re-profiling of funding within the Reef Trust.

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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Broadcasting	1,490	1,476	1,482	1,494	1,500
Arts and cultural heritage	1,455	1,437	1,379	1,390	1,380
Sport and recreation	584	489	397	337	329
National estate and parks	459	448	480	494	487
Total recreation and culture	3,988	3,849	3,738	3,714	3,696

Total expenses under the recreation and culture function are estimated to decrease by 5.4 per cent in real terms from 2018-19 to 2019-20, and by 10.5 per cent in real terms over the period 2019-2020 to 2022-23.

Expenses under the **broadcasting** sub-function are expected to decrease by 2.9 per cent in real terms from 2018-19 to 2019-20, and by 5.3 per cent in real terms from 2019-20 to 2022-23. 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 announced in the 2019-20 Budget measure *Guaranteeing Australia's Public Broadcasters – funding for the ABC and SBS* and the 2018-19 Budget measure *Funding for Australian Film and Television Content and the National Broadcasters*.

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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
ABC general operational activities	916	900	901	903	902
SBS general operational activities	319	319	320	325	326
ABC transmission and distribution services	181	184	187	190	194
SBS transmission and distribution services	73	73	75	76	77
Total	1,490	1,476	1,482	1,494	1,500

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

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Expenses under the **arts and cultural heritage** sub-function are estimated to decrease by 3.3 per cent in real terms from 2018-19 to 2019-20, and by 10.5 per cent in real terms from 2019-20 to 2022-23. 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, and the 2019-20 Budget measures *Bundanon Trust Art Centre; National Library of Australia – Digitisation Fund*; and *National Collecting Institutions – capital works funding*, 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 decrease by 18.1 per cent in real terms from 2018-19 to 2019-20, and decrease by 37.2 per cent in real terms from 2019-20 to 2022-23. The decrease in 2019-20 primarily reflects a reduction in sport related infrastructure expenditure. The reduction in expenditure from 2019-20 to 2022-23 largely reflects the expected completion of grant funding for short-term community-led projects to increase participation in sport and physical activity, and the completion of elements of the national sport plan, *Sport 2030*. This decrease in expenses is partially offset by additional funding provided through the 2019-20 Budget measure *Implementing Sport 2030*, noting that the majority of that funding will occur in 2019-20 and 2020-21.

Expenses under the **national estate and parks** sub-function are estimated to decrease by 4.3 per cent in real terms from 2018-19 to 2019-20, and increase by 1.3 per cent in real terms from 2019-20 to 2022-23. The decrease from 2018-19 to 2019-20 reflects a range of small short-term programs finalising in 2018-19. The increase from 2019-20 to 2022-23 reflects increased funding for the Australian Antarctic Program, including \$473.3 million over 11 years from 2018-19 provided through the 2019-20 Budget measure *Hobart City Deal*.

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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Fuel and energy	7,956	8,171	8,515	8,865	9,285
Total fuel and energy	7,956	8,171	8,515	8,865	9,285

Fuel and energy expenses are estimated to increase by 0.6 per cent in real terms from 2018-19 to 2019-20 and increase by 5.9 per cent in real terms over the period 2019-20 to 2022-23.

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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Fuel Tax Credits Scheme	7,168	7,504	7,937	8,424	8,966
Resources and Energy	141	126	83	71	70
Renewable Energy	405	352	284	207	102
Other	242	189	211	163	147
Total	7,956	8,171	8,515	8,865	9,285

(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 increase by 2.6 per cent in real terms from 2018-19 to 2019-20, and increase by 11.4 per cent in real terms from 2019-20 to 2022-23, largely reflecting increased usage of fuels that are eligible for the Fuel Tax Credits Scheme.

