

## STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

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

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

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

The main trends are:

- general government expenses as a percentage of GDP are forecast to decrease from 26.2 per cent in 2013-14 to 25.4 per cent in 2014-15, and then remain relatively stable over the forward estimates;
- in 2014-15 the social security and welfare, health, defence and education functions account for nearly two thirds of total expenses, with social security and welfare accounting for slightly more than one third of total expenses;
- in real terms, the strongest growth across the budget and forward estimates is expected to occur in the social security and welfare function; and
- net capital investment in 2014-15 largely reflects continued investment in defence capital projects.



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## STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

### OVERVIEW

Australian Government general government sector (GGS) accrual expenses are expected to decrease by 2.3 per cent in real terms in 2014-15, with the growth rate increasing to 2016-17 before decreasing in 2017-18. Total expenses are expected to decline as a percentage of GDP from 26.2 per cent in 2013-14 to 25.4 per cent in 2014-15, and then remain relatively stable over the forward estimates.

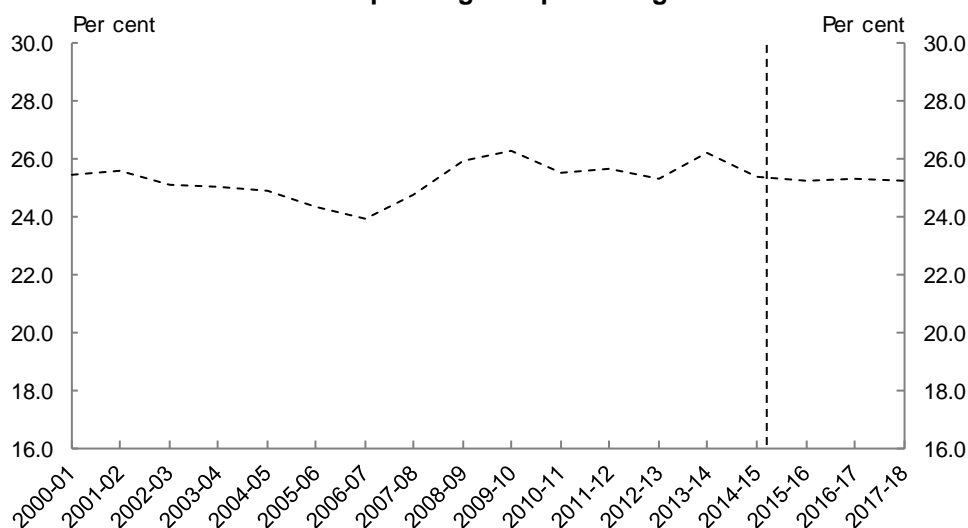
**Table 1: Estimates of general government sector expenses**

	MYEFO	Revised	Estimate		Projections	
	2013-14	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Total expenses (\$b)</b>	<b>412.1</b>	<b>415.3</b>	<b>414.8</b>	<b>431.1</b>	<b>453.8</b>	<b>475.4</b>
Real growth on previous year (%) <sup>(a)</sup>	5.0	5.6	-2.3	1.4	2.7	2.2
Per cent of GDP	26.1	26.2	25.4	25.2	25.3	25.3

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

As set out in Statement 3 of Budget Paper No. 1, the Government also reports spending on an underlying cash basis. When expressed in cash terms, Government spending is forecast to grow by an average of 0.8 per cent per annum in real terms over the four years to 2017-18.

**Chart 1: Total spending as a percentage of GDP**



Over the last seven years, total expenditure rose as a percentage of GDP from 24.8 per cent of GDP in 2007-08 to a forecast 26.2 per cent of GDP in 2013-14. Over the

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forward estimates, expenses are expected to decline to 25.3 per cent of GDP in 2017-18 (see Chart 1).

Table 2 provides a reconciliation of expense estimates between the 2013-14 Budget, the *Pre-election Economic and Fiscal Outlook 2013* (PEFO), the *Mid-Year Economic and Fiscal Outlook 2013-14* (MYEFO) and the 2014-15 Budget showing the effect of policy decisions, and economic parameter and other variations.

