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DEPARTMENT OF PARLIAMENTARY SERVICES

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INFORMATION ANALYSIS ADVICE

Understanding the Budget

Adrian Makeham-Kirchner

Phillip Hawkins

Dr Jonathon Deans

Economics Section

Parliamentary Library



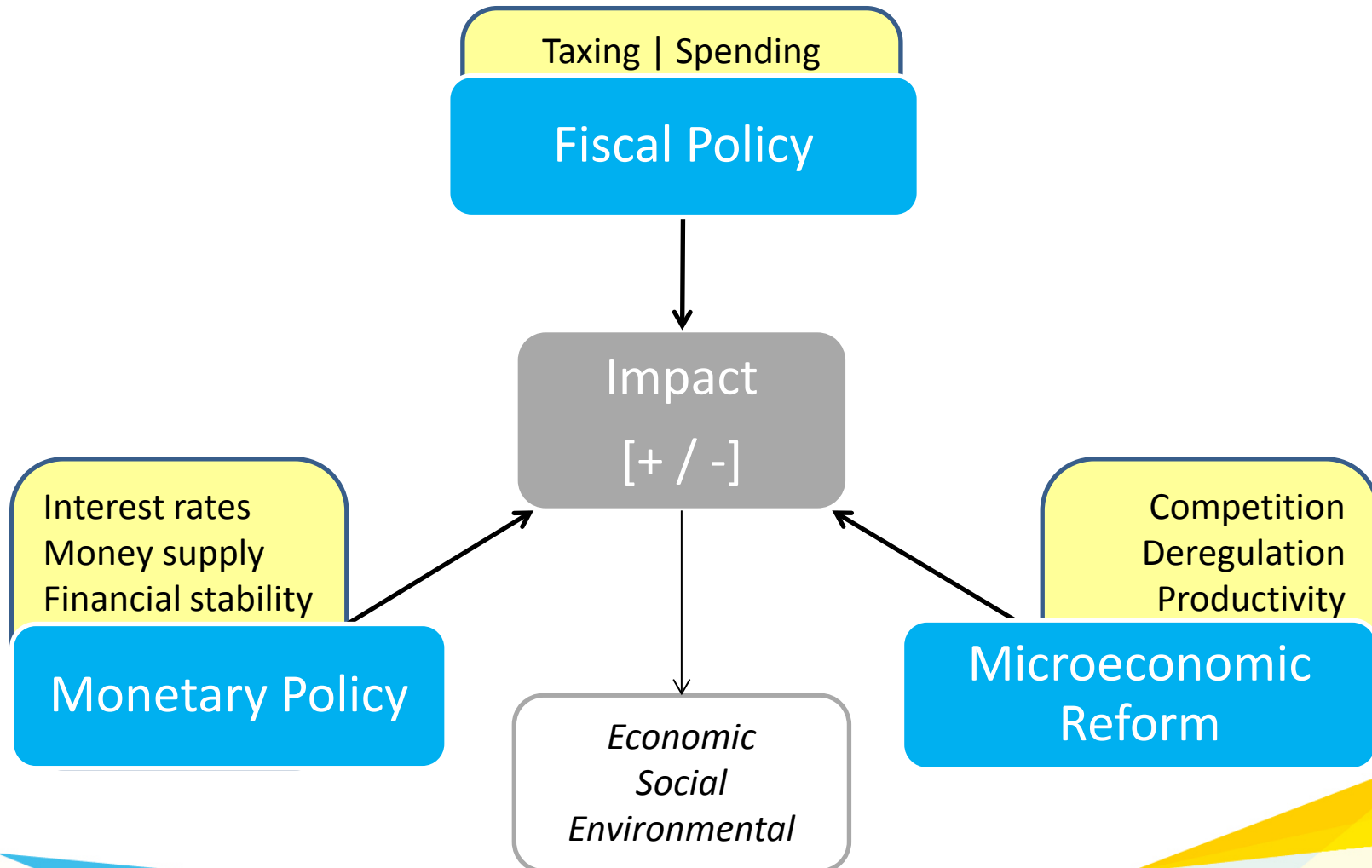


Part 1: What is the Budget?

Adrian Makeham-Kirchner



The policy toolkit





s81. All revenues or moneys raised or received by the Executive Government of the Commonwealth shall form one *Consolidated Revenue Fund*, to be appropriated for the purposes of the Commonwealth in the manner and subject to the charges and liabilities imposed by this Constitution.

s83. No money shall be drawn from the Treasury of the Commonwealth except under *appropriation made by law*.



s54. The proposed law which appropriates revenue or moneys for the ordinary annual services of the Government shall deal only with such appropriation.

s55. Laws imposing *taxation* shall deal only with the imposition of taxation, and any provision therein dealing with any other matter shall be of no effect.



Legal and Policy

Appropriation

How Parliament legally releases money from the Consolidated Revenue Fund to the Executive

Budget Papers

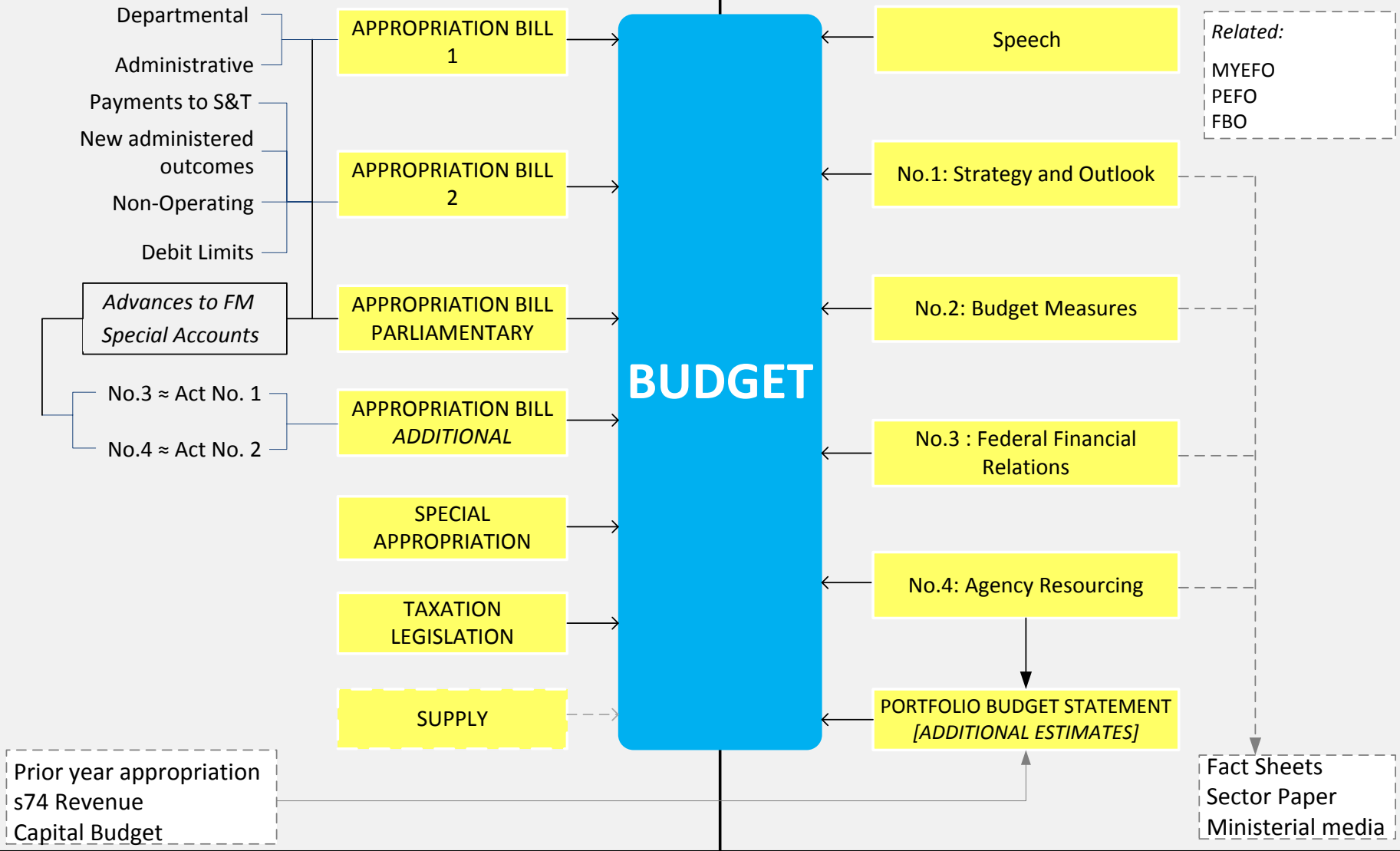
A point in time explanation of how the appropriated money will be distributed, and the annual statement of Government priorities



CONSTITUTIONAL

POLICY

BUDGET





Annual and special

Annual [and additional]

Appropriation Bills 1-4 and
Parliamentary Depts.
(maybe more, depending
on need)

- Limited by amount
- About 20 per cent of total

Special [or standing]

Determined by rules
established in specific
legislation

- Limited by criteria
- About 80 per cent of total



Types of appropriation

Administered

Activities administered by an agency *on behalf of Government*

- Social security payments
- Health and education payments
- Revenue receipts

Departmental

Activities administered by an agency for which they have *substantial control*

- Salaries
- Supplies and services
- Programs



Special Accounts

An amount of money earmarked in the Consolidated Revenue Fund for a specific purpose, which may only be spent on that purpose

- Established by Ministerial determination under the *PGPA Act*
- Created in specific legislation
- May only be drawn when the criteria attaching to the special account are met

* Special accounts are a limited special appropriation.

