



The Commonwealth Budget: process and presentation (updated January 2007)

The annual Budget is perhaps a Commonwealth government's most important political, economic and social document. This Research Brief contains an overview of the main stages in the Budget process, some of the key concepts underlying the content and presentation of the Budget, some terms used, and issues in the Budget's focus, content, format and reporting.

Richard Webb
Economics Section

Contents

| | |
|---|----|
| Executive Summary | 1 |
| Budget reforms | 1 |
| Accrual accounting | 1 |
| Accrual budgeting | 1 |
| Outcomes and outputs framework | 2 |
| Program information | 2 |
| Performance information | 3 |
| Portfolio Budget Statements | 3 |
| Financial reporting standards | 4 |
| Charter of Budget Honesty | 4 |
| Tax expenditures | 5 |
| Treatment of the goods and services tax | 5 |
| Introduction | 6 |
| 1. Overview of the Budget process | 6 |
| 1.1 Forward estimates update | 9 |
| 1.2 Senior ministers' review | 9 |
| 1.3 Portfolio Budget Submissions | 9 |
| 1.4 Expenditure Review Committee | 9 |
| 1.5 Ad Hoc Revenue Committee | 10 |
| 1.6 Pre-Budget review of estimates | 10 |

| | |
|---|----|
| 1.7 Budget documents | 10 |
| 1.8 Budget presentation | 11 |
| 1.9 Senate estimates committees | 12 |
| 1.10 Additional estimates. | 12 |
| 1.11 Final Budget Outcome | 12 |
| 1.12 Annual reports. | 13 |
| 1.13 Mid-Year Economic and Fiscal Outlook | 13 |
| 2. Accrual accounting and accrual budgeting. | 13 |
| 2.1 Capital use charge | 15 |
| 3. Outcomes and outputs | 15 |
| 3.1 The outcomes and outputs reporting framework. | 15 |
| 3.2 Issues | 16 |
| 4. Functional classification of expenses. | 18 |
| 4.1 A missing link | 19 |
| 4.2 Contingency reserve | 19 |
| 5. Appropriations. | 20 |
| 5.1 Annual appropriations | 20 |
| 5.1.1 Net appropriations | 22 |
| 5.2 Additional estimates | 22 |
| 5.2.1 Supplementary additional estimates | 23 |
| 5.3 Special appropriations | 23 |
| 5.4 Special Accounts | 24 |
| 5.5 Advance to the Finance Minister. | 25 |
| 5.6 Other revenues received. | 26 |
| 5.7 Departmental and administered expenses | 26 |
| 5.7.1 Administered receipts | 27 |
| 5.7.2 Issues. | 28 |
| 6. Budget documents | 28 |
| 6.1 Budget speech | 29 |
| 6.2 Budget Overview. | 29 |
| 6.3 Budget Papers | 29 |
| 6.3.1 Budget Paper No. 1: Budget Strategy and Outlook 2006–07 | 29 |
| 6.3.2 Budget Paper No. 2: Budget Measures 2006–07 | 31 |
| 6.3.3 Budget Paper No. 3: Federal Financial Relations 2006–07. | 31 |
| 6.3.4 Budget Paper No. 4: Agency Resourcing 2006–07 | 32 |
| 6.4 Ministerial Statements and media kits | 32 |
| 6.5 Portfolio Budget Statements. | 32 |
| 6.5.1 Content and format. | 33 |
| 6.5.2 Issues. | 34 |
| 7. Financial reporting standards | 34 |
| 7.1 Government Finance Statistics | 35 |
| 7.2 Australian Accounting Standards | 35 |
| 7.3 Issues | 37 |

| | |
|---|----|
| 7.3.1 Two accounting standards | 37 |
| 7.3.2 Harmonisation | 38 |
| 7.3.3 Treatment of the goods and services tax | 39 |
| 8. Financial statements | 40 |
| 8.1 Government Finance Statistics | 41 |
| 8.2 Australian Accounting Standards | 41 |
| 8.2.1 General government | 41 |
| 8.2.2 Agency financial statements | 42 |
| 8.2.2.1 Income statement | 42 |
| 8.2.2.2 Balance sheet | 43 |
| 8.2.2.3 Cash flows statement | 43 |
| 8.2.2.4 Statement of changes in equity | 43 |
| 8.2.2.5 Capital budget statement | 43 |
| 9. Other financial information | 43 |
| 9.1 Charter of Budget Honesty | 44 |
| 9.1.1 Budget Fiscal and Economic Outlook | 44 |
| 9.1.2 Mid-Year Economic and Fiscal Outlook | 44 |
| 9.1.3 Final Budget Outcome | 44 |
| 9.1.4 Pre-Election Economic and Fiscal Outlook Report | 45 |
| 9.1.5 Costing of election commitments | 46 |
| 9.2 Financial Management and Accountability Act 1997 | 47 |
| 9.2.1 Monthly financial statements | 47 |
| 9.2.2 Consolidated Financial Statements | 47 |
| 9.3 Annual reports | 47 |
| 9.4 Tax expenditures | 48 |
| 10. Performance information | 50 |
| 10.1 Issues | 50 |
| 11. Conclusions | 52 |
| 12. Glossary | 54 |
| Endnotes | 63 |

Acronyms

| | |
|---------|---|
| AAS | Australian Accounting Standards |
| AEIFRS | Australian Equivalents to International Financial Reporting Standards |
| ANAO | Australian National Audit Office |
| CFS | Consolidated Financial Statements |
| CRF | Consolidated Revenue Fund |
| ERC | Expenditure Review Committee |
| FBO | Final Budget Outcome |
| FMA Act | Financial Management and Accountability Act 1997 |
| GFS | Government Finance Statistics |
| GST | Goods and Services Tax |
| MYEFO | Mid-Year Economic and Fiscal Outlook |
| PBS | Portfolio Budget Statements |
| PEFO | Pre-Election Economic and Fiscal Outlook |

Executive Summary

The annual Budget is perhaps a Commonwealth government's most important political, economic and social document. This paper contains an overview of the Budget process, explains key concepts, and discusses major features of the content and presentation of the Budget Papers and related documents.

The paper's principal aim is to help Members of Parliament understand the Budget, find information, and be aware of some of the strengths and limitations of the Budget Papers and related documents. It is not a discussion paper. Readers who want a short review of Budget concepts and appropriations are referred to the 'introduction' in Budget Paper No. 4. A glossary at the end of this paper contains definitions of some commonly-used terms.

Budget reforms

While the Budget process changes little from year to year, major changes have been made to the Budget's content, format and reporting since 1999–2000. These changes include:

- the move from cash to accrual accounting, and from cash to accrual budgeting
- the shift in the focus of agency reporting from program budgeting to planned outcomes
- the presentation of general government sector financial statements in accordance with two reporting standards
- the presentation of information to allow assessment of agency performance, and
- the reporting and other requirements of the *Financial Management and Accountability Act 1997* and the *Charter of Budget Honesty Act 1998*.

These and other measures constitute an integrated package.

Accrual accounting

From the perspective of achieving greater transparency and accuracy in financial reporting, the adoption of accrual accounting was a positive move. In particular, non-cash expenses—such as accruing employee entitlements and asset depreciation—are now included in expenses along with cash expenditure. Cost accounting methods are used to attribute all expenses to outputs and outcomes. While problems of cost attribution will always exist, the cost of providing goods and services is now measured more comprehensively and accurately than under cash accounting.

Accrual budgeting

Under the previous cash budgeting system, agencies' annual appropriations were based on their cash requirements. Under accrual budgeting, agencies' annual appropriations are based

on their accrual expenses (and capital requirements). Under the system of accrual budgeting, which was implemented in 1999–2000, agencies' appropriations are based on their accrual expenses, that is, each agency receives an appropriation to cover its estimated expenses for the year including items such as accruing employee entitlements and depreciation. However, agencies now draw cash down only as and when required (the 'just in time' model).

Despite the move to accrual budgeting, much of the debate and commentary focuses on the underlying cash balance (and not the accrual fiscal balance) in discussions of Budget aggregates. One reason is that cash balances have some advantages for tracking spending in a fiscal year and in helping to identify the short-term effects of fiscal policy on the economy. In recent years, the Treasurer has used the cash balance in the Budget Speech when referring to Budget outcomes and projections.

Outcomes and outputs framework

Since 1999–2000, agencies have presented their Portfolio Budget Statements within an outcomes and outputs framework. Planned outcomes are the results or consequences for the community that the government wants to achieve. Outputs are the goods and services that agencies produce to attain outcomes. Agencies allocate expenses to outputs and hence to outcomes. The purpose of the framework is to hold agencies accountable for what they achieve (outcomes) rather than how they do it (inputs and outputs). Performance reporting assesses the extent to which agencies have attained planned outcomes.

Overall, the extent to which the outcomes/outputs framework has increased transparency and accountability is mixed. On the positive side, the framework contains new and more information, outcomes are fully costed, and agencies must provide information on how they have performed against outcomes. Problems include the overlapping of outcomes across and within agencies, changes to outcomes and outputs that make comparisons difficult, and poor performance data. Because appropriations are made against outcomes, agencies have some flexibility as to how they spend funds but this can be to the detriment of parliamentary control.

Program information

A theme of this paper is that Members of Parliament want information about programs; they are less concerned about how agencies group programs into outputs and outcomes. An example of the information that Members of Parliament find useful is the list of administered programs, funded through Appropriation Bills, in the Portfolio Budget Statements of the Department of Agriculture, Fisheries and Forestry. When the outcomes framework was introduced, many Members of Parliament were critical of the aggregation of data and the lack of information about spending on particular programs in the Portfolio Budget Statements. However, the trend for agencies to provide information in the form of line item spending on programs has improved the situation.

Performance information

In their Portfolio Budget Statements, agencies set out the information they will use to assess their performance. Agencies report against indicators of effectiveness, quantity, quality, timeliness and cost in their annual reports. An issue is how well the performance information actually indicates or measures performance. Problems concerning performance data and indicators include instability of indicators, and the fact that the causal relationship between outputs and outcomes is sometimes difficult to define. An example of the latter is in education. The states and the Commonwealth both fund education. But since both state and Commonwealth funds are lumped together in state Budgets, it is not possible to disentangle the consequences of Commonwealth funding.

Expenses classification

Expenses are classified in several ways. In the Portfolio Budget Statements, expenses are classified by outcome. In Budget Paper No. 1, expenses are classified by function such as health, education, and defence. There is, however, no link between the two. Consequently, some Members of Parliament who have tried to link spending under outcomes to the functional classification have been unable to do so. At a minimum, it would be useful if the functional classification identified all the agencies that contribute to a particular function.

Portfolio Budget Statements

Portfolio Budget Statements (PBS) are the main source of information at the agency level. Information in the PBS falls into two broad categories: agency resourcing and spending, and the information that agencies will collect to assess their performance against planned outcomes. The former contains information on how agencies will be funded, the use to which the funds will be put as defined by planned outcomes, and budgeted financial statements. The performance assessments are presented in agency annual reports. The Department of Finance and Administration has issued guidelines for the format of the PBS. As a result, the structure of the PBS is broadly similar across agencies. However, agencies have discretion to present their PBS in a format that presents information clearly so that the format differs somewhat across agencies. The range of information provided in the PBS has increased considerably since the outcomes/outputs framework was introduced and now includes information such as estimated spending under specific Acts and the outputs/outcomes to which that spending contributes.

An on-going area of contention is the lack of forward years data in the PBS for programs, outcomes and outputs. Such data are now available only for the Budget year (and estimated spending for the past Budget year). The budgeted financial statements in the PBS contain forward estimates, but these are highly aggregated. Several committees have recommended the inclusion of forward estimates for outcomes and outputs, at least for administered items, in the PBS. The Government rejected this recommendation on the grounds that there is already extensive reporting of forward estimates in Budget documentation. This position is debatable: the information is available, and some agencies do what the committees

recommended. The Department of Education, Science and Training, for example, includes forward estimates of administered items under each output in an appendix.

Financial reporting standards

Financial information for the general government sector is prepared in accordance with external reporting standards. They are the Government Finance Statistics (GFS) framework and Australian Accounting Standards (AAS).

The GFS framework is designed to allow economic analysis of the public sector. AAS apply to all sectors but have largely been developed for the private sector. The use of two sets of standards is confusing especially for non-specialists. Critics argue that the AAS should be dropped or modified for public sector use on the grounds that some business sector accounting concepts have little meaning in a public sector context. The Australian Accounting Standards Board is currently seeking to harmonise general government sector reporting under the two standards.

Agencies prepare their financial statements in accordance with AAS. In 2005–06, agencies' financial statements were, for the first time, based on standards that incorporate international standards. The Australian standards that incorporate the international standards are called the Australian Equivalents to International Financial Reporting Standards (AEIFRS). To provide comparative data, agencies recast their 2004–05 accounts to comply with the AEIFRS.

Charter of Budget Honesty

The *Charter of Budget Honesty Act 1998* has increased transparency of reporting. The Act requires, among other things, that the government prepare an economic and fiscal outlook report with each Budget, a mid-year economic and fiscal outlook report, and a Final Budget Outcome (FBO) report. The Act thus imposes an obligation to provide information that has traditionally been available.

The FBO is not audited. The reason given is that auditing the FBO would compromise its timeliness and end-of-year usefulness. Still, the Joint Committee of Public Accounts and Audit recommended that the Australian National Audit Office audit the FBO.

The Act also requires the public release of a pre-election economic and fiscal outlook (PEFO) report within 10 days of the issue of the writ for a general election. The publication of the PEFO has reduced disputes over the state of finances that sometimes surrounds election campaigns. Similarly, the *Financial Management and Accountability Act 1997* requires the Finance Minister to publish monthly financial statements in a form consistent with the Budget estimates, and annual consolidated financial statements.

The Charter of Budget Honesty Act contains provisions dealing with the costing of election commitments. The purpose of the provisions is to provide confidence in costings by having the Secretaries of the Treasury and the Department of Finance and Administration prepare

them. The Prime Minister and Leader of the Opposition may request costings. In the latter case, the request has to be given to the Prime Minister, who may then agree to refer it to the Secretaries.

Tax expenditures

Debate sometimes focuses on the level of spending and revenue, especially when measured as a proportion of gross domestic product. But the revenue and expenses data do not take account of the revenue forgone from tax concessions, that is, from 'tax expenditures'. Governments use taxation concessions to allocate resources to different activities in much the same way they do through 'direct' spending. But in the Budget Papers, tax expenditures are not added to direct spending. This has the effect of 'understating' the size of the government sector. For example, in 2005–06, if estimated tax expenditures of around \$31 billion were added to estimated GFS expenses of \$229 billion, total spending would be 14 per cent higher.

Given the magnitude and importance of tax expenditures, an issue is their transparency and parliamentary scrutiny. The tables of tax expenditures in Budget Paper No. 1 are aggregated. However, since the 1980s, Treasury has published details of tax expenditures.

Treatment of the goods and services tax

The Budget Papers mostly treat the GST as if it were not a Commonwealth tax. The Government argues that the policy intent of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*—which governs Commonwealth–state financial relations—is that GST is collected by the Australian Taxation Office, as an agent for the states and appropriated to the states. But the Australian Bureau of Statistics and the Auditor-General correctly reject this argument on the grounds that the GST is imposed and administered under Commonwealth legislation. Their argument is that the fact that the Commonwealth has chosen to give the GST revenue to the states as grants is not a reason for excluding the revenue or grants from Commonwealth financial statements.

The consequences of not including the GST as a Commonwealth tax and grants to the states as expenses are to 'understate' expenses and revenue in tables where they are excluded. In 2005–06, estimated GST payments to the states are about \$37 billion or around four per cent of gross domestic product. The treatment of the GST inevitably gives rise to the suspicion that it is intended to reduce the apparent size of government at the Commonwealth level.

Introduction

The annual Budget, which is brought down in May, is perhaps a Commonwealth government's most important political, economic and social document. The sheer size of the Budget—spending is equivalent to more than one quarter of gross domestic product—attests to its influence over the size, as well as the allocation, of resources within the economy. The Budget contains information on matters such as its economic consequences, the provision of goods and services, the government's social and political priorities, and information on how the government intends to attain these priorities.

This paper describes the Budget process beginning with the first steps in the November before the Budget is brought down through to the presentation of agency annual reports. The paper also explains key concepts as well as major changes to the content and presentation of the Budget papers and associated documents that have been made in recent years. The terms used are explained throughout the paper including by the use of e-links, which are underlined.

The paper aims to help Members of Parliament understand accrual budgeting and accounting. It also seeks to help Members find information, and alert them to some of the strengths and limitations of the Budget Papers and related documents. The paper does not purport to be a discussion or issues paper. A glossary at the end of the paper contains definitions of some commonly-used terms.

This paper updates a 2003 paper to take account of subsequent changes at the whole of government level.¹

The 1999-2000 Budget implemented several major changes. They included:

- the move from cash to accrual accounting, and from cash to accrual budgeting
- the shift in the focus of agency reporting from program budgeting to planned outcomes
- the presentation of general government sector financial statements in accordance with two accounting standards
- the presentation of performance information to allow assessment of agency performance, and
- the reporting and other requirements of the *Financial Management and Accountability Act 1997* and the *Charter of Budget Honesty Act 1998*.