Expenses under the Resources and Energy component are estimated to decrease by 12.5 per cent in real terms from 2018-19 to 2019-20, and decrease by 48.4 per cent in real terms from 2019-20 to 2022-23. 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, the cessation of the Coal Mining Abatement Technology Support Package in 2019-20 and the cessation of the Supporting the Development of New Onshore Gas Supply program in 2020-21. The decrease in expenses is partly offset by the 2018-19 MYEFO measure *Action Plan to Reduce Power Prices* and the 2019-20 Budget measure *Supporting Reliable Energy Infrastructure* and also does not reflect the Government's significant investment in Snowy 2.0 as part of the

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plan to support new renewable energy for Australia's future energy mix to deliver affordable, reliable power, which is supported through an equity investment.

The overall decrease in expenses under the renewable energy component from 2019-20 to 2022-23 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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Wool industry	87	70	72	74	77
Grains industry	187	202	204	209	210
Dairy industry	49	48	48	49	49
Cattle, sheep and pig industry	244	242	247	253	258
Fishing, horticulture and other agriculture	404	381	368	360	350
General assistance not allocated to specific industries	55	31	30	30	31
Rural assistance	336	299	380	327	249
Natural resources development	973	776	897	847	955
General administration	815	823	830	834	835
Total agriculture, forestry and fishing	3,149	2,871	3,075	2,983	3,014

Total expenses under this function are estimated to decrease by 10.7 per cent in real terms from 2018-19 to 2019-20, and decrease by 2.2 per cent in real terms over the period 2019-2020 to 2022-23.

The **rural assistance** sub-function is expected to decrease by 13.0 per cent in real terms from 2018-19 to 2019-20, and decrease by 22.4 per cent in real terms over the period 2019-20 to 2022-23. The initial decrease from 2018-19 to 2019-20 mainly reflects the cessation of additional assistance through the Farm Household Allowance, including the Special Drought Supplement, announced in the 2018-19 MYEFO measure *Assistance for Farmers and Farm Communities in Drought*. The subsequent decrease from 2019-20 to 2022-23 mainly relates to the profile of expenses for concessional loans through the Regional Investment Corporation for both the North Queensland flood recovery effort and drought assistance. The Government is also providing additional funding through the 2019-20 Budget measures *Agricultural Stewardship and Sustainability Package* and *Assistance for Farmers and Farm Communities in Drought – additional funding*, and through the 2018-19 MYEFO measure *Future Drought Fund – establishment* which will make \$100 million available annually from 2020-21 to invest in drought resilience programs.

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.

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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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Water reform(b)	699	525	666	614	750
Sustainable management - natural resources	10	9	14	15	16
Other	263	243	217	218	189
Total	973	776	897	847	955

(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 21.8 per cent in real terms from 2018-19 to 2019-20, and increase by 14.7 per cent in real terms from 2019-2020 to 2022-23. Both the initial decrease from 2018-19 to 2019-20, and subsequent increase from 2019-20 to 2022-23, relate to the funding profile under the Sustainable Rural Water Use and Infrastructure Program, and the Water for the Environment Special Account. The funding profile reflects the Commonwealth's commitments under the Murray-Darling Basin Plan.

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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Mining, manufacturing and construction	2,592	3,422	3,730	3,408	2,926
Total mining, manufacturing and construction	2,592	3,422	3,730	3,408	2,926

Total expenses under the mining, manufacturing and construction function are expected to increase by 29.4 per cent in real terms from 2018-19 to 2019-20, and decrease by 20.3 per cent in real terms over the period 2019-20 to 2022-23.

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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Research and Development Tax Incentive	1,967	2,237	2,249	2,292	2,410
Growing Business Investment	317	279	219	194	172
Northern Australia Infrastructure Facility	45	639	1,001	687	116
Other	262	267	261	235	227
Total	2,592	3,422	3,730	3,408	2,926

(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 increase by 11.4 per cent in real terms from 2018-19 to 2019-20, reflecting a one-off adjustment recognising lower than estimated claims for prior years which are claimed in 2019-20 (both for the numbers and size of claims). Expenses are expected to increase by 0.4 per cent from 2019-20 to 2022-23, 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 by 42.5 per cent in real terms from 2019-20 to 2022-23. This reflects the reduced demand for Government assistance in the manufacturing sector, noting, however that the Government is supporting business investment through a range of 2019-20 Budget measures in the other economic affairs function including the

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Supporting Australian Exports measure, as well as through the tax system in the *Helping Small Business Grow – supporting small businesses with tax disputes* measure.