Contingency and flexibility

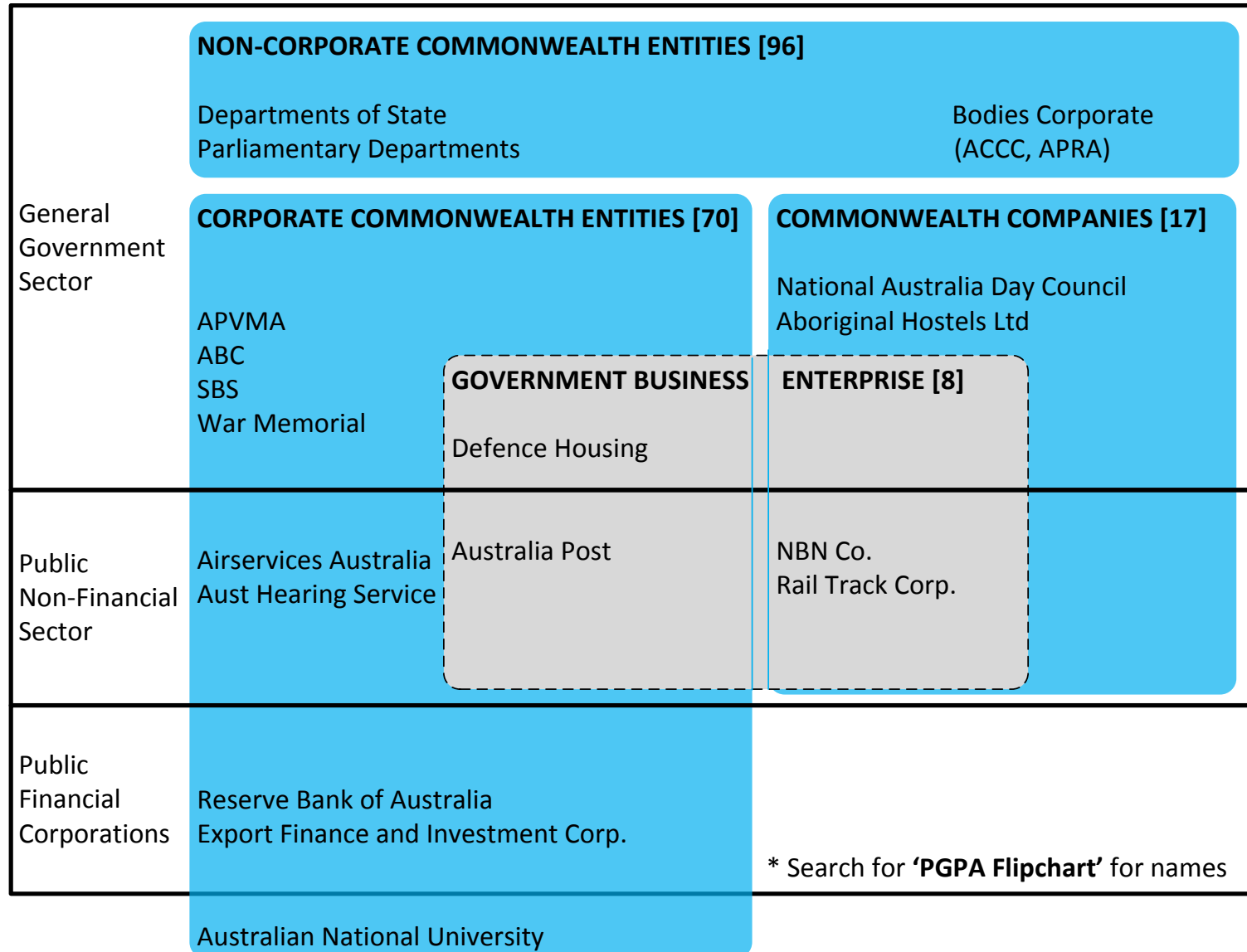
Budgeting is based on assumptions and modelling. The Budget has flexibility built in:

- ***Contingency Reserve***: used to reflect impacts that cannot be allocated to agency or functional areas (e.g. provisions for underspend, conservative bias, commercial or security in-confidence, decisions taken but not announced).
- ***Advances to the Finance Minister***: provisions in Appropriation Acts which enable the provision of additional appropriation throughout the financial year

Note: These are different to '**Contingent Liabilities**', which are commitments that may give rise to a cost as a result of a future event (e.g. indemnities, guarantees, warranties). Knowing contingent liabilities helps predict future risks to the Budget.



Different sectors





Part 2: The Budget Papers

Phillip Hawkins



What is in the Budget papers?

- An economic statement
 - What is expected to happen in the economy
- A fiscal policy statement
 - How does what is happening in the economy affect the Budget?
 - The Government's proposed policy agenda
- Summary financial statements

Policy and parameter variations



PARAMETER VARIATION

- GDP
- Employment + wages
- Consumer prices
- Investment

Outside the
Government's/Parliament's
direct control

POLICY VARIATION

- New expenditure
- Changes to tax rules/rates
- Changes to eligibility

Within the
Government's/Parliament's
direct control

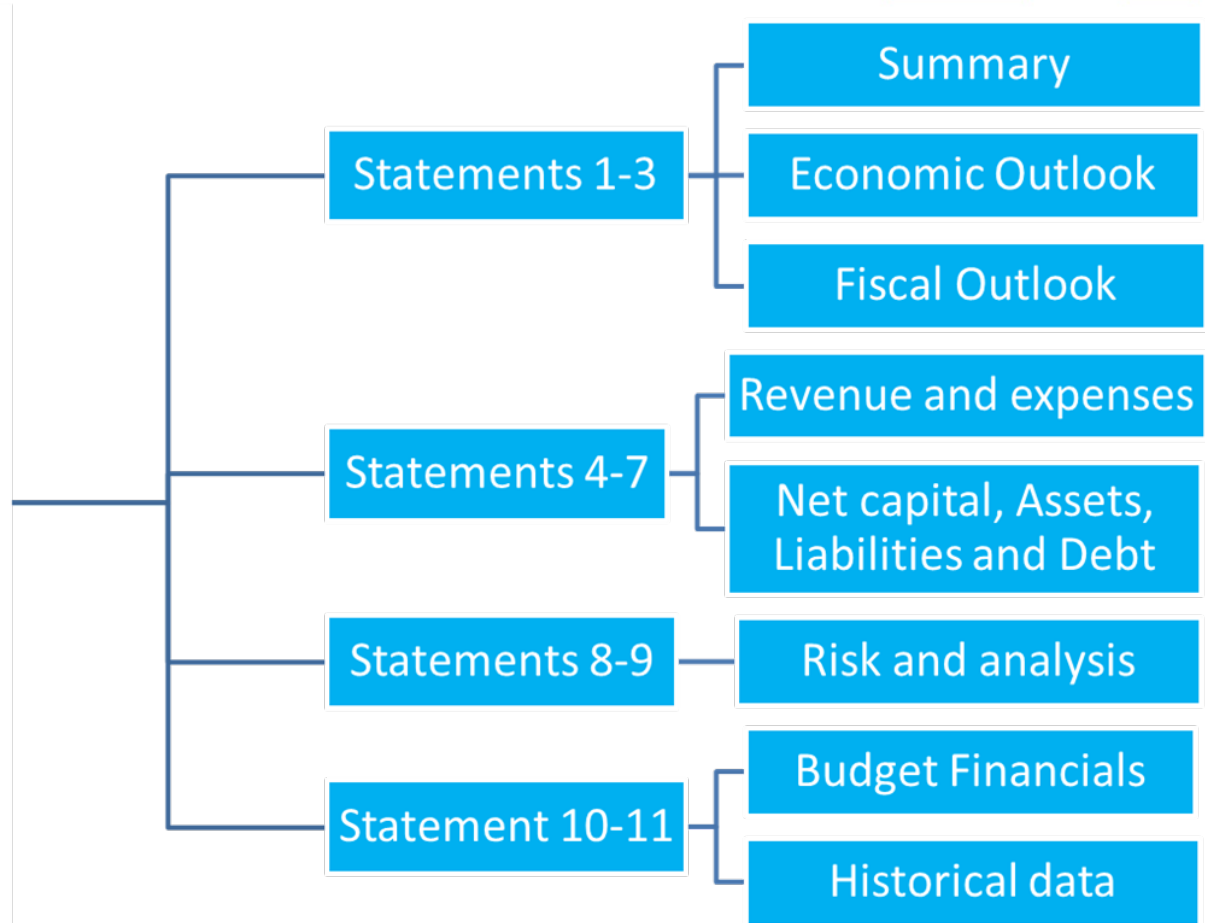


Budget 2017-18

Budget Strategy and Outlook
Budget Paper No. 1
2017-18

Circulated by
The Honourable Scott Morrison MP
Treasurer of the Commonwealth of Australia
and
Senator the Honourable Mathias Cormann
Minister for Finance of the Commonwealth of Australia

For the information of honourable members
on the occasion of the Budget 2017-18
9 May 2017



Statement 1-3: Economic Outlook and Fiscal Outlook + Strategy



Statement 1- Overview

- Overview of the Budget
- Government's Priorities
- Government's economic message



Statement 2 – Economic Outlook

- General economic outlook
- Key economic parameters which drive Budget revenue and expenditures
- **“Parameter variations”**



Statement 3 – Fiscal Outlook

- Summary of the Government's fiscal strategy
- Major policy decisions that impact Budget revenue and expenditures
- **“Policy Variations”**



Statement 1-3: Economic Outlook and Fiscal Strategy + Outlook

Medium-term fiscal strategy

The Government's medium-term fiscal strategy is to achieve budget surpluses, on average, over the course of the economic cycle. The fiscal strategy underlines the commitment to budget discipline and outlines how the Government will set medium-term fiscal policy while allowing for flexibility in response to changing economic conditions.