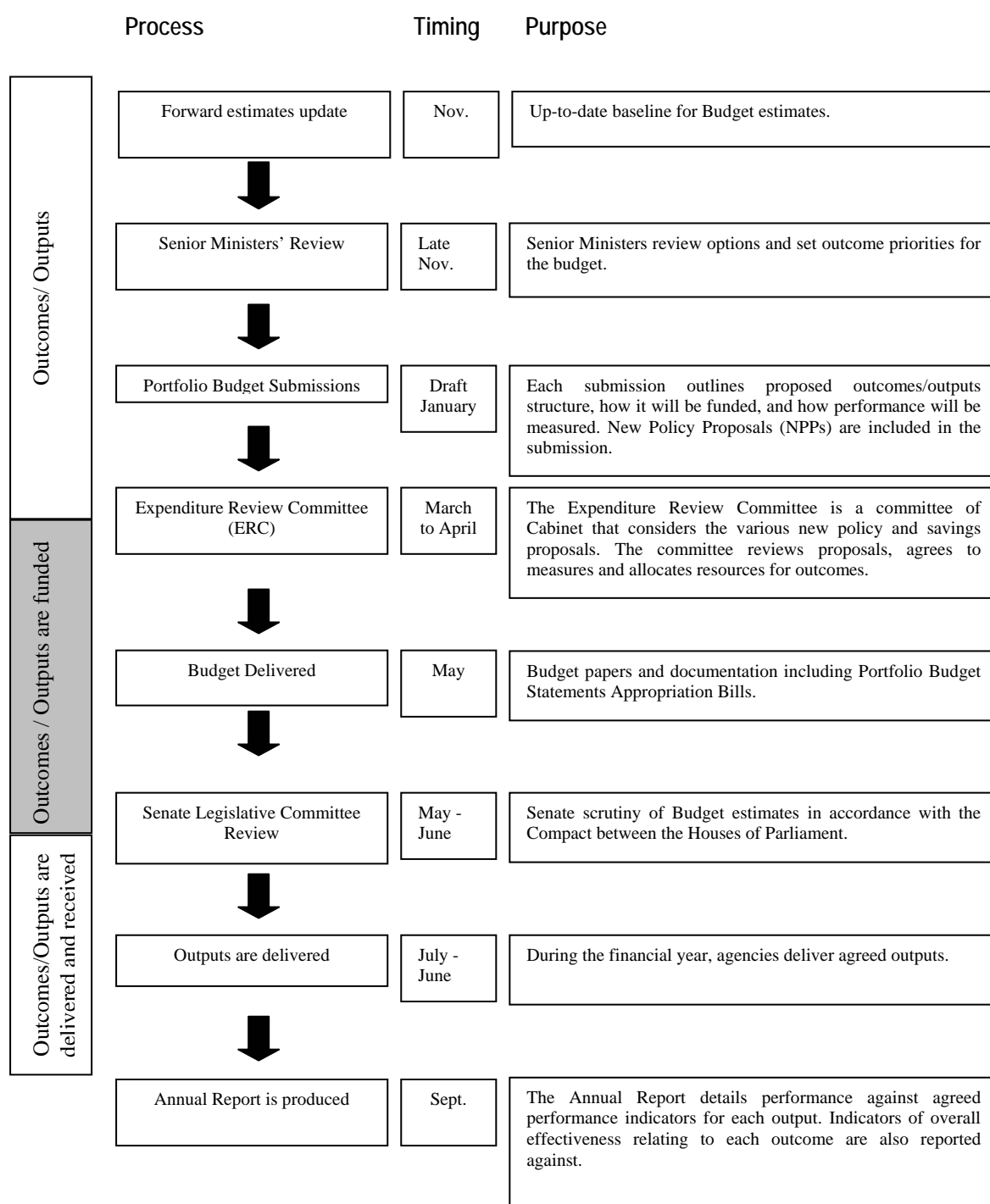
1. Overview of the Budget process

The highlight of the process is Budget night in May.² However, a 'typical' cycle begins in the November before Budget night and ends four to five months after the Budget year taking into account the Senate estimates hearings on annual reports.

The preparation of a Budget involves a large number of participants. The Expenditure Review Committee—a Cabinet committee of senior ministers chaired by the Prime Minister—is primarily responsible for developing the Budget. However, a number of central agencies—notably the Treasury (together with the Australian Taxation Office), the Department of Finance and Administration, and the Department of the Prime Minister and Cabinet—together with line agencies, provide advice and support to the Expenditure Review Committee. Broadly, the Department of Finance and Administration coordinates the preparation of the Budget and prepares forward estimates, and is responsible for statements of expenses and non-tax revenue. Treasury is responsible for assessments of the economic and fiscal outlook and estimates of tax revenues. Other agencies support the process by compiling data needed for inclusion in the Budget estimates and documents, and by providing other necessary information.

Chart 1 shows some main stages in the Budget process, which begins in November when the forward estimates are updated. Also in November, peak industry and community organisations are invited to provide input into Budget deliberations.

Chart 1: Key stages in the Budget process



Source: Adapted from M. Chan, M. Nizette, L. LaRance, C. Broughton and D. Russell, *Australia*, OECD Journal on Budgeting, Vol. 1, No. 4, 2002.

1.1 Forward estimates update

Forward estimates are rolling estimates of what would be appropriated based on the assumption that government policy is on-going. These estimates are for the three years following the Budget year; for example, in the 2006–07 Budget, the forward years were 2007–08, 2008–09 and 2009–10. The estimates include decisions made since the Budget but exclude new programs, the expansion of existing programs that the government has not agreed to, and programs that are expected to end. The forward estimates are thus the base on which the Budget and future years spending estimates are built. In November, the forward estimates are updated so that the Expenditure Review Committee (see section 1.4) can make decisions based on the most up-to-date information.

1.2 Senior ministers' review

In November or December, a senior ministers' review of ministers' proposals, new policies and lapsing programs, and expected major pressures on agency budgets is held. The senior ministers are the Prime Minister, the Deputy Prime Minister, the Treasurer and the Minister for Finance and Administration. The review establishes priorities for the coming Budget.

1.3 Portfolio Budget Submissions

To seek funding for new policy proposals, agencies prepare Portfolio Budget Submissions based on the outcome of the senior ministers' review. The submissions outline all major proposals and potential savings. Agencies also advise the Finance Minister of minor proposals, and the secretary of the Department of Finance and Administration of achievements against previous savings measures. Agencies cost the submissions and agree the costings with the Department of Finance and Administration. The submissions are circulated for coordination comment and lodged with the Cabinet Office, usually late in February.

Summaries of cost-recovery impact statements that agencies prepare are attached to the Portfolio Budget Submissions. The Department of Finance and Administration reviews all cost-recovery impact statements, and briefs the government about compliance with cost-recovery policy.

1.4 Expenditure Review Committee

As noted, the Expenditure Review Committee (ERC) is primarily responsible for developing the Budget against the background of the government's political, social and economic priorities. The ERC is a Cabinet committee. It comprises the Prime Minister as Chairman; the Treasurer; and the Ministers for Trade; Environment and Heritage; Finance and Administration; and Revenue.³ The ERC is responsible, among other things, for deciding which proposals will be funded and by how much. The ERC first meets around early March and reviews new policy proposals and on-going spending as well as savings proposals. The

ERC recommends to Cabinet proposals for inclusion in the Budget. When examining new policy proposals and savings options, the ERC draws on the Portfolio Budget Submissions and briefs that the Department of Finance and Administration and other agencies prepare.

1.5 Ad Hoc Revenue Committee

After the ERC process, the Ad Hoc Revenue Committee—also a Cabinet committee—meets to decide the revenue components of the Budget, which are based on proposals and options generally formulated or reviewed by Treasury.

1.6 Pre-Budget review of estimates

Around April and after Cabinet has agreed to new policies, agencies update their estimates for the preparation of the Budget documents and Appropriation Bills.

1.7 Budget documents

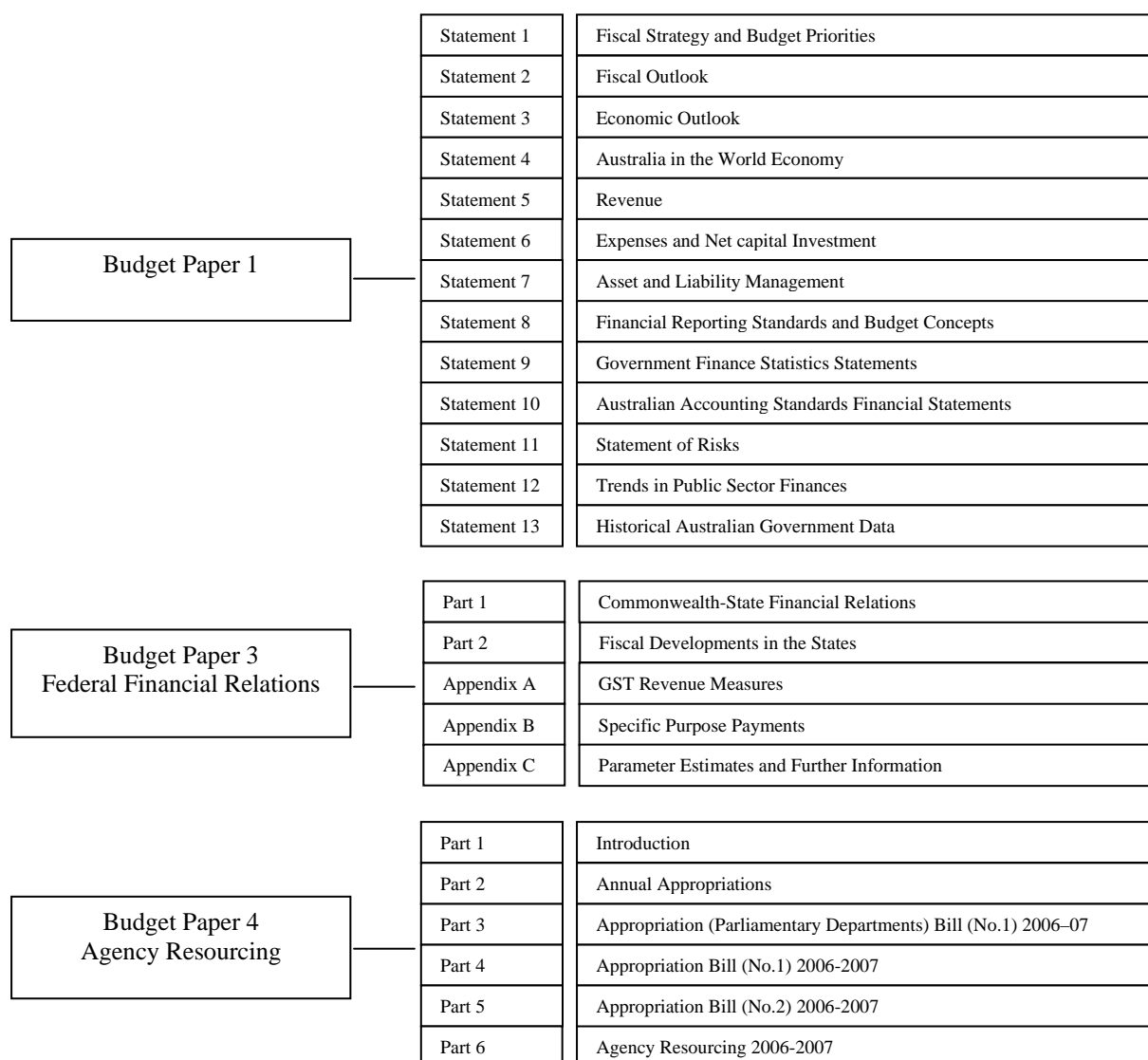
Concurrent with the ERC process, agencies begin to prepare Budget documents. Agencies prepare two components: the Portfolio Budget Statements and the Statement of Risks⁴ (which appeared in Statement 11 of Budget Paper No. 1 in 2006–07). Agencies may be called upon to assist with the drafting of the ‘measures’ descriptions. The latter are consolidated in [Budget Paper No. 2](#).⁵ Budget Paper No. 2 consists of three parts:

- Part 1: revenue measures
- Part 2: expenses measures, and
- Part 3: capital measures.

Note that measures are divided between those taken before the Mid-Year Economic and Fiscal Outlook and those taken after.

The following chart shows key components of the other Budget Papers.

Chart 2: The Budget Papers 2006–07: Key Components



1.8 Budget presentation

The Budget is usually brought down on a Tuesday in early May, that is, before the end of the financial year. A consequence is that financial outcomes of the Budget for the year before the Budget year can only be estimated. Actual spending and revenue data are not available until the Final Budget Outcome is released in September and agencies present their annual reports.

The government introduces [Appropriation Bills](#) No. 1 and No. 2 and the Appropriation (Parliamentary Departments) Bill when it brings down the Budget, and presents the Budget Papers and related documents.⁶ The Treasurer summarises the Budget in the [Budget Speech](#) which is traditionally presented at 7.30 pm and lasts for about half an hour.⁷ The Australian

Broadcasting Corporation broadcasts the speech and also broadcasts, at a later date, the 'address in reply' by the Leader of the Opposition.

1.9 Senate estimates committees

After the Budget is tabled, the [Senate estimates committees](#) scrutinise the Appropriation Bills and other Budget documentation. In particular, the committees scrutinise the Portfolio Budget Statements, which form the basis for their inquiries. The basic function of the committees is to require the presence of, and seek explanations from ministers who formulate policy and departmental officers who implement policy, regarding proposed spending and revenue. The committees are portfolio-based and review all agencies falling within the respective portfolios so that all spending is scrutinised. For example, one such committee is the Employment, Workplace Relations and Education Committee. The estimates committee process is generally finished in time for parliament to pass the Appropriation Bills before the end of June. Although there is a delay in their release, the committee reports contain valuable information that agencies do not otherwise make publicly available. This information takes the forms of responses to questions on notice as well as verbal responses from senior public servants to questions from senators. [Hansards](#) of estimates proceedings are available on the Senate website. Answers to questions on notice are published separately in hard-copy form. The estimates committees also examine additional estimates (see section 5.2).

The Senate estimates committees also review agency annual reports. The reports are referred to the relevant committees for consideration. In practice, the committees review the annual reports in conjunction with additional estimates because most agencies have presented their annual reports by the end of October, that is, not long before the additional estimates hearings.

1.10 Additional estimates

Around November of the Budget year, the process begins whereby additional funds are provided to agencies. This process is called additional estimates. The approved additional estimates are incorporated into Appropriation Bills 3 and 4 and Appropriation (Parliamentary Departments) Bill No. 2. These Bills are traditionally introduced in the spring sittings of parliament. In recent years, however, the Bills have usually been introduced early in the autumn sittings of parliament. The Senate estimates committees also review the additional estimates.

1.11 Final Budget Outcome

In September, the [Final Budget Outcome](#) (FBO) for the financial year just ended is tabled.⁸ The *Charter of Budget Honesty Act 1998* requires the Treasurer to release publicly and table a FBO report for each financial year no later than three months after the end of the financial year. The report must contain Commonwealth general government sector fiscal outcomes for the financial year.

The FBO is discussed in more detail in section 9.1.3.

1.12 Annual reports

In October, agencies present their annual reports for the previous financial year. They include financial and other information including agency performance against agreed performance indicators. The Department of the Prime Minister and Cabinet website contains the [requirements for annual reports](#) to which agencies must adhere.⁹ The requirements were prepared pursuant to subsections 63(2) and 70(2) of the *Public Service Act 1999* and were approved by the Joint Committee of Public Accounts and Audit on 29 June 2005.

The Senate Legal and Constitutional Committee publishes a [report on the annual reports](#) in March and September of each year.¹⁰ Annual reports also stand referred to House of Representative general purpose standing committees under Standing Order 215(b).

1.13 Mid-Year Economic and Fiscal Outlook

The *Charter of Budget Honesty Act 1998* requires the Treasurer to release publicly and table a [Mid-Year Economic and Fiscal Outlook](#) (MYEFO) report by the end of January in each year or within six months after the last Budget, whichever is later.¹¹ In practice, the MYEFO has recently been released in December. The MYEFO updates the economic and fiscal outlooks and the budgetary position, and updates the general government sector financial statements. In particular, the MYEFO takes account of decisions since the Budget was brought down that affect expenses and revenues, and so updates the Budget spending and revenue estimates.

The MYEFO is discussed in more detail in section 9.1.2.

2. Accrual accounting and accrual budgeting

The move from cash accounting and cash budgeting to accrual accounting and accrual budgeting in the 1999–2000 Budget was a major change. The rationale for this move derives from the logic behind accrual accounting. Cash accounting recognises only monetary transactions, and then only in the period when money changes hands. Accrual accounting, on the other hand, recognises financial obligations as well as monetary transactions, and records them in the period when they take place. For example, under cash accounting, a credit sale is brought to account only when the purchaser pays the debt. Under accrual accounting, the sale and the payment are treated as two events. In the case of Public Service superannuation, cash accounting recognises only payments to superannuants whereas accrual accounting also brings to account the increase in liabilities for future payments.¹² In the case of purchases of assets such as buildings and plant, cash accounting recognises only the purchase. Accrual accounting recognises the purchase of such assets by bringing them into the balance sheet and then depreciates them (as an expense) over their lifetimes. Accrual accounting also recognises other changes in the value of assets when they occur.

Cash accounting and accrual accounting can yield different results. For example, the Budget cash outcome (the ‘underlying cash balance’) in 2004–05 was a surplus of \$13.6 billion while the accrual outcome (the ‘fiscal balance’) was a surplus of \$10.8 billion.¹³

Under cash budgeting, agencies’ annual appropriations were based on their cash requirements. Under accrual budgeting, agencies’ annual appropriations are based on their accrual expenses (and capital requirements). The system of accrual budgeting has changed since it was implemented in 1999–2000. Initially, under the Agency Banking Incentive Scheme, agencies received cash for all expenses as and when they were incurred and not just when they had to be paid (the ‘cash-in-hand’ model). Agencies received cash, for example, for increases in employee entitlements such as long service leave, and depreciation of assets even though agencies did not actually have to pay out the additional liabilities or replace assets in the year in which cash was given to agencies. Agencies invested unspent funds until they were needed. A criticism of these arrangements was it did not seem desirable to give to an agency, in a given year, cash that the agency did not need in that year:

... it is probably better that the appropriations be cash based, which can be deducted from the accrual accounts, rather than paying for expenses that are not going to require any expenditure in the year ahead.¹⁴

The change that was made was to remove the Agency Banking Incentive Scheme under which agencies invested unused funds until they were needed in the current or future years. Under current arrangements, agencies’ appropriations continue to be based on their accrual expenses, that is, each agency receives an appropriation to cover its estimated expenses for the year including accruing employee entitlements and depreciation expenses. However, agencies now draw down cash only as and when required (the ‘just in time’ model).

The move to accrual accounting means that some data comparisons may not be possible. In particular, it may not be possible to compare some data up to and including 1998–99 with data for subsequent years. It should be noted that agencies presented financial statements in their annual reports on an accrual basis for a number of years before 1999–2000 when accrual accounting and reporting became obligatory.

It is, however, possible to compare items which continue to be presented in a cash format. A problem of cash comparisons is that they may contain ‘lumpy’ items, for example, a major asset purchase that takes place in one year. Accrual fiscal balance data from 1996–97 can be found in Statement 12 of Budget Paper No. 1. Statement 13 of Budget Paper No. 1 contains tables with underlying cash balance figures going back to 1972–73 as well as other data. Note, however, that the data on receipts and payments exclude GST receipts and payments to the states and territories, and so understate actual Commonwealth cash receipts and payments.

With the establishment of the Future Fund, the definition of the ‘underlying cash balance’ that appears in Statement 13 of Budget Paper No. 1 has changed. The new definition excludes

Future Fund earnings. The rationale for excluding these earnings may be that Fund earnings are not available for current spending but are to be set aside for future spending.

Despite the move to accrual budgeting, many economic commentators focus on the underlying cash balance and not the accrual fiscal balance in discussions of fiscal policy. One reason they do so is because cash balances have some advantages for tracking expenditures in a fiscal year and in helping to identify the short-term effects of fiscal policy on the economy.¹⁵ In recent years, the Treasurer has usually used the underlying cash amount when referring to Budget outcomes.

2.1 Capital use charge

As part of the accrual budgeting reforms, agency financial statements for 1999–2000 to 2002–03 contained a capital use charge. The charge was implemented:

... to improve agency resource allocation, by ensuring that the full cost of competing activities are shown and the cost of capital is reflected in the pricing structures of equivalent outputs produced by the public or private sectors.¹⁶

The underlying concept is that the capital tied up in assets is not free. Rather, there is an implicit cost to using capital that is not reflected in the cost of running an agency. The capital use charge sought to make this cost explicit and so was included in each agency's expenses. The charge was based on the agency's net assets, and the rate was set annually.¹⁷ Agencies had to meet the charge, which was offset by a departmental appropriation. Following the 'Review of Budget Estimates and Framework', the Government decided that the charge would cease on 30 June 2003.

