Statement 5: Expenses and Net Capital Investment

Statement 5 presents estimates of the Australian Government general government sector expenses and net capital investment by the functions of government. The functions are based on an international standard classification of functions of government that is incorporated into the Government Finance Statistics (GFS) reporting framework. Unless otherwise specified, tables in Statement 5 are presented in nominal fiscal terms.

Explanatory text in Statement 5 is presented in real terms (that is, excluding the impact of inflation) to focus on 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. Some nominal increases in function expenditure across this period may be described as decreases in real terms. This occurs where forecast CPI growth exceeds underlying program growth.

As the Australian Government's large-scale, economy-wide response to the COVID-19 pandemic reduces, expenses decrease from $640 billion in 2021-22 to $628 billion in 2022-23 – an impact that is primarily reflected in the health, social security and welfare, and other economic affairs functions. Expenses are expected to reach $687 billion in 2025-26. While, in this Budget, low unemployment and increased economic growth has reduced expenditure on income support programs, higher inflation and wages growth forecasts have impacted indexation rates and led to increased expenditure estimates on government payments to individuals.

The main trends in functional expenditure are:

- an estimated decline in government expenditure from 2021-22 to 2022-23 reflecting the conclusion of temporary and targeted measures that were part of the Government's response to the COVID-19 pandemic;
- in real terms, the strongest growth across the budget year and forward estimates is expected to occur in the social security and welfare, other purposes and defence functions; and
- net capital investment from 2022-23 to 2025-26 largely reflects a significant investment in defence capital projects.

Contents

Statement 5: Expenses and Net Capital Investment

Overview

Australian Government general government sector (GGS) accrual expenses are expected to decrease by 5.0 per cent in real terms in 2022-23, which is primarily driven by the reduction in large-scale, economy-wide responses to the health and economic impacts of the COVID-19 pandemic. Real growth is expected to remain relatively stable in real terms over the period 2023-24 to 2025-26.

As a percentage of GDP, total expenses are expected to reach 27.9 per cent in 2021-22 then gradually reduce to 26.3 per cent in 2025-26, reflecting projected improvements in GDP growth over the forward estimates period.

Table 5.1.1: Estimates of general government sector expenses

	MYEFO	Revised		Estimates		
	2021-22	2021-22	2022-23	2023-24	2024-25	2025-26
Total expenses ($b)	**633.8**	**639.6**	**628.5**	**643.8**	**665.4**	**686.8**
Real growth on previous year (%)(a)	-5.6	-5.4	-5.0	-0.5	0.5	0.6
Per cent of GDP	28.8	27.9	27.3	27.2	26.7	26.3

(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 estimated to decrease by 5.0 per cent in real terms in 2022-23, which is primarily driven by the reduction in large-scale, economy-wide responses to the COVID-19 pandemic. Annual real growth in payments is estimated to remain stable over 2023-24 and 2024-25, before increasing to 1.1 per cent in 2025-26.

As a percentage of GDP, total payments are expected to reach 27.8 per cent in 2021-22 and then to gradually decline to 26.3 per cent in 2025-26.

Table 5.1.2: Estimates of general government sector payments

	MYEFO	Revised		Estimates		
	2021-22	2021-22	2022-23	2023-24	2024-25	2025-26
Total payments ($b)	**631.4**	**636.4**	**625.6**	**641.7**	**662.3**	**687.0**
Real growth on previous year (%)(a)	-6.3	-6.2	-5.0	-0.4	0.4	1.1
Per cent of GDP	28.7	27.8	27.2	27.1	26.6	26.3

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

Table 5.2 provides a reconciliation of expense estimates between the 2021-22 Budget and the 2022-23 Budget showing the effect of policy decisions, economic parameter and other variations.

Table 5.2: Reconciliation of expense estimates

	Estimates				
	2021-22 $m	2022-23 $m	2023-24 $m	2024-25 $m	Total $m
2021-22 Budget expenses	**589,334**	**595,378**	**614,665**	**633,694**	**2,433,071**
Changes from 2021-22 Budget to 2021-22 MYEFO					
Effect of policy decisions(a)	32,183	7,278	4,938	4,133	48,533
Effect of parameter and other variations	12,322	13,657	16,979	12,730	55,688
Total variations	**44,504**	**20,935**	**21,917**	**16,864**	**104,221**
2021-22 MYEFO expenses	**633,838**	**616,313**	**636,582**	**650,558**	**2,537,292**
Changes from 2021-22 MYEFO to 2022-23 Budget					
Effect of policy decisions(a)	5,673	7,897	5,852	6,094	25,516
Effect of economic parameter variations					
Total economic parameter variations	247	4,890	6,607	6,497	18,241
Unemployment benefits	*-70*	*-507*	*-1,185*	*-1,660*	*-3,423*
Prices and wages	*42*	*2,636*	*4,575*	*5,561*	*12,815*
Interest and exchange rates	*-32*	*-5*	*1*	*2*	*-34*
GST payments to the States	*308*	*2,766*	*3,216*	*2,595*	*8,884*
Public debt interest	601	1,231	587	765	3,183
Program specific parameter variations	6,245	-630	334	1,195	7,143
Other variations	-7,034	-1,231	-6,130	260	-14,134
Total variations	**5,731**	**12,156**	**7,251**	**14,811**	**39,949**
2022-23 Budget expenses	**639,569**	**628,469**	**643,833**	**665,369**	**2,577,241**

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

The combined impact of policy decisions and variations to program estimates has increased expenses by $144.2 billion over the four years from 2021-22 to 2024-25 compared to the 2021-22 Budget. Since the 2021-22 MYEFO, variations related to economic parameters have increased expenses by $18.2 billion, largely driven by a significant increase in prices and wages of $12.8 billion and GST payments to the states of $8.9 billion, which has been partially offset by a reduction in expenses related to unemployment benefits of $3.4 billion.

Estimated expenses by function

Table 5.3 sets out the estimates of Australian Government general government sector expenses by function for the period 2021-22 to 2025-26.

Table 5.3: Estimates of expenses by function

		Estimates			
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
General public services	33,121	26,518	25,514	27,159	25,821
Defence	35,882	38,268	39,672	41,661	44,544
Public order and safety	6,713	7,014	6,364	6,265	5,729
Education	43,357	44,788	46,034	47,353	48,977
Health	111,467	105,754	102,575	106,225	109,932
Social security and welfare	227,800	221,685	229,996	237,837	248,953
Housing and community amenities	8,431	8,221	7,174	6,944	6,274
Recreation and culture	4,716	4,493	4,330	4,238	4,206
Fuel and energy	8,444	9,381	10,647	10,922	11,347
Agriculture, forestry and fishing	4,119	4,810	3,846	2,690	2,602
Mining, manufacturing and construction	4,310	4,781	4,616	4,012	4,081
Transport and communication	16,070	18,915	20,570	18,020	12,739
Other economic affairs	23,631	13,155	10,919	10,716	10,431
Other purposes	111,508	120,685	131,575	141,328	151,202
Total expenses	**639,569**	**628,469**	**643,833**	**665,369**	**686,839**

Major expense trends between 2021-22 and 2022-23, and from 2022-23 over the forward years (in nominal terms) include movements in the following functions:

- **Defence** — the increase in expenses from 2021-22 to 2022-23 and from 2022-23 to 2025-26 reflects the increased investment required to deliver the plans set out in the *2016 Defence White Paper* and the *2020 Force Structure Plan;*
- **Education** — the increase in expenses from 2021-22 to 2022-23 and from 2022-23 to 2025-26 reflects the funding arrangements implemented under the *Quality Schools* package and increased funding for non-government schools in the Government's response to the National School Resourcing Board's *Review of the Socio-Economic Status Score Methodology;*
- **Health** — the decrease in expenses from 2021-22 to 2022-23 is primarily driven by the cessation of some of the COVID-19 emergency response measures. The increase in expenses from 2022-23 to 2025-26 is primarily driven by expected growth in the **assistance to the states for public hospitals** sub-function, largely reflecting anticipated growth in the volume of services and changes in the efficient price of those services;

- **Social security and welfare** — the decrease in expenses from 2021-22 to 2022-23 largely reflects the higher level of spending for the COVID-19 Disaster Payment and the Pandemic Leave Disaster Payment in 2021-22, as well as an anticipated reduction in the number of unemployed individuals over the forward estimates. The increase from 2022-23 to 2025-26 is primarily driven by expected growth in expenditure on the aged pension, aged care services and supporting people with disability through the National Disability Insurance Scheme under the **assistance to the aged** and **assistance to people with disabilities** sub-functions;

- **Transport and communication** — the increase in expenses from 2021-22 to 2022-23 largely reflects the Government's commitment to priority rail and road infrastructure. The decrease in expenses from 2022-23 to 2025-26 is driven by the conclusion of short-term stimulus initiatives;

- **Other economic affairs** — the decrease in expenses from 2021-22 to 2022-23 is primarily driven by the temporary economic response to the COVID-19 pandemic and reflects the conclusion of the COVID-19 Business Support Payment to the states and territories in 2022-23; and

- **Other purposes** — the increase in expenses from 2022-23 to 2025-26 largely reflects growing general revenue assistance payments (largely GST) to be made to the states and territories, expenses related to public debt interest 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, defence and education functions (see Box 5.1). Together, these functions account for 65 per cent of all government expenses in 2022-23. Further details of spending trends against all functions, including movements in expenses from 2021-22 to 2022-23, are set out under individual function headings.

Box 5.1: Where does government spending go in 2022-23?

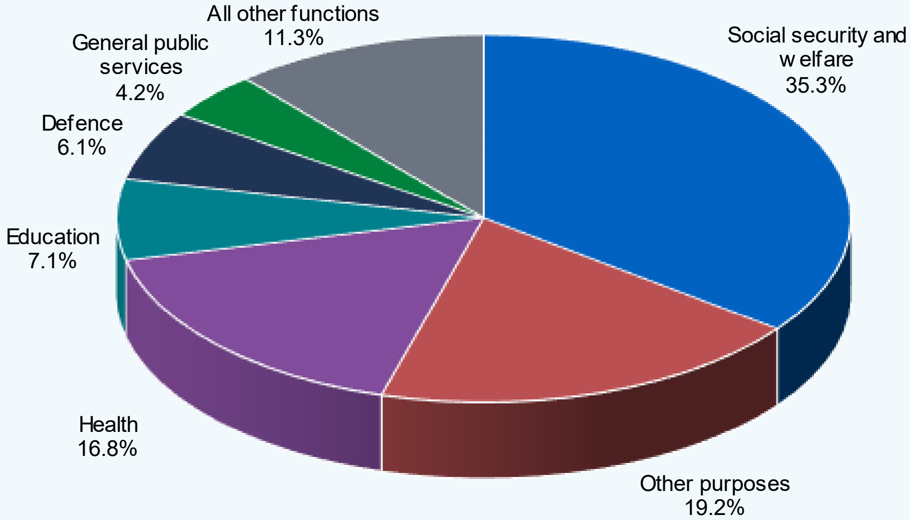
Government spending provides a wide range of services to the community. The most significant component of government spending relates to social security and welfare, with over one third of total expenses providing support to the aged, families with children, people with disabilities, veterans, carers and unemployed people.