**Table 2: Reconciliation of expense estimates**

	Estimates			Projections	Total
	2013-14	2014-15	2015-16	2016-17	
	\$m	\$m	\$m	\$m	\$m
<b>2013-14 Budget expenses</b>	<b>398,301</b>	<b>415,663</b>	<b>431,015</b>	<b>454,747</b>	<b>1,699,726</b>
<b>Changes from 2013-14 Budget to 2013 PEFO</b>					
Effect of policy decisions(a)	1,134	-1,628	-1,565	-2,303	-4,362
Effect of parameter and other variations	2,050	1,950	1,461	2,092	7,554
<b>Total variations</b>	<b>3,184</b>	<b>322</b>	<b>-103</b>	<b>-211</b>	<b>3,191</b>
<b>2013 PEFO expenses</b>	<b>401,485</b>	<b>415,985</b>	<b>430,911</b>	<b>454,536</b>	<b>1,702,917</b>
<b>Changes from 2013 PEFO to 2013-14 MYEFO</b>					
Effect of policy decisions(a)	7,710	-1,996	-3,014	-6,467	-3,767
Effect of parameter and other variations	2,864	3,769	8,121	9,042	23,796
<b>Total variations</b>	<b>10,574</b>	<b>1,773</b>	<b>5,108</b>	<b>2,574</b>	<b>20,030</b>
<b>2013-14 MYEFO expenses</b>	<b>412,060</b>	<b>417,758</b>	<b>436,019</b>	<b>457,110</b>	<b>1,722,947</b>
<b>Changes from 2013-14 MYEFO to 2014-15 Budget</b>					
Effect of policy decisions(a)	51	-1,939	-5,498	-7,688	-15,075
Effect of economic parameter variations					
Total economic parameter variations	784	1,323	1,506	774	4,388
<i>Unemployment benefits</i>	4	17	295	32	348
<i>Prices and wages</i>	32	211	-85	-812	-654
<i>Interest and exchange rates</i>	8	85	57	54	204
<i>GST payments to the States</i>	740	1,010	1,240	1,500	4,490
Public debt interest	-15	-247	-608	-872	-1,741
Programme specific parameter variations	601	327	468	915	2,311
Slippage in decisions	0	0	0	0	0
Other variations	1,813	-2,378	-770	3,567	2,232
<b>Total variations</b>	<b>3,235</b>	<b>-2,914</b>	<b>-4,901</b>	<b>-3,304</b>	<b>-7,884</b>
<b>2014-15 Budget expenses</b>	<b>415,294</b>	<b>414,845</b>	<b>431,118</b>	<b>453,806</b>	<b>1,715,063</b>

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

The Government has made policy decisions which reduce expenses by \$15.1 billion over the four years from 2013-14 to 2016-17 compared to the 2013-14 MYEFO, while programme specific parameter variations have increased expenses by \$2.3 billion over the same period. Economic parameter variations are expected to increase expenses by \$4.4 billion over the four years from 2013-14 to 2016-17 compared to the 2013-14 MYEFO. Public debt interest is estimated to decrease by \$1.7 billion compared to the 2013-14 MYEFO.

### Estimated expenses by function

Table 3 sets out the estimates of Australian Government GGS expenses by function for the period 2013-14 to 2017-18.

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

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
General public services	34,151	23,185	22,752	23,357	23,051
Defence	22,840	24,197	25,249	25,719	27,632
Public order and safety	4,446	4,389	4,098	4,054	4,051
Education	29,707	29,553	30,206	31,843	32,788
Health	64,511	66,892	68,203	71,797	74,856
Social security and welfare	140,569	145,773	149,269	158,370	169,585
Housing and community amenities	8,383	4,835	4,902	5,026	5,105
Recreation and culture	3,725	3,512	3,360	3,385	3,343
Fuel and energy	7,047	7,058	7,172	7,439	7,836
Agriculture, forestry and fishing	2,629	2,752	2,868	2,642	2,565
Mining, manufacturing and construction	3,139	2,740	2,580	2,595	2,504
Transport and communication	8,495	7,286	9,697	10,949	7,469
Other economic affairs	11,263	10,670	10,366	9,646	9,485
Other purposes	74,388	82,002	90,395	96,984	105,178
<b>Total expenses</b>	<b>415,294</b>	<b>414,845</b>	<b>431,118</b>	<b>453,806</b>	<b>475,447</b>

Major expense trends between 2013-14 and 2014-15, and from 2014-15 over the forward years include movements in the following functions:

- **general public services** – the decrease in expenses between 2013-14 and 2014-15 is primarily due to a one-off grant provided to the Reserve Bank of Australia. The grant took the Reserve Bank Reserve Fund to 15 per cent of assets at risk, which ensures the bank has all of the resources available to operate in a volatile environment. In the normal course of events, the bank would be profitable, enabling the Government to receive future dividends. From 2014-15 to 2017-18 expenses in the general public services function are estimated to remain relatively stable;
- **defence** – the increase in expenses from 2014-15 to 2017-18 reflects the Government's commitment to recapitalise Defence and put its funding back on an achievable and realistic growth path towards 2 per cent as a share of GDP by 2023-24. The increase is partially offset by the Government shifting funding within the Defence budget away from expenses in favour of capital expenditure, to improve defence capability;
- **education** – the increase in expenses from 2014-15 to 2017-18 largely reflects the Government's *Students First* school education policy. Further information on *Students First* can be found in Budget Paper No. 2, *Budget Measures* and the *Mid-Year Economic and Fiscal Outlook 2013-14*;

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- **health** – the increase in expenses from 2014-15 to 2017-18 is driven by a range of programmes within the Medical Services and Benefits, Pharmaceutical Benefits and Services and Assistance to the States for public hospitals sub-functions. Higher demand for health services, and a growing and ageing population, continue to be significant drivers of increasing health costs;
- **social security and welfare** – the increase in expenses from 2014-15 to 2017-18 are largely due to an ageing population with more people accessing age, disability and carer payments and residential and home care together with implementation of the National Disability Insurance Scheme to support people with a significant and permanent disability;
- **housing and community amenities** – the decrease in expenses between 2013-14 and 2014-15 is primarily due to the termination of various programmes as part of the abolition of the carbon tax, including the Jobs and Competitiveness Programme, Energy Security Fund and the Biodiversity Fund;
- **transport and communication** – the fluctuating profile of expenses from 2014-15 to 2017-18 are largely driven by infrastructure projects within the Rail Transport and Road Transport sub-functions where the value of projects funded varies year on year, and payments correspond to project timelines; and
- **other purposes** – the increase in expenses from 2014-15 to 2017-18 primarily reflects growing general revenue assistance payments (largely GST) to be made to the States and Territories, increasing public debt interest costs and the conservative bias allowance component of the Contingency Reserve.