The strategy is underpinned by the following four policy elements:

- investing in a stronger economy by redirecting Government spending to quality investment to boost productivity and workforce participation;
- maintaining strong fiscal discipline by controlling expenditure to reduce the Government's share of the economy over time in order to free up resources for private investment to drive jobs and economic growth, with:
 - the payments-to-GDP ratio falling;
 - stabilising and then reducing net debt over time;
- supporting revenue growth by supporting policies that drive earnings and economic growth; and
- strengthening the Government's balance sheet by improving net financial worth over time.

Budget repair strategy

The budget repair strategy is designed to deliver sustainable budget surpluses building to at least 1 per cent of GDP as soon as possible, consistent with the medium-term fiscal strategy.

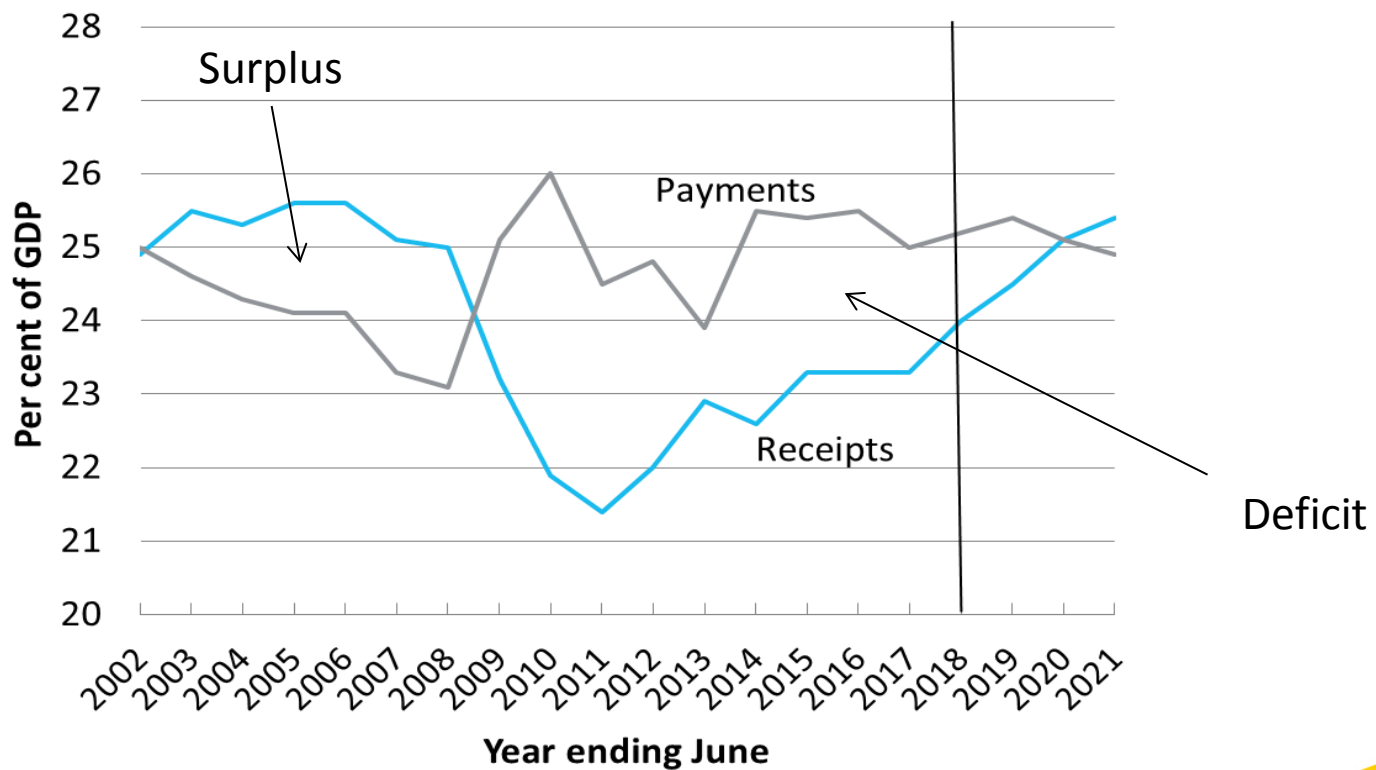
The strategy sets out that:

- new spending measures will be more than offset by reductions in spending elsewhere within the budget;
- the overall impact of shifts in receipts and payments due to changes in the economy will be banked as an improvement to the budget bottom line, if this impact is positive; and
- a clear path back to surplus is underpinned by decisions that build over time.

The budget repair strategy will stay in place until a strong and sustainable surplus is achieved and so long as economic growth prospects are sound and unemployment remains low.

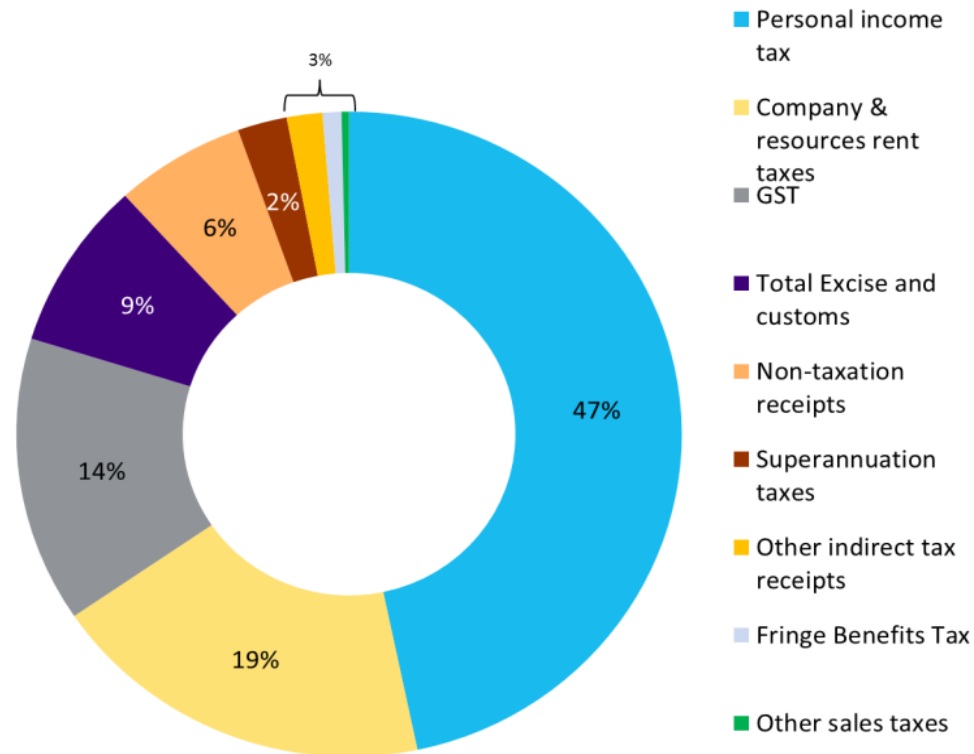


Statement 4 -7: Revenue & expenses and liabilities

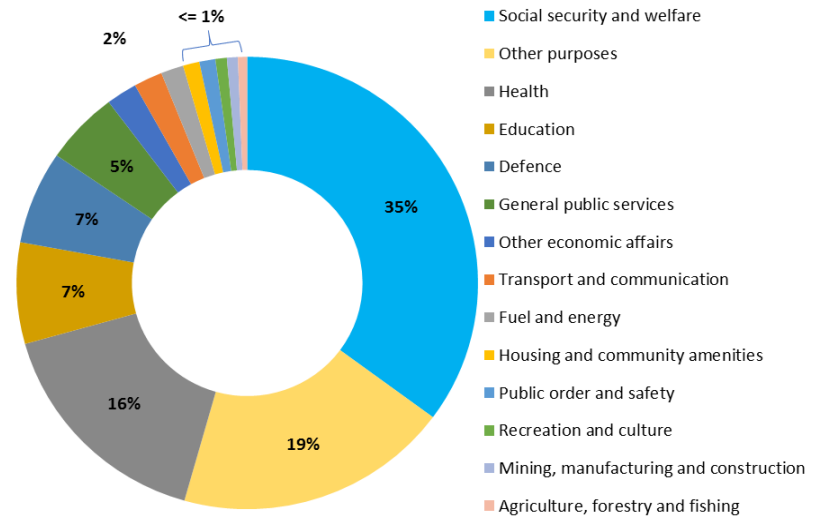
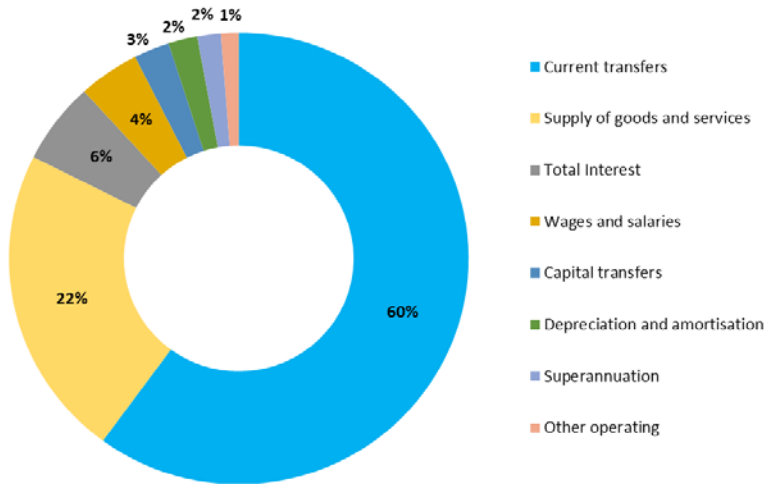




