

SUPPLEMENTARY EXPENSE AND CAPITAL TABLES AND THE CONTINGENCY RESERVE

Expenses

Table 21 shows estimates of Australian Government general government expenses by function and sub-function for 2007-08 and the forward years.

Box 2: Revised accounting treatment of education grants

The accounting treatment of education grants primarily to State and Territory governments has been changed in this MYEFO relative to the treatment applied at the 2007-08 Budget. This accounting change means that in accrual terms the expense is recorded to have occurred at a later time.

This is purely a change in accounting treatment. There is no effect on actual education payments.

The accounting change is a one-off adjustment which is required to meet the requirements of the Australian Bureau of Statistics (ABS). It also follows a recent view of the Australian National Audit Office (ANAO) to require a revised treatment under Australian Accounting Standards, compared to that adopted in previous years.

The accounting change relates to the time at which education grants are recognised as accrual expenses.

Previously, these expenses were recognised when a Ministerial determination was signed setting out the payments to be made by the Commonwealth to the States in the following year. However, the ANAO has recently advised that it considers that the grants should now be recognised when payments are due to be made to the States, usually each month. This is also consistent with the requirements of the GFS system applied by the ABS.

Because education grants grow each year, the Ministerial determination for the forthcoming year is always higher than the payments in the current year. This explains why delaying the time at which expenses are recognised in accounting terms (that is, until the payments are actually made) can have a negative impact on reported education expenses, even though there is no change in the amounts actually paid.

Box 2: Revised accounting treatment of education grants (continued)

The following table shows that, relative to the estimates published at the 2007-08 Budget, total education expenses measured on a consistent basis have increased across the forward estimates period reflecting the net result of policy decisions and parameter changes since the budget.

Table A: The impact of accounting change on estimated education expenses

	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Education expenses at 2007-08 Budget	17,752	18,491	19,209	20,228
Impact of revised treatment	-554	-415	-443	-474
Revised education expenses at 2007-08 Budget	17,198	18,076	18,766	19,754
Variations since the 2007-08 Budget	188	204	176	60
Education expenses at 2007-08 MYEFO	17,386	18,280	18,942	19,814

An improvement in net worth results from the removal of the existing accrued liability for education grants because of the change in the timing for recognising accrual expenses. At 2007-08 Budget, the accrued liability was estimated to be \$8.3 billion, which represented payments expected to be made in the 2008 calendar year.

The effect of this change improves fiscal balance in 2007-08 by approximately \$550 million, with no impact on underlying cash.

Table 21: Estimates of Australian Government general government expenses by function and sub-function

	Estimates						Projections					
	2007-08			2008-09			2009-10			2010-11		
	Budget	MYEFO	Change on Budget	Budget	MYEFO	Change on Budget	Budget	MYEFO	Change on Budget	Budget	MYEFO	Change on Budget
	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
General public services												
Legislative and executive affairs	1,039	1,020	-2	854	823	-4	875	848	-3	1,031	1,015	-2
Financial and fiscal affairs	5,244	5,219	0	5,527	5,585	1	5,621	5,778	3	5,872	5,724	-3
Foreign affairs and economic aid	3,693	3,647	-1	4,275	4,197	-2	4,528	4,482	-1	5,197	5,009	-4
General research	2,599	2,512	-3	2,593	2,530	-2	2,647	2,590	-2	2,595	2,627	1
General services	706	756	7	649	682	5	642	671	5	669	674	1
Government superannuation benefits(a)	2,487	2,620	5	2,536	2,675	5	2,593	2,769	7	2,672	2,919	9
Defence	19,880	19,243	-3	21,133	20,724	-2	22,054	21,831	-1	23,018	22,505	-2
Public order and safety	3,670	3,772	3	3,741	3,799	2	3,780	3,808	1	3,762	3,823	2
Education	17,752	17,386	-2	18,491	18,280	-1	19,209	18,942	-1	20,228	19,814	-2
Health	42,964	43,357	1	44,520	45,045	1	46,240	46,788	1	48,120	48,500	1
Social security and welfare	96,450	95,132	-1	100,733	99,289	-1	104,751	103,219	-1	108,936	107,173	-2
Housing and community amenities(b)	3,011	3,345	11	2,962	3,284	11	2,919	3,293	13	2,460	3,007	22
Recreation and culture(b)	2,979	2,861	-4	2,932	2,799	-5	2,884	2,758	-4	2,933	2,700	-8
Fuel and energy(b)	5,360	5,310	-1	5,495	5,474	0	5,636	5,631	0	5,873	5,894	0
Agriculture, fisheries and forestry(b)	2,799	3,685	32	2,085	2,767	33	2,612	2,767	6	2,990	2,589	-13
Mining, manufacturing and construction	2,029	2,046	1	2,018	2,037	1	1,949	2,015	3	1,843	1,911	4
Transport and communication	4,516	4,484	-1	4,823	5,344	11	4,818	4,954	3	4,584	4,525	-1
Other economic affairs												
Tourism and area promotion	197	193	-2	197	194	-2	196	197	1	198	200	1
Labour and employment affairs	4,350	4,748	9	4,364	4,682	7	4,463	4,739	6	4,586	4,804	5
Other economic affairs nec	1,069	1,182	11	1,073	1,155	8	1,059	1,134	7	1,110	1,142	3