3. Outcomes and outputs

3.1 The outcomes and outputs reporting framework

Since 1999–2000, agencies have presented their Portfolio Budget Statements (see section 5.5) within an [outcomes and outputs framework](#).¹⁸ The framework was introduced at the same time as accrual budgeting. However, it should be noted that accrual budgeting and the outcomes/outputs framework are independent, that is, it is possible to have accrual budgeting without the framework and vice versa.

The outcomes/outputs framework was part of broader reforms to the public service and financial management and reporting. Other reforms were the devolution of responsibility to agencies, the repeal of the *Audit Act 1901*, and the passage of the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*. The devolution of responsibility, among other things, gave agencies greater flexibility as to how they report their activities within the framework.

The focus of the reporting framework is planned outcomes. They are the results or consequences for the community that the government seeks to achieve. Ministers approve the outcomes for their portfolios. An example of a planned outcome is the Department of Immigration and Multicultural Affairs outcome one, namely, ‘contributing to Australia’s society and its economic advancement through the lawful and orderly entry and stay of people’.

Outputs are the goods and services that agencies produce that contribute to the attainment of outcomes. For example, the Department of Immigration and Multicultural Affairs has five outputs which contribute to outcome one, namely, ‘migration and temporary entry’, ‘refugee and humanitarian entry and stay’, ‘enforcement of immigration law’, ‘safe haven’, and ‘offshore asylum seeker management’.

According to the Department of Finance and Administration, the framework helps answer three fundamental questions:

- what does government want to achieve (outcomes)
- how does it achieve this (outputs and administered items) and
- how does it know if it is succeeding (performance reporting)?

The framework was introduced to encourage agencies to focus on ends and not means. The system of budgeting, which preceded the outcomes/outputs framework, grouped outlays into identifiable programs. For example, the Attorney-General’s portfolio had six programs in 1998–99. One was ‘administration of justice’ which encompassed the activities of the courts and tribunals. Another program was ‘maintenance of law, order and safety’. A criticism of program budgeting was that it focused too much on inputs and the reasons for producing outputs and not enough on outputs. For example, under program budgeting, there was a tendency to focus on the cost of information technology rather than on the uses to which it was put.

Outcomes and outputs are costed by attributing all costs to outputs and thence to outcomes. The objective is to measure as accurately as possible the cost of producing outputs and outcomes. While problems remain—for example, the allocation of costs that contribute to more than one output or outcome—the trend is towards improved costing as agencies develop cost allocation models that attribute expenses more accurately to outputs.

Some agencies seek to recover the cost of some of their activities. There is now a government-wide cost-recovery policy including cost-recovery [guidelines](#).¹⁹

3.2 Issues

As noted, the purpose of the outcomes/output framework is to hold agencies accountable for what they achieve (outcomes) rather than how they do it (inputs and outputs). Implementing

the outcomes/outputs framework has encountered conceptual and other difficulties. The framework's success depends crucially on how well outcomes are specified. One problem is the overlapping of outcomes across agencies and portfolios. Outcomes reflect administrative arrangements. But these arrangements often do not coincide with broader objectives. For example, it could be argued that some functions of the Department of Foreign Affairs and Trade contribute indirectly to Australia's defence and therefore overlap with some Department of Defence outcomes. In June 2002, the Joint Committee of Public Accounts and Audit reported that some agency outcomes were so broad and far reaching as to be, in effect, outcomes shared with other agencies. The Committee recommended that agencies with a shared outcome should:

- . identify the shared outcome and the contribution of other agencies in achieving that outcome in their PBS and annual report
- . determine a lead agency with prime responsibility for that outcome, and
- . consider entering into memoranda of understanding with the other agencies to clarify the responsibilities of each agency in achieving the shared outcome.²⁰

In May 2003, the Government responded to these recommendations and agreed, in principle, with the shared-outcome recommendations.²¹

A second problem is overlapping outcomes within a portfolio or agency. Overlapping outcomes create problems of accountability and reporting since agencies have discretion how they classify an activity. For example, the Department of Transport and Regional Services has two outcomes: 'a better transport system for Australia' and 'assisting regions to manage their own futures'. The Department funds roads in regional areas. Arguably, such spending contributes to both outcomes.

The number and specificity of outcomes are important for transparency and accountability. The Senate Finance and Public Administration Legislation Committee, in its second report on the format of the Portfolio Budget Statements, expressed concern over the widely differing levels of specificity of outcomes²² while the Joint Committee of Public Accounts and Audit recommended that where agencies have a single broad-ranging outcome or a small number of highly aggregated outcomes, intermediate outcomes should be specified.²³ The number and specificity of outcomes are less of an issue than when the outcomes framework was introduced. Then, there was a tendency for agencies to reduce the number of outcomes and outputs. This trend has since been reversed. The Department of Defence, for example, has moved from one outcome to seven. Another trend is for agencies to disaggregate broad outcomes into more outputs and sub-outputs. For example, Outcome 1 for the Department of the Environment and Heritage is 'the environment, especially those aspects that are matters of national environmental significance, is protected and conserved'. This outcome is broken down into five outputs and fourteen sub-outputs.

Another issue is instability in outcomes and outputs as agencies change their outcomes and output structures. While it is unrealistic to expect complete stability in outcomes and outputs as agencies respond to new developments and as the government develops new policies, the instability of outcomes makes data comparisons difficult.

Overall, the extent to which the outcomes/outputs framework has increased transparency and accountability is mixed. A review prepared for the OECD of results-oriented financial management in Australia (and Britain) concluded:

When the effects of the results-oriented financial management reforms are examined, it can be stated that the reforms are not a panacea which will solve all financial management problems, but do generate positive as well as negative effects.²⁴

On the positive side, the review concluded that the framework contains new and more information, outcomes are fully costed, and agencies must provide information on how they have performed against outcomes. Problems include the overlapping of outcomes across and within agencies, changes to outcomes and outputs that make comparisons difficult, and poor performance data. Appropriating against outcomes gives agencies greater flexibility as to how they spend funds but:

... parliamentary control has weakened because authorisation now takes place on a very aggregated level ...²⁵

When the outcomes framework was introduced, many Members of Parliament were critical of the aggregation of data in the Portfolio Budget Statements. They were particularly critical of the lack of information about the cost of individual programs. This is less of an issue now that agencies are increasingly providing this information. Examples of the information that Members of Parliament find useful are:

- the list of administered programs, funded through Appropriation Bills, in the Portfolio Budget Statements of the Department of Agriculture, Fisheries and Forestry
- the list of programs, funded through special appropriations, that appears in the Portfolio Budget Statements of the Department of Industry, Tourism and Resources, and
- the breakdown of expenses funded from special appropriations in the Department of Families, Community Services and Indigenous Affairs Portfolio Budget Statements.

4. Functional classification of expenses

Budget Paper No. 1 contains a Statement titled 'expenses and net capital investment'. This Statement classifies expenses by function (the Final Budget Outcome also contains a functional classification). Examples of functions are health, education, transport and communications, and defence. Some functions are classified into sub-functions. For example, in the 2006–07 Budget, education was divided into higher education, vocational and other

education (which was sub-divided into non-government schools and government schools), student assistance, general administration, and school education-specific funding.

The functional classification is based on the Australian Bureau of Statistics government purpose classification²⁶ which, in turn, is based upon the United Nation's *Classification of the Functions of Government*, which is also applied in the International Monetary Fund Government Finance Statistics system.

The classification of activities to functions can change, causing breaks in the series and loss of comparability. The changes are noted at the end of the tables. For example, expenses for assistance to the aged were reclassified from 'health' to 'social security and welfare' in Table 3 of Statement 6 in Budget Paper No. 1 for 2001–02.

A welcome practice is 'boxes' that deal with specific topics. For example, Budget Paper No. 1 for 2006–07 contained a box titled 'pharmaceutical services and benefits'. This box contained trends in the major components of the pharmaceutical services and benefits scheme broken down by components, and included forward years data. Those who seek this sort of information find the boxes a very convenient and compact source of information. The use of boxes is to be encouraged since they contain information often not readily available elsewhere.

4.1 A missing link

Spending in the Budget is classified in several ways. As noted, in Statement 6 of Budget Paper No. 1, spending is classified by function. In the Portfolio Budget Statements, agencies classify spending by outputs and outcomes. However, there is nothing in the Budget Papers that links the two.

The functional classifications in Budget Paper No. 1 do not always identify the agencies that contribute to the functions. Consequently, the reader has to guess which agencies contribute to a particular function. In some instances, this is self-evident but it is not true in all cases. Further, functions do not align with agency responsibilities. Even when the main contributor is clear, it is not possible to identify other contributors. For example, in the 2006–07 Budget, 'assistance to people with disabilities' was a sub-function in the 'social security and welfare' function. The Department of Family and Community Services is the main source of spending on this sub-function. Other agencies also contribute to this sub-function but the reader does not know who they are, how much they contribute, and under which outcomes. At a minimum, it would be useful if the functional classification identified the agencies that contribute to the function.

4.2 Contingency reserve

The functional classification of expenses under 'other purposes' includes an item called the contingency reserve (CR). The CR is a means of trying to ensure that the aggregate estimates

are robust and based on the best information available at the time of publication. The major components of the CR for the Budget and forward estimates include:

- an allowance for the tendency for estimates of expenses for existing policies to be revised upwards in the forward years
- an allowance for the tendency for estimates of some expenses to be overstated in the Budget year
- commercial-in-confidence and national security-in-confidence items which cannot be disclosed separately, and
- minor decisions made late in the Budget process.

The amount and the movements in the reserve need to be kept in context. Total expenses for 2006–07 are projected to be in the vicinity of \$260 billion, so \$747 million is a small fraction of that total. Even the \$13 billion for 2009–10 is less than five per cent of projected expenses for that year.

Box: Contingency reserve

The amount in the reserve can fluctuate considerably. In the 2005–06 Budget, for example, the amount for 2005–06 was \$187 million; in the 2003–04 Budget, it was negative \$144 million for 2003–04. In general, the amount in the reserve, for the forward years, increases the further the projections are into the future. This reflects the increasing uncertainty about with the cost of programs the further they are in the future plus the associated cumulative effects across multiple years. Thus in the 2006–07 Budget, the figure for 2006–07 was \$747 million, \$3.6 billion for 2007–08, and \$7.3 billion for 2008–09, and \$13 billion for 2009–10.

5. Appropriations

Section 83 of the Constitution states:

No money shall be drawn from the Treasury of the Commonwealth except under appropriation made by law.

There are two broad categories of appropriations:

- annual appropriations, and
- special (or standing) appropriations.

5.1 Annual appropriations

Annual appropriations are (usually) contained in six Appropriation Acts. The first three are:

- Appropriation Act (No. 1)

- Appropriation Act (No. 2), and
- Appropriation (Parliamentary Departments) Act (No. 1).

(The other three Acts are called ‘additional estimates’; they are discussed in section 5.2).

The Bills for the first three Acts are introduced at the same time as the Budget and are reproduced in Budget Paper No. 4. The Acts authorise the payment of specified amounts for particular purposes. Appropriation Act (No. 1) provides for the appropriation of money from the Consolidated Revenue Fund for the ordinary annual services of government. Appropriation Act (No. 2) provides for the appropriation of money from the Consolidated Revenue Fund for purposes other than the ordinary services of government.

The question of what constitutes ordinary annual services was agreed between the Senate and the government in 1965, and the division of items between the two Acts accords with the 1965 ‘compact’ between the House of Representatives and the Senate.²⁷ In practice, when the government introduces administered funding under a new outcome that is not funded under a special appropriation, or administered funding for an existing outcome, the program is initially funded under Appropriation Act (No. 2). Thereafter, the program is considered to be an ordinary annual service and is funded under Appropriation Act (No. 1). Under section 53 of the Constitution, the Senate may not amend proposed laws appropriating funds for the ordinary annual services of government, although the Senate can effectively reject Bills by returning them to the House of Representatives or reject the legislation outright. The Senate can also reject such legislation outright.

Appropriation Act (No. 1) sets out agency appropriations by outcome and distinguishes between administered and departmental expenses. About two-thirds of funds appropriated under this Act are for departmental expenses. The data in Appropriation Act (No. 1) are highly aggregated but additional information is contained in Portfolio Budget Statements.²⁸

Appropriation Act (No. 2) provides funds for administered items and so-called ‘non-operating’ costs. Items in Appropriation Act (No. 2) include:

- administered expenses in relation to grants to the states under section 96 of the Constitution and grants to the territories (‘specific purpose payments’)
- administered expenses for new outcomes, and
- ‘non-operating costs’ such as equity injections and loans.

The parliamentary departments have a separate Appropriation Act because the services of the departments are not ordinary annual services of the government or services of the government as such.

5.1.1 Net appropriations

Appropriations items in annual appropriation Acts may be marked ‘net appropriation’. Where an appropriation is marked ‘net appropriation’, section 31 of the *Financial Management and Accountability Act 1997* (FMA Act) allows an agreement (known as a ‘net appropriation agreement’ or a ‘section 31 agreement’) to be made with the Finance Minister, for the purposes of that appropriation. The net appropriation provisions of the annual appropriation Acts provide that, if a net appropriation agreement applies to an appropriation item, then the amount of that appropriation is taken to be increased, in accordance with the agreement, and on the conditions set out in the agreement. The increase cannot be more than the relevant receipts covered by the agreement. In short, the effect on a net appropriation is to increase the agency’s budget.

The effect of these provisions is that, where an agency has an appropriation marked ‘net appropriation’ in an annual appropriation Act, and a net appropriation agreement, the amount of the appropriation will be increased by an amount equivalent to amounts the agency receives, where those amounts are ‘relevant receipts’ covered by the agency’s net appropriation agreement. As a result, the agency will have the legal authority to retain and spend those additional amounts that it receives.

An example of an agreement is the one for the [Productivity Commission](#), made between the Finance Minister and the Treasurer.²⁹ In this agreement, the receipts covered by the agreement include proceeds from the sale, leasing, hiring out of, or other dealing with goods, and receipts from the sub-leasing of real property, or the resale of goods used in fitting out premises. For agencies which supply services, and charge to recover the cost of providing those services, revenue covered by a net appropriation agreement can be substantial. An example of such an agency is the Australian Federal Police, which generates revenue by providing policing services to the Australian Capital Territory.

5.2 Additional estimates

Funding requirements usually change after the Budget is brought down. Governments make new policy commitments that need to be funded. Agencies reassess their requirements and, if necessary, submit requests for additional funding. The government may agree to additional funding if the amounts in the three Budget Appropriation Acts are inadequate and so has to seek parliamentary approval for additional spending. The process whereby additional funds are provided is called ‘additional estimates’ and begins around November of the Budget year. The approved additional estimates are incorporated into Appropriation Bills 3 and 4 and Appropriation (Parliamentary Departments) Bill No. 2.³⁰ These Bills are the counterparts of Appropriation Bills No. 1 and 2 and Appropriation (Parliamentary Departments) Bill No. 1 respectively. These Bills were traditionally introduced in the spring sittings of parliament. In recent years, however, the Bills have usually been introduced early in the autumn sittings of parliament.

[Portfolio Additional Estimates Statements](#) are the additional estimates counterparts of Portfolio Budget Statements and contain explanations of Appropriation Bills 3 and 4 and Appropriations (Parliamentary Departments) Bill No. 2.³¹ The Senate estimates committees also scrutinise the additional estimates Bills. Parliament usually passes the additional estimates Bills around April. The Department of Finance and Administration has guidelines for the preparation of the Portfolio Additional Estimates Statements.

5.2.1 Supplementary additional estimates

The government can introduce as many Appropriation Bills as it believes necessary. In 2004–05, for example, the Government introduced the Appropriation (Tsunami Financial Assistance) Bill 2004–05, the Appropriation (Tsunami Financial Assistance and Australia-Indonesia Partnership) Bill 2004–05, Appropriation Bill (No. 5) 2004–05 and Appropriation Bill (No. 6) 2004–05.³² These Bills were supplementary to the usual three additional estimates Bills and brought to 10 the total number of annual Appropriation Bills. (The Government introduced similar Bills in 2003–04 and 2005–06). Such bills are called supplementary additional estimates bills.

A third series of bills occurs occasionally. On average, there has been an Appropriation Bill No. 5 every fourth year over the past 30-odd years, although the 2003–04 one was the first for about a decade.

5.3 Special appropriations

Annual appropriations account for around only 25 per cent of government expenses.³³ The remaining 75 per cent are funded under special (or standing) appropriations—the terms are sometimes used interchangeably.³⁴ A special appropriation is an appropriation that appears in an Act—other than in the annual Appropriation Acts—which appropriates money from the Consolidated Revenue Fund for a particular purpose. For example, payments for the age pension, the disability support pension, and other social security payments are made under the *Social Security (Administration) Act 1999*. Some special appropriations are for a specific amount in which case they are said to be ‘limited by amount’. Standing appropriations are usually ‘open-ended’ in that the amount appropriated for a particular purpose is determined by the eligibility and other provisions of the relevant Act. An example is the eligibility conditions for the age pension prescribed by the *Social Security (Administration) Act 1999*.

This highlights a number of differences between the annual and special appropriations. First, whereas the Appropriation Acts specify amounts, the amounts in the Budget for special appropriations are estimates of spending under each Act. Second, whereas spending under the annual Appropriation Acts is subject to annual review and approval by parliament, special appropriations are approved by parliament when the legislation is initially created, and can only be removed or amended by repealing or amending that legislation, which also requires parliamentary approval. Information on the estimated payments under special appropriations can be found in Portfolio Budget Statements.

The Portfolio Budget Statements show estimated spending under special appropriations, and link this spending to the outputs or outcomes affected. For example, in 2006–07, the Department of Transport and Regional Services listed four Acts, the estimated spending under each Act, and the outcome to which the spending was allocated. The Department of Family, Community Services and Indigenous Affairs (FaCSIA) is a good example of reporting of spending under special appropriations. FaCSIA lists each Act, breaks down spending by program under each Act, and identifies the outcome to which the program contributes. For example, in 2006–07, total spending under the *Social Security (Administration) Act 1999* is estimated at more than \$24 billion. Of this, estimated spending on the age pension is about \$22 billion, which contributes to outcome 2 (‘seniors, people with disabilities, carers, youth and women are supported, recognised and encouraged to participate in the community’).

5.4 Special Accounts

A [Special Account](#) is a ledger account recording a right to draw money from the Consolidated Revenue Fund in accordance with designated purposes.³⁵ The *Financial Management and Accountability Act 1997* (FMA Act) provides the appropriation authority for expenditure up to the balance of a Special Account. As to their purpose, the Department of Finance and Administration has stated:

[Special Accounts] provide a useful method of delivering some government programs, particularly ones funded by, say, indirect taxes or other compulsory imposts, contributions by other governments or discretionary contributions by members of the community. Special Accounts allow money in the CRF to be set aside for particular spending purposes, and moneys in a Special Account can only be spent for the purposes nominated.