Government expenses are strongly influenced by underlying trends in spending in the social security and welfare, health and education functions (see Boxes 1 and 2). Together, these functions account for 58.4 per cent of all government expenses in 2014-15. Further details of spending trends against all functions including movements in expenses from 2013-14 to 2014-15 are set out under individual function headings.



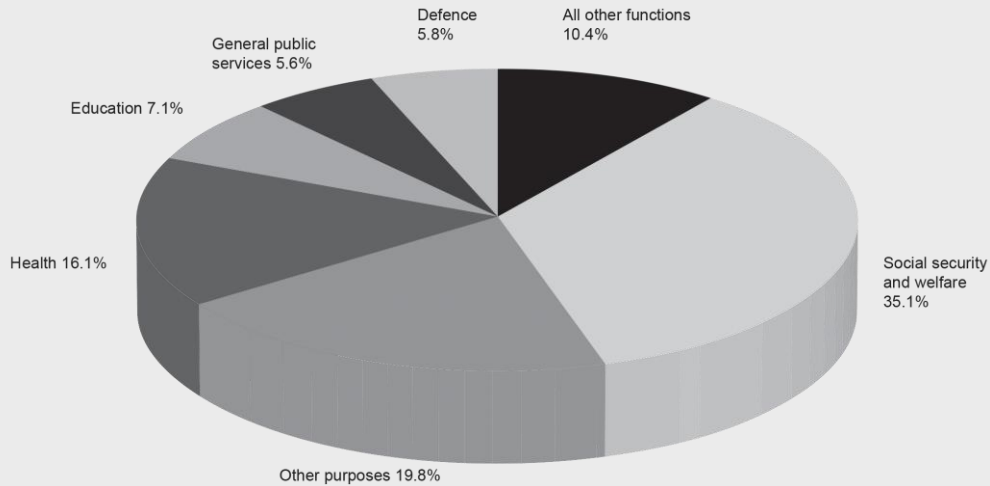
**Box 1: Where does government spending go in 2014-15?**

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 2: Expenses by function in 2014-15**

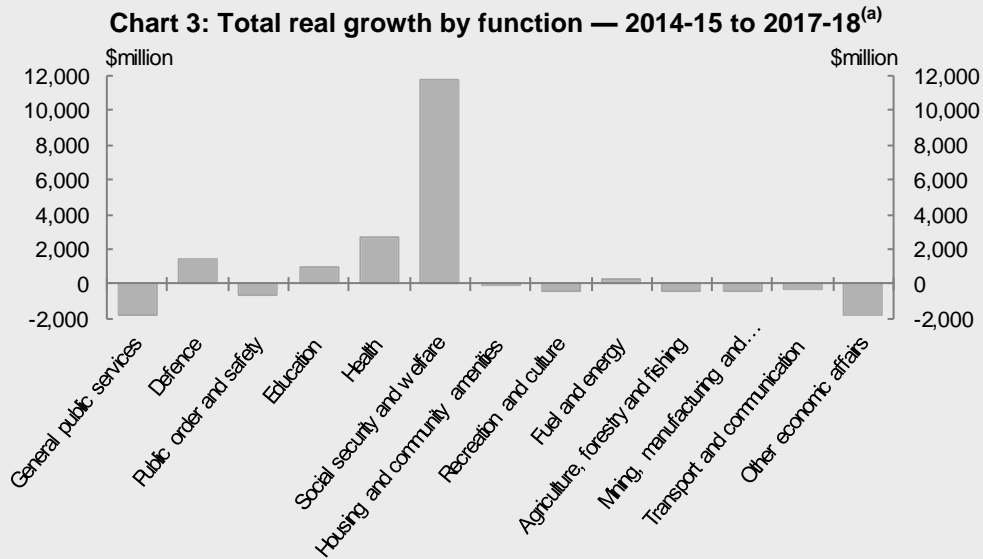


The estimates presented in the chart above are explained in greater detail under each individual function in the following pages.

**Box 2: Trends in future spending**

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

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



(a) The other purposes function is not included in this chart as it contains expenses for general revenue assistance to the State and Territory governments (primarily GST), public debt interest, and the conservative bias allowance.

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**Programme expenses**

Table 3.1 reports the top 20 expense programmes in the 2014-15 financial year. These programmes represent approximately two thirds of total expenses in that year. More than half of the top 20 expense programmes provide financial assistance or services to seniors, families, people with a disability, students, carers and the unemployed.

