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QUICK GUIDE

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A guide to the Commonwealth Budget

The Commonwealth Budget is typically the most important annual policy statement by the Government.

This Quick Guide identifies information and key concepts that are used in the Budget Papers and related materials, and other resources that are available to analyse the Budget.

Contents

What occurs on Budget night?	1
What occurs after Budget night?	2
What is in the Budget Papers and related materials?	2
Budget Speech	2
Budget Overview	2
Budget Paper No. 1: Budget Strategy and Outlook	2
Budget Paper No. 2: Budget Measures	3
Budget Paper No. 3: Federal Financial Relations	3
Budget Paper No. 4: Agency Resourcing	4
Portfolio Budget Statements	4
Ministerial Statements	5
Key concepts used in the Budget Papers	5
Consolidated Revenue Fund and appropriations	7
Legislation relating to the financial management of the Commonwealth	8
Other Budget related reports not released on Budget night	8
Mid-year Economic and Fiscal Outlook	8
Final Budget Outcome	8
Intergenerational Report	8
Pre-election Economic and Fiscal Outlook	8
Post-election Report	8

What occurs on Budget night?

Budget night is when the Treasurer tables the annual Appropriation Bills in the House of Representatives for the forthcoming year, and delivers the second reading speech on Appropriation Bill (No. 1). Since 1994, the Appropriation Bills have typically been tabled on the second Tuesday in May. The second reading speech on Appropriation Bill (No. 1) commences at 7.30 pm.

Along with the Appropriation Bills, the Government also tables the Budget Papers and related materials. The Budget Papers and related materials are made available on the internet at www.budget.gov.au when the Treasurer commences the second reading speech on Appropriation Bill (No. 1).

What occurs after Budget night?

On the Thursday immediately following Budget Night, a second reading speech on annual Appropriation Bill (No. 1) is delivered by the Leader of the Opposition. The speech is often referred to as the Leader of the Opposition's Budget reply speech.

The particulars—or details—of the expenditure proposed in the Budget are referred by the House of Representatives to the Senate for consideration by the Senate. This enables the Senate to commence its scrutiny of the Budget in the Senate Estimates process, despite the Senate having not yet received the annual Appropriation Bills from the House of Representatives.

Additional resources

- Department of the Senate, [Senate Brief No. 5: Consideration of Estimates by the Senate's Legislation Committees](#)

What is in the Budget Papers and related materials?

The Budget Papers comprise:

- the *Budget Speech*
- the *Budget Overview*
- *Budget Paper No. 1: Budget Strategy and Outlook*
- *Budget Paper No. 2: Budget Measures*
- *Budget Paper No. 3: Federal Financial Relations* and
- *Budget Paper No. 4: Agency Resourcing*.

Additionally, for each portfolio the Government produces a Portfolio Budget Statement. The Government may also table one or more Ministerial Statements with the Budget Papers.

The contents of the Budget Papers and related materials are discussed below.

Budget Speech

The *Budget Speech* is a copy of the second reading speech for the Appropriation Bill (No. 1). The Treasurer will use the second reading speech to set out the reasons why the annual Appropriation Bills should be passed by the Parliament. Treasurers have used the second reading speech to update the Parliament about the prevailing economic circumstances, and to announce important or major policy decisions that the Government has made.

Budget Overview

The *Budget Overview* provides a summary of what the Government considers to be the main or important aspects of the Budget.

Budget Paper No. 1: Budget Strategy and Outlook

Budget Paper No. 1: Budget Strategy and Outlook provides high-level information about the overall economic outlook, and the Commonwealth's fiscal position. Specifically, it provides:

- information about the international and domestic economic outlook, including numerical estimates of key parameters such as gross domestic product growth, employment, and the consumer price index
- a statement of the Government's fiscal strategy and the fiscal outlook of the Commonwealth
- estimates of the revenues and expenditures of the Commonwealth, and their composition
- information on the proposed capital investment of the Commonwealth
- information on the assets, liabilities—including contingent liabilities, or 'risks'—and debt held or owed by the Commonwealth, and
- historical information about the Commonwealth's fiscal and debt position.

