



Parliamentary  
Budget Office

# UNDERSTANDING THE BUDGET

In 5 tables

May 2021

This is an introductory guide to the Budget Papers updated for the 2021-22 Budget.  
See our [Online Budget Glossary](#) for more detail on key terms related to the Budget.

## The Budget Papers



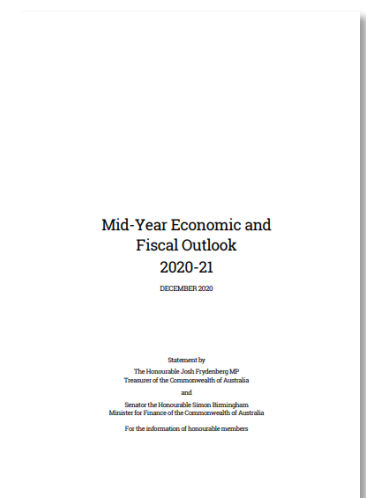
## The Budget “At a Glance”



## Portfolio Budget Statements



## Mid-Year Economic and Fiscal Outlook



# The Budget Papers

The budget is presented in four books, called *Budget Papers*, plus a number of supporting documents. The budget can be found at: [budget.gov.au](http://budget.gov.au)

## *Budget Paper 1: Budget Strategy and Outlook*

Budget paper 1 (BP1) provides high-level information about the Commonwealth Government's fiscal position and the overall economic outlook, including:

- the international and domestic economic outlook (**page 2 of this document**)
- the fiscal outlook of the Commonwealth (**page 3**), including estimates of the budget balance, revenue, expenditure and investment
- how the fiscal outlook has changed since the previous budget update (**page 4**)
- the government's balance sheet position — including the assets, liabilities and debt position of the government (**page 10**).

## *Budget Paper 2: Budget Measures*

Budget paper 2 (BP2) contains details of policy measures undertaken since the last MYEFO (**page 6**). Each budget measure is classified according to what aspect of the Commonwealth's finances it mostly affects (receipts or payments).

BP2 includes a summary table as well as a detailed description of each individual measure (**page 8**).

## *Budget Paper 3: Federal Financial Relations*

Budget paper 3 (BP3) contains information on payments made by the Commonwealth Government to the states and territories (including GST).

## *Budget Paper 4: Agency Resourcing*

Budget paper 4 (BP4) contains information on the funding for each government agency.

## *Portfolio Budget Statements*

Portfolio Budget Statements (PBS) contain more detail on the proposed activities and expenditures of each agency within each portfolio.

## *At a Glance*

The "At a Glance" documents (often known as "Glossies") are a series of pamphlets which highlight some key aspects of the Budget.

## *Mid-Year Economic and Fiscal Outlook*

The Mid-Year Economic and Fiscal Outlook (MYEFO) provides an update on the budget position and economic outlook around mid-way through the year. This is the main point of comparison for the budget.



# Economic forecasts

The Government's economic forecasts underpin the forecasts for taxes and spending.

Budget paper 1 provides high-level information about the overall economic outlook in Statement 1, including a summary of the key items in Table 1.2 (these items are known as 'economic parameters'):

**Table 1.2: Major economic parameters<sup>(a)</sup>**

	Economic growth					
	Outcome	Forecasts				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Real GDP	-0.2	1 1/4	4 1/4	2 1/2	2 1/4	2 1/2
Employment	-4.2	6 1/2	1	1	1 1/4	1 1/4
Unemployment rate	6.9	5 1/2	5	4 3/4	4 1/2	4 1/2
Consumer price index	-0.3	3 1/2	1 3/4	2 1/4	2 1/2	2 1/2
Wage price index	1.8	1 1/4	1 1/2	2 1/4	2 1/2	2 3/4
Nominal GDP	1.7	3 3/4	3 1/2	2	4 3/4	5

(a) Real GDP and Nominal GDP are percentage change on preceding year. The consumer price index, employment, and the wage price index are through-the-year growth to the June quarter. The unemployment rate is the rate for the June quarter.