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 change in expenses reflects the accounting treatment of concessional loans expected to be provided as part of the NAIF's operations.

Expenses under the Other component are expected to decrease by 0.2 per cent in real terms from 2018-19 to 2019-20. The decrease by 20.8 per cent in real terms from 2019-20 to 2022-23 is partially driven by the completion of the Junior Minerals Exploration Incentive program, which was extended in the 2017-18 MYEFO.

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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Communication	964	1,466	1,478	1,394	1,341
Rail transport	1,134	1,001	991	1,439	1,818
Air transport	355	350	317	300	277
Road transport	5,016	5,587	5,773	5,925	7,033
Sea transport	438	444	448	450	475
Other transport and communication	198	190	219	209	205
Total transport and communication	8,105	9,038	9,225	9,717	11,149

Total expenses under this function are estimated to increase by 9.3 per cent in real terms between 2018-19 and 2019-20, and by 15.0 per cent in real terms over the period 2019-20 to 2022-23.

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 49.0 per cent in real terms between 2018-19 and 2019-20, and decrease by 14.8 per cent in real terms from 2019-20 to 2022-23. The increase primarily reflects commencement in 2019-20 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 2019-20 to 2022-23 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 Program. Expenses are estimated to decrease by 13.5 per cent in real terms between 2018-19 and 2019-20, but increase by 69.3 per cent in real terms from 2019-20 to 2022-23. The initial decrease in expenditure largely reflects the expected completion of rail projects in 2018-19 including the Ballarat Rail Line Upgrade and rail projects under the *Infrastructure Growth Package – Asset Recycling Fund*. The subsequent significant increase in expenditure from 2019-20 to 2022-23 reflects the Government's commitments to major rail projects, including the Melbourne Airport Rail Link and funding provided for the Western Sydney North South Rail Link in the 2019-20 Budget measure *Infrastructure Investment Program – New South Wales infrastructure investments*. In addition to expenditure on rail transport, the Government is providing an equity investment of \$9.0 billion for the delivery of Inland Rail, which is not reflected in this sub-function.

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The estimated expenses for the **air transport** and **sea transport** sub-functions primarily relate to activities of the safety regulators – the Civil Aviation Safety Authority, the Australian Maritime Safety Authority (AMSA) and the Australian Transport Safety Bureau (ATSB). Total expenses under the **air transport** sub-functions are estimated to decrease by 3.6 per cent in real terms between 2018-19 and 2019-20, primarily due to expenditure associated with a one-off grant to Avalon Airport in 2018-19. Total expenses under the sub-function are expected to decrease by 26.2 per cent in real terms from 2019-20 to 2022-23 as the Western Sydney Airport preparatory works are completed. In addition, the Government is providing an equity investment of up to \$5.3 billion in WSA Co to complete the construction of the airport, which is not reflected in this sub-function. Total expenses under the **sea transport** sub-function are estimated to decrease by 0.5 per cent in real terms between 2018-19 and 2019-20, and decrease by 0.4 per cent in real terms from 2019-20 to 2022-23 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 Program. Expenses are estimated to increase by 9.1 per cent in real terms between 2018-19 and 2019-20, and increase by 17.3 per cent in real terms from 2019-20 to 2022-23. The increase in expenditure largely reflects continued investment in road transport infrastructure under the \$4.0 billion *Urban Congestion Fund*, the \$4.5 billion *Roads of Strategic Importance* initiative, funding for the Bruce Highway and Pacific Motorway and the \$1.1 billion investment in upgrades to south eastern and northern suburban roads in Melbourne through the 2019-20 Budget measure *Infrastructure Investment Program – Victorian infrastructure investments*.