Another one sixth of government expenses occur in health, including Medicare Benefits Schedule and Pharmaceutical Benefits Scheme expenditure.

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.

Defence is another significant component of government expenditure, providing capability to the Australian Defence Force to protect Australia's security and defend our national interests.

Chart 5.1: Expenses by function in 2022-23



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

Program expenses

Program expenses Table 5.3.1 reports the top 20 expense programs in the 2022-23 financial year. These programs represent around two thirds of total expenses in that year. More than half of the top 20 expense programs provide financial assistance or services to the aged, families, people with disability, students, carers and the unemployed.

Table 5.3.1: Top 20 programs by expenses in 2022-23

			Estimates			
		2021-22	2022-23	2023-24	2024-25	2025-26
Program(a)	**Function**	$m	$m	$m	$m	$m
Revenue assistance to the States and Territories	Other purposes	76,495	84,787	88,405	92,667	94,158
Support for Seniors	SSW	51,610	54,153	56,579	58,846	61,895
National Disability Insurance Scheme	SSW	30,773	35,756	39,444	42,857	46,083
Medical Benefits	Health	30,431	30,794	31,674	33,296	34,989
Aged Care Services	SSW	24,551	27,770	30,083	31,432	33,010
Assistance to the States for Public Hospitals	Health	25,013	27,333	28,717	30,659	32,653
Family Assistance	SSW	19,295	20,640	21,387	21,705	22,222
Financial Support for People with Disability	SSW	18,279	18,965	19,951	20,571	21,316
Pharmaceutical Benefits	Health	15,633	16,414	16,289	16,413	16,468
Non-Government Schools National Support	Education	15,302	16,126	16,890	17,468	18,005
Job Seeker Income Support	SSW	15,783	12,548	11,910	12,059	12,672
National Partnership Payments - Road Transport	Transport and communication	8,120	11,772	13,266	11,286	6,693
Child Care Subsidy	SSW	9,918	10,713	11,319	11,828	12,403
Financial Support for Carers	SSW	9,867	10,316	10,892	11,394	11,928
Government Schools National Support	Education	9,726	10,284	10,808	11,220	11,652
Public Sector Superannuation - Benefits(b)	Other purposes; General public services	8,654	9,118	9,125	9,140	9,486
Defence Force Superannuation - Benefits(b)	Other purposes; General public services	10,495	8,307	8,748	9,101	9,512
Army Capabilities	Defence	7,624	7,941	8,752	8,934	9,038
Air Force Capabilities	Defence	6,934	7,764	8,302	9,398	5,928
Fuel Tax Credits Scheme	Fuel and Energy	6,894	7,721	9,262	9,952	10,699
Sub-total		**401,398**	**429,224**	**451,803**	**470,229**	**480,810**
Other programs		238,172	199,245	192,030	195,141	206,029
Total expenses		**639,569**	**628,469**	**643,833**	**665,369**	**686,839**

(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 foreign affairs. It also includes expenses related to research in areas not otherwise connected with a specific function, 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 5.4: Summary of expenses – general public services

Sub-function		Estimates			
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Legislative and executive affairs	1,933	1,519	1,500	1,757	1,423
Financial and fiscal affairs	9,313	8,043	7,733	7,956	7,739
Foreign affairs and economic aid	7,185	7,191	6,245	7,235	6,315
General research	3,533	3,750	3,909	4,010	4,036
General services	832	883	854	861	874
Government superannuation benefits	10,326	5,131	5,273	5,339	5,434
Total general public services	**33,121**	**26,518**	**25,514**	**27,159**	**25,821**

Total general public services expenses are estimated to decrease by 22.6 per cent in real terms from 2021-22 to 2022-23 and decrease by 10.4 per cent in real terms over the period 2022-23 to 2025-26.

Expenses under the **legislative and executive affairs** sub-function partly reflect costs expected to be incurred by the Australian Electoral Commission to support federal elections in 2021-22 and 2024-25.

Expenses in the **financial and fiscal affairs** sub-function are expected to decrease by 16.5 per cent in real terms from 2021-22 to 2022-23 and are forecast to decrease by 11.5 per cent in real terms from 2022-23 to 2025-26. The decrease from 2021-22 to 2022-23 is largely due to temporary support provided for markets and businesses in 2021-22. The subsequent decrease from 2022-23 to 2024-25 reflects the termination of a number of compliance measures.

Table 5.4.1 sets out the major components of the **foreign affairs and economic aid** sub-function.

Table 5.4.1: Trends in the major components of foreign affairs and economic aid sub-function expenses

Component(a)	Estimates				
	2021-22 $m	2022-23 $m	2023-24 $m	2024-25 $m	2025-26 $m
Foreign aid(b)	3,767	4,483	3,708	4,731	3,796
Diplomacy(c)	1,327	1,410	1,223	1,210	1,247
Payments to international organisations	365	426	421	417	410
Passport services	266	276	281	283	284
International police assistance	166	160	167	157	161
International agriculture research and development	111	112	112	111	113
Consular services	181	137	134	136	121
Finance and insurance services for Australian exporters and investors	846	28	41	47	42
Other	157	160	158	144	141
Total	**7,185**	**7,191**	**6,245**	**7,235**	**6,315**

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

Total expenses under the **foreign affairs and economic aid** sub-function are expected to decrease by 3.2 per cent in real terms from 2021-22 to 2022-23 and decrease by 19.2 per cent in real terms from 2022-23 to 2025-26. The variation in the profile of expenses across the forward estimates largely reflects the impact of financing provided through Export Finance Australia, additional support provided for the Pacific to recover from the impacts of COVID-19, and the payment cycles of Australia's contributions under funding arrangements for multilateral funds.

Table 5.4.2 sets out the major components of the **general research** sub-function.

Table 5.4.2: Trends in the major components of general research sub-function expenses

Component(a)	Estimates				
	2021-22 $m	2022-23 $m	2023-24 $m	2024-25 $m	2025-26 $m
Research – science services and innovation fund	1,460	1,495	1,532	1,479	1,492
Discovery – research and research training	490	512	537	564	587
Science and technology solutions	381	394	393	400	407
Linkage – cross sector research partnerships	327	343	360	378	393
Supporting science and commercialisation	438	409	360	320	318
Research capacity	318	459	599	743	713
Other	120	137	129	127	126
Total	**3,533**	**3,750**	**3,909**	**4,010**	**4,036**

(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, Science, Energy and Resources, the Commonwealth Scientific and Industrial Research Organisation, the Australian Nuclear Science and Technology Organisation, the Australian Institute of Marine Science, the Department of Education, Skills and Employment, and the Australian Research Council.

Total expenses under this sub-function are expected to increase by 2.6 per cent in real terms from 2021-22 to 2022-23 and decrease by 1.0 per cent in real terms from 2022-23 to 2025-26. The increase in 2022-23 is primarily due to the 2022-23 Budget measure *Investing in Australia's University Research Commercialisation*, reflecting the commencement of grants paid to universities under Australia's Economic Accelerator, new workforce mobility opportunities through Industry PhDs and Fellowships, and the Trailblazer Universities program. The decrease in expenses in real terms from 2022-23 to 2025-26 primarily reflects the funding profile of the 2021-22 Budget measure *Square Kilometre Array Radio Telescope Project*.

The **general services** sub-function incorporates expenses largely incurred by the Department of Finance, Australian Public Service Commission and Comcare. Total expenses are expected to increase by 2.7 per cent in real terms from 2021-22 to 2022-23 and decrease by 8.9 per cent in real terms from 2022-23 to 2025-26. The variation primarily reflects the profile of insurance claims expenditure over the forward estimates.

The fall in expenses from 2021-22 to 2025-26 in the **government superannuation benefits** sub-function primarily reflects the use of different discount rates. In accordance with accounting standards, superannuation expenses for 2021-22 were calculated using the long-term government bond rate which best matched each individual scheme's duration of liabilities at the start of the financial year. These rates were between 1.6 and 2.3 per cent per annum. In preparing the latest Long Term Cost Reports, the scheme actuaries have determined that a discount rate of 5.0 per cent should be applied to the forward estimates.

Defence

The defence function includes expenses incurred by the Department of Defence (Defence) and related agencies. Defence expenses support Australian military operations overseas, the delivery of capabilities across the Land, Maritime, Air, Space and Information and Cyber domains, 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 5.5: Summary of expenses – defence

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Defence	35,882	38,268	39,672	41,661	44,544
Total defence	**35,882**	**38,268**	**39,672**	**41,661**	**44,544**

Total expenses for the **defence** sub-function are estimated to increase by 3.1 per cent in real terms from 2021-22 to 2022-23, and by 7.1 per cent in real terms over the period 2022-23 to 2025-26. The real growth reflects funding required by Defence to continue delivery of the *2016 Defence White Paper* and new or adjusted capability investments outlined in the *2020 Force Structure Plan*, as well as increased investment in the capabilities of the Australian Signals Directorate through the 2022-23 Budget measure *REDSPICE – Expanded cyber and intelligence capability.*

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 5.6: Summary of expenses – public order and safety

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Courts and legal services	1,620	1,661	1,503	1,466	999
Other public order and safety	5,094	5,353	4,861	4,799	4,730
Total public order and safety	**6,713**	**7,014**	**6,364**	**6,265**	**5,729**

Total expenses for the public order and safety function are estimated to increase by 1.0 per cent in real terms from 2021-22 to 2022-23 and decrease by 24.9 per cent in real terms over the period 2022-23 to 2025-26.

Expenses within the **courts and legal services** sub-function are estimated to decrease by 0.8 per cent in real terms from 2021-22 to 2022-23 and decrease by 44.7 per cent in real terms from 2022-23 to 2025-26, reflecting the planned reporting and conclusion dates of the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability and the Royal Commission into Defence and Veteran Suicide.