**Table 3.1: Top 20 programmes by expenses in 2014-15**

Programme	Function	Estimates			Projections	
		2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Revenue assistance to the States and Territories	Other purposes	52,056	54,861	58,165	61,598	64,909
Income support for seniors	SSW	39,501	42,085	44,658	47,583	49,665
Medicare services	Health	19,334	20,317	20,176	21,480	22,647
Family tax benefit	SSW	20,125	19,270	17,645	17,650	16,861
Income Support for People with Disability	SSW	16,098	16,891	17,354	17,940	18,500
Assistance to the States for public hospitals(a)	Health	13,845	15,116	16,551	18,095	18,872
Job seeker income support	SSW	10,226	10,233	10,571	10,687	10,610
Residential and flexible care	SSW	8,978	9,547	10,065	10,610	11,244
Pharmaceuticals and pharmaceutical services	Health	9,455	9,445	9,607	10,110	10,467
Non government schools – national support	Education	8,764	9,260	9,957	10,685	11,277
Income support for carers	SSW	6,983	7,631	8,266	9,000	9,769
Public sector superannuation(b)	Other purposes; General public services	8,225	7,549	7,696	7,847	8,007
Commonwealth Grants Scheme	Education	6,222	6,479	6,566	6,583	6,709
Private health insurance	Health	5,997	6,302	6,565	6,873	7,187
Fuel tax credits scheme	Fuel and energy	5,823	6,270	6,822	7,211	7,615
Management of Capability Acquisition	Defence	4,268	6,225	6,781	6,205	7,373
Army capabilities	Defence	5,762	6,031	6,327	6,246	6,319
Management of capability sustainment	Defence	5,366	5,939	6,244	6,531	6,841
Parents' income support	SSW	5,526	5,341	5,392	5,408	5,389
Government Schools National Support	Education	2,408	5,114	5,689	6,348	6,872
<b>Sub-total</b>		<b>254,962</b>	<b>269,906</b>	<b>281,097</b>	<b>294,690</b>	<b>307,133</b>
Other programmes		160,332	144,939	150,021	159,116	168,314
<b>Total expenses</b>		<b>415,294</b>	<b>414,845</b>	<b>431,118</b>	<b>453,806</b>	<b>475,447</b>

(a) Estimates for the Assistance to the States for healthcare services programme have moved to the Assistance to the States for public hospitals programme starting 2017-18.

(b) This programme is a combination of the public sector superannuation nominal interest and benefits programmes.

## General government sector expenses

### General public services

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

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

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Legislative and executive affairs	1,334	1,191	1,015	1,222	1,045
Financial and fiscal affairs	17,652	8,513	8,585	8,797	8,799
Foreign affairs and economic aid	6,060	6,299	6,125	6,704	6,733
General research	2,724	2,651	2,554	2,343	2,387
General services	714	821	757	773	797
Government superannuation benefits	5,667	3,709	3,715	3,516	3,290
<b>Total general public services</b>	<b>34,151</b>	<b>23,185</b>	<b>22,752</b>	<b>23,357</b>	<b>23,051</b>

Total general public services expenses are estimated to decrease by 33.6 per cent in real terms from 2013-14 to 2014-15, and decrease by 7.7 per cent in real terms over the period 2014-15 to 2017-18.

The uneven profile of expenses under the **legislative and executive affairs** sub-function partly reflects costs that will be incurred by the Australian Electoral Commission to support the scheduled federal election in 2016-17 and costs incurred by the Department of the Prime Minister and Cabinet due to Australia hosting the Group of 20 in 2014.

Expenses in the **financial and fiscal affairs** sub-function are expected to decrease from 2013-14 to 2014-15, primarily due to a one-off grant provided to the Reserve Bank of Australia. Over the forward estimates, bad and doubtful debts expenses are expected to increase in line with the normal growth in taxation revenue over the forward estimates.

The fall in expenses from 2013-14 to 2014-15 in the **government superannuation benefits** sub-function reflects the use of different discount rates. The superannuation expenses for 2013-14 apply a discount rate based on long-term government bonds at the commencement of the financial year (4.3 per cent) in accordance with accounting

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standards. Forward years are estimated based on the discount rate applied by the superannuation scheme actuaries in preparing long term cost reports (6 per cent).

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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Official development assistance(a)(b)	4,375	4,530	4,458	5,046	5,104
<i>Africa, South and Central Asia, Middle East and other</i>					
<i>East Asia</i>	881	1,131	1,081	1,124	1,440
<i>East Asia</i>	1,022	1,063	1,091	1,118	1,145
<i>PNG and Pacific</i>	882	967	1,017	1,045	1,082
<i>Emergency, humanitarian and refugee programmes</i>	264	339	350	362	374
<i>UN, Commonwealth and other international organisations</i>	369	344	343	421	425
<i>Multilateral replenishments</i>	265	118	-	377	13
<i>NGO, Volunteer and community programmes</i>	199	204	209	214	219
<i>Programme Support(c)</i>	362	240	237	252	271
<i>International agricultural research and development</i>	131	124	130	133	135
International police assistance	279	259	228	213	150
Passport services	239	253	263	256	258
Diplomacy(d)	759	854	766	745	760
Payments to international organisations	300	299	299	303	309
Consular services	66	75	74	74	74
Finance and insurance services for Australian exporters and investors	24	22	20	15	17
Other	18	7	17	52	61
<b>Total</b>	<b>6,060</b>	<b>6,299</b>	<b>6,125</b>	<b>6,704</b>	<b>6,733</b>

(a) The difference between these figures and the Government's ODA budget is partly due to the way replenishments are recognised in accrual terms when initial commitments are made. However, international reporting of ODA is in cash terms and reflects the timing of actual cash payments (which, in the case of multilateral replenishments, can be spread over several years).