Budget Paper No. 1: Budget Strategy and Outlook also contains technical details about the presentation of the financial information of the Commonwealth, including how individual entities are classified for accounting purposes, and the budgeted financial statements for the whole of the Commonwealth Government.

Further resources

- Australian Bureau of Statistics, [Government Finance Statistics, Australia, 2013-14](#) (ABS Cat. No. 5512.0)
- Australian Bureau of Statistics, [Taxation Revenue, Australia, 2013-14](#) (ABS Cat. No. 5506.0)
- Australian Tax Office, [Taxation statistics](#)
- Parliamentary Budget Office, [Research Reports](#)

Budget Paper No. 2: Budget Measures

Budget Paper No. 2: Budget Measures contains information about the budget measures—or actions—the Government intends to take. Each budget measure is classified according to what aspect of the Commonwealth's finances it mostly affects, with:

- a revenue measure mostly affecting the revenues of the Commonwealth
- an expense measure mostly affecting expenses of the Commonwealth, and
- a capital measure mostly affecting the capital—or assets—held by the Commonwealth.

The description of each measure will have a costing attached to it. The costing will show whether the measure is expected to have:

- a positive effect
- nil effect, or an uncertain, or an unquantifiable effect, or
- a negative effect

on the revenues or expenses for the Commonwealth, or the amount of assets and liabilities held by the Commonwealth, as the case may be.

Example: If the Government announces a measure to build a new computer system, because the computer system will—once completed—be an asset for the Commonwealth, the measure will be classified as a capital measure. The measure will have a positive costing associated with it as the decision will result in an increase in the assets held by the Commonwealth.

A costing is an estimate or forecast of the expected effect of the measure on the Commonwealth's finances only. A costing does not include any broader effects of the policy decision on the Australian economy or community.

Example: Imagine the Government announces an economic reform that is expected to improve the performance of the Australian economy, but the Government does not expect the implementation of that reform to have any direct effect upon the Commonwealth's finances. The reform will, however, provide broad economic benefits for businesses and households in Australia.

The Government's decision to implement the reform will be announced in the Budget, but it will have a costing that indicates it has nil effect on the finances of the Commonwealth, despite the broader benefits that it is expected to provide to business and households.

A costing only shows the incremental change to the Commonwealth's finances from that decision, not the total amount of funding or expenditure related to that policy area or activity.

Costings are generally presented on an accrual accounting basis.

Budget Paper No. 3: Federal Financial Relations

Budget Paper No. 3: Federal Financial Relations mostly contains information about grants of financial assistance made by the Commonwealth to the States and Territories. There are two categories of financial assistance that the Commonwealth may make:

- specific purpose payments, which are monies provided by the Commonwealth on the condition that the states and territories spend those monies on specified purposes such as health, education, or roads, or use them to fund local governments.
- general revenue assistance, which are monies provided by the Commonwealth to the states or territories without any conditions on how those monies may be spent.

The main type of general revenue assistance is the revenue from the Goods and Services Tax. *Budget Paper No. 3: Federal Financial Relations* provides estimates of the amount of GST revenue that will be collected, and estimates of how much each state and territory will receive from the GST.

Budget Paper No. 4: Agency Resourcing

Budget Paper No. 4: Agency Resourcing mostly deals with the various types of appropriations that are used by the Government to fund entities and activities. *Budget Paper No. 4: Agency Resourcing* shows:

- for each entity, and for each outcome of each entity, the amounts and types of appropriation that are expected to be utilised in the forthcoming year
- for each piece of legislation that provides for a special appropriation, the amount of money expected to be drawn against that appropriation in the forthcoming year, and
- for each special account, the expected transactions on that special account, and the expected balance of that special account.

Budget Paper No. 4: Agency Resourcing also shows the expected level of staffing for each entity.