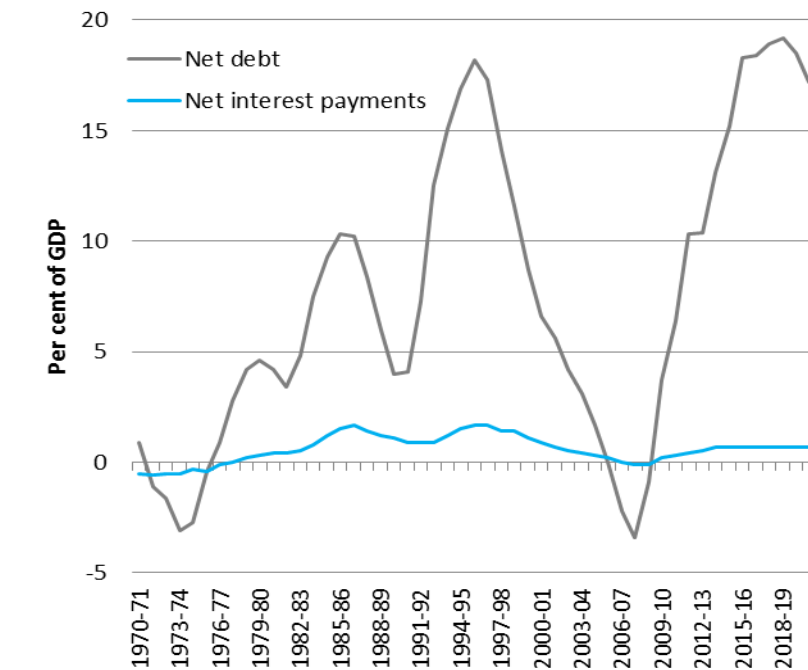
Statement 4 -7: Revenue & expenses and liabilities



Statement 4 -7: Revenue & expenses and liabilities

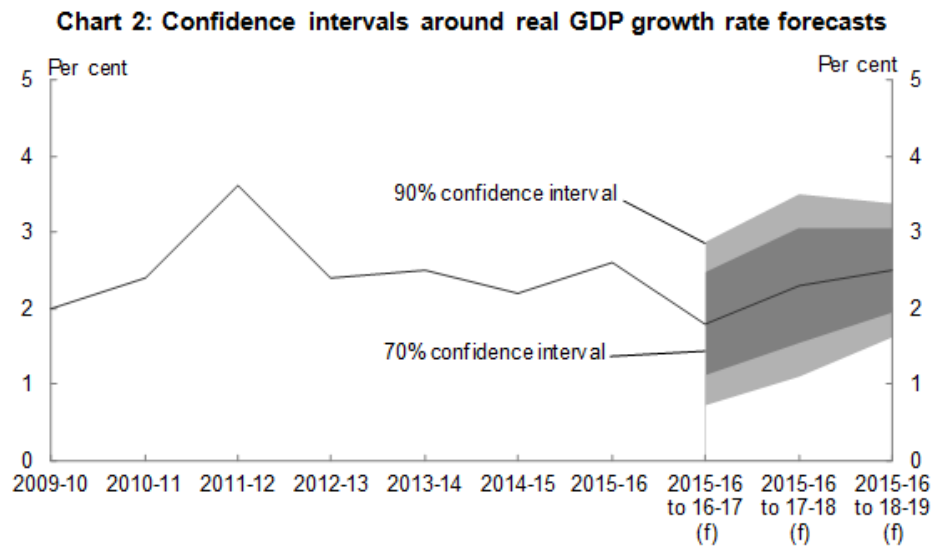


Statement 4 -7: Revenue & expenses and liabilities



Statement 8-9: Risk and analysis

- Forecasting is an inexact science
 - Scenario analysis – what happens if the economic parameters are different to what is expected?





Statement 8-9: Risk and analysis

- Downside risks
 - Specific program risks
 - Contingent liabilities (including loans, indemnities, guarantees etc..)

For example – the Financial Claims Scheme which guarantees deposits in the event of a bank crisis



Budget 2017-18

Budget Measures
Budget Paper No. 2
2017-18

Circulated by
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Costings +
Measure
Descriptions

Revenue Measures

Expenses Measures

Capital Measures

What is a costing?

A costing is an assessment against a **budget baseline** of the **estimated change** to the fiscal position from a policy decision

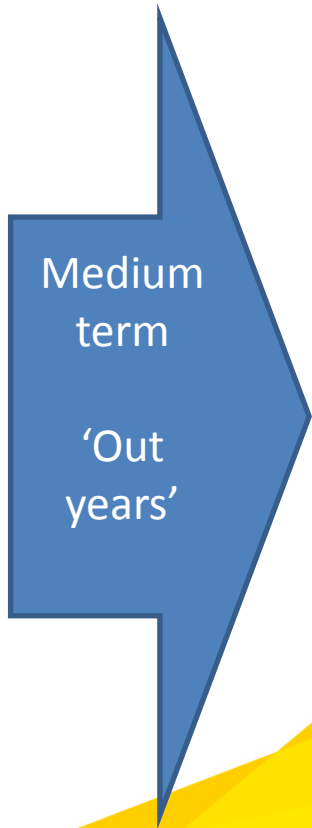
Example – Tobacco tax increase	
<p><u>It usually includes:</u></p> <ul style="list-style-type: none">• Direct ‘static’ impacts• Direct Behavioural impacts	<p>Increased tax on each cigarette sold</p> <p>Reduction in cigarette sales</p>
<p><u>It generally doesn’t include</u></p> <ul style="list-style-type: none">• Broader ‘2nd round’ economic impacts	<p>Grey area</p> <p>Lower company profits</p> <p>Lower company tax revenue</p> <p>Reduced health costs</p>



Costing

Current year + 4 (forward estimates)

		Current year + 4 (forward estimates)				
		2016-17	2017-18	2018-19	2019-20	2020-21
Revenue	Better targeting skilled visas					
	Revenue (\$m)					
	Australian Taxation Office	-	33.9	-34.7	-109.8	-74.0
	Department of Immigration and Border Protection	25.0	1.1	39.7	54.8	-16.0
	Total — Revenue	25.0	35.0	5.0	-55.0	-90.0
Related Expense	<i>Related expense (\$m)</i>					
	<i>Department of the Treasury</i>	-	5.1	-25.9	-47.3	-34.4
	<i>Department of Immigration and Border Protection</i>	-	3.3	-1.3	-0.3	-8.1
	<i>Department of Human Services</i>	-	2.6	-	-	-
	<i>Department of Health</i>	-	0.2	-0.7	-2.3	-9.3
	<i>Department of Education and Training</i>	-	0.1	0.3	-0.1	-3.7
	<i>Department of Social Services</i>	-	-	-	-1.0	-9.8
	Total — Expense	-	11.4	-27.6	-51.1	-65.3
Capital	<i>Related capital (\$m)</i>					
	<i>Department of Immigration and Border Protection</i>	-	5.0	-	-	-





What do the numbers mean?

Revenue

A positive number
=
An increase in revenue
(**better** fiscal position)

A negative number
=
A decrease in revenue
(**worse** fiscal position)

Expense

A positive number
=
An increase in expense
(**worse** fiscal position)

A negative number
=
A decrease in expense
(**better** fiscal position)

Capital

A positive number
=
An increase in capital
expenditure +
an increase in assets

A negative number
=
A decrease in capital
expenditure +
a decrease in assets



Measure description

Multiple changes

The Government will abolish the Temporary Work (Skilled) (subclass 457) visa and replace it with a new Temporary Skill Shortage visa. The new visa will comprise two streams: a short-term stream allowing entry for up to two years and a medium-term stream allowing entry for up to four years. The visa application charges will be increased from the current \$1,060 per primary 457 visa to \$1,150 per primary visa for the short-term stream and \$2,400 per primary visa for the medium-term stream.

Short-term visa holders will be able to renew their visa onshore once and will not be eligible to apply for employer sponsored permanent residency.

Medium-term visa holders will require a higher level of English language proficiency than under the current 457 visa and will be eligible for permanent residency after three years.

Both streams will be subject to tighter eligibility requirements, including at least two years of relevant work experience, labour market testing and mandatory criminal history checks.