... Special Accounts may be used for proper trustee type moneys, where the Commonwealth is holding money on behalf of other parties, so genuine trustees’ moneys can fit into the Special Account definition. Also, where we are holding moneys on behalf of the States and for other similar uses, Special Accounts are an appropriate vehicle as well.³⁶

Special Accounts are established in two ways:

- by a determination issued by the Finance Minister under section 20 of the *Financial Management and Accountability Act 1997* (FMA Act) or
- by enabling Acts, under section 21 of the FMA Act.

Special Accounts have been established, for example, to:

- hold moneys for the benefit of a person other than the Commonwealth (all agencies existing at 1 January 1998 have an Other Trust Moneys Special Account)

- provide for the protection of Australia's Antarctic Heritage (Australian Antarctic Heritage Conservation Special Account, established under the Department of Environment and Heritage in 2004), and
- provide grants and loans to Indonesia to assist in its rebuilding after the 2004 tsunami.

Details of Special Accounts can be obtained from the notes to the Consolidated Financial Statements.

In January 2004, the Australian National Audit Office (ANAO) investigated the use of Special Accounts in a report titled [Agency Management of Special Accounts](#).³⁷ ANAO found that many agencies needed to improve management of Special Accounts, and had not complied with a number of legislative requirements. ANAO concluded that its audit demonstrated that there was significant scope for agencies to improve their financial management and reporting practices in respect of Special Accounts, and made 13 recommendations to improve management of and accountability for Special Accounts.

The Department of Finance and Administration reviewed the Special Accounts framework. In particular, it:

- issued guidance to agencies on the management and reporting of Special Accounts
- maintains a register to provide a reliable source of information regarding all Special Accounts, and
- reviews all Special Accounts to assess their continuing appropriateness. This review includes information regarding allowable debits and credits in all section 20 determinations.

Agencies include estimates of Special Accounts flows and balances in their Portfolio Budget Statements. Agency annual reports are required to show broadly aggregated transactions on Special Accounts.

5.5 Advance to the Finance Minister

The [Advance to the Finance Minister](#) (AFM) provides flexibility in that it allows the spending of funds for unforeseen contingencies.³⁸ The AFM is a provision authorised by the annual Appropriation Acts and made available to the Finance Minister as a central contingency fund to provide urgent funding to agencies throughout the financial year. Examples of the AFM provision are found in section 12 of *Appropriation Act (No. 1) 2005-2006* and section 13 of *Appropriation Act (No. 2) 2005-2006*.

AFM funding is available only if agencies meet two tests:

- the need for funding must be urgent, and

- the need was unforeseen or arose because of erroneous omission or understatement.

A determination to make an AFM is a legislative instrument³⁹ and, as such, is registered on the [Federal Register of Legislative Instruments](#) in accordance with the *Legislative Instruments Act 2003*.⁴⁰ All legislative instruments are tabled in the House of Representatives and the Senate within six sitting days after registration.

Some of the reports on spending from the AFM contain minimal information and so are not very informative. For example, the [Issues from the Advance to the Finance Minister as a Final Charge](#) shows only the agencies to which payments were made and under what outcomes.⁴¹ However, the Explanatory Statements to the legislative instruments contain detailed explanations.

5.6 Other revenues received

As identified earlier in this chapter, in accordance with section 83 of the Constitution, no money can be drawn from the Treasury of the Commonwealth unless supported by an appropriation. This requirement means that money received by FMA Act agencies must be supported by a valid appropriation. Section 31 net appropriation agreements and Special Accounts (as mentioned above) generally provide FMA Act agencies with the necessary appropriation authority to receive and spend money from external sources.

CAC Act bodies as entities that are legally separate to the Commonwealth are not generally subject to the requirements of Section 83 of the Constitution unless they are handling public money and are therefore subject to the FMA Act. CAC Act bodies that receive revenues whether they are paid to the CAC Act body by the Commonwealth (an FMA Act agency) or are received from external sources are available for expenditure by the CAC Act body in accordance with the CAC Act, their enabling legislation or their company constitution (as applicable).

5.7 Departmental and administered expenses

Expenses are classified as either departmental or administered. Departmental expenses are the resources that agencies control and use to produce outputs. In essence, departmental expenses are the cost of running agencies. Examples of departmental expenses are salaries, other employee entitlements, and the use of equipment. Departmental expenses are appropriated as a single amount for each agency.

Administered expenses are spending that agencies manage on the government's behalf. Examples of administered expenses are subsidies, grants and benefit payments, and the financial assistance grants the Commonwealth makes to local governments. Spending by some agencies is overwhelmingly administered. Indeed, about 80 per cent of agency expenses are administered. Most administered expenses are paid under various special appropriations; most of the remainder—for example, payments for the Bass Strait Passenger Vehicle Equalisation Scheme—are paid under Appropriation Act No. 1.

The terms ‘price of outputs’ or the ‘departmental price of outputs’ are used in the Portfolio Budget Statements for the total resources available for spending on departmental outputs. The price of outputs has two components: revenue from government—that is, from annual and special appropriations—and revenue from other sources. For most agencies, revenue from government is the main source of funds.

The use of the term ‘price’ to describe departmental expenses is confusing for those not familiar with the underlying concept. The term derives from the underlying model in which, in theory, the government buys services from agencies, in arms-length transactions, for a price. This price is the market price, which is assumed to be the efficient price. Hence there may be a difference between the efficient price and the actual cost of production.

Outsourcing and competitive tendering for the purchase of inputs are ways of obtaining market prices; benchmarking is another technique. This model is, however, problematic because market or benchmarked prices for many of the services that government ‘buys’ are not available. A sceptical Joint Committee of Public Accounts and Audit concluded that:

... not all departmental outputs readily lend themselves to benchmarking for the purpose of contestability ... [and] ... the use of price may not always be appropriate in relation to expenditure in the general government sector.

Further:

The Committee considers it would be worthwhile to identify in the PBS the pricing model used to derive the price of agency outputs, for example, whether the price simply represents the cost of output delivery or is based on ‘cost-plus’ or on some other model. This would assist Parliament’s understanding of the basis on which funding is sought and indicate the extent to which it is considered that a market exists for the output.⁴²

The Department of Finance and Administration and the Australian Accounting Standards Board are reviewing the classifications of administered and departmental expenses as part of the Financial Framework Simplification Scoping Study. The purpose of the Study is to examine options for the simplification of the financial framework as it applies to agencies to which the *Financial Management and Accountability Act 1997* applies.⁴³

5.7.1 Administered receipts

Users of the Portfolio Budget Statements will also encounter administered receipts. They are receipts that agencies manage on the government’s behalf. An example is the revenue from the aircraft noise levy that the government collects at Adelaide and Sydney airports. In the case of the Department of Foreign Affairs and Trade, passport and consular fees are administered receipts. The Portfolio Budget Statements contain tables which list administered receipts.

5.7.2 Issues

The distinction between departmental and administered expenses is based on the concept of ‘control’ as defined in accordance with Australian Accounting Standard 29, [Financial Reporting by Government Departments](#).⁴⁴ While control is the principle used to determine whether items are administered or departmental, it is not the accounting standard that determines the classification. Rather, it is the government’s decisions surrounding transactions that determine whether items are administered or departmental. The Department of Finance and Administration has issued a [guidance](#) which includes principles to be used in determining whether items should be classified as departmental or administered.⁴⁵

The distinction between administered and departmental items is not always clear. The Senate Finance and Public Administration Legislation Committee, in its [third report on the format of the Portfolio Budget Statements](#) observed:

3.22 It became evident, during the 2000–01 budget estimates hearings, that a number of activities had been reclassified from ‘administered’ to ‘departmental’ and hence their funding could be varied at agency discretion. For example, a range of programs in the Department of Environment and Heritage, including grant schemes, became ‘departmental’ and were listed as such in the PBS. The distinction, and its implications, was not the subject of particular questioning on this occasion.

3.23 The committee could find no examples of reclassifications in the other direction. The committee concedes that the concept of ‘control’ is at times a matter of judgement; it also notes that reclassifications cannot be done unilaterally by agencies but the approval of DOFA must be sought. Representatives of a number of agencies stressed that funding flexibility was needed to meet changing priorities and to deal with the unexpected. While accepting this argument, the committee is nevertheless concerned that any such reclassifications not be used to thwart accountability.⁴⁶

Several points are noteworthy. First, it is not easy to transfer items from one classification to the other, and transfers are subject to Australian Accounting Standards. Second, even if an item is transferred from administered to departmental, funding for departmental items is contained in appropriation bills, which parliament has to pass. Classifying an item as departmental does, however, give agencies greater spending discretion.

6. Budget documents

As noted, the government releases the Budget Papers and documentation on Budget night. Ministers also issue media releases and hard copy information kits. The [Budget Papers](#)⁴⁷ and other Budget documents consist of:

- the Budget Speech
- Budget Overview

- Budget at a Glance
- four Budget Papers
- Portfolio Budget Statements for each general government sector agency, and
- Ministerial Statements.

6.1 Budget speech

The Budget speech is the printed version of the speech that the Treasurer delivers on Budget night. The speech contains Budget highlights and details of the government's priorities. The Speech and the Budget Papers are loaded onto the parliamentary computing network on Budget night or soon thereafter.

6.2 Budget Overview

As its name suggests, the Budget Overview (sometimes called Budget Highlights) summarises key features of the Budget. The contents and length of the document vary from year to year. Its main use is as a quick reference to key features of the Budget.

6.3 Budget Papers

There are four Budget Papers. The contents of each vary from year to year. The following outlines the Budget Papers for 2006–07.

6.3.1 Budget Paper No. 1: Budget Strategy and Outlook 2006–07

Budget Paper No. 1 can be seen as the 'overview' document. Budget Paper No. 1 for 2006–07 contained thirteen Statements dealing, among other things, with fiscal policy, the outlook for the economy, the assumptions underlying the projections of growth, unemployment, revenue and expenses, and other matters. The precise contents and the number of Statements vary from year to year. For example, Statement 4 was a 'one-off' article titled 'Australia in the world economy'. Budget Paper No. 1 is prepared in accordance with the *Charter of Budget Honesty Act 1998*, which requires that the government provide, among other things, a statement of its fiscal strategy and a report on the economic and fiscal outlook as well as risks to the outlook.

Statement 1: Fiscal Strategy and Budget Priorities. This contains sections dealing with the fiscal and economic outlooks, fiscal strategy and the government's priorities in areas such as welfare, health, education and transport.

Statement 2: Fiscal Outlook. This statement contains sections dealing with Budget aggregates, variations to expense and revenue estimates and their consequences for the fiscal balance, the Commonwealth's net debt and net worth positions, and cash flows.

Statement 3: Economic Outlook. This Statement discusses developments in the domestic and international economies, and uncertainties in the outlooks for both.

Statement 4: Australia in the World Economy. This Statement is one of a series that discuss various aspects of the economy. In earlier years, Statement 4 dealt with topics such as tax reform, productivity, unemployment, and the terms of trade.

Statement 5: Revenue. This contains an overview and discussion of Budget year and forward years revenue estimates. For example, revenue from taxes such as excise on petrol and diesel can be found in this Statement. Statement 5 does not include information on the GST. This can be found in Budget Paper No. 3.

The Appendices contain much useful information. For example, Appendix G contains revenue statistics, on a cash basis, going back to 1994–95 with revenue classified by type (for example, company tax).

Statement 6: Expenses and Net Capital Investment. This is one of the most used Statements because it contains information on the spending side of the Budget. Expenses are divided on a functional basis, for example, defence, education, health, and social security and welfare. Another part of this Statement deals with general government net capital investment. The first appendix contains estimates of expenses by function and sub-function for the past year, the Budget year, and the forward years. The second appendix contains information on the contingency reserve.

Statement 7: Debt Management. This contains details of Budget funding mechanisms, and the Commonwealth's recent and prospective borrowing programs. A particular focus in 2005–06 was the Future Fund.

Statement 8: Financial Reporting Standards and Budget Concepts. This Statement explains and discusses key Budget concepts such as fiscal balance, the underlying cash balance, the headline cash balance, and the two financial reporting standards: Government Finance Statistics and Australian Accounting Standard No. 31. Table 1 in this Statement contains selected differences between the two standards, while Tables 2 and 3 contain reconciliations of these two standards for revenues and expenses, and for the net operating result and the fiscal balance, respectively.

Statement 9: Government Finance Statistics Statements. This Statement contains financial statements that accord with the Government Finance Statistics framework. The data cover five years from 2004–05 through the three forward estimates years. The statements include the general government operating statement, balance sheet, and cash flow statement.

Statement 10: Australian Accounting Standards Financial Statements. This Statement contains the income statement, balance sheet, statement of changes in equity, and cash flows statement that accord with Australian Accounting Standards. The Notes to the accounts contain useful information in that they disaggregate the information in the whole-of-

government accounts. Appendix A contains, among other things, information on expenses and net capital investment by agency, and estimates of average staffing levels by agency.

Statement 11: Statement of Risks. This Statement deals with risks to the assumptions underlying the Budget. Risks to the Budget include changes to economic parameters, the possibility that contingent liabilities will become actual liabilities, and other risks such as an extended drought. The Statement divides contingent liabilities between those that are quantifiable and those that are not.

Statement 12: Trends in Public Sector Finances. This contains and discusses data on trends in public sector finances including fiscal balance, net debt, and net worth. The Appendices contain data on the size of the public sector and other information.

Statement 13: Historical Australian Government Data. This Statement is one of the most important—but often overlooked—sources of historical data. The Statement contains, among other things, aggregate Budget data on receipts, payments, the deficit or surplus, in some cases going back to the early 1970s. Note, however, that the receipts and payments data exclude the GST.

6.3.2 Budget Paper No. 2: Budget Measures 2006–07

Budget Paper No. 2 titled ‘Budget Measures’ summarises all the measures—such as changes to tax rates and spending initiatives—that the government is proposing. The merit of Budget Paper No. 2 is that it brings all these measures together in one document. The measures are grouped by portfolio, with the individual measures listed under the relevant agencies. There are three parts to Budget Paper No. 2: revenue measures, expense measures, and capital measures. Each part has a summary at the beginning, and they are a very useful way of finding information quickly. The summaries distinguish between measures introduced since the previous Budget—and so were included in the Mid-Year Economic and Fiscal Outlook that followed that Budget—and measures that have been introduced or proposed since the Mid-Year Economic and Fiscal Outlook, including in the Budget. The latter are discussed in detail, but the Mid-Year Economic and Fiscal Outlook has to be consulted for details of the measures introduced between the previous year’s budget and Mid-Year Economic and Fiscal Outlook.

Note that the measures identify the *changes* to expenses, revenues and capital items by portfolio resulting from the measures. For example, Budget Paper No. 2 for 2006–07 shows the reductions in income tax revenue attributable to the changes to marginal tax rates but does not show total income tax revenue. The Portfolio Budget Statements replicate the information about individual measures shown in Budget Paper No. 2.

6.3.3 Budget Paper No. 3: Federal Financial Relations 2006–07

Budget Paper No. 3 deals with Commonwealth payments to the states and territories, and to local government. Budget Paper No. 3 contains, among other things, estimates of cash and

accrual GST payments, and Specific Purpose Payments (SPPs) classified by function such as education, health, and transport and communications. Given that much Commonwealth spending takes the form of SPPs, Budget Paper No. 3 contains much useful information. For example, funding for government and non-government schools, by state and territory, can be found under the 'education' heading.

6.3.4 Budget Paper No. 4: Agency Resourcing 2006–07

Budget Paper No. 4 contains information on agency resourcing and replicates Appropriation Bills No. 1 and No. 2 and the Appropriation Bill for the parliamentary departments. The introduction to Budget Paper No. 4 has been expanded in recent years and contains a brief but very useful overview of the appropriations system, and is recommended for anyone wanting a quick overview of the system.

Note that in 1998–99 and earlier years, Budget Paper No. 4 was titled 'The Commonwealth Public Account'. It reproduced the three annual Appropriation Bills and contained, among other things, details of appropriations under special appropriations.

6.4 Ministerial Statements and media kits

Some ministers issue Ministerial Statements (otherwise known as the 'blue books') on Budget night. These Statements can be 'one-off' or regular. A regular blue book is the one the Minister for Foreign Affairs and Trade issues titled 'Australia's Overseas Aid Program'. This document contains details of the aid program not available elsewhere. Ministerial Statements sometimes contain information not readily obtainable elsewhere.

Ministers usually release hardcopy media kits. They can be useful supplements to the Budget Papers in that they sometimes contain information not available elsewhere. The press releases in the media kits usually replicate the releases available on ministerial web sites soon after the Budget is brought down.

It should be remembered that Ministerial Statements, media kits and press releases are political documents which sometimes 'stretch' their content in the sense that the same item of spending is often mentioned under several headings. In short, the reader should be aware of 'double counting'.

6.5 Portfolio Budget Statements

The Portfolio Budget Statements (PBS) are among the most important Budget-related documents. They are the main source of information on proposed agency activities and contain information in support of spending proposed by the Appropriation Bills. The Senate estimates committees use the PBS extensively in their examinations of proposed appropriations. Agencies release hard copies of their PBS on Budget night and make them available online soon after.

6.5.1 Content and format

The information in the PBS falls into two broad categories: agency resourcing and performance assessment. The former contains information on how agencies will be funded, the use to which the funds will be put as defined by planned outcomes, and budgeted financial statements. The PBS also contain details of performance information that agencies will collect to assess their performance against planned outcomes. The assessments are presented in their annual reports. Performance information is discussed in section 10.

The Department of Finance and Administration has guidelines for the format of the PBS. As a result, the structure of the PBS is broadly similar across agencies. However, agencies have discretion to present their PBS in a format that presents information clearly so that the format differs somewhat across agencies. An example of a structure is the following taken from the Department of Finance and Administration PBS for 2006–07.

Section 1: Overview. This contains a brief introduction to the Department’s functions and lists the Department’s outcomes.

Section 2: Resources for 2006–07. This contains seven sections.

- The first table in this section 2.1 summarises agency resourcing. The table distinguishes between departmental and administered spending, and allocates spending in these two categories across outcomes. The summary also shows the amounts appropriated under Appropriation Bills 1 and 2, special appropriations, and total appropriations. This table also shows revenue from other sources.
- Section 2.2 lists the measures announced in the Budget, and includes forward estimates of the financial consequences of the measures.
- Section 2.3 shows sources of revenue other than the annual Appropriation Bills and special appropriations, for example, Section 31 receipts and revenue from the sale of goods and services.
- Section 2.4 shows movements of administered funds between years.
- Section 2.5 shows the Acts under which special appropriations are funded, and the outcomes to which the Acts contribute.
- Section 2.6 contains estimates of flows into and out of Special Accounts.
- Another table contains a summary of measures disclosed in the Budget that relate to the agency.

Section 3: Outcomes. This section (and comparable sections for other agencies) is at the heart of the Portfolio Budget Statements in that it provides details on which the agency will spend its income. Section 3 is thus one of the most important sources of information about

agency activity. Section 3 also contains details of performance information the agency will use to assess its performance for presentation in its annual report.