Table 5.6.1 sets out the major components of the **other public order and safety** sub-function.

Table 5.6.1: Trends in the major components of the other public order and safety sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Policing and law enforcement	3,688	3,876	3,524	3,447	3,362
Border protection	1,405	1,476	1,338	1,352	1,368
Total	**5,094**	**5,353**	**4,861**	**4,799**	**4,730**

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

Total expenses within the **other public order and safety** sub-function are expected to increase by 1.6 per cent in real terms from 2021-22 to 2022-23 and decrease by 18.7 per cent in real terms from 2022-23 to 2025-26. The increase from 2021-22 to 2022-23 is partially due to new investment through the following 2022-23 Budget measures: *Transnational, Serious and Organised Crime Package* and *Strengthening Australia's Arrangements for Managing Terrorist Offenders and Countering Violent Extremism*. The decrease from 2022-23 to 2025-26 primarily reflects terminating measures across a number of programs.

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 5.7: Summary of expenses – education

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Higher education	10,666	10,434	10,360	10,551	10,935
Vocational and other education	2,150	2,300	2,198	2,385	2,530
Schools	25,028	26,411	27,699	28,688	29,657
Non-government schools	*15,302*	*16,126*	*16,890*	*17,468*	*18,005*
Government schools	*9,726*	*10,284*	*10,808*	*11,220*	*11,652*
School education – specific funding	800	836	810	695	726
Student assistance	4,422	4,513	4,686	4,756	4,853
General administration	291	294	280	278	275
Total education	**43,357**	**44,788**	**46,034**	**47,353**	**48,977**

Total education function expenses are expected to remain largely stable in real terms from 2021-22 to 2022-23 and increase by 0.6 per cent in real terms from 2022-23 to 2025-26.

Expenses under the **higher education** sub-function are expected to decrease by 5.4 per cent in real terms from 2021-22 to 2022-23 and decrease by 3.6 per cent in real terms from 2022-23 to 2025-26. The decrease in expenses in 2022-23, and the subsequent decrease in expenses over the forward estimates, primarily reflect lower costs under the Commonwealth Grant Scheme as a result of the *Job-ready Graduates* higher education reform package.

Expenses under the **vocational and other education** sub-function are expected to increase by 3.4 per cent in real terms from 2021-22 to 2022-23 and increase by 1.2 per cent in real terms between 2022-23 and 2025-26. The increase in expenses in 2022-23 primarily reflects the impact of new investment in this Budget in skills reform, and support for job seekers to access training to develop new skills in growth sectors of the economy, through the 2022-23 Budget measure *Skills Reform to Support Future Growth*.

Aggregate schools funding expenses are expected to increase by 2.0 per cent in real terms between 2021-22 and 2022-23 and increase by 3.3 per cent in real terms from 2022-23 to 2025-26. Expenses in the **schools – non-government schools** sub-function are expected to increase by 1.9 per cent in real terms between 2021-22 and 2022-23 and increase by 2.7 per cent in real terms from 2022-23 to 2025-26. Expenses under the **schools – government schools** sub-function are expected to increase by 2.2 per cent in real terms between 2021-22 and 2022-23 and increase by 4.2 per cent in real terms from 2022-23 to

2025-26. The increase in expenses for schools funding over the forward years is primarily due to the funding arrangements implemented under the *Quality Schools* package and increased funding for non-government schools in the Government's response to the National School Resourcing Board's *Review of the Socio-Economic Status Score Methodology.*

Expenses under the **school education – specific funding** sub-function are expected to increase by 1.0 per cent in real terms from 2021-22 to 2022-23 and decrease by 20.1 per cent in real terms from 2022-23 to 2025-26. The decrease in expenses from 2022-23 to 2025-26 primarily reflects a number of measures terminating over the period within the Early Learning and Schools Support program.

Expenses under the **student assistance** sub-function are expected to decrease by 1.3 per cent in real terms from 2021-22 to 2022-23 and decrease by 1.1 per cent in real terms from 2022-23 to 2025-26. The decrease in expenses is largely due to a decrease in student support payments as recipient numbers return to historical levels and the economy recovers following the COVID-19 pandemic. This is partially offset by an increase in Higher Education Loan Program (HELP) loans issued under the *Job-ready Graduates* higher education reform package. Expenses under HELP mainly reflect the estimated cost to the Government of providing concessional loans, which will vary with enrolment numbers, and the number and value of HELP loans.

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 5.8: Summary of expenses – health

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Medical services and benefits	38,980	39,471	40,317	42,115	43,998
Pharmaceutical benefits and services	16,443	17,229	17,101	17,226	17,281
Assistance to the states for public hospitals	25,013	27,333	28,717	30,659	32,653
Hospital services(a)	1,105	1,062	1,058	1,055	1,059
Health services	24,133	15,290	10,552	10,403	10,244
General administration	4,801	4,227	3,684	3,595	3,560
Aboriginal and Torres Strait Islander health	992	1,142	1,145	1,172	1,137
Total health	**111,467**	**105,754**	**102,575**	**106,225**	**109,932**

(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 decrease by 8.3 per cent in real terms between 2021-22 and 2022-23 and decrease by 4.4 per cent in real terms over the period 2022-23 to 2025-26, largely due to the profile of expenditure for measures responding to the COVID-19 pandemic, which are primarily in 2021-22 and 2022-23. This includes the 2022-23 Budget measures *COVID-19 Response Package – vaccines and treatments* and *COVID-19 Response Package – supporting hospitals and emergency response extension*.

The **medical services and benefits** sub-function, which primarily consists of Medicare and Private Health Insurance Rebate expenses, comprises 37.3 per cent of total estimated health expenses for 2022-23. Growth in Medicare expenses is the major driver of growth in this sub-function, with sub-function expenses estimated to increase by 2.5 per cent in real terms over the period 2022-23 to 2025-26.

Table 5.8.1 sets out the major components of the **medical services and benefits** sub-function.

Table 5.8.1: Trends in the major components of medical services and benefits sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Medical benefits	30,431	30,794	31,674	33,296	34,989
Private health insurance	6,741	6,898	7,071	7,254	7,454
General medical consultations and services	687	706	689	679	662
Dental services(b)	338	343	343	342	342
Other	782	730	540	544	551
Total	**38,980**	**39,471**	**40,317**	**42,115**	**43,998**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) Payments under the funding agreements on Public Dental Services for Adults from 2020-21 are provided for under the health services sub-function in Table 5.8.

Expenses for medical benefits are expected to decrease by 2.2 per cent in real terms between 2021-22 and 2022-23 and increase by 4.5 per cent in real terms over the period 2022-23 to 2025-26, largely as a result of population growth, ongoing growth in the use of medical services and the use of high value items on the Medicare Benefits Schedule.

Expenses for the private health insurance component are expected to decrease by 1.1 per cent in real terms between 2021-22 and 2022-23 and decrease by 0.6 per cent in real terms over the period 2022-23 to 2025-26.

Expenses for the **pharmaceutical benefits and services** sub-function are expected to increase by 1.3 per cent in real terms between 2021-22 and 2022-23 and decrease by 7.7 per cent in real terms over the period 2022-23 to 2025-26. The decrease in expenses is primarily due to the impacts of existing pricing policies under the Pharmaceutical Benefits Scheme.

Table 5.8.2 sets out the major components of the **pharmaceutical benefits and services** sub-function.

Table 5.8.2: Trends in the major components of pharmaceutical benefits and services sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Pharmaceutical benefits, services and supply	15,633	16,414	16,289	16,413	16,468
Immunisation	479	473	479	479	480
Veterans' pharmaceutical benefits	331	342	334	333	333
Total	**16,443**	**17,229**	**17,101**	**17,226**	**17,281**

(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 5.6 per cent in real terms from 2021-22 to 2022-23, largely reflecting anticipated growth in the volume of services and changes in the efficient price of those services. Expenditure is expected to increase by 9.9 per cent in real terms over the period 2022-23 to 2025-26, 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 2020-21 to 2024-25.

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 7.1 per cent in real terms between 2021-22 and 2022-23 and decrease by 8.2 per cent in real terms over the period 2022-23 to 2025-26. The decrease in expenses reflects the expected reduction in the number of older veterans in the population who are the primary users of these services.

Expenses in the **health services** sub-function include expenses associated with the delivery of population health, medical research, mental health, blood and blood products, other allied health services, health infrastructure and disbursements from the Medical Research Future Fund.

Health services expenditure is expected to decrease by 38.7 per cent in real terms between 2021-22 and 2022-23 and decrease by 38.4 per cent in real terms over the period from 2022-23 to 2025-26, largely driven by the impact of measures responding to the COVID-19 pandemic, with expenditure primarily incurred in 2021-22 and 2022-23. This includes the 2022-23 Budget measure *COVID-19 Response Package – vaccines and treatments*.

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 14.9 per cent in real terms between 2021-22 and 2022-23 and decrease by 22.5 per cent in real terms over the period 2022-23 to 2025-26, largely reflecting the cessation of temporary and targeted measures to respond to the COVID-19 pandemic.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function are expected to increase by 11.3 per cent in real terms from 2021-22 to 2022-23, largely reflecting the remote and Indigenous response components of the 2022-23 Budget measure *COVID-19 Response Package – guaranteeing Medicare and access to medicines* and utilisation of Indigenous-specific services under the Indigenous Australians Health Program. Expenditure is expected to decrease by 8.4 per cent in real terms over the period 2022-23 to 2025-26, largely reflecting the temporary nature of the remote and Indigenous response components of the 2022-23 Budget measure *COVID-19 Response Package – guaranteeing Medicare and access to medicines* and reduced payments to states and territories for an expiring national partnership agreement.

Social security and welfare

The social security and welfare function includes expenses for pensions and services to the aged; assistance to the unemployed and the sick, 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 5.9: Summary of expenses – social security and welfare

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Assistance to the aged	78,589	84,217	88,483	91,978	96,635
Assistance to veterans and dependants	7,358	8,144	6,917	6,834	6,770
Assistance to people with disabilities	62,643	68,003	73,135	76,501	81,032
Assistance to families with children	38,631	40,751	42,244	43,230	44,567
Assistance to the unemployed and the sick	15,783	12,548	11,910	12,059	12,672
Other welfare programs	17,063	1,628	1,426	1,391	1,368
Assistance for Indigenous Australians nec	2,666	2,803	2,696	2,729	2,813
General administration	5,066	3,592	3,184	3,115	3,096
Total social security and welfare	**227,800**	**221,685**	**229,996**	**237,837**	**248,953**

Expenses in the social security and welfare function are estimated to decrease by 5.9 per cent in real terms from 2021-22 to 2022-23 and increase by 3.3 per cent in real terms from 2022-23 to 2025-26.