Total expenses under the **other transport and communication** sub-function are estimated to decrease by 6.0 per cent in real terms between 2018-19 and 2019-20 and increase by 0.5 per cent in real terms from 2019-20 to 2022-23. The decrease in expenses primarily reflects the decrease in program support 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	
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
Tourism and area promotion	163	169	178	180	185
Total labour and employment affairs	3,864	3,707	3,717	3,746	3,876
<i>Vocational and industry training</i>	1,172	1,173	1,216	1,259	1,344
<i>Labour market assistance to job seekers and industry</i>	2,005	1,831	1,799	1,780	1,818
<i>Industrial relations</i>	687	703	702	707	715
Immigration	3,761	2,854	2,538	2,507	2,542
Other economic affairs nec	2,492	2,567	2,554	2,493	2,394
Total other economic affairs	10,281	9,297	8,987	8,926	8,996

Total expenses under the other economic affairs function are expected to decrease by 11.4 per cent in real terms from 2018-19 to 2019-20, and decrease by 9.8 per cent in real terms over the period 2019-20 to 2022-23.

Expenses under the **vocational and industry training** sub-function are expected to decrease by 2.0 per cent in real terms from 2018-19 to 2019-20, and increase by 6.8 per cent in real terms from 2019-20 to 2022-23. This increase in expenses largely reflects the Government's investment in improving the quality of the Vocational Education and Training system through the 2019-20 Budget measure *Skills Package – Delivering Skills for Today and Tomorrow*.

Expenses under the **labour market assistance to job seekers and industry** sub-function are expected to decrease by 10.5 per cent in real terms from 2018-19 to 2019-20 and by 7.5 per cent in real terms from 2019-20 to 2022-23, mainly reflecting forecast in demand for the jobactive program.

Expenses under the **industrial relations** sub-function are expected to increase by 0.2 per cent in real terms from 2018-19 to 2019-20, reflecting a forecast increase 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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Management of unlawful non-citizens	2,457	1,624	1,443	1,430	1,444
Citizenship, visas and migration	841	782	706	684	695
Regional co-operation and refugee and humanitarian assistance	463	448	389	393	402
Total other economic affairs	3,761	2,854	2,538	2,507	2,542

(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 25.7 per cent in real terms between 2018-19 and 2019-20, and by 17.0 per cent in real terms from 2019-20 to 2022-23.

The decrease in expenditure primarily reflects lower forecast occupancy rates in onshore and offshore detention, following an initial increase in expenditure in 2018-19 resulting from implementation of the *Home Affairs Legislation Amendment (Miscellaneous Measures) Act 2019*.

Expenses under the **other economic affairs nec** sub-function are expected to decrease by 0.9 per cent in real terms from 2018-19 to 2019-20, and decrease by 13.1 per cent in real terms from 2019-20 to 2022-23.

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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
Promotion of Australia's export and other international economic interests(b)	360	389	398	398	360
Operating costs for:					
Department of Industry, Innovation and Science	507	487	468	472	465
Australian Securities and Investments Commission	477	512	555	559	537
Bureau of Meteorology	381	392	391	374	348
IP Australia	201	206	213	220	226
Australian Competition and Consumer Commission	166	168	159	153	135
Australian Prudential Regulation Authority	156	184	186	197	201
National Partnership Payments - Competition and Productivity Enhancing Reform	129	107	63	0	0
Other	115	122	120	120	120
Total	2,492	2,567	2,554	2,493	2,394

(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 6.0 per cent in real terms from 2018-19 to 2019-20. Expenses are expected to decrease by 10.8 per cent in real terms from 2019-20 to 2022-23, largely driven by a number of measures that terminate during the forward estimates. These include new 2019-20 Budget measures such as *Expanding Questacon's Education Outreach* and *Implementing Sport 2030*, where funding will occur between 2019-20 and 2021-22.

Expenses for the Bureau of Meteorology (the Bureau) are projected to decrease by 17.4 per cent in real terms from 2019-20 to 2022-23. The decrease in expenses reflects the expected completion of information and communications technology (ICT) projects, including the first and second tranche of investment to strengthen the Bureau's ICT security and resilience and observations network announced in the 2017-18 Budget and the 2018-19 Budget.