## Economic growth

Growth in the size of the economy, **gross domestic product (GDP)**, is measured by the Australian Bureau of Statistics.

- **Nominal GDP** measures the total value of goods and services produced. Many budget amounts are presented as a share of nominal GDP, which can assist with making meaningful comparisons over time.
- **Real GDP** removes the effect of price change, or inflation, over time to measure the volume of goods and services produced. The percentage growth in real GDP is one of the most commonly used measures for the health of the economy.

## Employment

**Employment** is the percentage growth in the number of people who have a job.

The **unemployment rate** is the percentage of the workforce who are looking for a job.

## Inflation

Inflation is the growth in prices over time.

A common measure of inflation is the **consumer price index (CPI)**, which captures how much the prices of all the goods and services purchased by a typical household have grown.

The **wage price index (WPI)** shows how much wages, on average, grow for the same job.

**Tip:** Have last year's budget nearby so you can compare the economic forecasts.

**Do you need more information?**  
Statement 2 of BP1 contains more detail on the economic outlook.



# The budget balance

There are many aggregate estimates in the Budget. When people talk about the budget surplus or deficit, they are usually talking about the **underlying cash balance**.

Budget paper 1 provides high-level information about the Commonwealth's budget position. The forecast budget balance is usually shown in the very first table.

Deficit = negative  
underlying cash balance

**Table 1.1: Budget aggregates**

	Actual	Estimates					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total(a)
<b>Underlying cash balance (\$b)(b)</b>	-85.3	-161.0	-106.6	-99.3	-79.5	-57.0	-342.4
Per cent of GDP	-4.3	-7.8	-5.0	-4.6	-3.5	-2.4	
<b>Net operating balance (\$b)</b>	-92.3	-154.5	-92.7	-90.2	-70.2	-55.7	-308.9
Per cent of GDP	-4.7	-7.5	-4.3	-4.1	-3.1	-2.3	

(a) Total is equal to the sum of amounts from 2021-22 to 2024-25.  
(b) Excludes net Future Fund earnings before 2020-21.

Surplus = positive  
underlying cash balance

*What is a budget surplus?*

- The budget is in **surplus** when the government's receipts are greater than its payments.
- The budget is in **deficit** when the government's payments are greater than its receipts.

*Many numbers in the budget are shown on both a cash accounting basis and an accrual accounting basis.*

The **underlying cash balance** is a cash estimate while the **net operating balance** is an accrual estimate. Differences between the two are often because of *timing*:

- Cash accounting recognises income and expenses when money changes hands.
- Accrual accounting recognises income when it is earned and costs when they are incurred, regardless of when any cash is received or paid. Accrual figures give information about money that will need to change hands in the future.

The government and media usually quote the cash figure for the budget balance.

*How do I calculate the underlying cash balance?*

The underlying cash balance is broadly *equal to receipts less payments*.



### **Do you need more information?**

Detailed information on revenue forecasts can be found in BP1, Statement 5. Detailed information on expense forecasts can be found in BP1, Statement 6.

# What has changed since MYEFO?

Budget forecasts are revised as circumstances change. These differences are generally due to either policy decisions or parameter variations.

*What are parameter variations, and how are they different to policy decisions?*

- The effect of **policy decisions** represents the change to the finances of the Commonwealth that arises because of the new decisions, or 'measures', of the government.
- **Parameter (and other) variations** are any changes to the finances of the Commonwealth that are not due to a policy decision. These are generally outside the direct control of the government. Parameter variations mostly occur because of changes in the broader Australian or international economy, including changes to the composition or demographics of the Australian population.

The policy decisions and parameter variations sum to the total change in the budget position.

*Where can I find information on how the budget estimates have changed?*

Budget paper 1, Statement 3 includes a table known as the **reconciliation table** (shown on the next page), which reconciles projections from the previous budget update with the current projections. This table is a helpful summary of the budget, because it shows the total change and what has driven that change.

The reconciliation table steps through the how the projections of the underlying cash balance have changed from the previous budget to the mid-year budget update (MYEFO), then from MYEFO to the current budget.