The most significant driver of the reduction in real expenditure between 2021-22 and 2022-23 is the **other welfare programs** sub-function which is expected to decrease by 90.8 per cent in real terms from 2021-22 to 2022-23 as a result of the completion of the

COVID-19 Disaster Payment in December 2021 and the Pandemic Leave Disaster Payment on 30 June 2022.

The increase in expenses from 2022-23 to 2025-26 is primarily driven by increases in expenditure on the **assistance to the aged** and **assistance to people with disabilities** sub-functions. The **assistance to the aged** sub-function is expected to increase by 5.6 per cent in real terms from 2022-23 to 2025-26, reflecting additional funding associated with the response to the Royal Commission into Aged Care Quality and Safety. The **assistance to people with disabilities** sub-function is expected to increase by 9.6 per cent in real terms from 2022-23 to 2025-26, largely due to an increasing number of people with disability entering the National Disability Insurance Scheme (NDIS) and increases in participant plan values over the period from 2022-23 to 2025-26.

A significant driver of growth over the forward estimates for the **assistance to the aged** sub-function is growth in the Aged Care Services program, which is estimated to increase by 9.4 per cent in real terms from 2021-22 to 2022-23, and by 9.4 per cent from 2022-23 to 2025-26. Contributing to this growth in expenditure is the 2022-23 Budget measure *Ageing and Aged Care*. This measure builds on the 2021-22 Budget measures *Aged Care – Government response to the Royal Commission into Aged Care Quality and Safety – residential aged care services and sustainability* and *Aged Care – Government Response to the Royal Commission into Aged Care Quality and Safety – home care,* and the 2021-22 MYEFO measure *Ageing and Aged Care;* which increased expenditure on home care and residential aged care services.

Table 5.9.1 sets out the major components of the **assistance to the aged** sub-function.

Table 5.9.1: Trends in the major components of assistance to the aged sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Support for Seniors	51,610	54,153	56,579	58,846	61,895
Aged Care Services	24,551	27,770	30,083	31,432	33,010
Veterans' Community Care and Support	953	951	790	818	849
Aged Care Quality	887	631	336	213	206
Access and information	370	464	478	481	489
National Partnership Payments – Assistance to the Aged	19	30	30	0	0
Other	200	219	188	188	186
Total	**78,589**	**84,217**	**88,483**	**91,978**	**96,635**

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

Also contributing to the overall growth in expenditure for the **assistance to the aged** sub-function is the Support for Seniors program, which is estimated to increase by 1.4 per cent in real terms from 2021-22 to 2022-23 and increase by 5.1 per cent in real terms from 2022-23 to 2025-26. While there has been a downward revision to the forecast number of Age Pension recipients since the 2021-22 MYEFO, the real growth in expenditure over the forward estimates reflects underlying population trends over the period to 2025-26.

Expenses in the Aged Care Quality program are estimated to decrease by 70.0 per cent in real terms from 2022-23 to 2025-26. This reflects terminating funding provided in the 2021-22 Budget measures *Aged Care – Government response to the Royal Commission into Aged Care Quality and Safety – residential aged care quality and safety* and *Aged Care – Government response to the Royal Commission into Aged Care Quality and Safety – home care*, in response to COVID-19 and immediate safety concerns raised by the Royal Commission into Aged Care Quality and Safety.

Expenses for veterans' community care and support are estimated to decrease by 3.5 per cent in real terms from 2021-22 to 2022-23 and decrease by 17.8 per cent in real terms from 2022-23 to 2025-26, reflecting an expected decline in the number of veterans and dependents.

Expenses for **assistance to veterans and dependants** are expected to increase by 7.0 per cent in real terms from 2021-22 to 2022-23 and decrease by 23.5 per cent in real terms from 2022-23 to 2025-26. The increase in expenditure from 2021-22 to 2022-23 is mainly attributable to an increase in expenditure under the Military Rehabilitation and Compensation Acts due to the higher number of military compensation claims expected to be processed in 2022-23 compared with 2021-22. The decrease in expenditure from 2022-23 to 2025-26 is mainly attributable to the declining veteran population.

Expenses for the **assistance to people with disabilities** sub-function are expected to increase by 4.9 per cent in real terms from 2021-22 to 2022-23 and increase by 9.6 per cent in real terms from 2022-23 to 2025-26. These increases largely reflect an increasing number of people with disability entering the NDIS over the forward estimates period and associated increases in individual support costs, which contribute to 12.3 per cent growth in real terms from 2021-22 to 2022-23, and 18.6 per cent growth in real terms from 2022-23 to 2025-26 for the NDIS.

Table 5.9.2 sets out the major components of the **people with disabilities** sub-function.

Table 5.9.2: Trends in the major components of assistance to people with disabilities sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
National Disability Insurance Scheme(b)	30,773	35,756	39,444	42,857	46,083
Financial Support for People with Disability	18,279	18,965	19,951	20,571	21,316
Financial Support for Carers	11,592	12,196	12,596	13,073	13,632
National Partnership Payments – Assistance to People with Disabilities	1,999	1,087	1,143	0	0
Total	**62,643**	**68,003**	**73,135**	**76,501**	**81,032**

(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, and the cost of the NDIS Transition program delivered by the Department of Social Services.

Expenses for the Financial Support for People with Disability program, which primarily consists of the Disability Support Pension, are estimated to increase by 0.3 per cent in real terms from 2021-22 to 2022-23 and to increase by 3.4 per cent in real terms from 2022-23 to 2025-26, reflecting gradual growth in estimated recipient numbers.

Expenses for the Financial Support for Carers component are estimated to increase by 1.7 per cent in real terms from 2021-22 to 2022-23 and increase by 2.8 per cent in real terms from 2022-23 to 2025-26, reflecting higher recipient numbers and payment rates.

Expenses for the **assistance to families with children** sub-function are expected to increase by 2.0 per cent in real terms from 2021-22 to 2022-23 and increase by 0.6 per cent in real terms from 2022-23 to 2025-26. The major programs impacting this trend include Family Assistance, Parents Income Support, and the Child Care Subsidy. Family Assistance expenses are expected to increase by 3.4 per cent in real terms from 2021-22 to 2022-23 and decrease by 1.0 per cent in real terms from 2022-23 to 2025-26. The decrease in Family Assistance expenses to 2025-26 is driven by Family Tax Benefit estimated recipient numbers and average payment rates falling from 2021-22 as the economy recovers from the effects of COVID-19 pandemic and is partially offset by an increase in Paid Parental Leave expenses due to the increased flexibility and relaxed income testing arrangements as part of the 2022-23 Budget measure *Women's Economic Security Package*.

Table 5.9.3 sets out the major components of the **assistance to families with children** sub-function.

Table 5.9.3: Trends in the major components of assistance to families with children sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Family Assistance	19,295	20,640	21,387	21,705	22,222
Child Care Subsidy	9,918	10,713	11,319	11,828	12,403
Parents income support	5,922	5,900	6,020	6,175	6,393
Child Support	2,201	2,220	2,235	2,254	2,270
Support for the childcare system	394	303	299	304	302
Families and Children	656	711	714	694	704
Family relationship services	229	244	253	252	256
Other	15	20	17	18	17
Total	**38,631**	**40,751**	**42,244**	**43,230**	**44,567**

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

The **assistance to families with children** sub-function profile includes an increase in Child Care Subsidy (CCS) expenses of 4.4 per cent in real terms from 2021-22 to 2022-23, and an increase of 6.5 per cent in real terms from 2022-23 to 2025-26. The increase primarily reflects growth in the use of childcare. The increase from 2021-22 to 2022-23 also reflects the Government's decision to bring forward the removal of the CCS annual cap and the increase to CCS payments to services on behalf of families with multiple children, aged five years and under in care, under the 2021-22 Budget measure *Women's Economic Security Package*. This measure was initially due to commence in 2022-23 but was brought forward to 2021-22.

Expenses for the support for the childcare system component are expected to decrease by 25.8 per cent in real terms from 2021-22 to 2022-23 and decrease by 8.2 per cent in real terms from 2022-23 to 2025-26. The decrease in expenses from 2021-22 to 2022-23 is driven by the cessation of additional funding for the Inclusion Support Program under the 2021-22 MYEFO measure *COVID-19 Response Package – transitional support for the childcare sector*. The decline in expenses from 2022-23 to 2025-26 reflects temporary expenditure on flood support through the 2022-23 Budget measure *Flood Package*, COVID-19 support, and other terminating measures.

Expenses for the **assistance to the unemployed and the sick** sub-function are estimated to decrease by 23.1 per cent in real terms from 2021-22 to 2022-23 and decrease by 7.1 per cent in real terms from 2022-23 to 2025-26. The fall in expenditure is largely due to forecast improvements in labour market conditions as the economy recovers from the COVID-19 pandemic.

Expenses for the **assistance for Indigenous Australians not elsewhere classified (nec)** sub-function are estimated to increase by 1.6 per cent in real terms from 2021-22 to 2022-23 and decrease by 7.7 per cent in real terms from 2022-23 to 2025-26. This decrease over the forward estimates is largely due to the cessation of the Stronger Futures in the

Northern Territory – Remote Engagement and Coordination, and the Remote Community Store Licensing Scheme National Partnership Agreements.

Expenses for the **general administration** sub-function are estimated to decrease by 31.4 per cent in real terms from 2021-22 to 2022-23 and decrease by 20.7 per cent in real terms from 2022-23 to 2025-26. The initial decrease in expenses from 2021-22 to 2022-23 is mainly attributable to expenses related to the administration of COVID-19 support payments and the Australian Government response to the 2022 flooding events in Queensland and New South Wales, primarily occurring in 2021-22. The subsequent decrease from 2022-23 to 2025-26 is attributed to an estimated reduction in recipients of income support payments as the economic recovery builds, as well as the reduction in temporary implementation costs of measures to improve service delivery.

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 5.10: Summary of expenses – housing and community amenities

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Housing	4,645	3,018	2,617	2,523	2,539
Urban and regional development	1,780	2,891	2,571	2,234	1,565
Environment protection	2,006	2,312	1,987	2,187	2,170
Total housing and community amenities	**8,431**	**8,221**	**7,174**	**6,944**	**6,274**

Total expenses under the housing and community amenities function is estimated to decrease by 5.7 per cent in real terms from 2021-22 to 2022-23 and decrease by 29.8 per cent in real terms from 2022-23 to 2025-26.