Further resources

- Department of Finance, [Special Accounts](#)
- Department of Finance, [Special Appropriations](#)
- Australian Public Service Commission, [APS Statistical Bulletin](#)

Portfolio Budget Statements

A Portfolio Budget Statement is a statement that is tabled by the relevant portfolio Minister in support of the appropriation for that portfolio proposed in the Budget Papers. Portfolio Budget Statements are made available on departments' websites at the same time as the Budget Papers are released.

The Portfolio Budget Statement provides more detail on the proposed activities and expenditures of each entity in the Minister's portfolio for the Budget year and the forward estimate years. Portfolio Budget Statements contain an overview of the portfolio, with separate sections for each Commonwealth entity within that portfolio.

Example: The Australian Tax Office is an entity within the Treasury Portfolio. Therefore, the Treasury Portfolio Budget Statement will include a section relating to the Australian Tax Office.

For each Commonwealth entity, the Portfolio Budget Statement will include:

- a statement that shows the financial resources proposed to be made available to that entity from all sources
- a reconciliation showing the expected impact of the Government's announced measures on that entity
- the outcomes that the Government intends that entity to pursue
- a description of the programmes that will contribute to each of the entity's outcomes, an estimate of the expenses expected to be incurred in delivering each programme, and performance indicators against which the Government intends the performance of each programme to be measured, and
- the budgeted financial statements of that entity.

Where it is relevant to the activities of an entity, a Portfolio Budget Statement will also include other material, such as information about the balances of, and transactions on, any special accounts within an entity.

If additional Appropriation Bills are introduced during the year, the Government will release a *Portfolio Additional Estimates Statement* or a *Portfolio Supplementary Additional Estimates Statement* for each portfolio that has its appropriation changed. These statements will update the information in the most recent Portfolio Budget Statement.

Ministerial Statements

The Government may also table one or more Ministerial Statements. Typically, ministerial statements released with the Budget group together information related to one theme or issue.

Example: If the Government wants to show how much it is doing to assist regional or remote parts of Australia, it may release a Ministerial Statement that brings together activities across all portfolios that the Government believes assist regional and remote areas.

The standing orders of the House of Representatives provide an opportunity for the relevant Minister to speak on Ministerial Statements, and afford the Opposition an opportunity of a reply.

Key concepts used in the Budget Papers

It is useful to explain important concepts used in the Budget Papers.

Accrual accounting and cash accounting

Accrual accounting is a method of accounting that records revenues when they are earned and expenses when they are incurred, regardless of when any cash is received or paid.

Example: The decline in value of an asset as it wears out—known as depreciation—is recognised as an expense for an entity as it occurs, even though no cash payment is required at that time.

Cash accounting is a method of accounting that records receipts and payments of cash when they occur.

The Budget Papers use a mix of both accrual accounting and cash accounting.

Administered and departmental items

An administered item is an item that a Commonwealth entity administers on behalf of the Commonwealth as a whole. An administered item may be an expenditure, a revenue, or an asset. A Commonwealth entity does not have discretion about what it can do with an administered item, and must use that item in the way the Government directs. Administered items mostly relate to outcomes and programmes that are managed by an entity.

Departmental items are expenditures, revenues, or assets over which a Commonwealth entity has discretion about how it may be used. Departmental items are mostly used for the running of entities, such as for paying and accommodating staff.

Fiscal balance and underlying cash balance

Fiscal balance is an accrual accounting measure of the balance between the revenues and expenses of the Commonwealth.

Underlying cash balance is a cash accounting measure of the balance between the receipts and payments of the Commonwealth. It is the Government's preferred measure of showing the surplus or deficit of the Commonwealth in any one year.

General Government Sector, Public Non-financial Corporations sector and Public Financial Corporations sector entities

Commonwealth entities are classified according to their activities and objectives into one of three sectors.

Most Commonwealth entities do not seek to make a profit, and are classified as General Government Sector entities. Where a Commonwealth entity provides goods and services and seeks to make a profit, it will be classified as either a Public Non-financial Corporation or a Public Financial Corporation, depending upon whether or not it provides financial services.