*How to calculate the effect of policy decisions and parameter variations*

Each of these effects can be broken down by which aspect of the government's finances they impact:

- An increase in receipts has a **positive** effect on the budget balance.
- An increase in payments has a **negative** effect on the budget balance.

Therefore, the total effect of either policy decisions or parameter variations is:

$$\begin{array}{rcl}
 & \text{effect on receipts} & \\
 \textcircled{1} & \text{less} & \text{effect on payments} \\
 & \text{equals} & \text{total effect of policy decisions or parameter variations}
 \end{array}$$

*How to calculate the total change in the budget balance*

$$\begin{array}{rcl}
 & \text{underlying cash balance as at MYEFO} & \\
 \textcircled{2} & \text{plus} & \text{total impact of policy decisions since MYEFO} \\
 & \text{plus} & \text{total impact of parameter and other variations since MYEFO} \\
 & \text{equals} & \text{underlying cash balance}
 \end{array}$$

**Table 3.5: Reconciliation of underlying cash balance estimates**

	Estimates					Total
	2020-21 \$m	2021-22 \$m	2022-23 \$m	2023-24 \$m	2024-25 \$m	
<b>2020-21 Budget underlying cash balance(a)</b>	<b>-213,654</b>	<b>-112,003</b>	<b>-87,883</b>	<b>-66,926</b>	<b>-57,456</b>	<b>-537,922</b>
Per cent of GDP	-11.0	-5.6	-4.2	-3.0	-2.5	
<b>Changes from 2020-21 Budget to 2020-21 MYEFO</b>						
Effect of policy decisions(b)	-4,884	-3,236	-2,162	-1,813	*	*
Effect of parameter and other variations	20,791	6,778	5,659	2,765	*	*
<b>Total variations(c)</b>	<b>15,907</b>	<b>3,542</b>	<b>3,497</b>	<b>952</b>	<b>2,298</b>	<b>26,197</b>
<b>2020-21 MYEFO underlying cash balance(d)</b>	<b>-197,747</b>	<b>-108,461</b>	<b>-84,386</b>	<b>-65,974</b>	<b>-55,158</b>	<b>-511,725</b>
Per cent of GDP	-9.9	-5.3	-4.0	-3.0	-2.4	
<b>Changes from 2020-21 MYEFO to 2021-22 Budget</b>						
Effect of policy decisions(b)(e)						
Receipts	38	14	-7,357	-14,392	-5,890	-27,587
Payments	- 3,372	18,224	17,401	14,939	14,351	68,287
Total policy decisions impact on underlying cash balance	= -3,334	-18,210	-24,758	-29,331	+ -20,241	-95,874
Effect of parameter and other variations(e)						
Receipts	26,660	23,541	14,300	20,972	24,615	110,089
Payments	- 13,468	3,490	4,422	5,181	6,182	5,808
Total parameter and other variations impact on underlying cash balance	= 40,129	20,051	9,878	15,791	+ 18,433	104,281
<b>2021-22 Budget underlying cash balance</b>	<b>-160,952</b>	<b>-106,619</b>	<b>-99,266</b>	<b>-79,514</b>	<b>-56,966</b>	<b>-503,318</b>
Per cent of GDP	-7.8	-5.0	-4.6	-3.5	-2.4	

\*Data is not available.

(a) 2024-25 underlying cash balance as published in the medium-term projections, pages 3-28 of Budget Paper No. 1: Budget Strategy and Outlook 2020-21.

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

(c) 2024-25 shows the total variation between medium term projections of the underlying cash balance published in the 2020-21 Budget and 2020-21 MYEFO.

(d) 2024-25 underlying cash balance as published in the medium-term projections, page 55 of the 2020-21 MYEFO.

(e) A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.

### Do you need more information?

A reconciliation of the net operating balance, which is on an accrual basis, is available in Table 3.6 of BP1, Statement 3.



# New measures

A “measure” is a particular policy decision or action the government has decided to take, this can include an amendment to an existing policy.