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. Expenses for this sub-function are estimated to decrease by 37.2 per cent in real terms from 2021-22 to 2022-23 and decrease by 22.6 per cent in real terms from 2022-23 to 2025-26. This is largely driven by the cessation of the temporary HomeBuilder program in 2022-23, the conclusion of the National Housing and Homelessness Agreement on 30 June 2023, and decreasing payments under the National Rental Affordability Scheme which is now closed to new applicants.

The Government also provides housing support through the National Housing Finance and Investment Corporation in the form of guarantees, loans, investments and grants to encourage investment in housing, with a particular focus on affordable housing. These are not captured within this Statement as they are balance sheet items and are recorded separately in the Government Financial Statements.

The **urban and regional development** sub-function comprises 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 57.0 per cent in real terms from 2021-22 to 2022-23 reflecting a number of 2022-23 Budget measures, including *Regional Accelerator Program – establishment, Energy Security and Regional Development Plan,* and the *South East Queensland City Deal* and *Albury Wodonga Regional Deal*. Expenses are estimated to decrease by 50.2 per cent in real terms from 2022-23 to 2025-26, largely reflecting the expected completion of a number of projects under key programs such as the Building Better Regions Fund, the Regional Growth Fund, and various City Deals.

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 11.4 per cent in real terms from 2021-22 to 2022-23 and decrease by 13.6 per cent in real terms from 2022-23 to 2025-26. The increase from 2021-22 to 2022-23 primarily reflects the continued investment in water infrastructure projects under the National Water Grid Fund. The decrease in expenditure from 2022-23 to 2025-26 primarily relates to re-profiling of project funding under the National Water Grid Fund to match expected construction milestones, and the funding profile of waste and recycling and environmental assessment congestion busting measures over the forward estimates. These decreases are partially offset by increases to investment in water infrastructure through the 2022-23 Budget measure titled *National Water Grid Fund – project funding.*

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 5.11: Summary of expenses – recreation and culture

Sub-function		Estimates			
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Broadcasting	1,555	1,581	1,609	1,625	1,636
Arts and cultural heritage	1,885	1,743	1,678	1,648	1,645
Sport and recreation	594	531	461	377	354
National estate and parks	682	638	582	589	571
Total recreation and culture	**4,716**	**4,493**	**4,330**	**4,238**	**4,206**

Total expenses under the recreation and culture function are estimated to decrease by 7.9 per cent in real terms from 2021-22 to 2022-23 and decrease by 13.9 per cent in real terms over the period 2022-23 to 2025-26.

Expenses under the **broadcasting** sub-function are estimated to decrease by 1.7 per cent in real terms from 2021-22 to 2022-23 and decrease by 4.9 per cent in real terms from 2022-23 to 2025-26. However, expenditure increases in nominal terms in line with funding agreements in place with the Australian Broadcasting Corporation (ABC) and Special Broadcasting Service Corporation (SBS).

Table 5.11.1 sets out the major components of the **broadcasting** sub-function.

Table 5.11.1: Trends in the major components of broadcasting sub-function expenses

Component(a)	Estimates				
	2021-22 $m	2022-23 $m	2023-24 $m	2024-25 $m	2025-26 $m
ABC general operational activities	912	925	945	961	963
SBS general operational activities	380	392	394	390	395
ABC transmission and distribution services	193	194	197	200	203
SBS transmission and distribution services	70	71	72	73	74
Total	**1,555**	**1,581**	**1,609**	**1,625**	**1,636**

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

Expenses under the **arts and cultural heritage** sub-function are estimated to decrease by 10.6 per cent in real terms from 2021-22 to 2022-23 and decrease by 13.1 per cent in real terms from 2022-23 to 2025-26. This sub-function includes funding for the arts and cultural institutions. The expected decrease from 2021-22 to 2022-23 is predominantly driven by the 2021-22 Budget measures *COVID-19 Response Package – additional arts sector support* and *National Collecting Institutions – enhancements*, and the 2021-22 MYEFO measure *COVID-19 Response Package – additional arts sector support* that included a range of temporary support measures, many of which terminate in 2022-23.

Expenses under the **sport and recreation** sub-function are estimated to decrease by 13.5 per cent in real terms from 2021-22 to 2022-23 and decrease by 38.7 per cent in real terms from 2022-23 to 2025-26. The decrease from 2021-22 to 2022-23 primarily reflects the cessation of time-limited funding provided for sport in the 2020-21 Budget, 2020-21 MYEFO, 2021-22 Budget and 2022-23 Budget. The reduction in expenditure from 2022-23 to 2025-26 largely reflects the expected completion of grant funding for time-limited community-led projects to increase participation in sport and physical activity following COVD-19, and the further completion of elements of the national sport plan, *Sport 2030*.

Expenses under the **national estate and parks** sub-function are estimated to decrease by 9.6 per cent in real terms from 2021-22 to 2022-23 and decrease by 17.7 per cent in real terms from 2022-23 to 2025-26. The decrease from 2021-22 to 2022-23 primarily reflects the Government's decision to no longer proceed with a year-round all-weather runway at Australia's Davis research station announced in the 2019-20 MYEFO measure *Strengthening the Australian Antarctic Program*. The decrease from 2022-23 to 2025-26 reflects the cessation of temporary investment in the management of Commonwealth National Parks in 2022-23 through the 2022-23 Budget measure *Supporting the Management of Commonwealth National Parks*.

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 5.12: Summary of expenses – fuel and energy

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Fuel and energy	8,444	9,381	10,647	10,922	11,347
Total fuel and energy	**8,444**	**9,381**	**10,647**	**10,922**	**11,347**

Fuel and energy expenses are estimated to increase by 7.4 per cent in real terms from 2021-22 to 2022-23 and increase by 11.3 per cent in real terms over the period 2022-23 to 2025-26 reflecting 2021-22 Budget measures that invest in fuel security and as a result of the 2022-23 Budget measure *Addressing Cost of Living Pressures – Temporary Reduction in Fuel Excise.*

Table 5.12.1 sets out the major components of the **fuel and energy** sub-function.

Table 5.12.1: Trends in the major components of fuel and energy sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Fuel Tax Credits Scheme	6,894	7,721	9,262	9,952	10,699
Resources and Energy	376	406	244	98	58
Renewable Energy	395	404	410	377	371
Other	779	850	731	495	219
Total	**8,444**	**9,381**	**10,647**	**10,922**	**11,347**

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

The major program within this sub-function is the Fuel Tax Credits Scheme, which is estimated to increase by 8.3 per cent in real terms from 2021-22 to 2022-23, and 27.5 per cent in real terms from 2022-23 to 2025-26, largely reflecting reduced payments on fuels that are eligible for the Fuel Tax Credits Scheme in 2021-22 and 2022-23 as a result of the 2022-23 Budget measure *Addressing Cost of Living Pressures – Temporary Reduction in Fuel Excise.*

Expenses under the Resources and Energy component are estimated to increase by 4.6 per cent in real terms from 2021-22 to 2022-23 and decrease by 86.8 per cent in real terms from 2022-23 to 2025-26. The decrease in expenses from 2022-23 to 2025-26 reflects the funding profile associated with the decommissioning of the Northern Endeavour.

Expenses under the Renewable Energy component are expected to decrease by 1.3 per cent in real terms from 2021-22 to 2022-23 and decrease by 15.4 per cent in real terms from 2022-23 to 2025-26. The decrease in expenses from 2021-22 to 2022-23 reflects implementation costs for the Australian Renewable Energy Agency (ARENA) financing functions in the 2021-22 Budget measure *Emissions Reduction and New Investments under the Technology Investment Roadmap*. The overall decrease in expenses under the Renewable Energy component from 2022-23 to 2025-26 largely reflects a reduction in ARENA's funding profile over the period.

Agriculture, forestry and fishing

The agriculture, forestry and fishing function include expenses to support assistance to primary producers, forestry, fishing, land and water resources management, quarantine services and contributions to research and development.

Table 5.13: Summary of expenses – agriculture, forestry and fishing

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Wool industry	68	67	72	74	77
Grains industry	211	226	237	237	238
Dairy industry	54	55	55	56	57
Cattle, sheep and pig industry	253	258	260	254	253
Fishing, horticulture and other agriculture	485	466	421	406	382
General assistance not allocated to specific industries	40	40	41	41	41
Rural assistance	488	400	310	341	389
Natural resources development	1,443	2,216	1,465	323	301
General administration	1,076	1,083	986	958	864
Total agriculture, forestry and fishing	**4,119**	**4,810**	**3,846**	**2,690**	**2,602**

Total expenses under this function are estimated to increase by 12.9 per cent in real terms from 2021-22 to 2022-23 and decrease by 50.2 per cent in real terms over the period 2022-23 to 2025-26. The increase from 2021-22 to 2022-23 and the decrease over the forward years is primarily driven by the investment in 2022-23 and subsequent decline of expenses in the **natural resources development** sub-function.

The **rural assistance** sub-function is expected to decrease by 20.9 per cent in real terms from 2021-22 to 2022-23 and decrease by 10.4 per cent in real terms over the period

2022-23 to 2025-26. The decrease from 2021-22 to 2022-23 mainly reflects the timing of payments under the Future Drought Fund and of concessional loan discount expenses on loans issued by the Regional Investment Corporation (RIC). The decrease from 2022-23 to 2025-26 similarly relates to the timing of concessional loan discount expenses on loans issued by the RIC.

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. This also includes activities to enhance the environmental outcomes in the Murray-Darling Basin. Expenses are estimated to increase by 48.4 per cent in real terms from 2021-22 to 2022-23, which reflects the Government's commitment to enhancing the implementation of the Murray Darling-Basin Plan (Basin Plan). The decrease of 87.5 per cent in real terms from 2022-23 to 2025-26 reflects the expected completion of water reform activities under the Basin Plan in 2023-24. Basin Plan initiatives are funded through the Sustainable Rural Water Use and Infrastructure Program and the Water for the Environment Special Account.

Mining, manufacturing and construction

The mining, manufacturing and construction function includes expenses for programs designed to promote the efficiency and competitiveness of Australian industries. The major components include the Research and Development Tax Incentive and industry assistance programs.