Complementary changes will be made to the permanent Employer Nomination Scheme (subclass 186) visa and the permanent Regional Sponsored Migration Scheme (subclass 187) visa. These changes include restoration of the upper age limit for applicants to 45 years and increased English language requirements for some streams.

The skilled occupation lists have also been revised to focus more sharply on skill shortages. The lists will be updated regularly.

These changes are being implemented in stages between April 2017 and March 2018.

} Proposed start date

Fiscal impact

This measure is estimated to have a gain to the budget of \$47.6 million over the forward estimates period.

Further information can be found in the joint press release of 18 April 2017 issued by the Prime Minister and the Minister for Immigration and Border Protection.

} Further information

Things to keep in mind

- Measures are costed over 4 years, but what happens over the out-years/medium-term may be just as important
- The detail may not be in the measure description. It may be outlined elsewhere or *ultimately* in the legislation
- Money isn't raised or spent without a legislative basis



Budget 2017-18

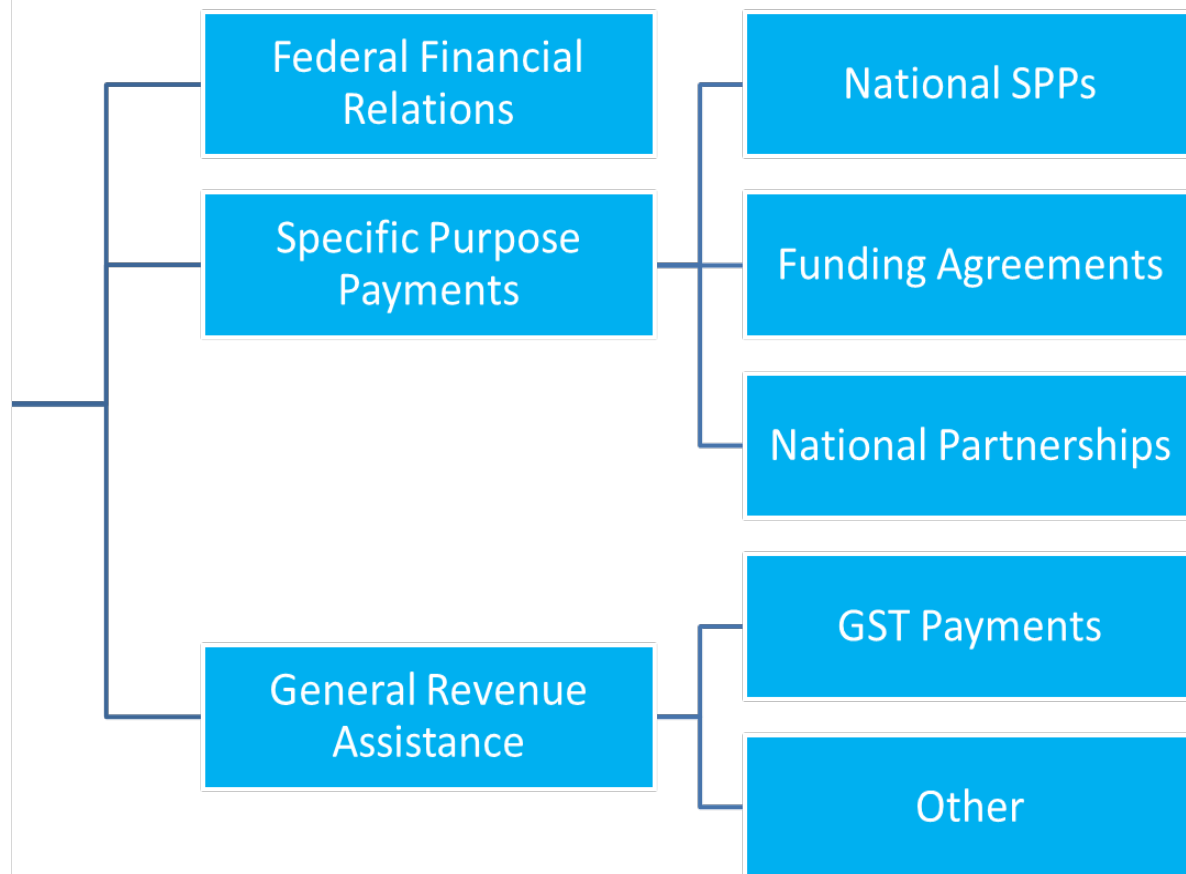
Federal Financial Relations
Budget Paper No. 3
2017-18

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Minister for Finance of the Commonwealth of Australia

For the information of honourable members
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9 May 2017





Total for 2017-18: \$118.741 billion [MYEFO]

Specific

General

National Partnership Agreements

National Partnerships

Other

SPPs

Health Reform

Quality Schools

Housing & Homeless

Support Delivery

Facilitate Reform

Reward

GST

ACT Municipal

Reduced Royalties

Royalty Payments

Snowy Hydro

\$55.6 billion

\$63.1 billion



Budget 2017-18

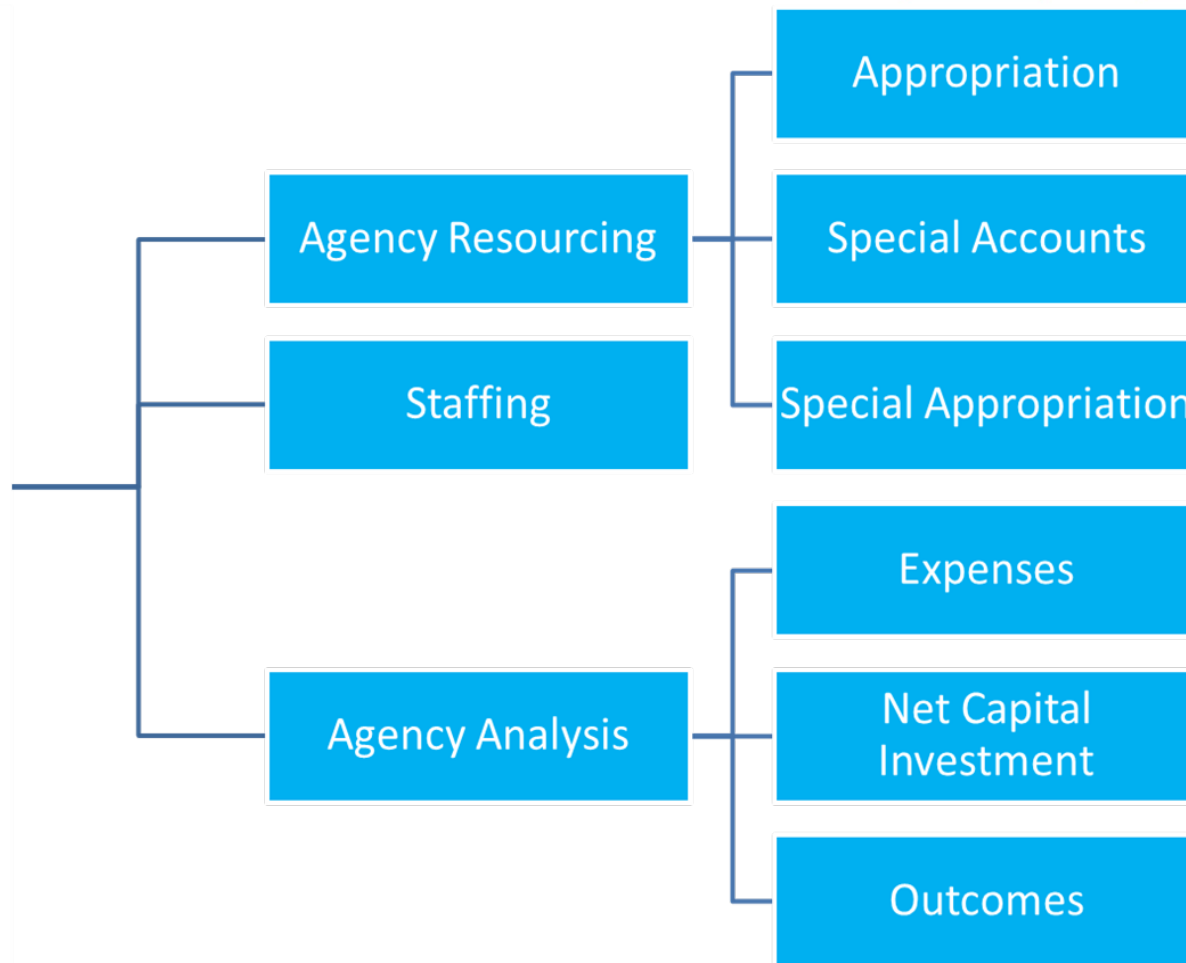
Agency Resourcing
Budget Paper No. 4
2017-18