## *Where can I find information on new measures?*

**Budget paper 2 (BP2)** includes details of every measure undertaken since the last MYEFO. BP2 includes a summary table as well as further details on each individual measure, including:

- a description of the measure, and
- the projected costs or income associated with the measure.

The measures listed in BP2 are split into 2 sections: **receipts** and **payments**.

## *How do I interpret the numbers?*

The numbers in the table represent the impact of the policy within the portfolio each year.

- A positive number for a **receipts** measure means the government has more money flowing in (and vice versa).
- A positive number for **payments** (or **capital**) measures means the government is spending more (and vice versa).

## *How do I find relevant measures?*

Measures are listed under the relevant policy portfolio, according to the department responsible for implementing the measure.

Note: if more than one department is involved, the same measure may appear under multiple portfolios in the table.

If a topic does not clearly align with ministerial responsibilities then you may need to look across multiple portfolios to find relevant measures.

For example, most indigenous-specific measures will be listed under the Prime Minister and Cabinet portfolio, which includes the National Indigenous Australians Agency, however there may also be measures listed under other portfolios, such as Health, which may include indigenous-specific funding.

Look for relevant terms in the budget measure title or description to find any relevant measures.

Also, check the *Portfolio Budget Statements (PBS)* for more information.



**Table 2: Payment measures since the 2020-21 MYEFO<sup>(a)</sup> (continued)**

PORTFOLIO NAME		2020-21 \$m	2021-22 \$m	2022-23 \$m	2023-24 \$m	2024-25 \$m
<b>INFRASTRUCTURE, TRANSPORT, REGIONAL DEVELOPMENT AND COMMUNICATIONS (continued)</b>						
<i>National Portrait Gallery of Australia</i>						
National Collecting Institutions — enhancements		-	0.8	0.8	-	-
<i>Screen Australia</i>						
COVID-19 Response Package — additional arts sector support(b)		-	0.8	-	-	-
<i>Special Broadcasting Service Corporation</i>						
Media Sector Support		-	10.5	9.2	9.4	-
<b>Portfolio total</b>		<b>17.5 +</b>	<b>904.2 +</b>	<b>1,025.5 +</b>	<b>201.0 +</b>	<b>141.4</b>
<b>PARLIAMENT</b>						
<i>Department of the Senate</i>						
Department of the Senate — additional funding		-	2.0	-	-	-
<b>Portfolio total</b>		<b>-</b>	<b>2.0</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>PRIME MINISTER AND CABINET</b>						
<i>Australian National Audit Office</i>						
Australian National Audit Office — additional funding		-	12.2	14.7	16.3	18.3
<i>Australian Public Service Commission</i>						
A Roadmap for Respect — Respect@Work response implementation		-	0.5	0.5	0.3	0.3
National Collecting Institutions — enhancements		-	-	-	-	-
Office of Supply Chain Resilience and Public Sector Capability		-	7.5	8.1	-	-
<i>Department of the Prime Minister and Cabinet</i>						
Commonwealth's Deregulation Agenda		-	5.3	5.6	0.1	-
Digital Economy Strategy(b)		-	7.0	8.1	4.4	0.2
National Strategy to Prevent and Respond to Child Sexual Abuse(b)		-	1.8	1.8	1.0	0.9
Office of Supply Chain Resilience and Public Sector Capability		-	32.9	32.9	3.4	2.9
Women's Economic Security Package		-	6.4	10.7	10.2	14.2
<i>Digital Transformation Agency</i>						
Digital Economy Strategy(b)		-	19.1	6.1	-	-
<i>National Indigenous Australians Agency</i>						
Garden Point Mission — settlement of claims		-	nfp	-	-	-
Indigenous Skills and Jobs Advancement		-	-	-	-	-
National Strategy to Prevent and Respond to Child Sexual Abuse(b)		-	1.8	3.2	3.2	2.7
New Remote Jobs Program		-1.9	81.7	1.6	1.3	0.1
Ngurra Cultural Precinct — National Resting Place		-	-	-	-	-
Oceans Leadership Package		-	0.3	0.5	-	-
Schools and Youth — supporting students, teachers and young Australians		-	16.6	-	-	-

Each row represents an individual measure

**KEY**

- zero

.. rounded to zero

nfp not for publication

\* unquantifiable

**Do you need more information?**

Detailed information on each measure listed in the table can be found directly after the summary table. See next page.