Table 5.14: Summary of expenses – mining, manufacturing and construction

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Mining, manufacturing and construction	4,310	4,781	4,616	4,012	4,081
Total mining, manufacturing and construction	**4,310**	**4,781**	**4,616**	**4,012**	**4,081**

Total expenses under the mining, manufacturing and construction function are expected to increase by 7.3 per cent in real terms from 2021-22 to 2022-23 and decrease by 21.5 per cent in real terms over the period 2022-23 to 2025-26.

Table 5.14.1 sets out the major components of the **mining, manufacturing and construction** sub-function.

Table 5.14.1: Trends in the major components of mining, manufacturing and construction sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Research and Development Tax Incentive	2,729	2,759	2,891	3,030	3,176
Growing Business Investment	845	1,035	878	312	290
Northern Australia Infrastructure Facility	407	540	456	323	303
Other	330	447	390	346	312
Total	**4,310**	**4,781**	**4,616**	**4,012**	**4,081**

(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 5.9 per cent in real terms from 2022-23 to 2025-26, 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 are expected to increase by 18.5 per cent in real terms from 2021-22 to 2022-23 and decrease by 74.3 per cent in real terms from 2022-23 to 2025-26. The increase and subsequent decrease in expenditure reflects the funding profile of the Modern Manufacturing Strategy, including additional investment through the 2022-23 Budget measure *Boosting the Modern Manufacturing Strategy and Addressing Critical Supply Chain Vulnerabilities*, which provides financial support to the manufacturing sector.

The Northern Australia Infrastructure Facility offers debt and equity finance to projects that contribute to the establishment or enhancement of economic activity in northern Australia. Expenses are expected to increase by 28.3 per cent in real terms from 2021-22 to 2022-23 and decrease by 48.4 per cent in real terms from 2022-23 to 2025-26 due to changes in concessional loan discount expenses associated with the expected commitment of concessional loans across the forward estimates.

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 5.15: Summary of expenses – transport and communication

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Communication	2,090	1,791	1,578	1,558	1,591
Rail transport	2,755	3,658	4,164	3,700	2,976
Air transport	1,866	410	322	282	267
Road transport	8,663	12,315	13,788	11,803	7,213
Sea transport	458	459	480	488	488
Other transport and communication	238	281	239	190	204
Total transport and communication	**16,070**	**18,915**	**20,570**	**18,020**	**12,739**

Total expenses under this function are estimated to increase by 13.8 per cent in real terms between 2021-22 and 2022-23 and decrease by 38.0 per cent in real terms over the period 2022-23 to 2025-26.

The estimated expenses for the **communication** sub-function relate to communications activities and support for the digital economy through the Department of Infrastructure, Transport, Regional Development and Communications, and the Australian Communications and Media Authority. Total expenses under this sub-function are estimated to decrease by 17.1 per cent in real terms between 2021-22 and 2022-23 and decrease by 18.3 per cent in real terms from 2022-23 to 2025-26. The decrease in expenditure from 2021-22 to 2022-23 primarily reflects the provision of a $480 million grant to NBN Co in 2021-22 to fully upgrade its fixed wireless and satellite networks as part of the 2022-23 Budget measure *Government Response to 2021 Regional Telecommunications Review*. The decrease over 2022-23 to 2025-26 reflects the conclusion of programs, including the Regional Connectivity Program and the Mobile Black Spot Program, partially offset by additional expenditure associated with the 2022-23 Budget measure *Government Response to 2021 Regional Telecommunications Review*.

The expenses under the **rail transport** sub-function primarily consist of grants provided under the Infrastructure Investment Program. Expenses are estimated to increase by 28.4 per cent in real terms between 2021-22 and 2022-23 and decrease by 25.2 per cent in real terms from 2022-23 to 2025-26. The initial increase in expenditure primarily reflects the Government's continued investment in priority rail projects, including through the 2022-23 Budget measure titled *Infrastructure Investment – Priority Regional Infrastructure Investments*. The subsequent decrease in expenditure from 2022-23 to 2025-26 reflects priority rail projects nearing completion.

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 and the Australian Maritime Safety Authority (AMSA), and support for the aviation sector as part of the Government's response to the COVID-19 pandemic. Total expenses under the **air transport** sub-function are estimated to decrease by 78.8 per cent in real terms between 2021-22 and 2022-23 and decrease by 40.2 per cent in real terms from 2022-23 to 2025-26. The significant decrease in expenditure is associated with the cessation of temporary support for the aviation sector as part of the Government's response to the COVID-19 pandemic. Total expenses under the **sea transport** sub-function are estimated to decrease by 3.0 per cent in real terms between 2021-22 and 2022-23 and decrease by 2.3 per cent in real terms from 2022-23 to 2025-26, reflecting a reduction in levy revenue and costs for AMSA.

The expenses under the **road transport** sub-function primarily consist of grants provided under the Infrastructure Investment Program. Expenses are estimated to increase by 37.4 per cent in real terms between 2021-22 and 2022-23 and decrease by 46.1 per cent in real terms from 2022-23 to 2025-26. The initial increase in expenditure reflects the Government's continued investment in priority road projects, including through the 2022-23 Budget measure titled *Infrastructure Investment – Priority Regional Infrastructure Investments*. The subsequent decrease in expenditure from 2022-23 to 2025-26 reflects the realignment of profiles to more accurately reflect delivery schedules, completion of road infrastructure projects, and the completion of short-term stimulus initiatives, including the $3.0 billion Road Safety Program.

Total expenses under the **other transport and communication** sub-function are estimated to increase by 14.1 per cent in real terms between 2021-22 and 2022-23 and decrease by 33.2 per cent in real terms from 2022-23 to 2025-26. The initial increase in expenditure primarily reflects the increase in program support provided to the Infrastructure, Transport, Regional Development and Communications Portfolio for the delivery of priority infrastructure and transport initiatives, including through the 2022-23 Budget measures *Infrastructure Investment – Priority Regional Infrastructure Investments* and *Airport Building Controller and Airport Environmental Officer Functions – additional funding*. The subsequent decrease in expenditure from 2022-23 to 2025-26 reflects the cessation of short-term components of program support provided through these measures.

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 5.16: Summary of expenses – other economic affairs

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Tourism and area promotion	193	220	185	169	165
Total labour and employment affairs	8,326	6,577	5,158	4,911	4,686
Vocational and industry training	*4,951*	*3,576*	*2,063*	*1,893*	*1,647*
Labour market assistance to job seekers and industry	*2,706*	*2,357*	*2,443*	*2,338*	*2,327*
Industrial relations	*669*	*644*	*652*	*680*	*712*
Immigration	3,917	3,335	2,786	2,880	2,848
Other economic affairs nec	11,195	3,023	2,789	2,756	2,732
Total other economic affairs	**23,631**	**13,155**	**10,919**	**10,716**	**10,431**

Total expenses for the other economic affairs function are estimated to decrease by 46.2 per cent in real terms from 2021-22 to 2022-23 and decrease by 27.1 per cent in real terms over the period 2022-23 to 2025-26.

Expenses under the **tourism and area promotion** sub-function are expected to increase by 10.2 per cent in real terms from 2021-22 to 2022-23 and decrease by 30.9 per cent in real terms from 2022-23 to 2025-26. The decreases in expenses from 2022-23 to 2025-26 largely reflect the temporary nature of the Government's tourism marketing campaigns, as international travel resumes.

Expenses under the **vocational and industry training** sub-function are expected to decrease by 30.2 per cent in real terms from 2021-22 to 2022-23 and decrease by 57.6 per cent in real terms from 2022-23 to 2025-26. The decrease in expenses across the forward estimates largely reflects the cessation of temporary COVID-19 support such as the 2021-22 Budget measure *Building Skills for the Future – Boosting Apprenticeship Commencements wage subsidy – expansion*. A new streamlined Australian Apprenticeships Incentive System will be introduced from 1 July 2022 to support a skilled and responsive workforce.

Expenses under the **labour market assistance to job seekers and industry** sub-function are expected to decrease by 15.8 per cent in real terms from 2021-22 to 2022-23 and decrease by 9.2 per cent in real terms from 2022-23 to 2025-26. The decrease from 2021-22 to 2022-23 is primarily due to the strength of the economic recovery leading to a higher number of job seekers exiting employment services. Expenses under this sub-function are expected to decrease from 2022-23 to 2025-26, primarily as a result of the cessation of temporary arrangements to smooth the transition between *jobactive* and the new *Workforce Australia* employment services system.

Expenses under the **industrial relations** sub-function are expected to decrease by 7.0 per cent in real terms from 2021-22 to 2022-23, which reflects cessation of measures responding to the COVID-19 pandemic. Expenses under the sub-function are expected to increase by 1.8 per cent in real terms from 2022-23 to 2025-26 as a result of higher expected payments for employee entitlements under the *Fair Entitlements Guarantee Act 2012*.

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

Table 5.16.1 sets out the major components of the **immigration** sub-function.

Table 5.16.1: Trends in the major components of immigration sub-function expenses

Component(a)	Estimates				
	2021-22 $m	2022-23 $m	2023-24 $m	2024-25 $m	2025-26 $m
Management of unlawful non-citizens	2,216	1,760	1,412	1,394	1,376
Citizenship, visas and migration	822	785	684	771	753
Regional co-operation and refugee and humanitarian assistance	879	790	691	715	719
Total	**3,917**	**3,335**	**2,786**	**2,880**	**2,848**

(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 17.7 per cent in real terms from 2021-22 to 2022-23 and decrease by 21.4 per cent in real terms from 2022-23 to 2025-26. The decrease in expenditure primarily reflects declining expenses for visas, migration and humanitarian assistance in the context of the COVID-19 pandemic, and the cessation of Australia Government regional processing contracts in Papua New Guinea.

Expenses under the **other economic affairs nec** sub-function are expected to decrease by 73.9 per cent in real terms from 2021-22 to 2022-23 and decrease by 16.9 per cent in real terms from 2022-23 to 2025-26.

Table 5.16.2 provides further details of the major components of the **other economic affairs nec** sub-function.

Table 5.16.2: Trends in the major components of other economic affairs nec sub-function expenses

Component(a)	Estimates				
	2021-22 $m	2022-23 $m	2023-24 $m	2024-25 $m	2025-26 $m
Economic Response to the Coronavirus	7,158	5	0	0	0
Promotion of Australia's export and other international economic interests	1,274	470	396	383	379
Operating costs for:					
Department of Industry, Science, Energy and Resources	620	619	528	497	485
Australian Securities and Investments Commission	618	592	577	578	574
Bureau of Meteorology	503	519	499	509	507
IP Australia	227	230	238	243	250
Australian Competition and Consumer Commission	216	217	197	189	178
Australian Prudential Regulation Authority	221	227	228	230	232
National Partnership Payments – Competition and Productivity Enhancing Reform	220	1	0	0	0
Other	138	141	126	128	128
Total	**11,195**	**3,023**	**2,789**	**2,756**	**2,732**

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

The decrease in expenditure for the **other economic affairs nec** sub-function between 2021-22 and 2022-23 is primarily the result of the temporary nature of the Government's economic response to the COVID-19 pandemic and reflects the conclusion of the COVID-19 Business Support Payment to the states and territories in 2022-23.