Table 21: Australian Government expenses by function and sub-function (continued)

	Estimates						Projections					
	2007-08			2008-09			2009-10			2010-11		
	Budget \$m	MYEFO \$m	Change on Budget %	Budget \$m	MYEFO \$m	Change on Budget %	Budget \$m	MYEFO \$m	Change on Budget %	Budget \$m	MYEFO \$m	Change on Budget %
Other purposes												
Public debt interest	3,485	3,517	1	3,370	3,407	1	3,353	3,388	1	3,219	3,246	1
Nominal superannuation interest	6,192	6,276	1	6,294	6,319	0	6,517	6,470	-1	6,706	6,723	0
General purpose inter-government transactions	2,625	2,715	3	2,739	2,751	0	2,842	2,858	1	2,892	2,916	1
Natural disaster relief	103	103	0	103	103	0	103	103	0	103	103	0
Contingency reserve	389	282	-28	3,979	4,693	18	7,360	7,326	0	11,073	9,887	-11
Total expenses	235,590	235,410	0	247,489	248,638	0	259,652	259,361	0	272,669	269,433	-1

(a) Government superannuation benefits estimates differ from superannuation expense estimates disclosed in the operating statement (Table 15 and Table B1) due to the revised treatment of the accumulated superannuation scheme whereby superannuation expenses are now allocated to the function of the agency concerned.

(b) The increase in expenses in the Housing and Community Amenities function is due to a reclassification of the Department of the Environment and Water Resources' departmental expenses, including greenhouse and water activities, to the Environmental Protection subfunction. The increase is offset by corresponding reductions in the Agriculture, Fisheries and Forestry, Fuel and Energy, and Recreation and Culture functions.

Contingency reserve

The contingency reserve (other purposes function) is an allowance, included in aggregate expenses figuring, to reflect anticipated events that cannot be assigned to individual programmes in the preparation of the Australian Government budget estimates. The reserve is an estimating device used to ensure that the budget estimates are based on the best information available at the time of the MYEFO. It is not a general policy reserve.

While the reserve ensures that aggregate estimates are as close as possible to expected outcomes, it is not appropriated. Allowances that are included in the reserve can only be drawn upon once they have been appropriated by Parliament. These allowances are removed from the reserve and allocated to specific agencies for appropriation and for outcome reporting closer to the time when they eventuate.

The contingency reserve makes allowance in 2007-08 and the forward years for anticipated events, including the following:

- an allowance for the tendency for estimates of expenses for existing Government policy to be revised upwards in the forward years;
- an allowance for the tendency for the estimates of expenses for some specific agencies or functions to be overstated in the budget year;
- commercial-in-confidence and national security-in-confidence items that cannot be disclosed separately and programmes that are yet to be renegotiated with the States and Territories;
- decisions made too late for inclusion against individual agency estimates;
- the effect on the budget and forward estimates of economic parameter revisions received late in the process and hence not able to be allocated to individual agencies or functions; and
- provision for events and pressures that are reasonably expected to affect the budget estimates.

The contingency reserve may also include any expenses associated with the Government's major asset sales and associated administration costs.