(b) Some ODA delivered by other government departments is also classified to other programmes or functions.

(c) Programme Support includes departmental expenses of administering ODA for the Department of Foreign Affairs and Trade.

(d) Diplomacy includes Departmental expenditure for the Department of Foreign Affairs and Trade's Operations, Security and IT, overseas property and international climate change engagement.

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**Box 3: Official Development Assistance**

The Government will maintain official development assistance (ODA) spending at its nominal 2013-14 level of \$5.0 billion in each of 2014-15 and 2015-16. From 2016-17 ODA will grow in line with the Consumer Price Index.

**Table 4.2: Official development assistance profile**

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Official development assistance					
- total spending estimate	5,032	5,032	5,034	5,160	5,289

ODA spending reported internationally differs from the reporting in Table 4.1 due to some ODA eligible activities of government departments outside of the Foreign Affairs Portfolio being reported in other functions, and due to accounting differences in the treatment of investments and loans and reflects the timing of actual cash payments.

Total expenses under the **foreign affairs and economic aid** sub-function are expected to increase by 1.7 per cent in real terms from 2013-14 to 2014-15 and are forecast to decrease by 0.7 per cent in real terms across the forward years from 2014-15.

This decrease is due to the Government's decision to maintain official development assistance (ODA) expenditure at 2013-14 levels to 2015-16 with funding to grow in line with Consumer Price Index (CPI) from 2016-17 onwards. Budget Paper No. 2, *Budget Measures 2014-15*, contains further details on the Government's revision to the growth profile for ODA (see Box 3).

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

Total expenses under this sub-function are expected to decrease in real terms by 4.8 per cent from 2013-14 to 2014-15 and by 16.4 per cent across the forward estimates from 2014-15. This decrease is driven by the completion of a number of one-off projects funded under the Education Investment Fund, and the measure *Science and Research Agencies – reduced funding*.

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

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**Table 4.3: Trends in the major components of general research sub-function expenses**

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
National research flagships, science and services	1,059	1,024	1,010	1,003	1,025
Discovery - research and research training	559	551	519	495	523
Linkage - cross sector research partnerships	330	327	278	266	273
Science and technology solutions	284	290	283	279	275
National Research Infrastructure - national facilities and collections	111	143	150	164	164
Other	382	316	315	135	128
<b>Total</b>	<b>2,724</b>	<b>2,651</b>	<b>2,554</b>	<b>2,343</b>	<b>2,387</b>

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**Defence**

The defence function includes expenses incurred by the Department of Defence (Defence), the Defence Materiel Organisation (DMO) 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. The DMO contributes to the preparedness of the Australian defence organisation through the acquisition and through-life support of military equipment and supplies.

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**

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Defence	22,840	24,197	25,249	25,719	27,632
<b>Total defence</b>	<b>22,840</b>	<b>24,197</b>	<b>25,249</b>	<b>25,719</b>	<b>27,632</b>

Total expenses for the defence function are estimated to increase by 3.7 per cent in real terms from 2013-14 to 2014-15, and increase by 6.1 per cent in real terms over the period 2014-15 to 2017-18. While the increase in expenses from 2014-15 to 2017-18 in part reflects new policy decisions which provide defence additional funding, this is partially offset by a shift in funding within the Defence budget away from expenses in favour of capital expenditure, to improve defence capability (see Box 4 showing expenses and net capital investment).

To this end, the Government will achieve savings of \$1.2 billion over four years through various initiatives to increase efficiency and reduce spending in lower priority areas. The savings will be re-invested in capital to support Defence capability.

The funding growth does not include the full cost of operations beyond 2014-15 as such funding is considered on a year-by-year basis and is subject to future Government decisions. In 2014-15, additional funding of \$194.0 million will be provided to support Defence operations in the Middle East and in protecting Australia's borders.



**Box 4: Defence funding**

Total Defence spending is estimated to increase by \$4.0 billion (or 6.4 per cent in real terms) between 2014-15 and 2017-18. This includes both expenses and net capital investment. Expenses for the defence function are those incurred in undertaking day-to-day activities. Net capital investment represents expenditure to acquire capital items in the form of equipment, buildings and land, less depreciation expenses.

**Table 5.1: Trends in the major components of defence function expenses and net capital investment**

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Expenses	22,840	24,197	25,249	25,719	27,632
Net capital investment	2,825	3,315	3,219	2,883	3,892
Total defence spending	25,665	27,512	28,468	28,602	31,524
Nominal growth (per cent)	11.7%	7.2%	3.5%	0.5%	10.2%
Real growth (per cent)	0.7%	4.9%	1.0%	-2.0%	7.5%

Capital funding in the defence function is applied towards the acquisition of military equipment, enabling services and the construction of support facilities linked to capability. Fluctuations in capital spending can be due to slippage in expenditure from one year to the next year, foreign exchange rate fluctuations and additional funding decisions of Government.