Expenses for National Partnership Payments – Competition and Productivity Enhancing Reform reflect payments to the states for the Small Business Regulatory Reform Agenda, which are expected to commence from 2018-19 with decreasing payments structured over three years before terminating on 30 June 2021. The Commonwealth committed to provide up to \$300 million to the states in respect of this project agreement to deliver projects 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	
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
Public debt interest	17,154	17,037	16,625	16,063	15,747
<i>Interest on Commonwealth Government's behalf</i>	17,154	17,037	16,625	16,063	15,747
Nominal superannuation interest	9,447	11,127	11,466	11,797	12,122
General purpose inter-government transactions	69,698	70,328	73,912	77,831	81,491
<i>General revenue assistance - States and Territories</i>	67,134	69,053	71,256	75,067	78,608
<i>Local government assistance</i>	2,564	1,275	2,656	2,764	2,883
Natural disaster relief(a)	775	11	2	0	0
Contingency reserve	-1,993	-216	2,117	4,293	8,982
Total other purposes	95,081	98,287	104,122	109,984	118,343

(a) Amounts for the Disaster Recovery Funding Arrangements (DRFA) 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 DRFA.

Total expenses under the other purposes function are estimated to increase by 1.3 per cent in real terms from 2018-19 to 2019-20, and by 12.2 per cent over the period 2019-20 to 2022-23.

Expenses under the **public debt interest** sub-function are expected to decrease by 2.7 per cent in real terms from 2018-19 to 2019-20 and decrease by 13.9 per cent from 2019-20 to 2022-23. The decrease in expenses reflects a drop in expected issuance of Australian Government Securities. *Statement 6: Debt Statement, Assets and Liabilities* 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 1.5 per cent from 2019-20 to 2022-23, reflecting the growth in the Australian Government's superannuation liability. Further information on the *Future Fund* can be found in *Statement 6*.

Expenses under the **general purpose inter-government transactions** sub-function are expected to grow by 8.0 per cent from 2019-20 to 2022-23. 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 2019-20*.

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 51.3 per cent in real terms from 2018-19 to 2019-20, reflecting half of the expected 2019-20 Financial Assistance Grants being brought forward to enable the immediate use of these funds in 2018-19, particularly in areas affected by severe or unexpected weather events. 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 and, since November 2018, the Disaster Recovery Funding Arrangements. The profile over the forward estimates reflects the requirement under accounting standards to recognise the majority of expenses for a disaster in the year in which it occurs. No provision is made for future disasters. Actual (cash) payments expected to be made to states and territories are outlined in Budget Paper No. 3.

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

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

The **contingency reserve** sub-function in the 2019-20 Budget reduces expenses by \$216 million in 2019-20, and increases expenses by \$2.1 billion in 2020-21, \$4.3 billion in 2021-22 and \$9.0 billion in 2022-23. 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 2019-20 Budget includes a provision of:

- zero in the Budget year 2019-20;

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- ½ of a percentage point of total general government sector expenses (excluding GST payments to the States) in the first forward year 2020-21 (\$2.2 billion);
- 1 per cent of expenses in the second forward year 2021-22 (\$4.6 billion); and
- 2 per cent of expenses in the third forward year 2022-23 (\$9.5 billion).

The drawdown of the CBA reduced expenses by \$1.1 billion in 2019-20; \$1.0 billion in 2020-21 and \$2.2 billion in 2021-22. This is consistent with long standing practice and does not represent a saving.

The Contingency Reserve includes a provision of \$138 million over four years from 2019-20 for the continuation of some expiring National Partnerships and possible by-election costs for the Australian Electoral Commission. A provision is also included for the effects of economic parameter revisions received too late in the process for inclusion in entity estimates, and an underspends provision in 2018-19 that reflects the tendency for budgeted expenses for some entities or functions not to be met.

The Contingency Reserve also includes estimates for measures that have been announced but cannot yet be included in entity estimates, usually due to some uncertainty as to their final cost and/or outcomes, or are subject to negotiations.

