Glossary

The following is based on a glossary prepared by the Department of Finance and Deregulation.

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 budgeting. Accrual budgeting extends cash budgeting by incorporating funding to agencies for non-cash resource usage and revenues such as increases in long service leave liabilities. Under *Operation Sunlight*, the Rudd Government ceased funding for depreciation from 1 July 2009 for collecting institutions in relation to their heritage and cultural assets, and from 2010–11 for all other agencies in the general government sector.

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 expenses. Expenditure on programs that agencies manage. Examples include subsidies, grants and benefit payments, and taxes, fees, fines and excises. An example is the age pension paid under the *Social Security (Administration) Act 1999*. The total amount paid as aged pensions is beyond agency control because this is determined by the eligibility criteria, the pension rates, 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, 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 classified as Departments of State (for example, the Attorney-General's Department), Departments of the Parliament (for example, the Department of the House of Representatives) and 'prescribed agencies' (for example, the Administrative Appeals Tribunal) for the purposes of the *Financial Management and Accountability Act 1997*.

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 less than 20 per cent of government spending, and special appropriations for more than 80 per cent.

Budget aggregates. Comprise total receipts and total spending and the Budget outcome (surplus or deficit). There are two measures of the outcome. The cash measure is the 'underlying cash balance'. The accrual measure is the 'fiscal balance'. Budget aggregates are shown both in dollar terms and as a proportion of gross domestic product

Budget balance. The term used to refer to a budget outcome, whether a surplus or deficit. There are two measures of the balance. The 'fiscal balance' is the accrual budget outcome. Its cash counterpart is the 'underlying cash balance'.

CAC Act body. Bodies owned by and established under the *Commonwealth Authorities and Companies Act 1997* (CAC Act). Examples are Tourism Australia and the Australian Broadcasting Corporation. The government does not fund CAC Act bodies directly but indirectly through the relevant government department.

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 appropriation**s.**

Charter of budget honesty. The *Charter of Budget Honesty Act 1998* is a legislative framework for the conduct and reporting of fiscal policy. The Act aims 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 Revenue Fund (CRF). Section 81 of the *Australian 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 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 r**eserve**. The contingency reserve (CR) is the means of trying to ensure that the aggregate estimates for the budget and forward years are robust and based on the best information available at the time of publication. Major components of the CR 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.

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

Unspent funds can be carried over into future years. Appropriations for departmental expenses can be subject to a reduction process whereby, on request from an agency minister, the Finance Minister may issue a determination which causes unspent departmental appropriations to lapse.

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.

Efficiency dividend. Agencies are expected to improve their efficiency, and the efficiency dividend is an incentive for agencies to improve efficiency. The efficiency dividend is a deduction from agencies' departmental expenses. The dividend also applies to some administered items. The dividend is calculated and deducted with the creation of the forward years estimates. Most agencies pay the dividend the main exception being Defence.

Equity, net assets, net worth. All terms mean the difference between total assets and total 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 Deregulation 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 expected revenues and expenses resulting from the measures announced in the Budget.

Expenditure Review Committee (ERC). The sub-committee of Cabinet that meets to consider new policy and savings proposals. The ERC examines proposed major 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 of on-going programs. The ERC comprises the Deputy Prime Minister, the Treasurer as chair, the Minister for Trade, the Minister for Families, Housing, Community Services and Indigenous Affairs, the Minister for Finance and Deregulation, and the Assistant Treasurer.

Expenses. 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. Contains the actual budget result. 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 general government sector financial outcomes including information on revenue, expenses, 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. The Budget outcome measured in accrual (as distinct from cash) terms. The fiscal balance is the net operating balance of the general government sector 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 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.

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. Forward estimates are a system of rolling three-year financial estimates. For example, in the 2009–10 Budget, the forward estimates were for the three years 2010–11, 2011–12 and 2012–13. After the Budget is passed, the first year of the forward estimates becomes the base for next year's budget, 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. The Budget focuses on the general government sector. This 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 of government are the public non-financial corporations, such as Australia Post, 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 differ from SPPs because GPPs are not subject to conditions regarding their use. The main component of GPPs is GST revenue.

Headline (cash) balance. The actual Budget outcome measured in cash terms. 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.

Joint Economic Forecasting Group (JEFG). The group responsible for official economic forecasts. The JEFG comprises the Department of Treasury as chair, the Department of the Prime Minister and Cabinet, the Department of Finance and Deregulation, the Australian Bureau of Statistics, and the Reserve Bank of Australia. The JEFG makes forecasts twice a year, at budget time and for the Mid-Year Economic and Fiscal Outlook.

Mid-Year Economic and Fiscal Outlook (MYEFO). Essentially a Budget update. 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 certain financial liabilities (deposits held, advances received, government securities, loans and other borrowings) and certain financial assets (cash and deposits, advances paid, and investments, loans and placements). Net debt is commonly used as an indicator of the soundness of the government's financial position because high levels of net debt indicate that servicing that debt will be an imposition on future revenue flows. Net debt is a narrow measure of public debt in that it excludes some 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. Non-operating costs include (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). In an appropriation context, non-operating costs are sometimes called 'capital' costs.

Ordinary annual services. The Australian Constitution requires that there be a separate Act appropriating funds for 'ordinary annual services' (as distinct from 'other services'). Appropriation

Act (No. 1) appropriates funds for ‘ordinary annual services’ and Appropriation Act (No. 2) appropriates funds for ‘other services’.

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.

Portfolio. A group of several, related agencies which all report to the same minister.

Portfolio budget statements (PBS). The main source of information on agency proposed activities. The PBS are documents that portfolio departments coordinate (they are tabled by ministers) and publish explaining each agency’s source and use of funds by outcome. 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 Deregulation 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.

Programs. Spending on particular activities that contribute to outcomes. Administered expenses (for example on the ethanol production subsidy) contribute to the programs.

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 Deregulation 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. A special account is an appropriation mechanism that notionally sets aside an amount within the Consolidated Revenue Fund to be expended for specific purposes. An example is the national cattle disease eradication account; all revenues and expenses associated with that activity flow though that special account. The appropriation authority for special accounts is section 20 or 21 of the *Financial Management and Accountability Act 1997*.

Special (or standing) appropriation. Money appropriated by a particular Act (for example, the *Veterans’ Entitlements Act 1986)* for a specific purpose (in this example, pensions, medical treatment and other matters for veterans, war widows and others covered by that Act) 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 more than 80 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 *Australian Constitution*, which states that the Commonwealth Parliament may grant financial assistance to any state on such terms as it sees fit. Many SPPs are conditional on policy objectives that the Commonwealth sets or the achievement of policy objectives that the Commonwealth and states agree.

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

Strategic Priorities and Budget Committee (SPBC). A formal Cabinet committee which establishes the government's fiscal strategy and policy priorities at the beginning of the each budget cycle and throughout the year. The SPBC reviews the proposals to ensure that they conform to the government's priorities. The SPBC comprises the Prime Minister as chair, the Deputy Prime Minister, the Treasurer, and the Minister for Finance and Deregulation.

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 measure of the budget outcome (proposed or actual). 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 Future Fund earnings.

Source: The Commonwealth Budget: process and presentation (updated April 2010)

http://www.aph.gov.au/library/pubs/rp/2009-10/10rp16.pdf