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9 May 2017





Agency resourcing

FINANCE

Agency Resourcing—2017-2018
Estimated Actual—2016-2017

Entity/Outcome/ Non-operating	Departmental					Administered					Total
	Appropriation Bill No. 1	Appropriation Bill No. 2	Receipts (a)	Special Appropriation	Special Accounts (b)	Appropriation Bill No. 1	Appropriation Bill No. 2		Special Appropriation		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	SPPs \$'000	Other (c) \$'000	\$'000	\$'000	
Department of Finance											
Outcome 1	75,602	-	2,018	-	-	-	-	-	-	77,620	
	113,317	-	2,056	-	-	-	-	-	-	115,373	
Outcome 2	160,764	-	10,901	-	19,309,113	13,358	-	-	7,991,599	27,485,735	
	135,193	-	8,535	-	9,754,074	16,739	-	-	8,969,397	18,883,938	
Outcome 3	27,044	-	9,980	-	-	265,204	-	-	160,698	462,926	
	30,847	-	9,068	-	-	283,343	-	-	185,438	508,696	
Equity Injections	-	64,202	-	-	-	-	-	-	-	64,202	
	-	69,808	-	-	-	-	-	-	-	69,808	
Administered Assets and Liabilities	-	-	-	-	-	-	-	512,404	-	512,404	
	-	-	-	-	-	-	-	1,890	-	1,890	
Special Capital Appropriation	-	-	-	-	-	-	-	-	1,878,629	1,878,629	
	-	-	-	-	-	-	-	-	2,071,674	2,071,674	
Total	263,410	64,202	22,899	-	19,309,113	278,562	-	512,404	10,030,926	30,481,516	
	279,357	69,808	19,659	-	9,754,074	300,082	-	1,890	11,226,509	21,651,379	
Commonwealth Superannuation Corporation											
Outcome 1	-	-	-	-	107,471	-	-	-	-	107,471	
	-	-	-	-	2,183,497	-	-	-	-	2,183,497	
Total	-	-	-	-	107,471	-	-	-	-	107,471	
	-	-	-	-	2,183,497	-	-	-	-	2,183,497	



Special accounts

	Budget Estimate—2017-2018					Closing Balance (\$'000)
	Opening Balance (\$'000)	Receipts (Non- Appropriated) (\$'000)	Receipts (Appropriated) (\$'000)	Payments (\$'000)	Adjustments (\$'000)	
FINANCE PORTFOLIO						
Department of Finance						
Building Australia Fund Special Account	-	3,865,469	-	-3,865,469	-	-
	-	82,384	-	-82,384	-	-
Business Services Special Account	-	-	-	-	-	-
	5,856	-	-	-	-5,856	-
Comcover Special Account	476,601	142,441	8,004	-150,445	-	476,601
	434,543	141,128	9,067	-108,137	-	476,601
Coordinated Procurement Contracting Special Account	51,569	19,326	1,201	-54,412	-	17,684
	48,728	169,070	3,977	-170,206	-	51,569
DisabilityCare Australia Fund Special Account	-	8,658,832	-	-8,658,832	-	-
	-	7,667,827	-	-7,667,827	-	-
Education Investment Fund Special Account	-	3,868,761	-	-3,868,761	-	-
	-	102,192	-	-102,192	-	-
Health and Hospitals Fund Special Account	-	-	-	-	-	-
	-	-	-	-	-	-
Lands Acquisition Account	-	-	-	-	-	-
	-	-	-	-	-	-
Medical Research Future Fund Act 2015	-	2,599,164	-	-2,599,164	-	-
	-	1,458,982	-	-1,458,982	-	-
Property Special Account 2014	157,925	155,120	74,582	-257,767	-	129,860
	239,295	132,491	127,564	-341,425	-	157,925
Services for Other Entities and Trust Moneys Special Account - Department of Finance and Deregulation	-	-	-	-	-	-
	-	-	-	-	-	-
Total: Department of Finance	686,095	19,309,113	83,787	-19,454,850	-	624,145
	728,422	9,754,074	140,608	-9,931,153	-5,856	686,095



Staffing levels

	Average staffing levels #		
	2016-17 ASL	2017-18 ASL	Change
Finance			
Department of Finance (s)	1,318	1,257	-61
Australian Electoral Commission (t)	819	795	-24
Commonwealth Superannuation Corporation (u)	455	476	21
Future Fund Management Agency (v)	138	167	29
Independent Parliamentary Expenses Authority (w)	16	66	50
Total	2,746	2,760	14



Outcomes statements

Finance		
Entity	Outcome	Description
Department of Finance	1	Support sustainable Australian Government finances through providing high quality policy advice and operational support to the government and Commonwealth entities to maintain effective and efficient use of public resources.
Department of Finance	2	Support an efficient and high-performing public sector through providing leadership to Commonwealth entities in ongoing improvements to public sector governance, including through systems, frameworks, policy, advice and service delivery.
Department of Finance	3	Support for Parliamentarians and others as required by the Australian Government through the delivery of, and advice on, work expenses and allowances, entitlements and targeted programs.



Additional documentation

Portfolio

Portfolio Budget Statements and Additional Estimates

- Resourcing (link to BP4)
- Measures
- Outcomes and programmes
- Financial Statements

Whole of Government

- Mid Year Economic and Fiscal Outlook
- Pre-election Fiscal Outlook
- Final Budget Outcome
- Monthly reporting



Part 3: Economic Outlook

Dr Jonathon Deans



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DEPARTMENT OF PARLIAMENTARY SERVICES

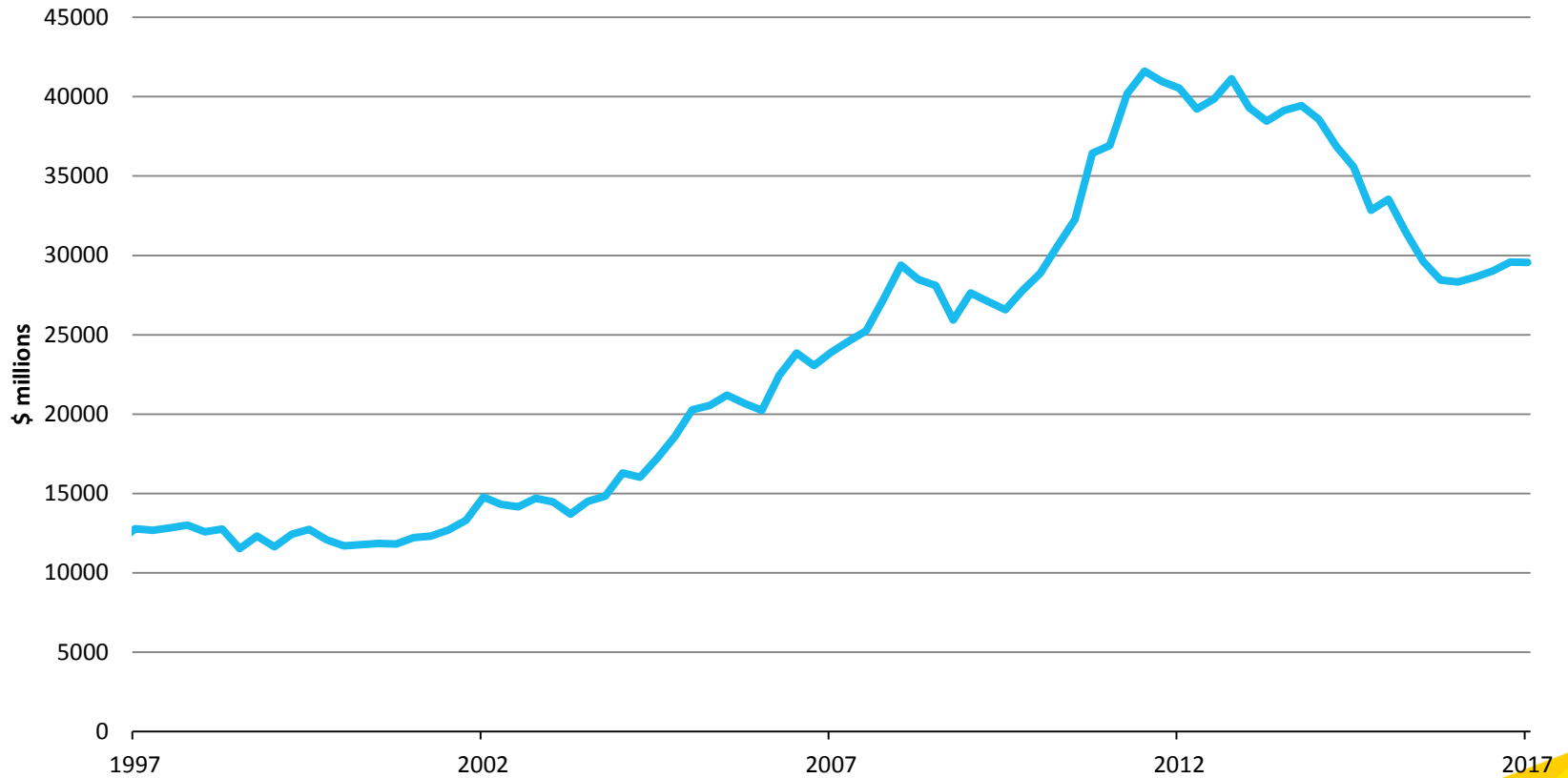
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INFORMATION ANALYSIS ADVICE