- Significant expenditure items include a provision for the *Indigenous Recognition Referendum* (\$160 million in 2020-21) and funding for the establishment of the Commonwealth Integrity Commission from the 2019-20 Budget measure *Commonwealth Integrity Commission* (\$104 million over the four years from 2019-20). Estimates for the Commonwealth Integrity Commission will be transferred to the entity once it is established.
- Significant balance sheet items include the 2018-19 MYEFO *Future Drought Fund – establishment* measure and the 2019-20 Budget measure *Establish the Emergency Response Fund*, as the estimates remain subject to the finalisation of the investment mandates for the Funds.

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

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.

Australian Government general government sector net capital investment is expected to be \$4.7 billion in 2019-20, \$1.7 billion lower than the net capital investment in 2018-19. This change is largely due to the auction by the Australian Communications and Media Authority of spectrum licences in the 3.6 GHz bands. Overall, the Government's investment in capital assets is expected to continue to increase over the forward estimates.

Details of movements are further explained in the following section.

Table 18: Estimates of total net capital investment

	MYEFO	Revised	Estimates		Projections	
	2018-19	2018-19	2019-20	2020-21	2021-22	2022-23
Total net capital investment (\$m)	6,826	6,490	4,749	7,717	9,715	10,780
Per cent of GDP	0.4	0.3	0.2	0.4	0.4	0.5

Reconciliation of net capital investment since the 2018-19 Budget

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2018-19 Budget, is provided in Table 19.

Table 19: Reconciliation of net capital investment estimates

	Estimates			Projections	Total
	2018-19	2019-20	2020-21	2021-22	
	\$m	\$m	\$m	\$m	\$m
2018-19 Budget net capital investment	4,989	4,923	6,720	8,000	24,632
Changes from 2018-19 Budget to 2018-19 MYEFO					
Effect of policy decisions(a)	118	105	132	118	473
Effect of parameter and other variations	1,720	748	1,219	1,680	5,366
Total variations	1,838	853	1,351	1,798	5,839
2018-19 MYEFO net capital investment	6,826	5,776	8,071	9,798	30,471
Changes from 2018-19 MYEFO to 2019-20 Budget					
Effect of policy decisions(a)	-5	212	93	113	413
Effect of parameter and other variations	-332	-1,239	-446	-196	-2,213
Total variations	-336	-1,027	-353	-83	-1,800
2019-20 Budget net capital investment	6,490	4,749	7,717	9,715	28,671

(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 2019-20 has reduced by \$1 billion since the 2018-19 MYEFO. This decrease is driven by the effect of parameter and other variations of \$1.2 billion, partially offset by an increase of \$212 million resulting from policy decisions.

Further information on the capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2019-20*.

Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2018-19 to 2022-23 are provided in Table 20.

Table 20: Estimates of net capital investment by function

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
General public services	113	-1	-31	-107	-189
Defence	4,727	5,202	7,844	10,081	11,294
Public order and safety	190	91	-88	-188	-239
Education	4	16	2	-3	-3
Health	62	58	-30	-30	-27
Social security and welfare	114	-38	-159	-136	-104
Housing and community amenities	91	-12	19	43	-3
Recreation and culture	213	138	30	-11	50
Fuel and energy	1	1	-1	-1	-1
Agriculture, forestry and fishing	904	161	149	143	143
Mining, manufacturing and construction	14	15	12	-2	-3
Transport and communication	35	-849	-26	-14	-15
Other economic affairs	25	-41	-95	-140	-192
Other purposes	-3	9	92	80	68
Total net capital investment	6,490	4,749	7,717	9,715	10,780

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, with the proceeds from divestment to be used for capital upgrades on a number of CSIRO's research facilities. The decreasing trend also reflects the Australian Taxation Office shifting to fee for service ICT arrangements;
- **defence** – reflects 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 capabilities such as ships, aircraft and armoured vehicles, as well as ICT capabilities and infrastructure;
- **public order and safety** – reflects the completion of investment in national security capabilities from previous Budgets for law enforcement and intelligence agencies;
- **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* –

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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 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 increasing purchases of assets by arts and cultural heritage entities;
- **agriculture, forestry and fishing** – reflects a decrease in water purchases and water infrastructure investment under the Sustainable Rural Water Use and Infrastructure Program in 2018-19 and 2019-20; and
- **transport and communication** – reflects the auction by the Australian Communications and Media Authority of spectrum licences in the 3.6 GHz band.

