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INFORMATION ANALYSIS ADVICE

## QUICK GUIDE

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## The Budget: a quick guide

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The Budget is an opportunity for the Government to inform the Parliament, and therefore the broader public, about matters including:

- the expected performance of the international and Australian economy
- the Government's economic and fiscal strategy
- specific policy decisions the Government has made.

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

### What happens on Budget Night?

Budget Night is when the Treasurer tables the annual Appropriation Bills for the forthcoming year in the House of Representatives, and delivers the second reading speech on those Bills. Since 1994, the Appropriation Bills have generally been tabled on the second Tuesday in May. The Budget Speech is usually delivered at 7.30 pm. With the Appropriation Bills, the Treasurer also tables other Budget related materials.

### *The Budget Papers and related materials*

The main budget materials are the four key Budget Papers:

- [Budget Paper No. 1: Budget Strategy and Outlook](#)
- [Budget Paper No. 2: Budget Measures](#)
- [Budget Paper No. 3: Federal Financial Relations](#)
- [Budget Paper No. 4: Agency Resourcing.](#)

The Budget Papers include information that is required by the [Charter of Budget Honesty](#) to be presented with the tabling of the annual Budget. For each portfolio, a [Portfolio Budget Statement](#) must also be tabled in the Parliament.

With the Budget Papers, the Government also publishes:

- the [Budget Speech](#)
- a [Budget Overview](#)

The Government may also publish and table additional statements or materials with the Budget Papers. The main type of additional statement that Governments have tabled is a [Ministerial Statement](#).

The Budget Papers and related materials are made available on the internet at [www.budget.gov.au](http://www.budget.gov.au) when the Treasurer commences the Budget Speech.

## What happens after Budget Night?

On the Thursday immediately following Budget Night, the Leader of the Opposition will deliver the Opposition's Budget Reply Speech.

Upon being tabled in the House of Representatives, the particulars of the expenditure proposed in the Budget are referred to the Senate for consideration. This enables the Senate to commence its scrutiny of the Budget in the Senate Estimates process.

### Further information

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

## What's in the Budget Papers and related materials?

### ***Budget Speech***

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

### ***Budget Overview***

The *Budget Overview* provides a summary of the Budget.

### ***Budget Paper No. 1: Budget Strategy and Outlook***

*Budget Paper No. 1* provides high level information on the overall economic outlook internationally and for Australia, and the Commonwealth's fiscal position. It contains:

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

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

### ***Budget Paper No. 2: Budget Measures***

*Budget Paper No. 2* contains information about measures the Government intends to take to implement its policy decisions. Each measure is classified according to what aspect of the Commonwealth's finances it affects as follows:

- revenue measures
- expense measures
- capital measures.

The description of each measure will have a 'costing' attached to it. The costing for a measure is the expected effect of the measure on the Commonwealth's finances. It does not include the broader economic effect of the policy decision on the Australian community. The costing of each measure only shows the incremental change to the Commonwealth's finances from that decision, not the total amount of funding or expenditure related to that policy area.

### **Budget Paper No. 3: Federal Financial Relations**

*Budget Paper No. 3* contains information about the two types of payments the Commonwealth makes to the states and territories.

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

About one quarter of the monies spent each year by the Commonwealth are payments to the states and Territories. The main type of general revenue assistance is the revenue from the Goods and Services Tax.

### **Budget Paper No. 4: Agency Resourcing**

*Budget Paper No. 4* paper mostly deals with [appropriations](#). The introduction provides an explanation of key concepts used in the Appropriation Bills. The tables provide information on the individual amounts appropriated to each Commonwealth entity. *Budget Paper No. 4* also contains information on ‘Special Accounts,’ which are amounts of money earmarked for specific activities or purposes.

### **Portfolio Budget Statements**

Each portfolio must prepare a Portfolio Budget Statement. A Portfolio Budget Statement contains sections for each Commonwealth entity within the portfolio.

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

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

- the budgeted financial statements for the entity
- each individual ‘[outcome](#)’ of the entity
- the [program or programs](#) that are aimed at achieving each outcome
- the total resources available for each Commonwealth entity.

Portfolio Budget Statements are made available on departments’ websites at the same time as the Budget Papers are released.

### **Ministerial Statements**

The Government may release a Ministerial Statement on any topic, and in any form, that it chooses. Typically, ministerial statements group together information related to one theme or issue, and are released under the name of the relevant portfolio Minister.

### **Other related reports not released on Budget Night**

Under the Charter of Budget Honesty, additional budget reports must be publicly released and tabled in Parliament through the year:

- the Treasurer must release the *Mid-Year Economic and Fiscal Outlook (MYEFO)* report within six months of the Budget, or by the end of January in a given year, whichever is later. The MYEFO report must update any information that has changed from the Budget during the year
- the Treasurer must also produce a *Final Budget Outcome (FBO)* within three months of the end of each financial year. The FBO must contain the fiscal outcomes for the Commonwealth for the relevant year.