Outlook for the domestic economy

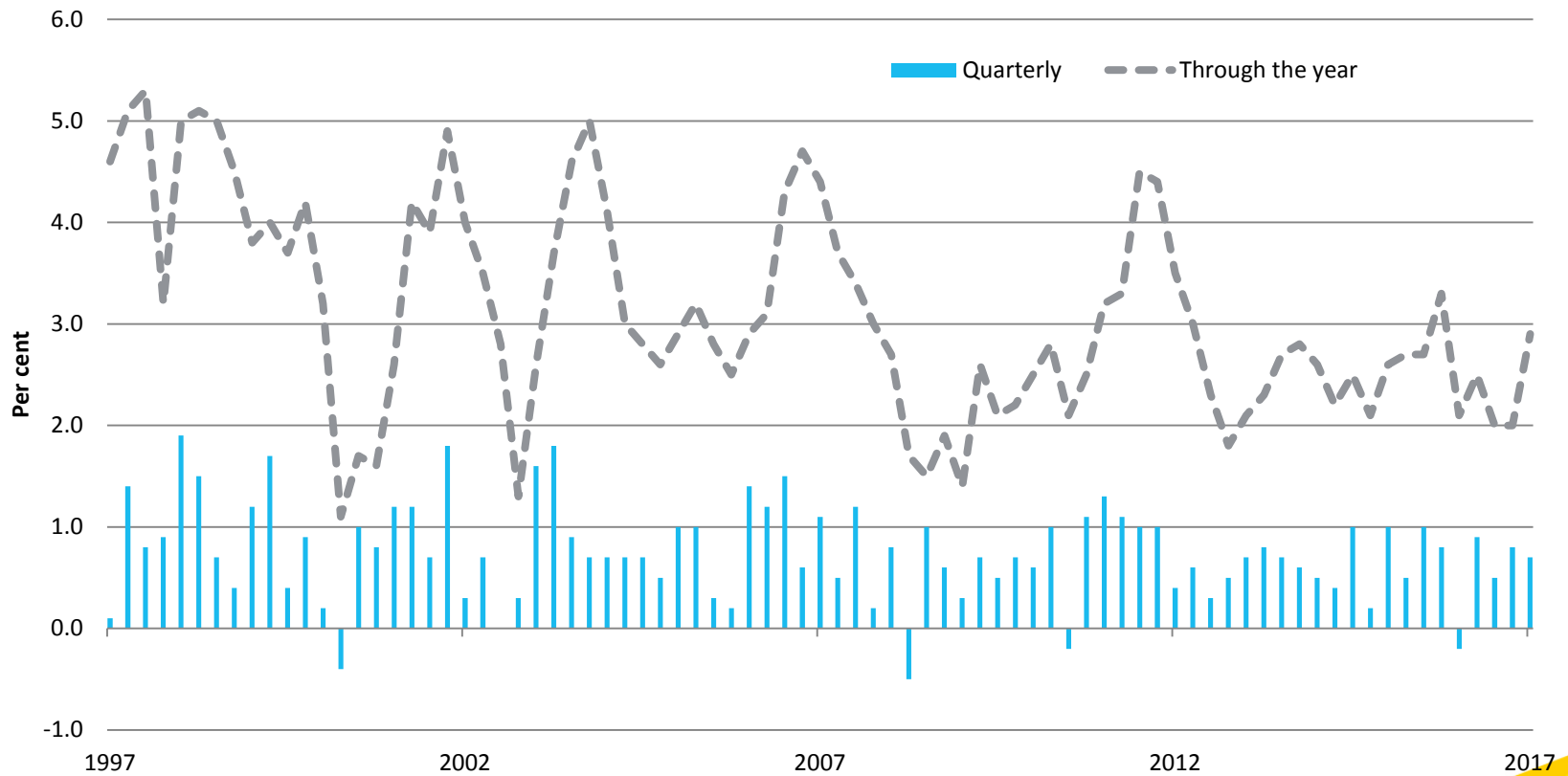


Private investment



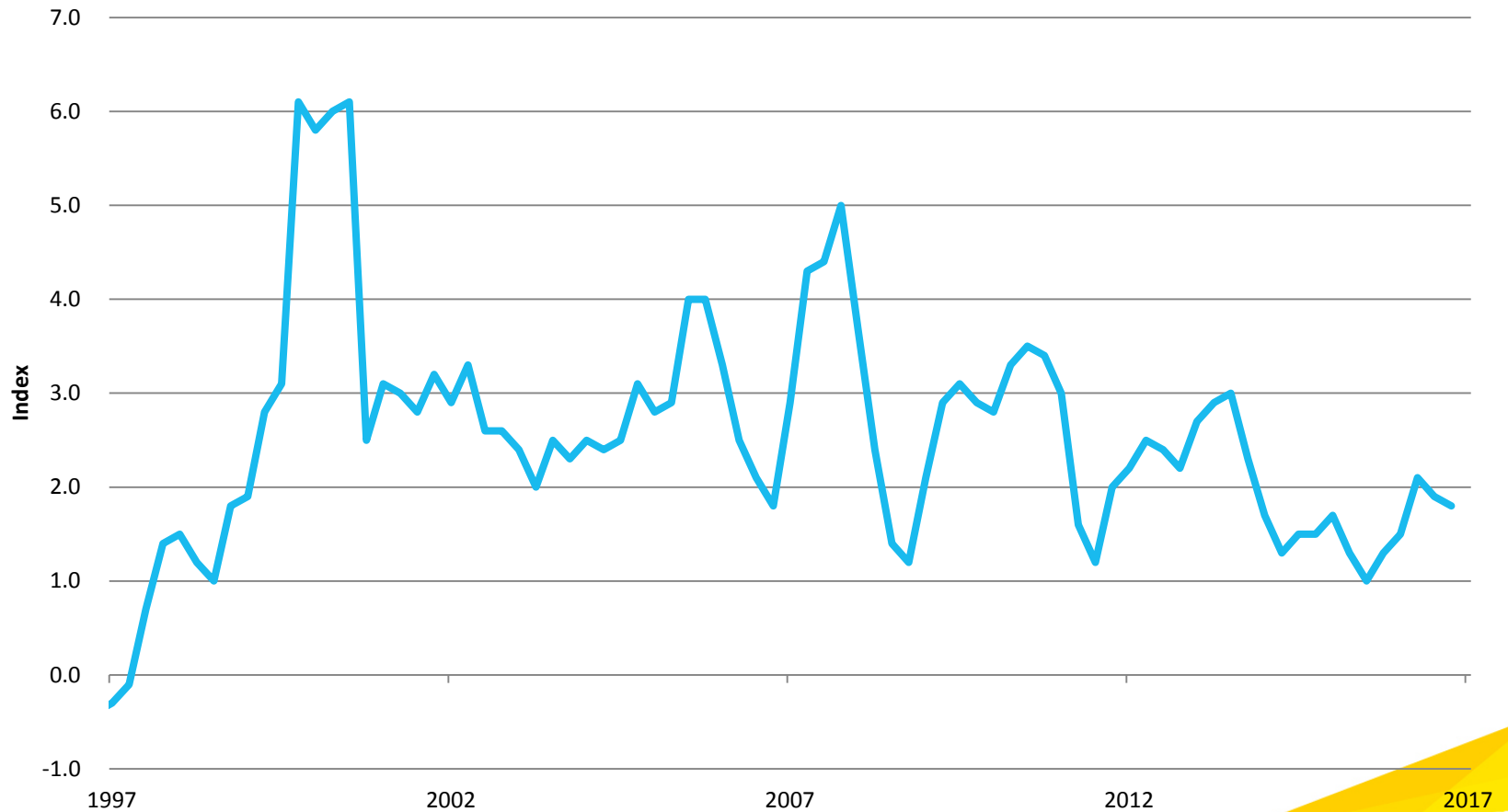


Gross domestic product