## New measures in detail

Further details of each budget measure can be found directly after the summary table in Budget paper 2.

This includes a **description** of the measure and additional **information on funding** sources.

If the measure is split across several portfolios, they will all be listed under the detailed measure description.

An example is on the next page.

### *How do I calculate the total impact of a measure?*

The table presents the impact of the measure in each year of the forward estimates (**page 11**). Add together the impact in each year to get the total impact of the measure.

Check the description of the measure to find out if the policy is terminating or ongoing.

- If the impact of a measure is nil in the final year, the policy may be ending.
- If a measure has an impact in the final year, the policy may continue into the future.

A measure can have an effect in more than one section (i.e. receipts and payments). In this case the net impact of the measure can be found by summing up the impact in each year in each section.

Depending on the nature of the policy, particularly those where the financial impact is relevant for many years, the description may cover different time periods.

Other amounts included in the measure description may differ from those shown in the table. For example, they may include funding which:

- has been redirected from another area; or
- was included in a previous related budget measure.

This funding would **not** show up in the budget tables, which only show the **net impact** on the budget.

## Building Australia's Resilience

### Payments (\$m)

	2020-21	2021-22	2022-23	2023-24	2024-25
Department of Infrastructure, Transport, Regional Development and Communications	0.1	0.7	-	-	-
National Recovery and Resilience Agency	-	206.8	242.7	248.3	201.8
Bureau of Meteorology	-	45.6	65.0	52.1	43.2
Department of Home Affairs	-	37.1	21.7	16.2	16.3
Department of the Treasury	-	8.0	20.0	12.0	-
Department of Agriculture, Water and the Environment	-	0.9	0.9	0.7	0.7
Department of Finance	-	0.1	0.1	0.1	0.1
<b>Total — Payments</b>	<b>+ 0.1</b>	<b>+ 299.3</b>	<b>+ 350.5</b>	<b>+ 329.5</b>	<b>+ 262.1</b>

### Related receipts (\$m)

National Recovery and Resilience Agency	-	4.7	-	-	-
---	---	-----	---	---	---

**Total cost:**

**= \$1241.5m**

less

**= \$4.7m**

equals

**\$1236.8m**

### KEY

- zero

.. rounded to zero

The Government will provide \$1.2 billion over five years from 2020-21 to improve Australia's capability to better prepare for, respond to, and recover from natural disasters. As part of this measure, the Government will establish a new national agency to help support local communities respond to large-scale natural disasters and undertake new initiatives to manage the impact of future events and the changing climate. This will see the separation of the Government's response and recovery functions, with Emergency Management Australia (EMA) in the Department of Home Affairs to co-ordinate responses to national emergencies and a new National Recovery and Resilience Agency (NRRRA) to lead resilience to and recovery from hazards and disasters. Both agencies will work closely with state and territory counterparts. Funding includes:

- \$615.5 million over six years from 2021-22 for the Preparing Australia program to provide grants for projects that support public and private disaster risk reduction and resilience
- \$280.0 million over three years from 2021-22 for grants for projects in bushfire affected areas as part of the \$2 billion National Bushfire Recovery Fund

# Government debt

Net debt is a key measure of the government's balance sheet and is often used as an indicator of the sustainability of the government's financial position.

Borrowing can provide governments with flexibility to respond to unanticipated events, such as an economic downturn.