Every five years the Treasurer must also release and table in Parliament an *Intergenerational Report (IGR)*. The IGR must assess the sustainability of current Government policies over 40 years.

Within 10 days of the calling of a general election, the Secretaries of the Department of Finance and the Treasury must release a *Pre-Election Economic and Fiscal Outlook (PEFO)* report. The PEFO must update any information that has changed from the last budget update.

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

### **Further information**

- [Australian Government Budget 2015–16 website](#)
- Department of Finance, '[Portfolio Budget Statements and Portfolio Additional Estimates Statements](#)'

## **Consolidated Revenue Fund and appropriations**

### **Consolidated Revenue Fund**

The Consolidated Revenue Fund is established by the *Constitution*. All monies received by the Commonwealth must be paid into the Consolidated Revenue Fund, and may not be withdrawn from the Consolidated Revenue Fund without an 'appropriation' by the Parliament.

### **Appropriations**

The legal authorisation by the Parliament for the release of monies from the Consolidated Revenue Fund is known as an 'appropriation,' and is required before any monies may be spent by the Government. A request for the release of monies is made by the introduction of a Bill into the House of Representatives that 'proposes an appropriation.' A Bill that proposes an appropriation may take two general forms:

- an 'annual Appropriation Bill;' or
- a Bill that includes a 'special appropriation'.

### **Annual Appropriation Bills**

An annual Appropriation Bill will typically provide for expenditure across a broad range of purposes, but the amount proposed to be appropriated will be finite. Each year, there are at least three annual Appropriation Bills:

- Appropriation Bill (No. 1)
- Appropriation Bill (No. 2)
- Appropriation (Parliamentary Departments) Bill.

Appropriation Bill (No. 1) for a given year will propose to appropriate monies for activities that are part of the 'ordinary annual services' of the Executive Government. Appropriation Bill (No. 2) in a given year will propose to appropriate monies for the 'other' annual services of the Executive Government. The Senate has different powers over Appropriation Bills for the 'ordinary annual services' of the Executive Government and Appropriation Bills for the 'other' annual services of the Executive Government. The difference between the two types of Appropriation Bill, and powers of the Senate over each, are explained in more detail in *Odgers' Australian Senate Practice*, Chapter 13, '[Financial Legislation](#)'.

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

Annual Appropriation Bills provide for around 20 per cent of the Commonwealth's expenditure each year.

### **Special appropriations**

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

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

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

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

Special appropriations provide for around 80 per cent of the Commonwealth’s expenditure each year.

**Further information**

- Department of Finance, *‘Introduction to appropriations’*
- Department of the Senate, *Odgers’ Australian Senate Practice*, Chapter 13, *‘Financial Legislation’*

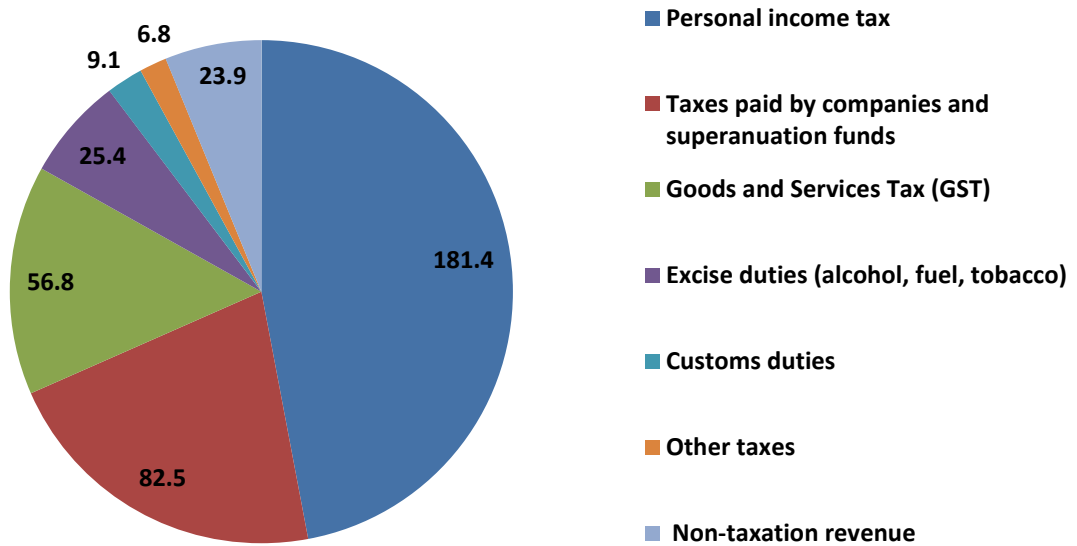
**Revenue and Expenditures**

The Commonwealth’s budget surplus or deficit position is determined by the balance between receipts and payments. The Commonwealth chooses to report its budget surplus or deficit in [cash accounting](#) terms through a measure known as the [underlying cash balance](#). Many other jurisdictions, such as several of the states and territories, use the alternate [accrual accounting](#) measure known as the [fiscal balance](#).