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	
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
General public services	1,098	977	915	804	690
Defence	10,536	10,863	14,030	16,322	17,914
Public order and safety	647	594	418	331	322
Education	31	43	32	26	26
Health	140	134	66	65	63
Social security and welfare	558	373	234	227	225
Housing and community amenities	104	123	104	93	95
Recreation and culture	549	478	394	352	403
Fuel and energy	6	5	4	5	5
Agriculture, forestry and fishing	952	208	197	192	190
Mining, manufacturing and construction	22	24	22	9	8
Transport and communication	97	71	48	55	59
Other economic affairs	570	507	415	366	306
Other purposes	-3	24	92	80	68
General government purchases of non-financial assets	15,306	14,425	16,971	18,927	20,375

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

	Actuals		Estimates		Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m	\$m
General public services						
Legislative and executive affairs	1,189	1,533	1,196	1,197	1,528	1,199
Financial and fiscal affairs	7,577	6,922	7,344	7,287	7,593	7,495
Foreign affairs and economic aid	5,407	5,750	6,253	6,211	5,697	5,918
General research	3,009	3,012	3,159	3,212	3,330	3,476
General services	751	665	651	592	597	581
Government superannuation benefits	6,589	8,166	5,011	5,025	5,083	5,134
Total general public services	24,521	26,048	23,614	23,524	23,828	23,802
Defence	29,288	31,014	32,243	32,772	34,739	37,629
Public order and safety						
Courts and legal services	1,231	1,266	1,396	1,467	1,455	1,316
Other public order and safety	4,113	4,493	4,523	4,256	4,274	4,297
Total public order and safety	5,345	5,760	5,919	5,723	5,730	5,613
Education						
Higher education	9,606	9,704	9,856	10,118	10,256	10,372
Vocational and other education	1,733	1,675	1,699	1,697	1,723	1,620
Schools	18,331	19,641	20,880	22,513	23,917	25,365
<i>Non-government schools</i>	11,220	11,956	12,554	13,518	14,245	14,980
<i>Government schools</i>	7,110	7,684	8,326	8,995	9,673	10,385
School education - specific funding	660	691	742	561	209	151
Student assistance	2,842	2,675	2,753	2,767	2,849	3,011
General administration	351	388	420	391	385	374
Total education	33,523	34,773	36,350	38,047	39,339	40,893
Health						
Medical services and benefits	31,067	32,197	33,687	35,121	36,823	38,814
Pharmaceutical benefits and services	13,117	13,457	12,688	10,877	10,862	11,085
Assistance to the States for public hospitals	19,936	21,708	22,535	23,622	24,815	26,183
Hospital services(a)	1,584	1,385	1,298	1,218	1,181	1,149
Health services	6,421	7,505	7,371	7,441	7,646	8,021
General administration	3,043	3,395	3,236	3,252	3,194	3,228
Aboriginal and Torres Strait Islander health	871	922	962	998	1,031	1,065
Total health	76,039	80,569	81,777	82,530	85,552	89,544