Section 4: Other reporting requirements. This section covers purchaser-provider arrangements with other agencies, cost recovery arrangements, and Australian Government Indigenous Expenditure.

Section 5: Budgeted financial statements. This section contains the financial statements for the Budget year, the previous year, and the three forward estimates years. Note that there is one set of statements for ‘departmental’ items and another set for ‘administered’ items. Thus it is possible, for example, to reconcile total departmental appropriations and other revenue with the departmental ‘income statement’, and administered appropriations with administered ‘income and expenses’.

A glossary of key terms and an index are at the back of the PBS.

6.5.2 Issues

The amount of information in the Budget Papers, especially the Portfolio Budget Statements (PBS), has improved considerably since the 1990–2000 Budget, which marked a low point in that it was one of the least informative ever. In particular, the excessive aggregation of financial data and the lack of detail about agency activities, which marked the early PBS, have been overtaken by a trend for agencies to provide more information especially about the cost of individual programs.

One remaining area of contention is the lack of forward years data for outcomes and outputs in the PBS, which members of parliament frequently seek. The budgeted financial statements in the PBS contain forward estimates, but the data are highly aggregated. In the PBS, outcomes and output data are available only for the Budget year (and the estimates for the previous financial year). Several committees—for example, the Senate Finance and Public Administration Legislation Committee in its report titled [The Format of the Portfolio Budget Statements – Second Report](#)—have recommended the inclusion of forward estimates for outcomes and outputs in the PBS.⁴⁸ But in its [response](#) to this report, the Government rejected this recommendation on the grounds that there is already extensive reporting of forward estimates in Budget documentation.⁴⁹ The Committee, in its [third report on the format of the PBS](#), rejected the Government’s response based partly on the fact that some agencies have done what the Committee recommended.⁵⁰ The Department of Education, Science and Training, for example, includes forward estimates of administered items in an appendix.

7. Financial reporting standards

Financial information in the Budget Papers is prepared in accordance with several requirements. One is the [Accrual Uniform Presentation Framework](#).⁵¹ This is an agreement among the Commonwealth and the states whereby all jurisdictions publish common core

financial information on a basis consistent with the Australian Bureau of Statistics Government Finance Statistics framework. In the 2006–07 Budget, the financial statements that accord with this framework (with one exception) were published in Statement 9 of Budget Paper No. 1.⁵²

The *Charter of Budget Honesty Act 1998* requires that the Budget be presented on the basis of external reporting standards. There are two standards:

- the Government Finance Statistics standard, and
- Australian Accounting Standards.

7.1 Government Finance Statistics

The Government Finance Statistics (GFS) framework is a specialised statistical system designed to assist economic analysis of the public sector, especially of the effects of government spending and revenue on the economy. The GFS standard used in the Budget is based on the Australian Bureau of Statistics accrual GFS framework, which is consistent with international statistical standards (the *System of National Accounts 1993* and the International Monetary Fund's [A Manual on Government Finance Statistics 2001](#)).⁵³ Major Budget aggregates (including the fiscal balance and the underlying cash balance) are based on the GFS framework.

7.2 Australian Accounting Standards

Australian Accounting Standards (AAS) are comprehensive standards that specify a range of accounting practices and how financial information should be reported. Reporting under AAS is intended to provide an overview of the government's financial performance and position, including financing and investing activities. The first component of AAS—the Australian Equivalents to International Financial Reporting Standards (AEIFRS)—are designed principally for the private sector. The second component—AAS No. 31, *Financial Reporting by Governments* (AAS 31)—is a standard specific to government and deals exclusively with whole-of-government reporting.⁵⁴

It should be noted that in addition to AAS 31, some accounting standards have continued beyond the adoption of AEIFRS: AAS 25 deals with superannuation funds, AAS 27 with local government, and AAS 29 with government departments. The [Australian Accounting Standards Board](#) (AASB) will remove these standards and modify the AEIFRS to deal with the matters these standards cover.

AAS statements for the general government sector were presented in accordance with the AEIFRS for the first time in Statement 10 of Budget Paper No. 1 2006–07. This followed from the decision that Australia would adopt international accounting standards. On 3 July 2002, the [Financial Reporting Council](#)⁵⁵—the government body responsible for, among other things, overseeing accounting standards, directed the AASB to adopt the standards of the

[International Accounting Standards Board](#) (IASB) into Australian Accounting Standards.⁵⁶ The IASB is the independent London-based organisation responsible for developing international accounting standards. The AASB is responsible for harmonising the IASB standards with Australian legislation and regulations. The AASB has issued a full set of AEIFRS, which came into effect for reporting periods beginning on or after 1 January 2005.

The advent of the AEIFRS has resulted in several changes. First, there are changes to terminology. For example, what was the ‘statement of financial performance’ is now the ‘income statement’ (the statement includes expenses as well as income), while the ‘statement of financial position’ is now the ‘balance sheet’. In the income statement, what was ‘total revenue’ has become ‘income’. Second, some changes are presentational. For example, some items—such as net foreign exchange gains—which were included in ‘non-taxation revenue’ are now listed under a separate heading titled ‘gains’. Third, the adoption of AEIFRS introduced a new financial statement, the ‘Statement of Changes in Equity’. Finally, some items that were previously included with other items now have separate headings. For example, ‘investment property’, ‘biological assets’ and ‘assets held for sale’ are new categories in the balance sheet. Note that under liabilities, what was previously ‘employees and superannuation’ is now simply ‘employees’, which includes accrued superannuation entitlements.

While some of these changes may appear superficial, there is good reason for them. For example, the reason for having a separate category ‘assets held for sale’ is to distinguish them from assets that are being used in the normal course of operations. In a business—and reflecting the fact that the AEIFRS are essentially designed for business—assets held for sale do not generate income and are therefore shown separately.

The consequences of adopting the new standards were, however, anything but superficial. The adjustment for changes in accounting policy resulted in an ‘increase’ in equity of the general government sector of about \$23 billion.⁵⁷ This mainly reflected changes to the way some investments were valued:

Consistent with the market basis of valuation of assets adopted elsewhere in this document, the basis of valuation of the Government’s investment in Telstra Corporation Limited and other Commonwealth entities under AAS, has changed from cost to fair value. The financial effect of this change is recognised in the Statement of Changes in Equity.⁵⁸

Agencies have to comply with the AEIFRS. To provide comparative data, agencies recast their 2004–05 accounts to accord with the AEIFRS, and provided reconciliations in their 2005–06 annual reports of the accounts under the former standards and the AEIFRS. The adoption of AEIFRS does, however, pose problems of time series data comparability.

Key differences between the GFS and AAS systems are described in Statement 8 of Budget Paper No. 1.⁵⁹ For example, whereas AAS include profits from the sale of assets in the income statement, the GFS treats such profits as revaluations and excludes them from the operating statement. Under AAS, the Department of Defence brings specialist capital

equipment into the balance sheet and depreciates it. The GFS treats such spending as an expense.

The AAS financial statements in Statement 10 of Budget Paper No. 1 for 2006–07 exclude the GST even though it is a Commonwealth tax. The GFS financial statements in Statement 9 of Budget Paper No. 1 do, however, include the GST. The treatment of the GST is discussed in section 7.3.2.

7.3 Issues

7.3.1 Two accounting standards

GFS and AAS standards can yield quite different results. For example, on a GFS basis, the difference between assets and liabilities—net worth—of the general government sector at 30 June 2006 is estimated to be minus \$22 billion while the counterpart of net worth in the AAS statements—net assets or total equity—is almost \$3 billion, a difference of \$25 billion.⁶⁰

An issue is: why have two accounting standards? Emeritus Professor Barton has observed:

No company would be allowed to publish two sets of financial statements, yet the Government does so.⁶¹

A critic of the decision to use AAS 31 in Budget documents has written:

Merely having two accounting systems is a serious retrograde step in Australia. Prior to the introduction of accrual accounting in Australia, there has been huge progress towards the standardisation of government budget accounting, based upon the cash accounting version of GFS. This progress has now been reversed.

Why two systems? AAS31 is driven by the idea that government accounting should operate just like private sector accounting, whereas GFS is tailor-made for public sector policy purposes. This means that AAS31 incorporates accounting policies which do not necessarily make a great deal of sense in a government context.

... Things would have been much simpler if the Commonwealth and other Australian governments had simply standardised on the GFS concept from the outset.⁶²

This raises the issue of the relevance of accounting standards developed for the private sector in a public sector context. As noted, the GFS is specifically designed to allow economic analysis of the public sector. The usefulness of AAS in a public sector context is limited. This is especially true of government agencies most of which are non-commercial. For example, whereas equity in a business is an indicator of its solvency, creditworthiness, and net worth, these concepts have limited meaning for an agency whose main functions are to provide policy advice and administer appropriations.⁶³ Similarly, an agency's income statement does not have the same purpose or meaning as that of a company operating for profit. The purpose of business is to earn profits for its owners. The function of many government agencies is to

provide goods and services for the non-market sector (public goods) and to redistribute income through transfer payments such as age pensions, which do not entail any reciprocal provision of goods and services. This is not to say that financial statements using private sector concepts are valueless and should not be prepared. Rather, it is to note that caution should be used when interpreting statements.

Emeritus Professor Allan Barton, in evidence to the Joint Committee of Public Accounts and Audit, argued that private sector accounting standards should be modified for public sector purposes:

... I argue strongly that the accrual accounting system appropriate for the government is not the accrual accounting system used by business. The accrual accounting systems used by business are designed to suit the specific market environment of business operations... When we move to the public sector... the government is concerned with providing those goods and services which the market cannot conveniently provide... I believe the accrual accounting systems developed for business are not readily transportable to the public sector without significant modifications for some areas of activity. These include the provision of all these types of public goods, the accounting for the cultural and heritage assets such as the National Gallery, the National Library and the Australian War Memorial; all of the land under public roads, a lot of our infrastructure and so on. The present business accounting standards do not readily cover these types of situations because they were never intended for application to them, so we need accrual accounting—but it has to be modified.⁶⁴

7.3.2 Harmonisation

Following a directive from the Financial Reporting Council, the AASB is revising the government AAS to [harmonise](#) Generally Accepted Accounting Principles (GAAP) and GFS financial reporting.⁶⁵

A particular issue is whether governments should provide consolidated financial statements in the Budget papers for the entire public sector. As noted, the Budget contains financial statements for the general government sector. Consolidated financial statements would expand the scope of financial statements to include, for example, the financial statements of public non-financial (business) corporations such as Telstra and Australia Post, and public financial corporations such as Medibank Private Limited.

As discussed in section 9.2.2, the government produces Consolidated Financial Statements. However, for the purpose of Budget reporting, it has been argued that the Budget should not have to provide consolidated statements on the grounds that such statements would require governments to include multiple financial aggregates thus further complicating Budget presentations.⁶⁶ On 21 July 2005, the AASB [issued](#) an exposure draft, *ED 142 Financial Reporting of General Government Sectors by Governments*, for public comment.⁶⁷ But according to a press report, the attempt to develop a new standard has run into difficulty.⁶⁸

7.3.3 Treatment of the goods and services tax

The Budget Papers mostly treat the goods and services tax (GST) as if it were not a Commonwealth tax. With one exception (noted below), the GST is not shown as Commonwealth revenue or spending in Budget Paper No. 1. The argument for this treatment—the ‘agency’ argument—is that the intent of the *Intergovernmental Agreement on Commonwealth-State Financial Relations*—which governs Commonwealth-state financial relations—is that the GST is collected by the Commonwealth as an agent for the states and territories and appropriated to them. The alternative ‘constitutional’ argument is that whatever the intent of the *Intergovernmental Agreement*, constitutionally, the GST is a Commonwealth tax because the GST is imposed and administered under Commonwealth legislation.

The Australian Bureau of Statistics (ABS) rejects the agency argument and classifies GST revenue as a Commonwealth tax in the Government Finance Statistics.⁶⁹ The Auditor-General also rejects the agency argument:

From an accounting perspective, the GST is Commonwealth revenue. It is imposed under Commonwealth legislation and the Commonwealth Government therefore controls the revenue raised. The Government’s decision to enter into an agreement to pass the GST revenue collected to the States is a separate transaction conducted to meet its particular objectives.⁷⁰

The Consolidate Financial Statements (CFS) (see section 9.2.2) also treat the GST as a tax that the Commonwealth collects in an agency capacity. The Auditor-General has, in successive years, qualified the CFS in respect of the treatment of the GST.

The GFS tables in Statement 9 of Budget Paper No. 1 for 2006–07 are consistent with ABS standards on the *Uniform Presentation Framework* reporting basis, and show GST as revenue in and expenses out.

A question that arises is how Commonwealth own-purpose spending should be defined. A consequence of excluding the GST from financial statements is that the general government sector data relate only to the resources that the Commonwealth can spend for its own purposes. But it could be argued that even this overstates the resources the Commonwealth has available for its own purposes (such as defence and social security transfers) because the Commonwealth transfers considerable sums to the states in the form of specific purpose payments (SPPs) (estimated at about \$26 billion in 2006–07). On the other hand, it could be argued that SPPs aim to achieve Commonwealth policies and so form part of own-purpose spending.

A consequence of not recognising the GST as a Commonwealth tax is to understate the size of the Commonwealth government. Estimated GST revenue (on an accrual basis) is about \$40 billion in 2006–07 or around four per cent of gross domestic product.⁷¹ The suspicion

inevitably arises that the ‘agency’ treatment of the GST is intended to show the Commonwealth government sector as smaller than it really is.⁷²

A former senior Treasury official, Mr Des Moore, has noted that the exclusion of the GST revenue and expenditure means that some historical data (in Statement 13 of Budget Paper No. 1) are not comparable:

But pre and post 2000–01 data published in the budget on spending and taxes are not comparable. The pre 2000–01 figures include large general revenue grants to the states and the taxes to pay for them while those for recent years exclude from expenditure the GST payments in lieu of those grants and exclude from taxes the revenue from the GST itself.

By failing to use historically consistent data, ministers have seriously misled the public and should correct their distorted picture of federal fiscal performance.

Mr Moore argues that the Charter of Budget Honesty (discussed in section 9.1) should be amended:

... to require the publication of spending and revenue data on a consistent accounting and historical basis.⁷³

8. Financial statements

As noted, general government sector financial data are presented in Budget Paper No. 1 under two frameworks:

- the Government Finance Statistics framework, and
- Australian Accounting Standards.

Agencies prepare their financial statements in accordance with:

- Australian Accounting Standards—including AAS 29, *Financial Reporting by Government Departments*—and the interpretations that the Australian Accounting Standards Board issues, and
- Finance Minister’s Orders issued under the *Financial Management and Accountability Act 1997*.

In 2005–06, agencies’ financial statements were, for the first time, based on the Australian Equivalents to International Financial Reporting Standards.

The following sections review the content of the general government financial statements that are prepared under GFS and AAS, and the statements that agencies prepare.

8.1 Government Finance Statistics

The Government Finance Statistics (GFS) framework has three main financial statements:

- the operating statement
- the balance sheet, and
- the cash flow statement.

The operating statement includes revenues and expenses, the difference between the two being the 'net operating balance'. The 'net acquisition of non-financial assets' is deducted from the net operating balance to derive the fiscal balance. For example, revenue for 2006–07 is projected to be about \$272 billion, expenses to be about \$259 billion, yielding a net operating balance of about \$13 billion. The net acquisition of non-financial assets is estimated to be almost \$2 billion, leaving an estimated surplus of almost \$11 billion.⁷⁴

The balance sheet shows assets and liabilities, the difference between the two being 'net worth'. The value of 'net debt' is also shown. Note that net debt is a narrower concept than net worth in that net debt includes only selected assets and liabilities whereas net worth includes all assets and liabilities. Net debt does not, for example, include superannuation liabilities.

The cash flow statement shows the sources and uses of cash. The statement distinguishes cash flows resulting from operating activities, investments in non-financial assets, investments in financial assets, and from financing activities.

8.2 Australian Accounting Standards

8.2.1 General government

The general government sector Australian Accounting Standards (AAS) data in Budget Paper No. 1 are presented in four financial statements:

- the income statement
- the balance sheet
- the cash flow statement, and
- the statement of changes in equity.

The income statement includes revenues and expenses, the difference between the two being the operating result.

It is important to note that items that affect the AAS income statement (or the GFS counterpart, the net operating balance) also affect the *accrual* Budget surplus or deficit. In contrast, the cash surplus or deficit is affected only by cash items. The accrual and cash surpluses or deficits can differ because the financial year in which an item is reflected in the accrual surplus or deficit may differ from the financial year in which the item is reflected on a cash basis.

It is also important to understand that items that affect *only* the AAS balance sheet—or its GFS counterpart—do not affect the Budget surplus or deficit. Asset sales—such as the sale of the Commonwealth’s equity in Telstra—are *mostly* reflected in the balance sheet. This is because the sale is a change in the type of asset (from financial investment to cash) with no change in the Commonwealth’s net equity position. Similarly, using the proceeds of asset sales to reduce debt does not change the Commonwealth’s net equity position since the reduction in debt is matched by an equal reduction in cash. Asset sales and the use of the proceeds to reduce debt can, however, also affect the income statement—through changes to dividends received and public debt interest paid—and hence the Budget surplus or deficit.

The adoption of Australian Equivalents to International Financial Reporting Standards introduced a new financial statement for the general government sector, the ‘Statement of Changes in Equity’. This shows, among other things, asset revaluations and the addition to (or reduction from) equity attributable to operating profits and losses respectively.

8.2.2 Agency financial statements

Agencies prepare financial statements for their Portfolio Budget Statements and annual reports. The main statements are the income statement, the balance sheet, statement of cash flows, the statement of changes in equity, and the capital budget statement. There are separate statements for departmental and administered items in the Portfolio Budget Statements and annual reports. Note that the capital budget statement appears only in the Portfolio Budget Statements.

8.2.2.1 Income statement

The income statement can be thought of as the counterpart of what used to be called a business profit and loss statement, albeit with obvious differences in the functions of government agencies and their sources of revenue compared to businesses. The statement aids assessment of agencies’ financial performance.

Income in the departmental income statement is divided into ‘revenue’ and ‘gains’. For most agencies, the main revenue item is the amount that the government appropriates. Revenue also includes income from the sale of goods and services. Gains include those from asset sales and foreign exchange. Expenses include payments to employees and suppliers, the write-down of assets, finance costs, losses on the sale of assets, and depreciation and amortisation.

8.2.2.2 Balance sheet

The balance sheet sets out the agency's assets, liabilities and equity (assets less liabilities) at a point in time (stock). The statement is the counterpart of a business balance sheet and assists assessment of an agency's financial position. Assets are divided between financial assets—such as cash—and non-financial assets—such as land and buildings. Liabilities are divided between interest-bearing liabilities, provisions and payables. Interest-bearing liabilities include loans and leases. Provisions include those relating to employees benefits, while payables include amounts owed to suppliers. Equity (the difference between assets and liabilities) is divided among capital contributions, reserves, and accumulated surpluses or deficits.