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

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

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Courts and legal services	1,080	1,043	957	871	882
Other public order and safety	3,366	3,346	3,141	3,184	3,168
<b>Total public order and safety</b>	<b>4,446</b>	<b>4,389</b>	<b>4,098</b>	<b>4,054</b>	<b>4,051</b>

Total expenses for the **public order and safety function** are estimated to decrease by 3.4 per cent in real terms from 2013-14 to 2014-15, and by 14.3 per cent in real terms over the period 2014-15 to 2017-18.

Expenses within the **courts and legal services sub-function** are expected to decrease by 21.5 per cent in real terms from 2014-15 over the forward years, and by 5.5 per cent in real terms from 2013-14 to 2014-15. This is largely due to the expected completion of the three established Royal Commissions over the next three years.

Expenses within the **other public order and safety sub-function** are expected to decrease by 12.1 per cent in real terms from 2014-15 over the forward years, and by 2.7 per cent in real terms from 2013-14 to 2014-15. This is largely due to the cessation of a number of temporary measures as well as recent efficiency measures which have reduced departmental resourcing. Further information is contained in the measures *Australian Federal Police officers – cessation of recruitment* and *Australian Federal Police – savings from efficiencies* (see Budget Paper No. 2, *Budget Measures 2014-15*). This impact has been partially offset by additional funding provided to the Australian Customs and Border Protection Service to reform border protection services.

## 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**

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Higher education	8,970	9,223	9,274	9,282	9,465
Vocational and other education	1,766	1,824	1,837	2,003	1,515
Schools	13,567	14,374	15,646	17,032	18,149
Non-government schools	8,764	9,260	9,957	10,685	11,277
Government schools	4,803	5,114	5,689	6,348	6,872
School education - specific funding	1,151	734	282	194	163
Student assistance	3,998	3,338	3,110	3,264	3,431
General administration	255	61	56	67	65
<b>Total education</b>	<b>29,707</b>	<b>29,553</b>	<b>30,206</b>	<b>31,843</b>	<b>32,788</b>

Total education expenses are expected to decrease by 2.7 per cent in real terms between 2013-14 and 2014-15 and increase by 3.1 per cent in real terms from 2014-15 to 2017-18.

The major components of the higher education sub-function are set out in Table 7.1.

**Table 7.1: Trends in the major components of the higher education sub-function expenses**

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Commonwealth Grant Scheme	6,222	6,479	6,566	6,583	6,709
Investment in Higher Education Research	1,726	1,756	1,800	1,852	1,898
Higher Education Support	536	576	492	427	433
University Superannuation Programme(a)	289	324	332	340	349
Other	198	88	84	79	76
<b>Total</b>	<b>8,970</b>	<b>9,223</b>	<b>9,274</b>	<b>9,282</b>	<b>9,465</b>

(a) This does not include the 2014-15 Budget measure which is not for publication.

Expenses under the **higher education** sub-function are expected to increase by 0.6 per cent in real terms from 2013-14 to 2014-15, and decrease by 4.7 per cent in real terms from 2014-15 to 2017-18. The increase in expenses from 2013-14 to 2014-15 is due to growth in projected enrolments. The expected decrease from 2014-15 is mainly due to the implementation of the *Expanding opportunity – expansion of the demand driven system and sharing the cost fairly* measure from 2016, which allows higher education

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providers to set their own course fees and a reduction in subsidies provided under the Commonwealth Grant Scheme.

Expenses under the **vocational and other education** sub-function are estimated to increase by 1.1 per cent in real terms between 2013-14 and 2014-15, and decrease by 22.9 per cent in real terms from 2014-15 to 2017-18. The forecast decline in expenses over the forward estimates is due to the conclusion of funding under the Skills Reform National Partnership Agreement in 2016-17.

Aggregate school funding expenses are expected to increase by 3.7 per cent in real terms between 2013-14 and 2014-15 and by 17.3 per cent in real terms from 2014-15 to 2017-18 reflecting the Government's *Students First* school education policy. Slower growth in 2017-18 reflects the Government's commitment to put school funding on a more sustainable footing. From 2018, school funding will be indexed by the Consumer Price Index, with an allowance for changes in enrolments, to maintain the real level of Australian Government school funding.

Expenses in the **schools – non-government schools** sub-function are expected to increase by 3.4 per cent in real terms between 2013-14 and 2014-15 and by 13.1 per cent in real terms from 2014-15 to 2017-18. Expenses under the **schools – government schools** sub-function are expected to increase by 4.2 per cent in real terms between 2013-14 and 2014-15 and by 24.8 per cent in real terms from 2014-15 to 2017-18.

Expenses under the **student assistance** sub-function are expected to decrease by 18.3 per cent in real terms from 2013-14 to 2014-15, and by 4.5 per cent in real terms from 2014-15 to 2017-18. The decrease in 2014-15 is primarily due to recent changes in tertiary student assistance including the removal of grandfathering of recipients of the Student Start-up Scholarship from 1 July 2015.

Expenses under the Higher Education Loan Program (HELP) mainly reflect the estimated cost to the Government of providing concessional loans. These expenses are recorded when loans are issued and are based on projections of future interest rates. These expenses are expected to reduce in 2014-15 and be removed from 2015-16 onwards as a result of the Government's decision to change the indexation arrangements for debts from the Consumer Price Index to a rate equivalent to the yields on 10 year Australian Government bonds from 1 June 2016. The remaining expenses relate to the write down of debts.