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

	Actuals		Estimates		Projections	
	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
Social security and welfare						
Assistance to the aged	63,176	67,449	70,151	72,884	76,293	80,215
Assistance to veterans and dependants	6,340	6,717	6,707	6,560	6,509	6,309
Assistance to people with disabilities	34,612	44,079	47,005	51,209	53,641	55,499
Assistance to families with children	35,031	35,754	37,412	37,740	38,659	39,471
Assistance to the unemployed and the sick	10,839	10,476	10,834	10,861	11,337	11,754
Other welfare programmes	1,675	1,791	1,729	1,743	1,418	1,396
Assistance for Indigenous Australians nec	2,200	2,288	2,269	2,231	2,252	2,274
General administration	3,873	4,196	4,016	3,625	3,498	3,300
Total social security and welfare	157,745	172,749	180,125	186,852	193,607	200,217
Housing and community amenities						
Housing	3,293	3,051	3,141	3,107	3,057	3,096
Urban and regional development	786	1,288	1,773	1,152	1,399	570
Environment protection	1,325	939	992	1,005	1,068	1,101
Total housing and community amenities	5,405	5,278	5,907	5,264	5,523	4,767
Recreation and culture						
Broadcasting	1,536	1,490	1,476	1,482	1,494	1,500
Arts and cultural heritage	1,330	1,455	1,437	1,379	1,390	1,380
Sport and recreation	416	584	489	397	337	329
National estate and parks	453	459	448	480	494	487
Total recreation and culture	3,735	3,988	3,849	3,738	3,714	3,696
Fuel and energy	7,378	7,956	8,171	8,515	8,865	9,285
Agriculture, forestry and fishing						
Wool industry	90	87	70	72	74	77
Grains industry	190	187	202	204	209	210
Dairy industry	53	49	48	48	49	49
Cattle, sheep and pig industry	234	244	242	247	253	258
Fishing, horticulture and other agriculture	370	404	381	368	360	350
General assistance not allocated to specific industries	36	55	31	30	30	31
Rural assistance	122	336	299	380	327	249
Natural resources development	750	973	776	897	847	955
General administration	769	815	823	830	834	835
Total agriculture, forestry and fishing	2,613	3,149	2,871	3,075	2,983	3,014

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

	Actuals		Estimates		Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m	\$m
Mining, manufacturing and construction	2,592	2,592	3,422	3,730	3,408	2,926
Transport and communication						
Communication	910	964	1,466	1,478	1,394	1,341
Rail transport	1,450	1,134	1,001	991	1,439	1,818
Air transport	563	355	350	317	300	277
Road transport	5,631	5,016	5,587	5,773	5,925	7,033
Sea transport	391	438	444	448	450	475
Other transport and communication	235	198	190	219	209	205
Total transport and communication	9,180	8,105	9,038	9,225	9,717	11,149
Other economic affairs						
Tourism and area promotion	187	163	169	178	180	185
Total labour and employment affairs	3,699	3,864	3,707	3,717	3,746	3,876
<i>Vocational and industry training</i>	984	1,172	1,173	1,216	1,259	1,344
<i>Labour market assistance to job seekers and industry</i>	2,018	2,005	1,831	1,799	1,780	1,818
<i>Industrial relations</i>	697	687	703	702	707	715
Immigration	3,725	3,761	2,854	2,538	2,507	2,542
Other economic affairs nec	2,249	2,492	2,567	2,554	2,493	2,394
Total other economic affairs	9,861	10,281	9,297	8,987	8,926	8,996
Other purposes						
Public debt interest	17,025	17,154	17,037	16,625	16,063	15,747
<i>Interest on Commonwealth Government's behalf</i>	17,025	17,154	17,037	16,625	16,063	15,747
Nominal superannuation interest	9,240	9,447	11,127	11,466	11,797	12,122
General purpose inter-government transactions	66,604	69,698	70,328	73,912	77,831	81,491
<i>General revenue assistance - States and Territories</i>	64,171	67,134	69,053	71,256	75,067	78,608
<i>Local government assistance</i>	2,432	2,564	1,275	2,656	2,764	2,883
Natural disaster relief(b)	188	775	11	2	0	0
Contingency reserve	0	-1,993	-216	2,117	4,293	8,982
Total other purposes	93,057	95,081	98,287	104,122	109,984	118,343
Total expenses	460,282	487,343	500,872	516,105	535,915	559,874

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

(b) Amounts for the Disaster Funding Arrangements (DRFA) 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 DRFA.