8.2.2.3 Cash flows statement

The cash flows statement shows the sources and uses of cash (flows) including the cash balance at the end of the year (stock). The statement distinguishes among cash received and used in operating, investing, and financing activities. Operating activities include cash received from appropriations and payments to employees. Investing activities include proceeds from sales of property and cash used to buy property. Financing activities include equity contributions and proceeds from loans, and cash used to repay debt.

8.2.2.4 Statement of changes in equity

As noted, the adoption of the Australian Equivalents to International Financial Reporting Standards required the presentation of a new financial statement, the 'statement of changes in equity'. This shows items such as equity injections, net operating profits and losses, and revaluation gains and losses.

8.2.2.5 Capital budget statement

The capital budget statement shows how agencies fund capital activities and how they use those funds. Agencies fund capital activities from their own resources (retained operating surpluses) and from capital that the government provides in the forms of loans and equity injections. Agencies use the funds to buy assets such as land and buildings or reduce liabilities. Equity injections can be thought of as the amount a company raises by issuing shares. Loans to the agency appear as a liability in the agency's balance sheet.

9. Other financial information

In addition to the documents presented on Budget night, there are other documents containing Budget-related financial information. In particular, the *Charter of Budget Honesty Act 1998* and the *Financial Management and Accountability Act 1997* require the preparation of a number of reports.

9.1 Charter of Budget Honesty

The [*Charter of Budget Honesty Act 1998*](#) is a framework for the conduct and reporting of fiscal policy. The Act has two broad purposes: to improve fiscal policy by requiring policy to be based on principles of sound fiscal management, and to require the government to explain and account for its actions. The Act obliges the government to present three reports annually. They are:

- a Budget Economic and Fiscal Outlook report (sections 10 to 13 of the Act)
- a Mid-Year Economic and Fiscal Outlook report (sections 14 to 17), and
- a Final Budget Outcome report (sections 18 and 19).

9.1.1 Budget Fiscal and Economic Outlook

In 2006–07, Statement 2 of Budget Paper No. 1 contained the fiscal outlook while Statement 3 dealt with the economic outlook.

9.1.2 Mid-Year Economic and Fiscal Outlook

Section 14 of the Charter of Budget Honesty Act requires the Treasurer to release publicly, and table, a [*Mid-Year Economic and Fiscal Outlook*](#) (MYEFO) report by the end of January in each year or within six months after the last Budget, whichever is later.⁷⁵ In practice, the MYEFO has been brought down in October or November. Section 16 of the Act specifies the required contents of the MYEFO. The main requirement is an update (the ‘budget report’) of the economic and fiscal outlook.

The MYEFO updates the economic and fiscal outlooks and the budgetary position. In particular, the MYEFO takes account of all decisions affecting expenses and revenues and so revises Budget aggregates. An appendix summarises all policy decisions taken since the Budget was brought down, including their estimated financial consequences. This appendix is the counterpart of Budget Paper No. 2.

9.1.3 Final Budget Outcome

Section 18 of the Charter of Budget Honesty Act requires the Treasurer to release publicly and table a [*Final Budget Outcome*](#) (FBO) report for each financial year no later than three months after the end of the financial year.⁷⁶ Section 19 deals with the contents of the FBO and states:

A final budget outcome report is to contain Commonwealth budget sector and Commonwealth general government sector fiscal outcomes for the financial year.

The FBO is divided onto four Parts. Part 1 shows the Budget outcome. Part 2 and 3 contain general government sector financial statements. Part 4 is a comprehensive section that deals

with payments to the states and territories, including GST payments and specific purpose payments. An appendix shows expenses by function and sub-function.

Users should note that the tables in the FBO are prepared on different bases:

- Part 1 is on a Government Finance Statistics (GFS) basis but excludes the GST
- Part 2 is on a GFS basis and includes the GST, and
- Part 3 is prepared on the Australian Accounting Standards basis but excludes the GST.

Much of the data in the FBO are aggregated. However, information on actual financial outcomes can sometimes be found in annual reports or Portfolio Additional Estimates Statements.

It should be noted that some of the data in the FBOs have subsequently been revised. The functional classification of expenses is an example. Users wishing to construct a data time series are advised to start with the most recent version of the FBO and work backwards.

The FBO is not audited. The reason given is that auditing the FBO would compromise its timeliness and end-of-year usefulness. Still, the Joint Committee of Public Accounts and Audit recommended that the Australian National Audit Office audit the FBO.⁷⁷

It should also be noted that a FBO document was not produced for 1995–96. The outturn data for that year can be found in the Budget Papers for 1996–97.

9.1.4 Pre-Election Economic and Fiscal Outlook Report

Part 7 (sections 22 to 28) of the Charter of Budget Honesty Act deals with the preparation of the [Pre-Election Economic and Fiscal Outlook Report](#) (PEFO).⁷⁸ The purpose of the PEFO is to update information on the economic and fiscal outlook before an election. Section 22 requires that the PEFO be released publicly within 10 days of the issue of the writ for a general election. The PEFO must contain spending and revenue estimates for the current and following three financial years, the assumptions underlying the estimates, the sensitivity of the estimates to changes in the assumptions, and risks that might change the fiscal outlook materially. Three PEFOs have been prepared, namely, before the 1998, 2001 and 2004 elections.

The financial position that an incoming government is likely to face is often an election issue. The PEFO is prepared during the caretaker period after an election is called. The requirement that a PEFO be prepared is a positive step towards transparency in that it shows the likely state of finances. The fact that the Secretaries of the Treasury and the Department of Finance and Administration are responsible for preparing the PEFO—albeit on the basis of information that ministers provide—adds to its credibility. The PEFO has therefore taken some of the heat out of election campaigns, which were often typified by claims and counter-claims about the state of finances.

9.1.5 Costing of election commitments

Part 8 of the Charter of Budget Honesty Act (sections 29 to 32) deals with the costing of election commitments. The main purpose of Part 8, although not stated in the Act, is to provide public confidence in costings by having independent parties undertake them.

Section 29 deals with requests, during the caretaker period before a general election, for costings of election commitments. Under this section, the Prime Minister may request the Secretaries of the Treasury and the Department of Finance and Administration to prepare costings of publicly-announced Government policies. Similarly, the Leader of the Opposition may request the Secretaries to cost publicly-announced Opposition policies. In the latter case, the request has to be given to the Prime Minister, who may then agree to refer it to the Secretaries. The Secretaries are not obliged or authorised to take any action in relation to the request from the Leader of the Opposition, unless the Prime Minister has referred the request to them. A request from either the Prime Minister or the Leader of the Opposition must be in writing, outline fully the policy to be costed, give relevant details, and state the purpose or intent of the policy. Section 29 also allows the Prime Minister or the Leader of the Opposition to withdraw a request.

Section 30 deals with how policy costings are to be prepared. It allows the Secretaries to issue guidelines for the preparation of costings, and allocates to the Secretary of Treasury responsibility for revenue costings and, to the Secretary of the Department of Finance and Administration, responsibility for costing spending. If the Secretaries need more information, they can ask the Prime Minister or the Leader of the Opposition (as the case requires) for that information.

Section 31 deals with public release and timing. Unlike the PEFO, the legislation has no specific timing provision, with section 31 merely providing for the public release of costings 'as soon as practicable' after a costing request has been made and before polling day. If a Secretary does not have enough information or time to prepare and release publicly a policy costing before polling day, the Secretary is to release publicly a statement to that effect before polling day. As with the PEFO, under section 32, the Secretaries can call on other Commonwealth agencies to help prepare the costings and the agencies must comply.

In 2004, the Secretaries of the Treasury and the Department of Finance and Administration issued [guidelines](#) outlining the general methodology that is to be applied and what information will be needed when requesting a policy costing, and what will be produced.

Election costings for the 2004 election can be found by typing 'election costings' on the search function on the Department of Finance and Administration website.

9.2 Financial Management and Accountability Act 1997

The *Financial Management and Accountability Act 1997* is the main Act governing the management of the Commonwealth's finances. The Act prescribes the preparation of several reports. The following examines some of these reports.

9.2.1 Monthly financial statements

The *Financial Management and Accountability Act 1997* requires the Finance Minister to publish monthly financial statements in a form consistent with the Budget estimates, as soon as practicable after the end of each month. [Monthly financial statements](#) can be found on the Department of Finance and Administration's web site.⁷⁹ These show, among other things, monthly and cumulative data including the fiscal balance, the underlying cash balance and the net operating result for the general government sector. The tables are prepared in accordance with Australian Accounting Standard 31 and do not include GST, which is shown in a memorandum table.

9.2.2 Consolidated Financial Statements

Section 55 of the *Financial Management and Accountability Act 1997* requires the Finance Minister to prepare annually [consolidated financial statements](#) (CFS) for the Commonwealth.⁸⁰ Section 55 also provides for the provision of the CFS to the Auditor General within five months or, where this does not occur, to table a statement about why this has not happened.

The statements contain consolidated results for all Commonwealth-controlled entities, and disaggregated information for all three sectors: general government, public non-financial corporations, and public financial corporations. The Australian National Audit Office audits the CFS.

The CFS—like Part 3 of the Final Budget Outcome—is prepared on the basis of Australian Accounting Standards. The data for the general government sector in the CFS have differed, however, from those in the Final Budget Outcome presumably because of data revisions. The CFS exclude the GST as revenue received and transferred to the states and territories.

9.3 Annual reports

Most agencies table their annual reports by the end of October in the year after the Budget is introduced, that is, 18 months after the Budget to which they relate is introduced. Agencies provide a wide range of non-financial and financial information in their annual reports.

A feature of the changes that were introduced in the 1999–2000 Budget is consistency between Portfolio Budget Statements and annual reports. Annual reports contain information on how agencies performed against planned outcomes using the performance information measures set out in the Portfolio Budget Statements. The presentation of financial statements

in annual reports is largely but not entirely on the same basis as the budgeted financial statements in the Portfolio Budget Statements, allowing comparisons of budgeted and actual financial outcomes.

Typically, annual reports contain more information about agency activities, often down to quite ‘micro’ levels, than can be obtained from Portfolio Budget Statements. The notes to the financial statements, for example, often contain information not published elsewhere. The main drawback is that the information in annual reports is necessarily dated.

The Department of the Prime Minister and Cabinet publishes on its website the [Requirements for Departmental Annual Reports](#).⁸¹ The Joint Committee of Public Accounts and Audit approved this document, which provides some uniformity in the presentation of annual reports.

The Senate estimates committees review agency annual reports, with the reports referred to the appropriate committees for consideration. In practice, the committees review the annual reports in conjunction with additional estimates because most agencies have presented their annual reports by the end of October, that is, not long before the additional estimates hearings.

9.4 Tax expenditures

Most attention is focused on the level of spending and revenue shown in the Budget. But a large amount of revenue is forgone through tax concessions. ‘Tax expenditures’ are estimates of the financial benefits derived by the recipients of these concessions. Concessions take the forms of tax exemptions, deductions and rebates, and reduced tax rates. Concessions lower the tax burden on the beneficiary by either reducing the amount of, or delaying the collection of, taxation revenue. The concessions raise the burden of taxation on non-beneficiaries who have to pay more to raise the amount of taxation revenue the government wants.

Appendix G of Statement 5 in Budget Paper No. 1 in the 2006–07 Budget contains a statement of tax expenditures. Treasury publishes a much more comprehensive annual document titled [Tax Expenditures Statement](#) which sets out in detail the value of concessions.⁸² The document published in December 2005 shows the aggregate cost of tax expenditures for which estimates were prepared is around \$37 billion in 2004–05. This is equivalent to more than four percent of gross domestic product.⁸³ The single largest tax expenditure is the concessional treatment of superannuation contributions, fund income and benefits paid. The total value of this concession is estimated at more than \$14 billion in 2004–05.

Given the magnitude and importance of tax expenditures, an issue is their transparency and parliamentary scrutiny. Treasury’s publication is a major contributor towards helping ensure transparency.

Tax expenditures are not added to direct expenditures in the Budget papers. This treatment may tempt governments to 'substitute' tax expenditures for 'direct' expenditure to make public finances 'look good'. Not adding tax expenditures to direct expenditure has the effect of 'understating' the size of government. For example, in 2005–06, if estimated tax expenditures of around \$39 billion are added to estimated direct spending of \$261 billion (GFS expenses including the GST), total spending would be 15 per cent higher.

In May 2004, the Organisation for Economic Co-operation and Development (OECD) published [best practice guidelines for off-budget and tax expenditures](#).⁸⁴ With respect to tax expenditures, the guidelines are:

- Guideline 10: Tax expenditures should be identified by use of a benchmark tax. The benchmark does not necessarily need to represent the normative tax base. The benchmark should be comprehensive and unique.
- Guideline 11: All tax expenditures should be estimated and integrated in the expenditure documentation that is presented to the budgetary authorities for all significant taxes. Regular expenditures and tax expenditures should be shown in this documentation side-by-side for the same number of years.
- Guideline 12: Under nominal or structural deficit or operating/current balance rules, tax expenditures should either be included in the total expenditure cap that is set every year during budget preparation or in a special tax expenditure cap. Under medium term rules with multi-annual expenditure caps, tax expenditures should either be included in the total expenditure cap of each year or in a special tax expenditure cap of each year. Overspending on tax expenditures should be fully compensated, at least in so far as it originates in policy change. If a special tax expenditure cap is used, compensation can take place within that cap or through reduction of the regular expenditure cap.
- Guideline 13: All tax expenditures should be reviewed in the same way as regular expenditures in the annual budget process. They should be reviewed by the financial staff of spending ministers and the budget bureau in the same way as regular expenditures. Special evaluation procedures, including program review, should be applied to tax expenditures in the same way as to regular expenditures
- Guideline 14: Tax expenditures should be assigned to individual ministries. Objections of the Minister of Finance against change of tax expenditures can never be used as an argument against adjustment of other (tax-) expenditures if a ministry is required to diminish its expenditures or find compensation for overspending.
- Guideline 15: Tax expenditures should be estimated by revenue forgone, corrected by an equivalent tax margin, if equivalent expenditure transfers are taxed (or by outlay equivalence).

- Guideline 16: The responsibility for tax expenditure estimates should remain with the Ministry of Finance.

Australia complies with guidelines 10, 11, 15 and 16.

Guidelines 12 and 14 are related. Guideline 12 proposes that ‘the Budget’ should be broadly defined to encompass both direct and tax expenditures, thus identifying the total cost of government activities. Assigning to each agency its broadly-defined budget, as proposed in Guideline 14, identifies the total cost of that agency’s activities. As noted, in Australia, the two components are not combined. (Combining the components is also a way of controlling spending, for example, by ensuring that agencies do not exceed their budgets by substituting tax expenditures for direct expenditure while remaining within the cap on direct expenditures). In both the Treasury tax expenditures statements and Statement 5 of Budget Paper No. 1, spending is classified by function rather than by agency. With respect to guideline 13, tax expenditures are not reviewed annually as part of the Budget process.

10. Performance information

In their Portfolio Budget Statements, agencies set out the performance information they will use to assess their performance in terms of efficiency and effectiveness against planned outcomes. Agencies report against indicators such as effectiveness, quantity, and quality. Effectiveness, for example, indicates how well an agency has performed overall in achieving an outcome, while agencies use quality and quantity to evaluate performance in delivering outputs. Using the information collected under the indicators, agencies report in their annual reports on how well they actually performed against the planned outcomes. The purpose in requiring performance assessments is to assist management, planning and to increase explanation of agency performance. But, as discussed below, the record on performance reporting is mixed.

10.1 Issues

An issue is how well the performance information actually indicates or measures performance. A review of Australian (and British) experience found:

In Australia, there are a lot of problems concerning performance data and indicators:

- lack of stability of the outcome indicators and even of the outcomes themselves;
- insufficient availability of the indicators;
- the lack of an IT system for the collection of the performance indicators (collection is still done manually);
- often a disconnection exists between the four output indicators (quality, quantity, timeliness and cost), the outcome indicators and the outcomes;

- the value of the performance indicators is questionable as no validation is done by internal nor external audit;
- the causal relationship between outputs and outcomes is difficult to define.⁸⁵

An example of the final point arises in the case of education. While the states are primarily responsible for funding primary and secondary education, the Commonwealth also provides funds. Since the states use both own-source revenue and Commonwealth funds to provide education services, it is very difficult to disentangle the consequences of Commonwealth funding.

The Australian National Audit Office (ANAO) in a 2003–04 report on [annual performance reporting](#) stated, in its overall conclusion:

27. The ANAO concluded, on the basis of the sections of the five 2001–02 annual reports reviewed, that outcomes, agency outputs and administered item outputs were well specified in most instances. However, in order to provide accountability and transparency to Parliamentarians and other stakeholders, agencies' annual reporting frameworks need to be improved, particularly in relation to:

- the specification of agencies' influence on, and contribution to, shared outcomes;
- performance measures relating to quality and effectiveness/impact;
- the efficiency of agency operations and the cost effectiveness of outputs delivered; and
- targets or other bases for comparison.

28. Performance information generally had not been presented and analysed in annual reports in a way that would allow Parliamentarians and other stakeholders to interpret and fully understand results. Particular issues concerned the need for annual reports to:

- provide an analysis of performance, rather than list activities;
- assess performance against targets or other bases for comparison;
- provide and review trends in non-financial and financial performance; and
- use the results of evaluations where appropriate to provide performance information on quality and effectiveness.

29. In these circumstances, annual reports did not fully meet their primary purpose of accountability, particularly to Parliament.

30. Agencies had developed arrangements to provide performance information in those areas of the annual reports examined that was accurate, coherent and consistent. However,

establishing and monitoring agency data quality standards, improvement in documentation of costing approaches, and a review by particular agencies of the correlation between their internal and external reporting frameworks, would assist agencies to ensure that performance information in future annual reports continues to be accurate, coherent and consistent.⁸⁶

In August 2004, the Joint Committee of Public Accounts and Audit [examined](#) this ANAO report. Among the issues the Committee commented on were:

- the need for agencies to have measurable outputs and for performance indicators that allow assessment of whether outcomes have been achieved
- the tendency for agencies not to report on or under-report unmet targets
- the low use of cost-benefit analysis in performance reporting, and
- the need for agencies to identify their contribution to a shared outcome and to report on that contribution.⁸⁷

Agencies table their annual reports about 18 months after the beginning of the Budget year to which the reports relate. The Senate Finance and Public Administration Legislation Committee stated that:

4.2 Apart from any question surrounding the appropriateness of the indicators, a major defect of this arrangement is the 18-month time lapse between the setting of the indicators and the reporting against them. In that interval, another PBS has been produced, the outputs and outcomes framework has in some instances been substantially altered, and the indicators possibly altered with it. In the first years of outcomes and outputs reporting in other jurisdictions, each successive budget estimates document was littered with changed indicators, flagged as ‘new measure’, ‘measure discontinued’, ‘changed practice’, et cetera. The same practice is occurring federally, as expected.⁸⁸

The Committee suggested that agencies provide in their PBS part-year performance information for quantifiable indicators or for which information is readily available.