## Health

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

In addition to these expenses, the Government is creating a Medical Research Future Fund (MRFF) from 1 January 2015 to provide a sustainable and growing funding stream to be invested in additional medical research in the medium to long term.

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

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Medical services and benefits	26,390	28,227	28,384	29,982	31,442
Pharmaceutical benefits and services	10,519	10,547	10,693	11,209	11,589
Assistance to the States for public hospitals(a)	13,845	15,116	16,551	18,095	18,872
Hospital services(b)	2,844	1,950	1,777	1,686	1,705
Health services	6,839	7,109	6,794	6,749	7,040
General administration	3,274	3,214	3,254	3,257	3,300
Aboriginal and Torres Strait Islander health	800	730	749	818	908
<b>Total health</b>	<b>64,511</b>	<b>66,892</b>	<b>68,203</b>	<b>71,797</b>	<b>74,856</b>

(a) The name of this sub-function has changed from the 'National Health Reform Payment' to the 'Assistance to the States for public hospitals'.

(b) The hospital services sub-function includes payments from the Commonwealth to the States and Territories for specific hospital improvement initiatives and is in addition to the bulk of hospital funding provided under the former National Health Reform Payment sub-function (now called the 'Assistance to the States for public hospitals' sub-function).

Total expenses for this function are estimated to increase by 1.5 per cent in real terms between 2013-14 and 2014-15. Total expenses are estimated to increase by 3.9 per cent in real terms from 2014-15 to 2017-18. This expected growth is driven by higher demand for health services, and a growing and ageing population.

The **medical services and benefits** sub-function, which primarily consists of Medicare and Private Health Insurance Rebate (PHIR) expenses, is 42.2 per cent of total estimated health expenses for 2014-15. Medicare expenses are the major driver of growth in this sub-function. Expenses for Medicare are expected to increase by 2.8 per cent in real terms between 2013-14 and 2014-15. The fall in expenses of 3.1 per cent in real terms from 2014-15 to 2015-16 largely reflects the impact of the Government's decisions to strengthen and improve the sustainability of Medicare. Expenses are still expected to grow by 3.5 per cent in real terms over the period 2014-15 to 2017-18, as a result of ongoing growth in the use of medical services and in the use of high value items on the Medicare Benefits Schedule.

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Expenses for PHIR are expected to increase by 2.8 per cent in real terms between 2013-14 and 2014-15, and are expected to grow by 5.9 per cent in real terms over the period 2014-15 to 2017-18 due to forecast continued take up of private health insurance policies. The proportion of Australians with some form of private health insurance is now around 55 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 grow by 3.0 per cent in real terms over the period 2014-15 to 2017-18, due to the expansion of dental services in the public dental system. Expenses for this activity had not previously been identified separately, but were included in the Medicare Services component of 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<sup>(a)</sup>**

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Medicare services	19,334	20,317	20,176	21,480	22,647
Private health insurance	5,997	6,302	6,565	6,873	7,187
General medical consultations and services	902	879	860	845	832
Dental services(a)	0	600	620	638	665
Other	157	129	163	147	111
<b>Total</b>	<b>26,390</b>	<b>28,227</b>	<b>28,384</b>	<b>29,982</b>	<b>31,442</b>

(a) Dental services sub function data has previously been included as part of Medicare Services and has not been separately identified.

The **pharmaceutical benefits and services** sub-function is expected to decrease by 1.9 per cent in real terms between 2013-14 and 2014-15 due largely to the current price disclosure policy which requires manufacturers to disclose to the Government the actual price at which they sell medicines to wholesalers and pharmacies. Expenses are expected to grow by 2.1 per cent in real terms over the period 2014-15 to 2017-18. Estimates for the Pharmaceutical Benefits Scheme (PBS) do not include the potential listing of new drugs or price adjustments to existing drugs, which typically increase spending above original estimates.

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

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

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Pharmaceutical benefits (concessional)(a)	5,641	5,512	5,564	5,852	6,040
Pharmaceutical benefits (general)(b)	1,410	1,378	1,391	1,463	1,510
Pharmaceutical benefits (highly specialised and other drugs dispensed in hospitals)(c)	2,208	2,358	2,452	2,595	2,715
Pharmaceutical benefits - targeted medicine programmes(d)	138	148	154	158	163
Immunisation	156	154	159	160	164
Veterans' pharmaceutical benefits	406	390	368	376	390
Payments for wholesalers and pharmacy programmes	368	406	402	401	401
Other	192	201	204	204	206
<b>Total</b>	<b>10,519</b>	<b>10,547</b>	<b>10,693</b>	<b>11,209</b>	<b>11,589</b>

(a) Concessional benefits are those provided through community pharmacies for Pensioner Concession Card holders, Health Care Card holders and Veterans with a White, Gold or Orange card.

(b) General benefits are those provided through community pharmacies for people without concession cards.

(c) Highly specialised drugs are subsidised by the Australian Government through hospitals.

(d) Targeted medicine programmes include the life saving drugs programme and Herceptin Programme.