The decrease in expenditure for the promotion of Australia's export and other international economic interests between 2021-22 and 2022-23 is primarily driven by the temporary support provided as part of the Government's response to the COVID-19 pandemic, including through the International Freight Assistance Mechanism and Consumer Travel Support Program.

Expenses for the Department of Industry, Science, Energy and Resources are expected to decrease by 28.0 per cent in real terms from 2022-23 to 2025-26. This is largely driven by measures which terminate during the forward estimates, including the 2021-22 Budget measure *Australia's Global Resources Strategy.*

Expenses for the Bureau of Meteorology (the Bureau) are expected to decrease by 10.3 per cent in real terms from 2022-23 to 2025-26, which reflects the anticipated completion of information and communications technology (ICT) projects, including investment to strengthen the Bureau's ICT security and resilience and observations network announced in the 2018-19 Budget and the 2020-21 Budget.

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 as natural disaster relief, the Contingency Reserve and expenses related to the nominal interest on unfunded liabilities for government superannuation benefits.

Table 5.17: Summary of expenses – other purposes

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Public debt interest	18,462	19,817	21,239	23,089	24,647
Interest on Commonwealth Government's behalf	*18,462*	*19,817*	*21,239*	*23,089*	*24,647*
Nominal superannuation interest	8,976	12,453	12,758	13,053	13,716
General purpose inter-government transactions	80,934	86,161	91,682	95,966	97,327
General revenue assistance – states and territories	*76,495*	*84,787*	*88,405*	*92,667*	*94,158*
Local government assistance	*4,440*	*1,374*	*3,277*	*3,298*	*3,170*
Natural disaster relief	5,176	763	646	539	35
Contingency reserve	-2,040	1,491	5,250	8,682	15,476
Total other purposes	**111,508**	**120,685**	**131,575**	**141,328**	**151,202**

Total expenses under the other purposes function are estimated to increase by 4.6 per cent in real terms from 2021-22 to 2022-23 and increase by 15.3 per cent in real terms over the period 2022-23 to 2025-26.

Expenses under the **public debt interest** sub-function are expected to increase by 3.8 per cent in real terms from 2021-22 to 2022-23 and increase by 14.4 per cent in real terms from 2022-23 to 2025-26. The increase in expenses reflects an increase in expected issuance of Australian Government Securities. *Statement 6: Debt Statement* of Budget Paper No. 1 provides further information on Government debt.

The increase in **nominal superannuation interest** expenses from 2021-22 to 2022-23 and over the forward estimates primarily reflects the use of different discount rates. In accordance with accounting standards, superannuation expenses for 2021-22 were calculated using the long-term government bond rate, which best matched each individual scheme's duration of liabilities at the start of the financial year. These rates were broadly between 1.6 and 2.3 per cent per annum. In preparing the latest Long Term Cost Reports, the scheme actuaries have determined that a discount rate of 5.0 per cent should be applied to the forward estimates.

Expenses under the **general purpose inter-government transactions** sub-function are expected to increase by 3.9 per cent in real terms from 2022-23 to 2025-26. Nearly all the expenses under this sub-function relate to **general revenue assistance** paid to state and territory governments, which is expected to increase by 7.2 per cent in real terms from

2021-22 to 2022-23 and increase by 2.2 per cent in real terms from 2022-23 to 2025-26, largely comprising 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 2022-23.*

Expenses under **local government assistance** are expected to decrease by 70.1 per cent in real terms from 2021-22 to 2022-23 and increase by 112.1 per cent in real terms from 2022-23 to 2025-26, largely reflecting 75 per cent of the expected 2022-23 Financial Assistance Grants being brought forward to enable the immediate use of these funds in 2021-22.

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 (DRFA). The majority of the funding profile over the forward estimates reflects expected payments to the states in relation to disaster events that have already occurred. As a general rule, as no provision is made for future disasters, the amount reduces over time.

In relation to the February-March 2022 floods in northern New South Wales and Queensland, the expense profile includes a range of Commonwealth assistance already announced through the 2022-23 Budget measure *Flood Package* and a provision of $3.0 billion acknowledging the expected significant impact on future Government spending. Future unquantifiable costs will include the Commonwealth's up to 75 per cent share of the cost of rebuilding of essential public infrastructure damaged by the floods, under categories A and B of the DRFA. The sub-function also reflects departmental funding for the National Recovery and Resilience Agency.

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 2022-23 Budget increases expenses by $1.5 billion in 2022-23, $5.3 billion in 2023-24, $8.7 billion in 2024-25 and $15.5 billion in 2025-26. A key component of this is the conservative bias allowance (CBA), which makes provision for the tendency for the estimate of expenses for existing Government policy (excluding GST payments to the states) to be revised upwards in the forward years. The 2022-23 Budget includes a provision of:

- nil in the Budget year 2022-23;
- ½ of a percentage point of total general government sector (GGS) expenses in the first forward year 2023-24 ($2.7 billion);
- 1 per cent of GGS expenses in the second forward year 2024-25 ($5.6 billion); and
- 2 per cent of GGS expenses in the third forward year 2025-26 ($11.6 billion).

The drawdown of the CBA decreased expenses by $1.3 billion in 2022-23, $1.3 billion in 2023-24, $2.6 billion in 2024-25 and $1.7 billion in 2025-26. This is consistent with long standing practice and does not represent a saving or offset to spending measures.

The Contingency Reserve also includes estimates for policy decisions 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 as they are subject to negotiations.

Significant expenditure items include:

- a provision of $3.0 billion over four years from 2021-22 for the potential costs of the long-term response to the February-March 2022 floods in northern New South Wales and Queensland. This recognises some of the expected significant impacts on future Government spending, including for demand driven payments under categories A and B of the DRFA and delayed claims on the Australian Government Disaster Recovery Payment and Disaster Recovery Allowance. This has been included in the **natural disaster relief** sub-function for the purpose of functional expense reporting;
- funding for the negotiation of a new National Skills Agreement with the states. Funding for this Agreement will remain in the Contingency Reserve as the agreement is subject to ongoing negotiations with the states. This has been included in the **vocational and other education** sub-function for the purpose of functional expense reporting;
- funding for the Indigenous Recognition Referendum ($160 million) and the establishment of a Commonwealth Integrity Commission ($67 million over four years from 2022-23, this is an ongoing measure);
- a provision of $148 million over four years from 2022-23 for the continuation of some expiring National Partnerships funding agreements and for possible by-election costs for the Australian Electoral Commission; and

- a provision for the effects of economic parameter revisions received too late in the process for inclusion in entity estimates, and an underspend provision in 2021-22 that reflects the tendency for budgeted expenses for some entities or functions not to be met.

The Contingency Reserve also includes a number of items that cannot be disclosed for commercial-in-confidence or national security reasons. These include a provision for the replacement of the Australian Electoral Commission's election and roll management systems as part of tranche 2 of their ICT modernisation program. The amount of this provision is not-for-publication due to commercial sensitivities, as the program is subject to future procurement activity.

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 governments), which they use to acquire assets.

Australian Government general government sector net capital investment is expected to be $11.3 billion in 2022-23, $0.2 billion higher than net capital investment in 2021-22. This reflects increased investment by the Department of Defence as outlined in the *2016 Defence White Paper* and *2020 Force Structure Plan*. From 2022-23 to 2025-26 net capital investment is expected to decrease.

Details of movements are further explained in the following section.

Table 5.18: Estimates of total net capital investment

	MYEFO	Revised	Estimates			
	2021-22	2021-22	2022-23	2023-24	2024-25	2025-26
Total net capital investment ($m)	**11,593**	**11,092**	**11,319**	**10,580**	**7,443**	**8,172**
Per cent of GDP	0.5	0.5	0.5	0.4	0.3	0.3

Reconciliation of net capital investment since the 2021-22 Budget

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2021-22 Budget, is provided in Table 5.19.

Table 5.19: Reconciliation of net capital investment estimates

	Estimates				
	2021-22	2022-23	2023-24	2024-25	Total
	$m	$m	$m	$m	$m
2021-22 Budget net capital investment	**10,330**	**10,939**	**10,135**	**9,161**	**40,565**
Changes from 2021-22 Budget to 2021-22 MYEFO					
Effect of policy decisions(a)	1,586	189	181	116	2,072
Effect of parameter and other variations	-324	249	605	-1,073	-542
Total variations	**1,263**	**438**	**786**	**-956**	**1,530**
2021-22 MYEFO net capital investment	**11,593**	**11,376**	**10,920**	**8,205**	**42,094**
Changes from 2021-22 MYEFO to 2022-23 Budget					
Effect of policy decisions(a)	1,697	97	-67	-251	1,476
Effect of parameter and other variations	-2,198	-154	-273	-511	-3,135
Total variations	**-501**	**-57**	**-340**	**-762**	**-1,660**
2022-23 Budget net capital investment	**11,092**	**11,319**	**10,580**	**7,443**	**40,435**

(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 2022-23 has an overall increase of $381 million since the 2021-22 Budget. This increase is driven by the effect of policy decisions of $286 million and an increase of $95 million as a result of parameter and other variations.

Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2021-22 to 2025-26 are provided in Table 5.20.