In April 2004, ANAO issued a better practice guide for performance reporting.⁸⁹ Prepared jointly by ANAO and the Department of Finance and Administration, the guide aims to be a practical tool to help agencies improve the quality of their performance reporting in annual reports.

11. Conclusions

The Budget is the foremost statement of a Commonwealth government’s priorities. With spending equivalent to more than a quarter of gross domestic product, Budget spending is also a major influence over the economy generally and on particular activities.

This paper has sought to address some of the key issues from the perspective of Members of Parliament and their experience as users of the Budget Papers and related documentation. Readers wanting an independent overview of the Budget reforms are referred to an article which reviews Australian (and British) experience with results-oriented reforms.⁹⁰

A thrust of this paper is that Members of Parliament want information about the cost of programs; Members are less concerned about how agencies group programs into outputs and outcomes. It is difficult to strike a balance in the amount of information that the Budget provides. On the one hand, there will always be demand for more information. On the other hand, it is difficult to determine which information to provide since different users have different needs, and the provision of additional information is not costless.

12. Glossary

The following is adapted from the [glossary](#) prepared by the Department of Finance and Administration.

Accrual accounting. The system that brings to account both monetary payments and receipts (for example, salary payments) and non-cash transactions (for example, depreciation of assets and increases in employee long service leave liabilities) in the period when they are incurred. Accrual accounting differs from cash accounting, which recognises only monetary transactions, and only when such a transaction takes place (for example, payment of a debt) even though the monetary transaction may relate to an earlier period (for example, a credit sale in a previous year).

Accrual Budget. A comprehensive Budget incorporating assets, liabilities, expenses and revenues, not just monetary receipts and payments. Accrual budgeting extends cash budgeting by incorporating all non-cash resource usage and revenues such as depreciation provisions, increases in long service leave liabilities, and resources received free of charge. Under accrual budgeting, agencies are notionally allocated funds for all their resource requirements (including, for example, depreciation). However, agencies receive cash only as and when required. Thus agencies receive cash for depreciation expenses when assets are replaced, and when they have to pay out long service leave entitlements.

Additional estimates. Agencies often seek funds additional to those appropriated in the Budget. Approved funding increases are normally incorporated into Appropriation Acts 3 and 4 and the Appropriation (Parliamentary Departments) Act (No. 2). The funding in these three Acts is collectively known as additional estimates. Agencies produce Portfolio Additional Estimates Statements that contain details of the additional spending. The Bills for additional estimates are normally introduced in February. Senate estimates committees enquire into additional estimates, usually in February.

Administered items. Revenues, expenses, assets and liabilities that agencies manage on the government's behalf. Examples include subsidies, grants and benefit payments, and taxes, fees, fines and excises. A specific example is the age pension paid under the *Social Security (Administration) Act 1999*. Agencies do not control the total amount paid as aged pensions because this is determined by the eligibility criteria, the level of the pension, and the number of eligible persons.

Advance to the Finance Minister. A provision, authorised by the annual Appropriation Acts and made available to the Finance Minister as a contingency fund, to provide urgent funding to agencies. Advances are made only if the need is urgent and was unforeseen or arose because of erroneous omission or understatement. The Finance Minister has to account to parliament for spending from the advance.

Agency. When used in a general sense, the term encompasses departments, agencies, and authorities. Agencies are Departments of State (for example, the Attorney-General's Department), Departments of Parliament (for example, the House of Representatives) and

‘prescribed agencies’ (for example, the Administrative Appeals Tribunal) for the purposes of the *Financial Management and Accountability Act 1997*. A list of agencies can be found at the front of Budget Paper No. 4.

Amortisation. The writing off, as an expense, initial expenditure on items such as research and development costs, or lease payments over the period of the lease.

Appropriations. An amount of public money that parliament authorises for spending. When the government wishes to undertake spending, legislation must be brought before parliament seeking approval for such spending. Parliament appropriates spending under annual Appropriation Acts and under special appropriations. The annual Appropriations Acts are Appropriation Act (No. 1), Appropriation Act (No. 2) and Appropriation (Parliamentary Departments) Act. These three Acts are usually supplemented by additional Appropriation Acts called ‘additional’ estimates. The annual Appropriation Acts account for about 25 per cent of government spending, and special appropriations for about 75 per cent.

Australian Accounting Standards (AAS). Australian Accounting Standard 31, *Financial Reporting by Governments*, is a general framework for financial reporting by governments. However, compliance with all other applicable accounting standards is required; exceptions to this requirement are explicitly stated in AAS31. Reporting under AAS31 is intended to provide an overview of the government’s financial performance and position, including financing and investing activities. AAS31 applies to the consolidated financial statements of the Commonwealth. A different but very similar standard, AAS 29, *Financial Reporting by Government Departments*, applies to the accounts of FMA Act agencies.

Budget aggregates. Refers to the totals of revenue, expenses, the fiscal balance (surplus/deficit), and the underlying cash balance. The aggregates are presented in Statement 2 of Budget Paper No. 1.

Budget balance. The term used to refer to a Budget outcome, whether a surplus or deficit. There are two concepts of the balance. The ‘fiscal balance’ is the accrual Budget outcome. Its counterpart in cash Budgets is the ‘underlying cash balance’. The Budget papers contain both the fiscal balance and the underlying cash balance. The fiscal balance shows the financial impact of the government’s activities.

Capital requirements. The amount an agency needs to fund its purchases of non-current assets such as plant and equipment. Agencies capital requirements are met from several sources including retained earnings, and equity injections and loans appropriations.

Charter of Budget Honesty. The *Charter of Budget Honesty Act 1998* provides a legislative framework for the conduct and reporting of fiscal policy. The Act’s aim is to improve the conduct of fiscal policy by requiring fiscal strategy to be based on certain principles of fiscal management and by facilitating public scrutiny of fiscal policy and performance. The Act obliges the government to present three reports annually: a Budget Economic and Fiscal

Outlook Report, a Mid-Year Economic and Fiscal Outlook report, and a Final Budget Outcome report.

Consolidated Financial Statements. Section 55 of the *Financial Management and Accountability Act 1997* requires the Finance Minister to prepare annually consolidated financial statements (CFS) for the Commonwealth. The Act also requires the CFS to be tabled within five months of the end of the financial year. The statements contain consolidated results for all Commonwealth-controlled entities, and disaggregated information for all three sectors: general government, public non-financial corporations, and public financial corporations. The CFS are prepared on the basis of Australian Accounting Standards including Australian Accounting Standard 31.

Consolidated Revenue Fund (CRF). Section 81 of the Constitution requires that all revenue raised or money received by the Executive Government has to form one consolidated revenue fund to be appropriated for Commonwealth purposes. The CRF is thus the principal operating fund where the transactions associated with the general activities of the government are recorded. The CRF is deemed to be 'self-executing', that is, money that the Executive Government raises or receives automatically forms part of the CRF regardless of whether the amount has been credited to a ledger account designated CRF or paid into a bank account so designated.

Contingency Reserve. The Contingency Reserve (CR) is the means of ensuring that the aggregate estimates are robust and based on the best information available at the time of publication. The major components of the CR for the Budget and forward estimates include an allowance for the tendency for budget estimates of expenses for existing government policy to be revised upwards in the forward years; an allowance for the tendency for estimates of some expenses to be overstated in the Budget year; commercial-in-confidence and national security-in-confidence items which cannot be disclosed separately; and minor decisions made late in the Budget process.

Cost. Expenses an agency incurs in the delivery of outputs.

Departmental items. Resources (assets, liabilities, revenues and expenses) that agencies control and use to produce outputs on behalf of government. Departmental expenses are mostly operating expenses. Examples are computers and plant and equipment used in providing goods and services; accruing liabilities for employee entitlements; revenues from user charges and profits; and employee salaries and other administrative expenses incurred in providing goods and services.

Economic parameters. The values of economic variables—such as price changes, wages, employment, and interest and exchange rates—on which the Budget and forward years estimates are based. Parameters are based on the forecasts of the Joint Economic Forecasting Group.

Effectiveness. The extent to which outputs and/or administered items contribute to attaining a specified outcome. Effectiveness indicators are used to assess the extent of success in achieving outcomes.

Efficiency. The extent to which the use of inputs is minimised for a given level of outputs, or outputs are maximised for the given level of inputs. Efficiency indicators include price, quality and quantity indicators.

Efficiency dividend. The efficiency dividend is a deduction from agencies' departmental expenses. The dividend also applies to some administered items. Agencies are expected to improve their efficiency, and the efficiency dividend is an incentive for agencies to improve efficiency. The dividend is calculated and deducted with the creation of the forward years estimates. For example, the dividend for 2008–09 was calculated at the time of the 2005–06 Budget. Most agencies (the main exception is Defence) pay the dividend at the rate of 1.25 per cent. The rate was previously one per cent.

Equity or net assets. The difference between an agency's assets and liabilities.

Estimates. Expected expenses and revenue of the Commonwealth. Expense estimates are prepared for each item in the Budget in consultations between the Department of Finance and Administration and the agency responsible for program delivery. Treasury prepares tax revenue estimates. Estimates are prepared for on-going and new programs. Budget Paper No. 2 contains estimates of the revenue and expense measures announced in the Budget.

Expenditure Review Committee (ERC). The sub-committee of Cabinet that meets over a period of months before the Budget to consider new policy and savings proposals. The ERC examines proposed spending in the context of the government's overall Budget strategy, recommends to Cabinet proposals to be included in the Budget, and initiates spending reviews under individual on-going programs. The ERC usually includes the Prime Minister, Treasurer, the Minister for Finance and Administration, and relevant portfolio ministers. Under the Howard Government, there have been six members.

Expense. The value of total resources consumed in producing goods and services. Expenses include cash items such as salary payments and non-cash expenses that are incurred—such as accruing employee entitlements—but which will be paid in the future.

Final Budget Outcome. The document containing the actual Budget result as distinct from the estimates in the Budget and the Mid-Year Economic and Fiscal Outlook. The *Charter of Budget Honesty Act 1998* requires the Treasurer to release publicly and table a Final Budget Outcome report for each financial year no later than three months after the end of that financial year. The report contains Budget sector and general government sector financial outcomes including information on actual revenue, total expenses and expenses by function, net capital investment, federal financial relations, and other information.

Financial Management and Accountability Act 1997 (FMA Act). The main Act governing the financial activities of agencies including the collection of public money, the maintenance of accounting records, control and management of public property, the responsibilities of chief executives, and the power of the Finance Minister to make regulations and delegate powers.

Fiscal balance. In accrual Budgets, the fiscal balance is the net operating balance less net capital investment. The net operating balance is the difference between revenues and expenses, while net capital investment is additions to non-financial assets (such as buildings and equipment) less depreciation of non-financial assets. A fiscal balance surplus indicates that the Commonwealth is reducing its net debt to other sectors of the economy and is thus an indicator of the financial impact of the Commonwealth's operations on the rest of the economy.

Fiscal policy. The use of government spending and taxation to influence the level of economic activity. 'Discretionary' fiscal policy—such as increased spending or tax cuts—seeks to counter cycles in the economy. To stimulate economic activity, governments may lower taxes and increase spending (and vice versa to reduce the level of economic activity).

Fiscal risks. General developments or specific events that may affect the fiscal outlook. Examples are litigation before the courts and possible Senate rejection or amendment of Budget measures.

Forward estimates. Estimates of the revenues and costs of on-going government policy after allowing for estimated movements in parameters. The forward estimates show the minimum cost of maintaining on-going government policy because they do not include provision for new programs or expansion of existing programs that the government has not yet agreed to or programs that are not expected to continue. Nor do they include programs that are due to cease. Forward estimates are a system of rolling three-year financial estimates. For example, in the 2005–06 Budget, the forward estimates are for the three years 2006–07, 2007–08 and 2008–09. After the Budget is passed, the first year of the forward estimates becomes the base for next year's Budget bid, and another year is added to the forward estimates. The three forward estimates years are sometimes referred to as the 'out' years.

General government sector. Encompasses agencies that provide public services that are mainly non-market in nature and are either for collective consumption by the community (for example, defence and law and order) or redistribute income (for example, social security payments), and are financed mainly by taxes. (The other two sectors are the public non-financial corporations, such as Australia Post and Telstra, and public financial corporations such as the Export Finance and Insurance Corporation).

General purpose payments (GPPs). Commonwealth payments to the States and Territories are divided into GPPs and specific purpose payments (SPPs). GPPs are distinguished from SPPs because GPPs are not subject to conditions regarding their use. GPPs comprise GST

revenue, budget balancing assistance, and National Competition Policy payments. GST is by far the main component of GPPs.

Government Finance Statistics (GFS). One of two reporting frameworks used to present Budget financial statements (the other is Australian Accounting Standards notably Standard No. 31). The GFS reporting framework is a specialised statistical system designed to support economic analysis of the public sector. The GFS standard used in the Budget is based on the Australian Bureau of Statistics (ABS) accrual GFS framework, which is consistent with international statistical standards (the *System of National Accounts 1993* and the draft accrual version of the International Monetary Fund's *A Manual on Government Finance Statistics*). However, certain tables in the Budget papers differ from the ABS framework. The main difference is that the ABS (correctly) includes revenue from the GST on the grounds that the GST is a Commonwealth tax even though the Commonwealth pays the revenue to the states and territories. The exclusion of GST has the effect of understating the level of Commonwealth spending and revenue.

Headline (cash) balance. The actual cash Budget outcome. The headline balance differs from the 'underlying' balance by, for example, including proceeds from the sale of assets that the underlying balance excludes on the grounds that they are one-off or abnormal items, so their inclusion would give a 'distorted' view of the Budget outcome.

Inputs. Resources in the forms of people, materials, energy, facilities and funds that an agency uses to produce outputs.

Joint Economic Forecasting Group (JEFG). A group of officials from Treasury, the Department of the Prime Minister and Cabinet, the Department of Finance and Administration, the Reserve Bank of Australia and the Australian Bureau of Statistics. The group meets three or four times a year after the quarterly national accounts are released to review official economic forecasts. The JEFG examines economic forecasts in light of the economic outlook for the remainder of the Budget year and the following year.

Departmental expenses: reduction process. Spending authorised under annual Appropriations Acts is not designated for a particular financial year, that is, the authorised amounts do not have to be spent in the year when they are authorised. The authorised amounts therefore do not automatically lapse at the end of the financial year but can be spent in future years. However, amounts appropriated for departmental expenses and for non-operating costs (such as a capital injection) can be subject to a lapsing process. Under this process, on request from an agency minister, the Finance Minister may issue a determination to lapse unspent departmental expenses or non-operating costs. Requests for amounts to be lapsed may arise, for example, because the appropriation is no longer required. Until the Finance Minister issues a determination, amounts appropriated for departmental expenses and non-operating costs may be issued from the Consolidated Revenue Fund in the Budget year or later years. Administered expenses are not subject to this reduction process but are subject to a determination by the Finance Minister on the amounts to be issued.

Mid-Year Economic and Fiscal Outlook (MYEFO). Essentially an update of the Budget estimates. The MYEFO takes account of trends in spending and revenue in the financial year to date, revenue and expense decisions taken since the Budget, and revisions to economic parameters such as the projected economic growth rate. The MYEFO is published around November.

Net capital investment. Net capital investment is gross investment in fixed capital (such as buildings and structures and machinery and equipment) less the consumption of fixed capital, that is, the reduction in the value of fixed assets resulting from physical deterioration, obsolescence and accidental damage.

Net debt. A measure of the strength of the government's financial position. Net debt is the difference between selected financial liabilities (deposits held, advances received, government securities, loans and other borrowings) less selected financial assets (cash and deposits, advances paid, and investments, loans and placements). Net debt is thus a narrow measure of public debt in that it excludes certain assets and liabilities, notably, public service superannuation liabilities. A more broadly defined measure of the government's financial position is net worth, which is the value of all assets minus the value of all liabilities.

New policy proposals. Ministers' proposals to Cabinet recommending the adoption of a new initiative or change to existing programs. Such proposals are normally made in the context of the annual Budget process.

Non-operating resources. Also called 'capital' costs, non-operating costs comprise (1) equity injections, for example, to finance investment in new capacity, (2) loans which are provided when an investment is expected to result in a direct return such as savings, (3) 'previous years outputs' appropriations to replenish cash reserves used to deliver outputs in a previous year (the latter can occur, for example, when a decision is made to implement a new activity after the cut-off date for inclusion in the additional estimates Bills), and (4) administered assets and liabilities appropriations, which fund acquisitions of new administered assets, enhancement of existing administered assets, and the discharge of administered liabilities relating to activities that agencies administer. Non-operating costs are appropriated through Appropriation Act (No. 2).

Operating result. Revenue less expenses.

Outcomes (actual). The results or consequences of actions by the Commonwealth and other bodies on the community. Because actual outcomes reflect all influences, it is often difficult to disentangle those attributable to Commonwealth actions.

Outcomes (planned). The results or consequences for the community that the government seeks to achieve.

Outputs. The goods and services that agencies produce to **contribute to** planned outcomes.

Performance. The proficiency of an agency in acquiring resources economically and using them efficiently and effectively in attaining planned outcomes.

Performance information. Evidence about performance that is collected and used systematically. Evidence may relate to appropriateness, effectiveness and efficiency. It may be about outcomes, factors that affect outcomes, and what can be done to improve them. Agencies specify in their Portfolio Budget Statements the performance information that they will collect, and use this information to report in their annual reports how well they have met planned outcomes. Performance information can be quantitative or qualitative but must be verifiable. Performance measures are quantified representation of indicators, and are used when there is a clear causal link between an action and its measurable consequence.

Portfolio. A grouping of several, often-related agencies. For example, the environment and heritage portfolio includes the Department of Environment and Heritage, the Bureau of Meteorology, and other agencies.

Portfolio Budget Statements (PBS). Documents that portfolio departments coordinate (they are tabled by Ministers) and publish explaining each agency's source and use of funds by outcome. They are the main source of information of an agency's proposed activities. The PBS contain information on revenue authorised by the Appropriation Acts, revenue from other sources, special appropriations, other financial information, performance information and budgeted financial statements. The PBS contain information on all general government sector agencies within the portfolio.

Pre-Election Economic and Fiscal Outlook (PEFO). The *Charter of Budget Honesty Act* 1998 provides for the Secretaries of the Departments of the Treasury and of Finance and Administration to release publicly a PEFO report within ten days of the issue of the writ for a general election. The purpose of the PEFO is to provide updated information on the economic and fiscal outlook. The information in the report takes into account, to the fullest extent possible, all Government decisions made before the issue of the writ and all other circumstances that may have a material effect on the fiscal and economic outlook.

Price of outputs. The departmental price of outputs measures the total resources available to an agency for spending on departmental expenses. Consists of appropriations from government and revenues from own sources.

Purchaser/provider arrangements. Arrangements whereby an agency enters into an agreement with another agency to provide goods or services. For example, in 1999–2000, the Australian Taxation Office (ATO) entered into purchaser/provider arrangements with the Department of Family and Community Services and the Department of Health and Aged Care whereby the ATO undertook to provide services to both to **assist** them to achieve their outcomes. Agencies that receive the services pay the agencies that provide them.