**Revenue by type**

The revenues of the Commonwealth come mostly from taxes. Non-taxation revenues include monies from the sale of goods and services, dividends, and interest. In 2014–15, total Commonwealth revenues were anticipated to be \$385.8 billion. Chart 1 shows the anticipated composition of Commonwealth revenues for 2014–15.

*Chart 1: Government revenue by type, 2014–15 (\$’billion)*



Source: *2014–15 Mid-Year Economic and Fiscal Outlook*, Table 3.12.

The amounts received by the Commonwealth as tax receipts will vary from year to year because of changes occurring in the economy.

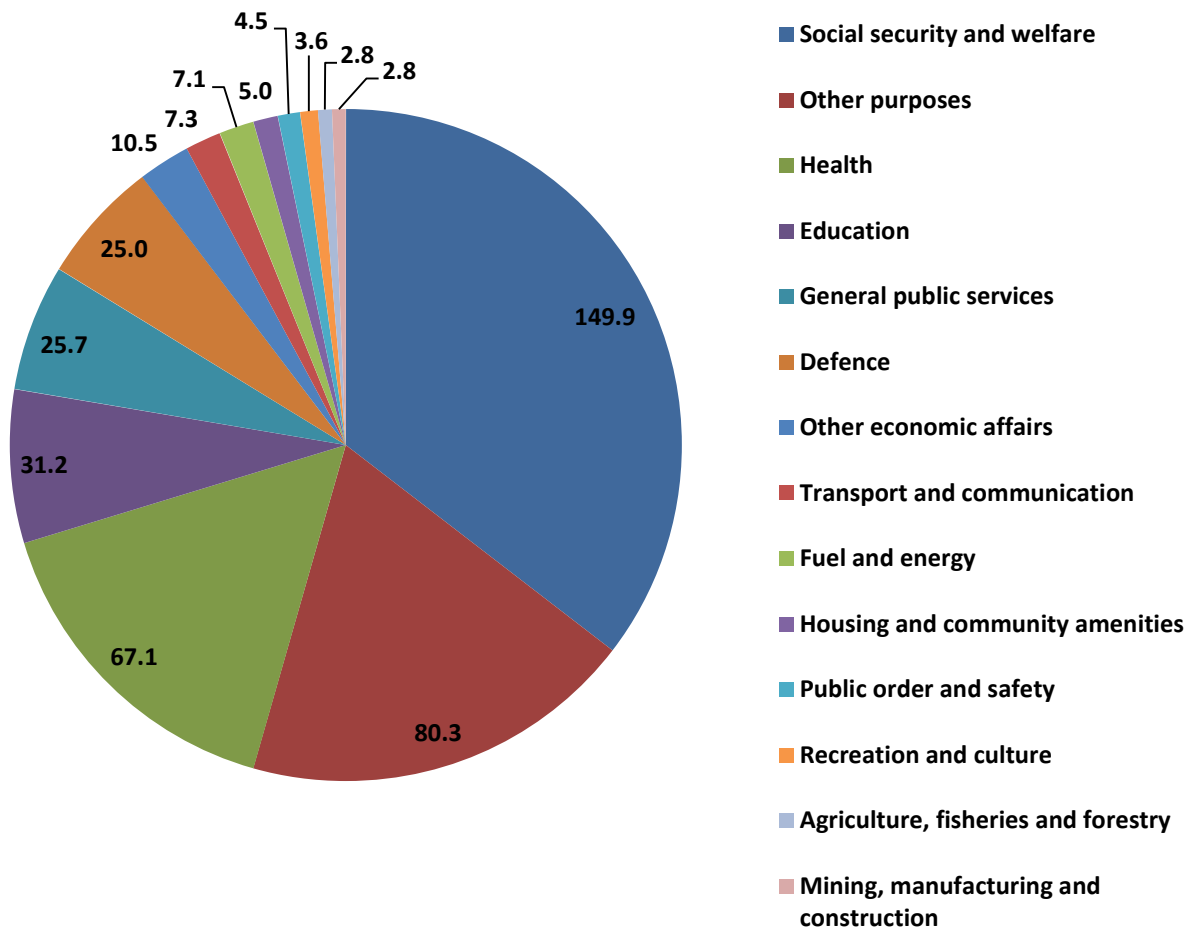
**Example:** Companies pay tax on their profits. If company profits are lower, Commonwealth tax receipts from companies are also likely to be lower.