Table 5.20: Estimates of net capital investment by function

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
General public services	1,819	448	-165	-401	-695
Defence	8,648	9,802	10,847	10,678	10,031
Public order and safety	461	-132	-258	-296	-281
Education	65	40	32	-10	-10
Health	509	271	-106	-98	-138
Social security and welfare	-165	307	-110	-162	-394
Housing and community amenities	11	56	36	-57	-154
Recreation and culture	354	326	140	-66	-99
Fuel and energy	-83	158	-1	0	-2
Agriculture, forestry and fishing	59	48	26	3	-26
Mining, manufacturing and construction	-25	-20	-17	-29	-22
Transport and communication	-974	-36	74	-2,178	-72
Other economic affairs	417	-186	-409	-427	-466
Other purposes	-3	238	491	486	499
Total net capital investment	**11,092**	**11,319**	**10,580**	**7,443**	**8,172**

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

- **General public services** — the decrease in net capital investment from 2021-22 to 2025-26 largely reflects the construction of Centres for National Resilience in 2021-22, and the timing of lease renewals and completion of major ICT projects by the Australian Taxation Office;
- **Defence** — the increase in net capital investment from 2021-22 to 2025-26 reflects funding associated with the implementation of the *2016 Defence White Paper* and new or adjusted investments outlined in the *2020 Force Structure Plan* to build the future Defence Force and capability. These investments are guided by the Defence Integrated Investment Program. Major investments include military capabilities such as ships, aircraft and armoured vehicles, as well as enabling ICT capabilities, infrastructure and the Defence estate;
- **Public order and safety** — the decrease in net capital investment from 2021-22 reflects the timing of lease renewals by the Department of Home Affairs;

- **Health** — the decrease in net capital investment from 2021-22 to 2025-26 largely reflects the change in the National Medical Stockpile procurement strategies in response to the COVID-19 pandemic;

- **Social security and welfare** — the decrease in net capital investment from 2022-23 to 2025-26 is largely driven by depreciation and amortisation of prior Commonwealth investments into Services Australia's non-financial assets such as ICT capabilities and infrastructure. This is partially offset by further Commonwealth investment in ICT capabilities and infrastructure in 2022-23 for the 2021-22 Budget measures *GovERP – Common Corporate Australian Public Service System* and *Digital Economy Strategy*, and the 2020-21 Budget measure *Welfare Payment Infrastructure Transformation – tranche four;*

- **Recreation and culture** — the decrease in net capital investment from 2022-23 reflects the expected completion of capital investments at the Australian War Memorial and within Australia's Antarctic program and Commonwealth National Parks;

- **Transport and communication** — the variable profile of net capital investment reflects the sale of non-financial assets through the 850/900 MHz and 2.4 Gigahertz Spectrum Auctions; and

- **Other economic affairs** — the decrease in net capital investment from 2021-22 reflects the timing of lease renewals by the Department of Home Affairs and the phasing down of investment under the second and third tranches of capital projects to strengthen the Bureau of Meteorology's ICT security and resilience, and observations network.

Table 5.21 reports the acquisition of non-financial assets by function before taking into account depreciation or amortisation.

Table 5.21: Australian Government general government sector purchases of non-financial assets by function

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
General public services	3,441	2,066	1,424	1,185	928
Defence	14,160	15,807	17,871	18,386	18,519
Public order and safety	1,304	728	591	534	558
Education	91	70	62	19	19
Health	408	479	136	130	75
Social security and welfare	714	1,151	679	574	313
Housing and community amenities	461	472	416	368	335
Recreation and culture	799	803	588	384	332
Fuel and energy	33	43	14	16	13
Agriculture, forestry and fishing	152	143	123	102	72
Mining, manufacturing and construction	12	17	21	9	16
Transport and communication	106	98	210	52	58
Other economic affairs	1,330	724	508	517	474
Other purposes	13	240	493	488	501
General government purchases of non-financial assets	**23,025**	**22,842**	**23,138**	**22,766**	**22,213**

Appendix A: Expense by function and sub-function

Table 5A.1: Estimates of expenses by function and sub-function

	Actual	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m	$m
General public services						
Legislative and executive affairs	1,371	1,933	1,519	1,500	1,757	1,423
Financial and fiscal affairs	8,848	9,313	8,043	7,733	7,956	7,739
Foreign affairs and economic aid	6,470	7,185	7,191	6,245	7,235	6,315
General research	3,069	3,533	3,750	3,909	4,010	4,036
General services	1,283	832	883	854	861	874
Government superannuation benefits	10,900	10,326	5,131	5,273	5,339	5,434
Total general public services	**31,942**	**33,121**	**26,518**	**25,514**	**27,159**	**25,821**
Defence	**34,007**	**35,882**	**38,268**	**39,672**	**41,661**	**44,544**
Public order and safety						
Courts and legal services	1,527	1,620	1,661	1,503	1,466	999
Other public order and safety	5,127	5,094	5,353	4,861	4,799	4,730
Total public order and safety	**6,655**	**6,713**	**7,014**	**6,364**	**6,265**	**5,729**
Education						
Higher education	11,318	10,666	10,434	10,360	10,551	10,935
Vocational and other education	2,145	2,150	2,300	2,198	2,385	2,530
Schools	22,159	25,028	26,411	27,699	28,688	29,657
Non-government schools	*13,107*	*15,302*	*16,126*	*16,890*	*17,468*	*18,005*
Government schools	*9,052*	*9,726*	*10,284*	*10,808*	*11,220*	*11,652*
School education – specific funding	678	800	836	810	695	726
Student assistance	5,757	4,422	4,513	4,686	4,756	4,853
General administration	274	291	294	280	278	275
Total education	**42,331**	**43,357**	**44,788**	**46,034**	**47,353**	**48,977**
Health						
Medical services and benefits	35,785	38,980	39,471	40,317	42,115	43,998
Pharmaceutical benefits and services	15,199	16,443	17,229	17,101	17,226	17,281
Assistance to the states for public hospitals	22,508	25,013	27,333	28,717	30,659	32,653
Hospital services(a)	1,032	1,105	1,062	1,058	1,055	1,059
Health services	13,286	24,133	15,290	10,552	10,403	10,244
General administration	3,955	4,801	4,227	3,684	3,595	3,560
Aboriginal and Torres Strait Islander health	975	992	1,142	1,145	1,172	1,137
Total health	**92,740**	**111,467**	**105,754**	**102,575**	**106,225**	**109,932**
Social security and welfare						
Assistance to the aged	77,009	78,589	84,217	88,483	91,978	96,635
Assistance to veterans and dependants	7,853	7,358	8,144	6,917	6,834	6,770
Assistance to people with disabilities	55,959	62,643	68,003	73,135	76,501	81,032
Assistance to families with children	41,245	38,631	40,751	42,244	43,230	44,567

Table 5A.1: Estimates of expenses by function and sub-function (continued)

	Actual	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m	$m
Social security and welfare (continued)						
Assistance to the unemployed and the sick	29,718	15,783	12,548	11,910	12,059	12,672
Other welfare programs	1,745	17,063	1,628	1,426	1,391	1,368
Assistance for Indigenous Australians nec	2,334	2,666	2,803	2,696	2,729	2,813
General administration	4,498	5,066	3,592	3,184	3,115	3,096
Total social security and welfare	**220,360**	**227,800**	**221,685**	**229,996**	**237,837**	**248,953**
Housing and community amenities						
Housing	3,642	4,645	3,018	2,617	2,523	2,539
Urban and regional development	1,176	1,780	2,891	2,571	2,234	1,565
Environment protection	1,473	2,006	2,312	1,987	2,187	2,170
Total housing and community amenities	**6,291**	**8,431**	**8,221**	**7,174**	**6,944**	**6,274**
Recreation and culture						
Broadcasting	1,502	1,555	1,581	1,609	1,625	1,636
Arts and cultural heritage	1,567	1,885	1,743	1,678	1,648	1,645
Sport and recreation	541	594	531	461	377	354
National estate and parks	487	682	638	582	589	571
Total recreation and culture	**4,096**	**4,716**	**4,493**	**4,330**	**4,238**	**4,206**
Fuel and energy	**8,242**	**8,444**	**9,381**	**10,647**	**10,922**	**11,347**
Agriculture, forestry and fishing						
Wool industry	50	68	67	72	74	77
Grains industry	185	211	226	237	237	238
Dairy industry	54	54	55	55	56	57
Cattle, sheep and pig industry	230	253	258	260	254	253
Fishing, horticulture and other agriculture	469	485	466	421	406	382
General assistance not allocated to specific industries	36	40	40	41	41	41
Rural assistance	806	488	400	310	341	389
Natural resources development	430	1,443	2,216	1,465	323	301
General administration	906	1,076	1,083	986	958	864
Total agriculture, forestry and fishing	**3,165**	**4,119**	**4,810**	**3,846**	**2,690**	**2,602**
Mining, manufacturing and construction	**4,034**	**4,310**	**4,781**	**4,616**	**4,012**	**4,081**
Transport and communication						
Communication	1,094	2,090	1,791	1,578	1,558	1,591
Rail transport	1,328	2,755	3,658	4,164	3,700	2,976
Air transport	2,185	1,866	410	322	282	267
Road transport	7,554	8,663	12,315	13,788	11,803	7,213
Sea transport	427	458	459	480	488	488
Other transport and communication	216	238	281	239	190	204
Total transport and communication	**12,804**	**16,070**	**18,915**	**20,570**	**18,020**	**12,739**

Table 5A.1: Estimates of expenses by function and sub-function (continued)

	Actual	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m	$m
Other economic affairs						
Tourism and area promotion	210	193	220	185	169	165
Total labour and employment affairs	5,260	8,326	6,577	5,158	4,911	4,686
Vocational and industry training	*2,495*	*4,951*	*3,576*	*2,063*	*1,893*	*1,647*
Labour market assistance to job seekers and industry	*2,111*	*2,706*	*2,357*	*2,443*	*2,338*	*2,327*
Industrial relations	*654*	*669*	*644*	*652*	*680*	*712*
Immigration	3,419	3,917	3,335	2,786	2,880	2,848
Other economic affairs nec	73,179	11,195	3,023	2,789	2,756	2,732
Total other economic affairs	**82,067**	**23,631**	**13,155**	**10,919**	**10,716**	**10,431**
Other purposes						
Public debt interest	17,123	18,462	19,817	21,239	23,089	24,647
Interest on Commonwealth Government's behalf	*17,123*	*18,462*	*19,817*	*21,239*	*23,089*	*24,647*
Nominal superannuation interest	7,177	8,976	12,453	12,758	13,053	13,716
General purpose inter-government transactions	78,538	80,934	86,161	91,682	95,966	97,327
General revenue assistance – states and territories	*75,097*	*76,495*	*84,787*	*88,405*	*92,667*	*94,158*
Local government assistance	*3,441*	*4,440*	*1,374*	*3,277*	*3,298*	*3,170*
Natural disaster relief	344	5,176	763	646	539	35
Contingency reserve	0	-2,040	1,491	5,250	8,682	15,476
Total other purposes	**103,182**	**111,508**	**120,685**	**131,575**	**141,328**	**151,202**
Total expenses	**651,916**	**639,569**	**628,469**	**643,833**	**665,369**	**686,839**

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