Example: Imagine the Government established a corporation that had the purpose of providing loans for a certain purpose on commercial terms, and the Government expected that entity to make a profit.

The corporation would be classified as a Public Financial Corporation in the Budget.

Most material in the Budget relates to the activities of entities in the general government sector only.

Outcomes and programmes

An outcome is the purpose for which monies are appropriated to a Commonwealth entity.

A programme is an activity that is undertaken by a Commonwealth entity to achieve an outcome. For each outcome, there may be one or more programmes.

Retained revenue receipts

Section 74 of the [Public Governance, Performance and Accountability Act 2013](#) provides a mechanism where certain amounts received by entities may be retained by that entity. The categories of revenues mostly relate to amounts likely to be received by the entity to defray the cost of providing a good or service. Examples may include application or processing fees.

The exact categories of monies that agencies are able to retain are set out in the Rules made under the *Public Governance, Performance and Accountability Act 2013*.

Parameter variations and policy decisions

In places in the Budget Papers, a distinction is made between those changes to the Commonwealth's finances that occur because of parameter variations, and those changes that occur because of policy decisions.

A parameter variation is a change to the finances of the Commonwealth that is outside the direct control of the Government. Parameter variations mostly occur because of changes in the broader Australian or international economy, and changes to the composition or demographics of the Australian population.

Example: Companies pay tax on their profits. If, in a given year, company profits are lower than previously anticipated, Commonwealth tax receipts from companies are also likely to be lower.

Such a reduction in company tax receipts would be recorded as a parameter variation in the Commonwealth Budget.

Parameter variations may affect both the receipts and payments of the Commonwealth.

Example: Unemployment benefits are available to any person who is unemployed within the meaning of the *Social Security Act 1991*. If there are more people unemployed in a given year, payments of unemployment benefits will be greater.

The reasons for, and magnitude of, parameter variations are mostly set out in the economic and financial information contained in *Budget Paper No. 1: Budget Strategy and Outlook*.

The term policy decision denotes the cumulative effect of all changes to the finances of the Commonwealth that arise because of the budget measures—or actions—of the Government. Each individual budget measure is set out in *Budget Paper No. 2: Budget Measures*. The magnitude of the cumulative effect of the Government's policy decisions are set out in the financial information contained in *Budget Paper No. 1: Budget Strategy and Outlook*.

Special Accounts

A special account is an amount of money that is held in the Consolidated Revenue Fund and is earmarked for a specific purpose, and which may only be released when the criteria for release are satisfied.

Special accounts are mostly used to provide transparency about how much the Government is providing to a specific purpose or activity, or to quarantine amounts for specific purposes or activities.

Consolidated Revenue Fund and appropriations

The Consolidated Revenue Fund is established by section 81 of the [Constitution](#). All monies received by the Commonwealth must be paid into the Consolidated Revenue Fund. It is a constitutional requirement that, before the Government may spend any monies, an Act of the Parliament providing for an appropriation must authorise the release of the necessary monies from the Consolidated Revenue Fund.

A Bill that proposes an appropriation may take two general forms:

- an annual Appropriation Bill or
- a Bill that proposes a special appropriation.

Each year, annual Appropriation Bills provide for about 20 per cent of the Commonwealth's expenditure, and special appropriations provide for about 80 per cent of the Commonwealth's expenditure.

Annual Appropriation Bills

An annual Appropriation Bill will typically propose the appropriation of a finite amount of money, but that money will be provided to a broad range of entities and outcomes. The finite nature of such appropriations means that the Executive Government must return to the Parliament periodically and request the Parliament appropriate further monies for those entities and outcomes.

Each year, there are at least three annual Appropriation Bills. Appropriation Bill (No. 1) for a given year will propose to appropriate monies for activities that are part of the 'ordinary annual services' of the Executive Government. Appropriation Bill (No. 2) in a given year will propose to appropriate monies for the 'other' annual services of the Executive. The Senate enjoys different powers over Appropriation Bills for the 'ordinary annual services' of the Executive Government and Appropriation Bills for the 'other' annual services of the Executive Government. The difference between the two types of Appropriation Bill, and powers of the Senate over each, are explained in more detail in [Odgers' Senate Practice](#).