Changes to revenues because of factors outside the direct control of the Government are an example of a [parameter variation](#).

**Expenditure by function**

In 2014–15, total anticipated expenditure by the Commonwealth was anticipated to be \$422.9 billion. Chart 2 shows the anticipated Commonwealth expenditure by function for 2014–15.

Chart 2: Expenditure reported by function, 2014–15 (\$'billion)



Source: 2014–15 Mid-Year Economic and Fiscal Outlook, Table 3.22.

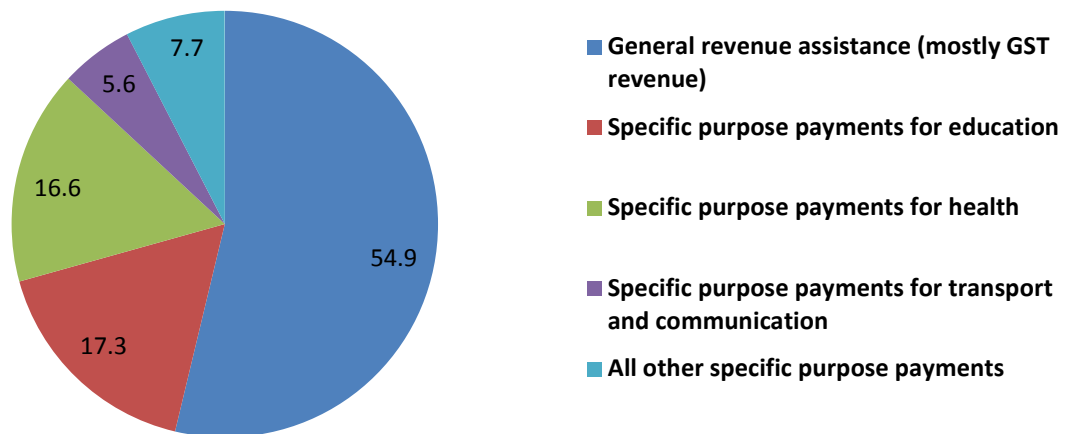
Where a program requires monies to be spent whenever certain criteria are met, the Government may have no direct control over the total cost of the program.

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

Programs that provide monies whenever criteria certain are met are often known as ‘demand-driven programs’. Changes to the amount expended under demand-driven programs from year to year are another example of a [parameter variation](#).

‘Other purposes’ expenditure is largely made up of payments to states and territories. In 2014–15, total payments to the states and territories were anticipated to be \$102.1 billion. The anticipated composition of payments to the states and territories in 2014–15 is shown at Chart 3 below.

Chart 3: Payments to the states and territories by function, 2014–15 (\$'billion)



Source: 2014–15 Mid-Year Economic and Fiscal Outlook, Table 3.25.

#### Further information

- Australian Bureau of Statistics, [Government Finance Statistics, Australia, 2012–13](#) (cat. no. 5512.0)
- Australian Bureau of Statistics, [‘Taxation Revenue, Australia, 2012–13’](#) (cat. no. 5506.0)
- Australian Tax Office, [‘Taxation statistics 2012–13’](#)
- Parliamentary Budget Office, [‘Research Reports’](#)
- The Treasury, [‘Treasury’s medium-term economic projection methodology’](#)

## Appendix: Key concepts used in the Budget

### Accrual accounting

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

### Cash accounting

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

### Charter of Budget Honesty

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

### Departmental and administered

An administered item is an item that a Commonwealth entity administers of behalf of the Commonwealth as a whole. An administered item may be an item of expenditure, a revenue, or an asset. A Commonwealth entity has no discretion about what it can do with an administered item.

Departmental items are expenditure, revenues, or assets over which a Commonwealth entity has discretion about how it may be used.

### Fiscal balance

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

### Non-corporate Commonwealth entities and corporate Commonwealth entities

Under section 11 of the [Public Governance, Performance and Accountability Act 2013](#), all Commonwealth entities are classified as either 'non-corporate Commonwealth entities' or 'corporate Commonwealth entities.' Non-corporate Commonwealth entities are legally part of the Commonwealth, such as departments, or courts and tribunals. Corporate Commonwealth entities are legally corporations, which give them a separate legal identity to that of the Commonwealth.

### Outcomes and programs

An outcome is the purpose for which monies are appropriated to non-corporate Commonwealth entities. A program is an activity that is undertaken by a Commonwealth entity to achieve an 'outcome.' For each outcome, there will be one or more programs.

### Parameter variation

A parameter variation is a change to the revenues or expenses of the Commonwealth that is outside the direct control of the Government.

### Underlying Cash Balance

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

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