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, programmes that deliver hospital services in the home and emergency department services. The increase in expenses of 6.8 per cent in real terms from 2013-14 to 2014-15 reflects the Commonwealth's commitment to provide additional hospital funding from 2014-15 under current agreements with the States. The increase in expenses of 14.0 per cent in real terms over the period 2014-15 to 2016-17 largely reflects growth in the volume of services and changes in the efficient price of those services. The rate of growth in the expenses slows to around 1.8 per cent in real terms between 2016-17 and 2017-18 due to the Government's decision to put hospital funding on a more sustainable footing and to index hospital funding from 1 July 2017 by a combination of population growth and the Consumer Price Index.

The **hospital services** sub-function includes payments to the States and Territories through a range of National Partnership Agreements, and support for veterans' hospital services. Expenditure growth for this sub-function is expected to fall by 32.9 per cent in real terms between 2013-14 and 2014-15, and fall by 18.8 per cent in real terms over the period 2014-15 to 2017-18. This significant fall is primarily due to the conclusion of elements of the National Partnership Agreement on Improving Public Hospital Services at the end of 2013-14, and the cessation of reward funding from 1 July 2015.

Expenses in the **health services** sub-function include Australian Government expenses associated with the delivery of population health, mental health, hearing services, blood and blood products, research and other allied health services, and health

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infrastructure funding through the Health and Hospitals Fund (HHF), which will cease operation on 31 December 2014, with uncommitted funds being transferred to the Medical Research Future Fund. From 2013-14 to 2014-15 expenditure is expected to increase by 1.7 per cent in real terms, and between 2014-15 and 2017-18 expenditure is expected to decrease by 8.0 per cent in real terms. This largely reflects projects funded from the HHF nearing completion. The reduction in Health Infrastructure is partially offset by increased expenditure on the national blood agreement, reflecting both greater costs and demand for blood products, and the expenditure of earnings from the Medical Research Future Fund to support research.

The major components of the health services sub-function are set out in Table 8.3.

**Table 8.3: Trends in the major components of health services sub-function expenses**

	Estimates			Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
National blood agreement management	1,127	1,132	1,205	1,280	1,362
Health infrastructure	422	865	394	82	17
Blood and organ donation	732	737	783	833	884
Mental health	529	643	708	707	725
Other	4,028	3,731	3,704	3,847	4,051
<b>Total</b>	<b>6,839</b>	<b>7,109</b>	<b>6,794</b>	<b>6,749</b>	<b>7,040</b>

The **general administration – health** sub-function includes the Government’s investment in health workforce measures and support for rural health initiatives. Expenditure for this sub-function is expected to fall in real terms by 3.9 per cent between 2013-14 and 2014-15, and to fall in real terms by 4.6 per cent over the period 2014-15 to 2017-18. This is a result of the recent measures the Government has undertaken to minimise the growth in programme delivery costs such as improving the efficiency of health workforce development and rebuilding general practice education and training.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function is expected to decrease by 10.7 per cent in real terms from 2013-14 to 2014-15, largely due to efficiencies in Indigenous health programme funding. Expenses are expected to increase by 15.5 per cent in real terms over the period 2014-15 to 2017-18 as Aboriginal and Torres Strait Islander people across Australia continue to access Indigenous-specific services. Substantial investments in Indigenous health also occur through other health sub-functions.



**Box 5: Medical Research Future Fund**

In addition to expenditure on the health function, the Government will create a Medical Research Future Fund (MRFF) from 1 January 2015 to provide a sustainable and growing funding stream to be spent on further medical research in the medium to long term. All savings from health expenditure which have been announced in the 2014-15 Budget and the current uncommitted balance of the Health and Hospitals Fund (HHF) will be reinvested in the MRFF until its balance reaches \$20 billion, which is estimated to occur in 2019-20. The capital and any ongoing capital gains of the MRFF will be preserved in perpetuity.

The net interest earnings of the fund will be drawn down in the year after they are earned and used to fund critical medical research. This additional expenditure will grow from \$20 million in 2015-16 to provide an ongoing funding stream of around \$1 billion per year from 2022-23.

**Table 8.4: Medical Research Future Fund**

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Savings invested in the MRFF	0	1,039(a)	2,680	2,884	3,938
Uncommitted balance from the HHF invested in the MRFF		992			
<b>Total investments each year in the MRFF</b>	<b>0</b>	<b>2,032</b>	<b>2,680</b>	<b>2,884</b>	<b>3,938</b>
Net interest earnings		20	77	179	304
Capital gains		2	9	20	35
Additional funding for Medical Research(b)			-20	-77	-179
<b>Cumulative Balance of the MRFF(c)</b>	<b>0</b>	<b>2,054</b>	<b>4,800</b>	<b>7,807</b>	<b>11,905</b>

(a) Includes \$76 million in 2013-14 savings which will be invested in the MRFF after it is established on 1 January 2015.

(b) The net interest earnings of the MRFF are paid out in the year after they are earned to fund medical research. This expenditure is included in the health function.

(c) The estimated cumulative balance includes capital gains in addition to savings.

**Table 8.5: Expenditure and investments in health**

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Health function expenditure	64,511	66,892	68,203	71,797	74,856
Savings invested in the MRFF	0	1,039	2,680	2,884	3,938
<b>Total expenditure and investments in health</b>	<b>64,511</b>	<b>67,931</b>	<b>70,883</b>	<b>74,681</b>	<b>78,794</b>