Revenues from other sources. Include revenues from the sale of goods or provision of services to other entities (user charges) and profits from the sale of assets.

Savings measures. Measures that offset the cost of programs. To satisfy Department of Finance and Administration guidelines, savings require either a Cabinet decision to alter existing policy or represent a discretionary reordering of priorities by a minister, reduce expenses below what they would otherwise have been, and contribute to the achievement of the government's fiscal targets.

Sensitivity analysis. Analysis of the extent to which expense and revenue estimates respond to changes in economic parameters.

Special Accounts. Special Accounts are a mechanism for recording moneys collected for a particular purpose and for making payments for that purpose (for example, a levy collected from an industry and applied to making grants for the development of that industry). Special Accounts are established in two ways: by a determination issued by the Finance Minister or by enabling Acts. Agencies include estimates of Special Accounts flows and balances in their Portfolio Budget Statements.

Special (or Standing) Appropriation. Money appropriated by a particular Act of Parliament (for example, the *Roads to Recovery Act 2000*) for a specific purpose (in this example, grants to local governments for roads). Special appropriations may be for a specific amount of money, level of benefit or period of time. Special appropriations do not require annual spending authorisation by parliament, as they do not lapse at the end of each financial year. Special appropriations account for about 75 per cent of agency expenses.

Specific Purpose Payments (SPPs). Payments to the states and territories for policy purposes that relate to particular functions, for example, health or education. SPPs are made under section 96 of the Constitution, which states that the Commonwealth Parliament may grant financial assistance to any state on such terms as it sees fit. Most SPPs are conditional on policy objectives that the Commonwealth sets or the achievement of policy objectives that the Commonwealth and states agree.

Spending. As used in this paper, the term encompasses all forms of general government expenditure, whether for current or capital purposes. This term was adopted because the terms used for expenditure have changed over the years and have had different meanings. Thus, until 1998–99, under cash budgeting, spending was termed 'outlays'. Since 1999–2000, under accrual budgeting, the main form of spending has been 'expenses'. However, there are other forms of spending such as injections of capital into agencies.

Standing appropriation. A form of special appropriation that does not state an amount to be appropriated but where the amount is determined by the conditions and criteria set out in the legislation. Such appropriations are sometimes referred to as 'unlimited by amount'.

Tax expenditures. The financial benefits that individuals and businesses derive from tax concessions in the forms of exemptions, deductions, rebates or reduced rates. Concessions reduce or delay (for example, the deferral of a tax liability) the collection of tax revenue.

Governments can use concessions to allocate resources to different activities in much the same way that they can use direct spending programs.

Underlying (cash) balance. The cash budget counterpart of the fiscal balance in accrual Budgets. The underlying cash balance is a broad indicator of the Commonwealth's cash flow requirements. For example, an underlying cash surplus reflects the extent to which cash is available to the Commonwealth either to increase its financial assets or decrease its liabilities (assuming no revaluations and other changes). The underlying balance differs from the 'headline' balance—the actual cash outcome—by, for example, excluding proceeds from the sale of assets on the grounds that these are one-off or abnormal items and their inclusion would 'distort' the budget outcome in any one year.

Uniform Presentation Framework. An agreement between the Commonwealth, states and territories whereby all jurisdictions are required to publish a common core of government finance statistics and consistent financial information in their Budget papers.

Endnotes

1. Richard Webb, 'The Commonwealth Budget: Process and Presentation', *Research Paper*, no. 6, Parliamentary Library, Canberra, 2002–03.
2. Budget night is typically in early to mid May and takes place on the first night of the Budget sittings of Parliament. This sitting normally runs until late June.
3. Australian Government, *Directory*, at http://www.directory.gov.au/extra_reports/report1.rtf. Web address accessed 30 August 2006.
5. The statement of risks discusses matters such as changes to economic parameters and contingent liabilities that can affect the forward estimates of expenses and revenues.
5. Australian Government, Budget Paper No. 2, 2006–07, at <http://www.budget.gov.au/>. Web address accessed 21 November 2006.
6. Department of Finance and Administration web site at http://www.finance.gov.au/budgetgroup/appropriation_bills.html. Web address accessed 21 November 2006.
7. *ibid.*
8. Department of Finance and Administration web site at http://www.finance.gov.au/Publications/Final_Budget_Outcomes.html. Web address accessed 21 November 2006.
9. Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, Canberra, 2005 at http://www.pmc.gov.au/guidelines/docs/annual_report_requirements.pdf. Web address accessed 30 August 2006.

10. Parliament of Australia, Senate, *Reports on Annual Reports*, at http://www.aph.gov.au/Senate/committee/legcon_ctte/annual/index.htm. Web address accessed 30 August 2006.
11. Department of Finance and Administration web site at http://www.finance.gov.au/Publications/Mid_Year_Economic_Fiscal_Outlook.html. Web address accessed 30 August 2006.
12. Payments are recognised as an expense (debit in accounting terms) and in the balance sheet as a reduction in money balances (credit). The increase in the liability is recognised as an expense (debit) and in the balance sheet as an increase in liabilities (credit).
13. Australian Government, Budget Paper No. 1, 2006–07, p. 1–3, at <http://www.budget.gov.au/2006-07/bp1/html/index.htm>. Web address accessed 23 November 2006.
14. Professor Tony Harris, [testimony to the Joint Committee of Public Accounts and Audit](#), 22 June 2001, p. 13.
15. Australian Government, Budget Paper No. 1, 1999–2000, p. 1–5, at http://www.budget.gov.au/1999-00/doc_index.asp. Web address accessed 23 November 2006.
16. Australian Government, Budget Paper No. 1 2002–03, p. 12–30, at http://www.budget.gov.au/2002-03/bp_index.html. Web address accessed 23 November 2006.
17. In 1999–2000 and 2000–01 the rate was 12 per cent. The rate in 2001–02 was 11 per cent.
18. Department of Finance and Administration web site at http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/the_outcomes_outputs_frameworko.html. Web address accessed 30 August 2006.
19. Department of Finance and Administration web site at http://www.finance.gov.au/finframework/cost_recovery.html. Web address accessed 29 March 2006.
20. Parliament of Australia, Joint Committee of Public Accounts and Audit, *Report 388. Review of the Accrual Budget Documentation*, June 2002, p. xxi, at <http://www.aph.gov.au/house/committee/jpaa/accrualbudget/reportscript.pdf>. Web address accessed 29 March 2006.
21. Parliament of Australia, Joint Committee of Public Accounts and Audit, web site at <http://www.aph.gov.au/house/committee/jpaa/accrualbudget/ExecMin.htm>. Web address accessed 29 March 2006.
22. Parliament of Australia, Senate Finance and Public Administration Legislation Committee, *The Format of the Portfolio Budget Statements: Second Report*, October 1999, at http://www.aph.gov.au/senate/committee/fapa_ctte/completed_inquiries/1999-02/pbs2/report/contents.htm. Web address accessed 29 March 2006.
23. Parliament of Australia, Joint Committee of Public Accounts and Audit, *Report 388*, op. cit., p. xxii.

24. Bram Scheers, Miekatrien Sterck and Geert Bouckaert, 'Lessons from Australian and British Reforms in Results-oriented Financial Management', OECD Journal on Budgeting, volume 5, no. 2, p. 156.
25. *ibid.*, p. 139.
26. Australian Bureau of Statistics, *Australian System of Government Finance Statistics. Concepts, Sources and Methods*, catalogue 5514.0, Canberra, 2005.
27. See Chapter 13 of Parliament of Australia, Senate, *Odgers' Australian Senate Practice*, which deals with financial legislation, at <http://www.aph.gov.au/Senate/pubs/odgers/contents.htm>. Web address accessed 23 November 2006.
28. The Appropriation Acts state that the Portfolio Budget Statements are to be read in conjunction with the Acts.
29. Attorney-General's Department web site at <http://www.comlaw.gov.au/ComLaw/Legislation/LegislativeInstrument1.nsf/frameLodgmentAttachments/4E31DC45CF605F98CA256FB9007CA00D>. Web address accessed 21 November 2006.
30. Department of Finance and Administration web site at http://www.finance.gov.au/budgetgroup/cash_and_appropriation_managem/appropriation_bills.html. Web address accessed 29 March 2006.
31. Department of Finance and Administration web site at http://www.dofa.gov.au/budgetgroup/Other_Guidance_Notes/portfolio_additional_estimates.html. Web address accessed 29 March 2006.
32. Appropriation (Tsunami Financial Assistance) Bill 2004–05 and Appropriation Bill (No. 5) 2004–05 sought additional money for ordinary annual services, while Appropriation (Tsunami Financial Assistance and Australia-Indonesia Partnership) Bill 2004–05 and Appropriation Bill (No. 6) 2004–05 sought authority for other than ordinary annual services.
33. Australian Government, Budget Paper No. 4, 2005–06, p. 2, at <http://www.budget.gov.au/2005-06/bp4/html/index.htm>. Web address accessed 23 November 2006.
34. In practice, either term is used to refer to appropriations not made under the annual Appropriation Bills. To confuse matters further, the terms are used interchangeably. This paper uses special appropriations to mean either special or standing appropriations.
35. Department of Finance and Administration web site at http://www.finance.gov.au/finframework/special_accounts.html. Web address accessed 21 November 2006.
36. Parliament of Australia, Joint Committee of Public Accounts and Audit, *Inquiry into the Draft Financial Framework Legislation Amendment Bill*, Report 395, p. 29, at http://www.aph.gov.au/house/committee/jpaa/financial_bill/contents.htm. Web address accessed 23 November 2006.
37. Australian National Audit Office, *Agency Management of Special Accounts*, Audit Report No. 24, 2003–04, at <http://www.anao.gov.au/WebSite.nsf/Publications/4F50DD6AEA3733FDCA256E2B0010A3CA>. Web address accessed 21 November 2006.

38. Department of Finance and Administration web site at http://www.finance.gov.au/budgetgroup/afm_advance_to_the_finance_mi.html. Web address accessed 23 November 2006.
39. The term 'legislative instrument' is defined in section 5 of the *Legislative Instruments Act 2003*.
40. Attorney-General's Department web site at <http://frli.law.gov.au/>. Web address accessed 23 November 2006.
41. Department of Finance and Administration web site at http://www.finance.gov.au/publications/Issues_From_Advance.html. Web address accessed 23 November 2006.
42. Parliament of Australia, Joint Committee of Public Accounts and Audit, *Report 388*, op. cit., p. 71-72.
43. Department of Finance and Administration, *Annual Report 2005-06*, p. 29, at <http://www.finance.gov.au/Publications/annualreport05-06/index.html>. Web address accessed 21 November 2006.
44. Australian Government, Budget Paper No. 4, 2005-06, p. 4, at <http://www.budget.gov.au/2005-06/bp4/html/index.htm>. Web address accessed 23 November 2006.
45. Department of Finance and Administration web site at http://www.finance.gov.au/ace/docs/2005-06_FMOs.pdf. Web site accessed 23 November 2006.
46. Parliament of Australia, Senate Finance and Public Administration Legislation Committee, *The Format of the Portfolio Budget Statements. Third Report*, November 2000, at http://www.aph.gov.au/senate/committee/fapa_ctte/completed_inquiries/1999-02/pbs3/report/report.pdf. Web address accessed 23 November 2006.
47. Australian Government, Budget web site, at <http://www.budget.gov.au/>. Web address accessed 23 November 2006.
48. Parliament of Australia, Senate Finance and Public Administration Committee, *The Format of the Portfolio Budget Statements: Second Report*, op. cit.
49. Parliament of Australia, Senate Finance and Public Administration Legislation Committee, *Government Response. Report on Findings into the Format of Portfolio Budget Statements*, at http://www.aph.gov.au/senate/committee/fapa_ctte/completed_inquiries/1996-99/pbs/report/responce.pdf. Web address accessed at 23 November 2006.
50. Parliament of Australia, Senate Finance and Public Administration Legislation Committee, *The Format of the Portfolio Budget Statements. Third Report*, op. cit.
51. Treasury web site at <http://www.treasury.gov.au/documents/186/PDF/aupf.pdf>. Web address accessed 23 November 2006.
52. The Australian Bureau of Statistics Government Finance Statistics framework requires that provisions for bad and doubtful debts be excluded from the balance sheet. The Budget Papers do not adopt this convention on the grounds that to do so would overstate the value of assets.

53. International Monetary Fund, *Government Finance Statistics Manual 2001*, at <http://www.imf.org/external/pubs/ft/gfs/manual/gfs.htm>. Web address accessed 23 November 2006.
54. AAS31 is a general framework for accrual budgeting and financial reporting for governments. However, compliance with all other applicable accounting standards is required. Exceptions to this rule are explicitly stated in AAS31.
55. Financial Reporting Council web site at <http://www.frc.gov.au/>. Web address accessed 23 November 2006.
56. International Accounting Standards Board web site at <http://www.iasb.org/Home.htm>. Web address accessed 23 November 2006.
57. Australian Government, Budget Paper No. 1, 2006–07, p. 10-5 at <http://www.budget.gov.au/>. Web address accessed 23 November 2006.
58. *ibid.*, p. 10-10.
59. A summary of selected differences, and a reconciliation of GFS and AAS data, can be found at *ibid.*, pp. 8-8 to 8-12.
60. *ibid.*, pp. 9-6 and 10-4.
61. Allan Barton, 'Issues in Accrual Accounting and Budgeting by Government', *Agenda*, volume 12, No. 3, 2005, pp. 211-226.
62. Marc Robinson, 'Accrual Accounting and the Public Sector', *Economic Papers*, volume 20 No. 2, June 2001, pp. 57–66.
63. Marc Robinson, 'Public Sector Net Worth: Is It Worth Measuring?', *Research Paper*, No. 26, Parliamentary Library, Canberra, 1995–96.
64. Official Committee Hansard, Joint Committee of Public Accounts and Audit, '[Review of the accrual budget documentation](#)', 22 June 2001, pp. 13–14.
65. Australian Capital Territory, Department of the Treasury web site at http://www.treasury.act.gov.au/accounting/download/IAS_02.pdf#search=%22Generally%20Accepted%20Accounting%20principles%20%20define%22. Web address accessed 23 November 2006.
66. Mark Davis, 'Accounting debate divides profession', *Australian Financial Review*, 4 April 2006.
67. Australian Accounting Standards Board, *Release of Exposure Draft. Convergence of Generally Accepted Accounting Principles and Government Finance Statistics*, media release, 21 July 2005, at http://www.aasb.com.au/whatsnew/media_docs/aasb_mr_21-07-05.htm. Web address accessed 23 June 2006.
68. Mark Davis, 'Treasury chiefs revolt over budget rules', *Australian Financial Review*, 3 April 2006.
69. Australian Bureau of Statistics, *Accruals-based Government Finance Statistics*, Information Paper 5517.0, 13 March 2000.

70. Australian National Audit Office, *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2002*, Audit Report No. 25, 2002–03 at <http://www.anao.gov.au/WebSite.nsf/Publications/218CCBDF179AE3E4A256C98000880B9>. Web address accessed 23 November 2006.
71. Australian Government, Budget Paper No. 3, 2006–07, p. 7.
72. When the States handed their income tax powers to the Commonwealth, the Commonwealth treated the revenue as if it were its own even though, in a sense, the Commonwealth was acting as an agent for the States. For a time, the Commonwealth used to describe money it gave to the States as ‘tax reimbursements to the States’.
73. Des Moore. ‘Real picture shows there’s plenty to downsize’, *Australian Financial Review*, 29 September 2006.
74. Australian Government, Budget Paper No. 1, 2006–07, p. 9-5.
75. Department of Finance and Administration web site at http://www.finance.gov.au/Publications/Mid_Year_Economic_Fiscal_Outlook.html. Web address accessed 23 June 2006.
76. Department of Finance and Administration web site at http://www.finance.gov.au/Publications/Final_Budget_Outcomes.html. Web address accessed 23 November 2006.
77. Parliament of Australia, Joint Committee of Public Accounts and Audit, *Report 388*, op. cit., p. 81.
78. For a fuller description of the provisions relating to the PEFO, see ‘Charter of Budget Honesty: Pre-election Provisions’, *Research Note*, no. 10, Parliamentary Library, 2001–02.
79. Department of Finance and Administration web site at http://www.finance.gov.au/Publications/monthly_financial_statements.html. Web address accessed 23 November 2006.
80. Department of Finance and Administration web site at http://www.finance.gov.au/Publications/CommCons_Financial_Statements.html. Web address accessed 23 November 2006.
81. Department of Prime Minister and Cabinet, op. cit.
82. Treasury, *Tax Expenditures Statement 2005*, Canberra, 2005, at http://www.treasury.gov.au/documents/1052/PDF/TES_2005.pdf. Web address accessed 23 November 2006.
83. A more comprehensive discussion of tax expenditures can be found in Julie Smith, ‘Tax Expenditures: the \$30 Billion Twilight Zone of Government Spending’, *Research Paper*, no. 8, Parliamentary Library, Canberra, 2002–03.
84. OECD, *Best Practice Guidelines - Off Budget and Tax Expenditure*, June 2004, at [http://appli1.oecd.org/olis/2004doc.nsf/43bb6130e5e86e5fc12569fa005d004c/e0ecb0e1073e2677c1256e99003a75f2/\\$FILE/JT00164525.PDF](http://appli1.oecd.org/olis/2004doc.nsf/43bb6130e5e86e5fc12569fa005d004c/e0ecb0e1073e2677c1256e99003a75f2/$FILE/JT00164525.PDF). Web address accessed 23 November 2006.
85. Bram Scheers, Miekatrien Sterck and Geert Bouckaert, op. cit.

86. Australian National Audit Office, *Annual performance reporting*, Audit Report No. 11, 2003 04 at <http://www.anao.gov.au/WebSite.nsf/Publications/536CA20E91726409CA256DD0007C8810>. Web address accessed 3 April 2004.
87. Parliament of Australia, Joint Committee of Public Accounts and Audit, *Report 402. Review of Auditor-General's Reports 2003–04. First and Second Quarters*, August 2004, p. 53, at http://www.aph.gov.au/house/committee/jpaa/agfirst-sec03_04/Report.htm#fullreport. Web address accessed 23 November 2006.
88. Parliament of Australia, Senate Finance and Public Administration Legislative Committee, *The Format of the Portfolio Budget Statements: Third Report*, op. cit., p. 25.
89. Australian National Audit Office, *Better Practice Guide: Better Practice in Annual Performance Reporting*, Canberra, April 2004.
90. Bram Scheers, Miekatrien Sterck and Geert Bouckaert, op. cit.

© Copyright Commonwealth of Australia 2007

Except to the extent of the uses permitted under the Copyright Act 1968, no part of this publication may be reproduced or transmitted in any form or by any means including information storage and retrieval systems, without the prior written consent of the Department of Parliamentary Services, other than by senators and members of the Australian Parliament in the course of their official duties.

This brief has been prepared to support the work of the Australian Parliament using information available at the time of production. The views expressed do not reflect an official position of the Parliamentary Library, nor do they constitute professional legal opinion.