The appropriation of monies for the operation of the Parliament for a given year is proposed in a separate Appropriation (Parliamentary Departments) Bill, reflecting that the Parliament is distinct from the Executive Government.

Often the Government will require further monies during the year, and will introduce additional Appropriation Bills. Additional Appropriation Bills will be numbered consecutively.

If, in a given year, the Government does not intend to table and pass through the Parliament a full Budget before the start of the financial year, the Government may introduce Supply Bills that propose to appropriate a small amount of money to ensure the continued operation of the Government until a full Budget can be prepared.

Special appropriations

A Bill may also propose to appropriate an unlimited amount of money, but only make it available for a specific purpose or in specific circumstances. Such an appropriation is known as a special appropriation. Almost all of the Commonwealth's substantial expenditure programs are now provided for by special appropriations; with monies being automatically released from the Consolidated Revenue Fund where the criteria applying to that appropriation are met.

Example: Medicare is established under the *Health Insurance Act 1973*. Section 125 of that Act appropriates from the Consolidated Revenue Fund any amount of money required for the payment of Medicare benefits.

To change the amount of money that will be provided by a special appropriation, the criteria that must be met to use the special appropriation need to be changed. Where those criteria are set out in legislation, the Parliament must pass an amendment to that legislation.

Example: The *Paid Parental Leave Act 2010* provides under what circumstances a person is entitled to parental leave pay. To change the amount that is paid under that Act, an amendment to that Act is needed to change the eligibility criteria for parental leave pay.

Further resources

- Department of Finance, ['Introduction to appropriations'](#)
- Department of the Senate, [Odgers' Senate Practice, Chapter 13: Financial legislation](#)

Legislation relating to the financial management of the Commonwealth

Charter of Budget Honesty

The Charter of Budget Honesty is a set of rules that establish how the Commonwealth is to manage and report on its fiscal performance. It is a schedule to the [Charter of Budget Honesty Act 1998](#).

Public Governance, Performance and Accountability Act 2013

The [Public Governance, Performance and Accountability Act 2013](#) is the main Act that provides for the financial management of the Commonwealth. The *Public Governance, Performance and Accountability Act 2013* allows certain matters to be dealt with via delegated legislation, known as Rules.

Further resources

- Department of Finance, [PGPA associated instruments and policies](#)

Other Budget related reports not released on Budget night

Additional budget reports must be publicly released and tabled in Parliament from time to time.

Mid-year Economic and Fiscal Outlook

Under the Charter of Budget Honesty, the Treasurer must release the *Mid-Year Economic and Fiscal Outlook* report within six months of the Budget, or by the end of January in a given year, whichever is later. The *Mid-Year Economic and Fiscal Outlook* report must update any information that has changed since the Budget.

Final Budget Outcome

Under the Charter of Budget Honesty, the Treasurer must produce a *Final Budget Outcome* within three months of the end of each financial year. The Final Budget Outcome must contain the fiscal outcomes for the Commonwealth for the relevant year.

Intergenerational Report

Under the Charter of Budget Honesty, every five years the Treasurer must release and table in Parliament an *Intergenerational Report*. The *Intergenerational Report* must assess the sustainability of current Government policies over the next 40 years.

Pre-election Economic and Fiscal Outlook

Under the Charter of Budget Honesty, within 10 days of the calling of a general election the Secretaries of the Department of Finance and the Treasury must release a *Pre-Election Economic and Fiscal Outlook* report. The *Pre-Election Economic and Fiscal Outlook* must update any information that has changed from the last budget update.

Post-election Report

Under the *Parliamentary Service Act 1999*, within 30 days of the end of the caretaker period for a general election the Parliamentary Budget Officer must release a *Post-election Report* that sets out the Parliamentary Budget Officer's estimates of the costings of the election commitments made by political parties during the preceding election campaign.

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