## *How does the budget balance affect the government's debt position?*

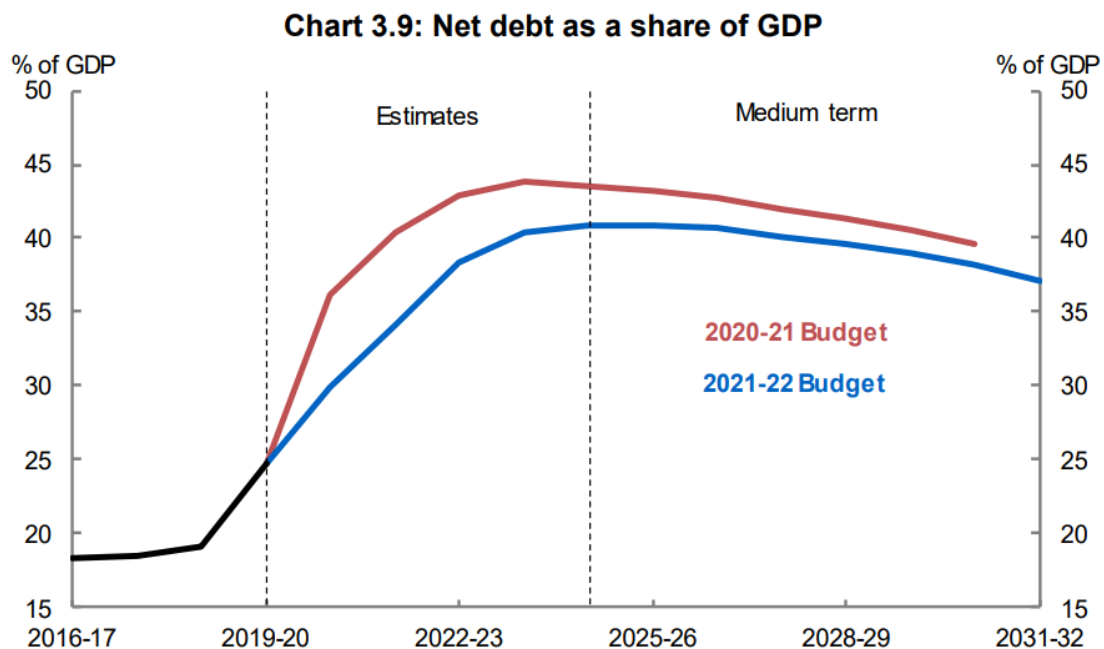
The government's debt position is affected by the amount spent or saved each year.

- A deficit means the government will need to borrow to cover expenses, and so will increase net debt. Additional debt will also increase interest payments in future years.
- A surplus means the government can pay down debt, and will decrease interest payments in future years.

## *How is debt calculated?*

The Budget provides figures for both **gross debt** and **net debt**. Gross debt shows what the government owes, but does not take into account assets the government already has to pay it. Net debt includes those assets.

Net debt is equal to the sum of selected financial liabilities less the sum of selected financial assets.



Source: 2021-22 Budget Paper 1, Statement 3, page 99

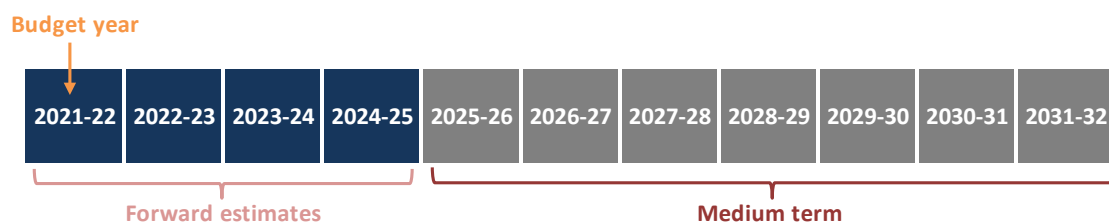
### ***Do you need more information?***

Detailed information on debt is available  
in BP 1, Statement 3, Statement 7 and  
Statement 11





# Time periods used in the budget



- The **Budget year** is the financial year covered by the budget.
- The **forward estimates** cover the budget year and the three years following. For the 2021-22 budget, the forward estimates will include 2021-22 to 2024-25.
- The **medium term** is the seven years following the forward estimates. For the 2021-22 budget, the medium term will include 2025-26 to 2031-32.

For more explanations of key budget terms, see our [Online Budget Glossary](#).