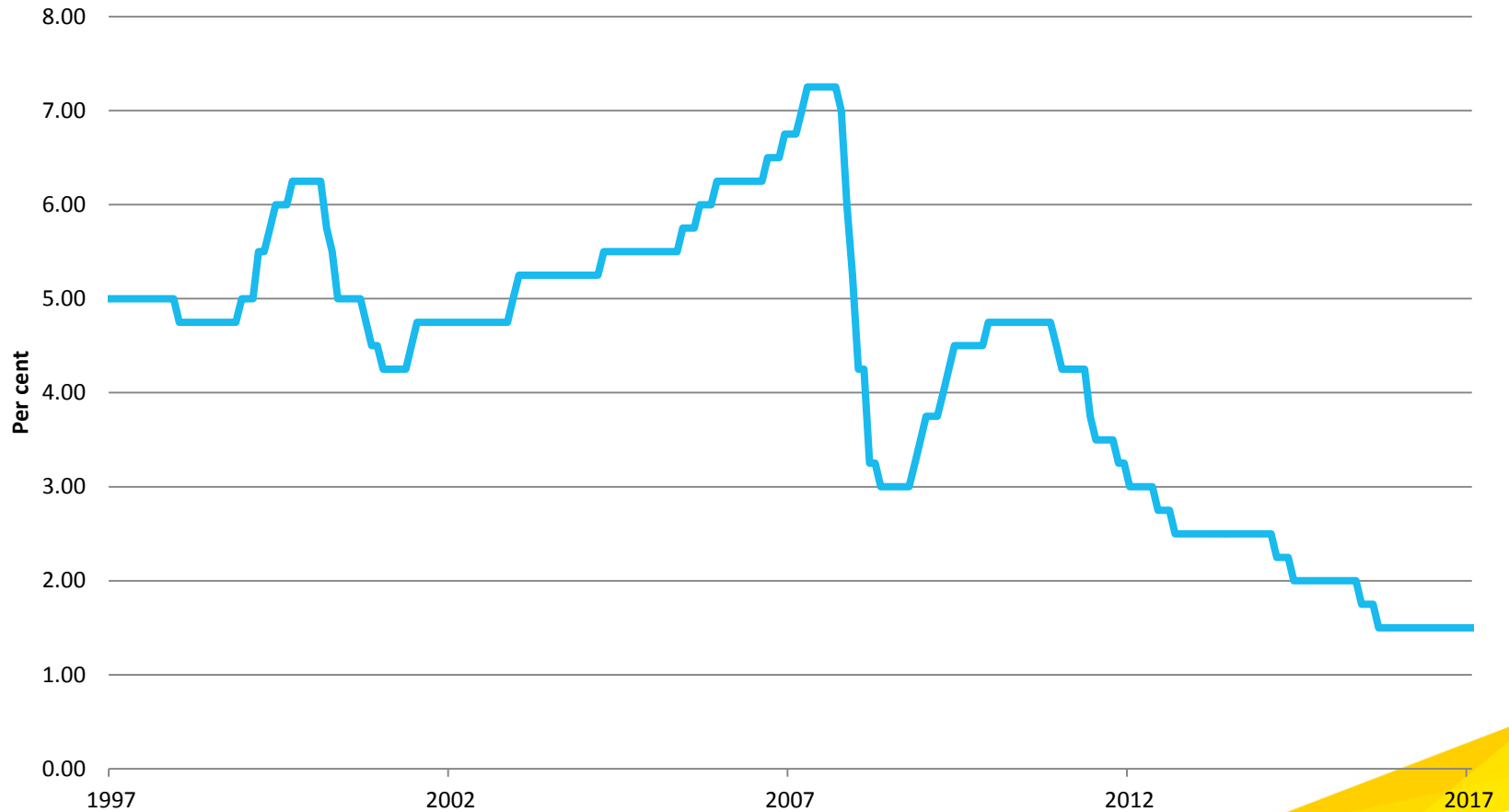


Inflation



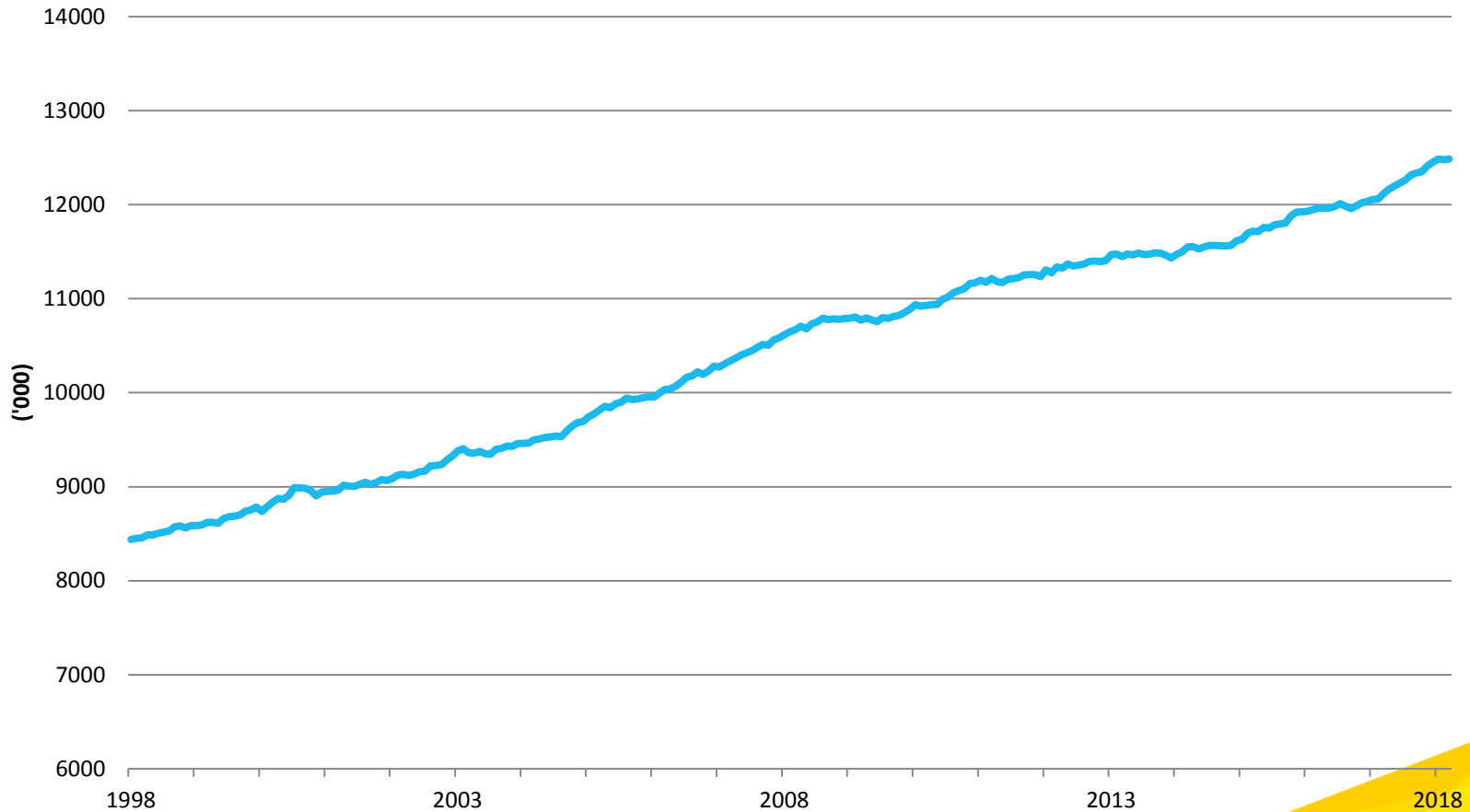


RBA Cash Rate



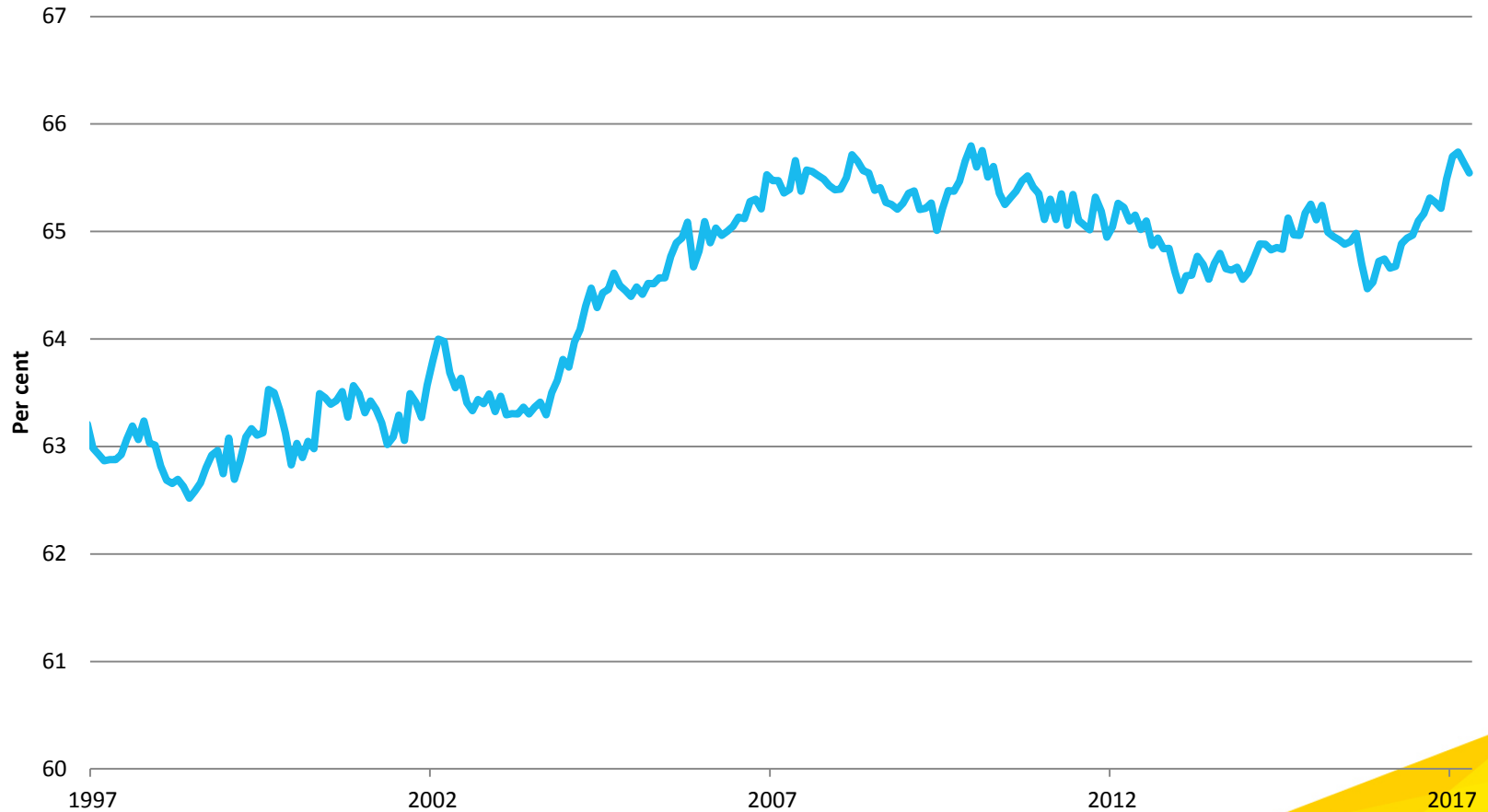


Employment



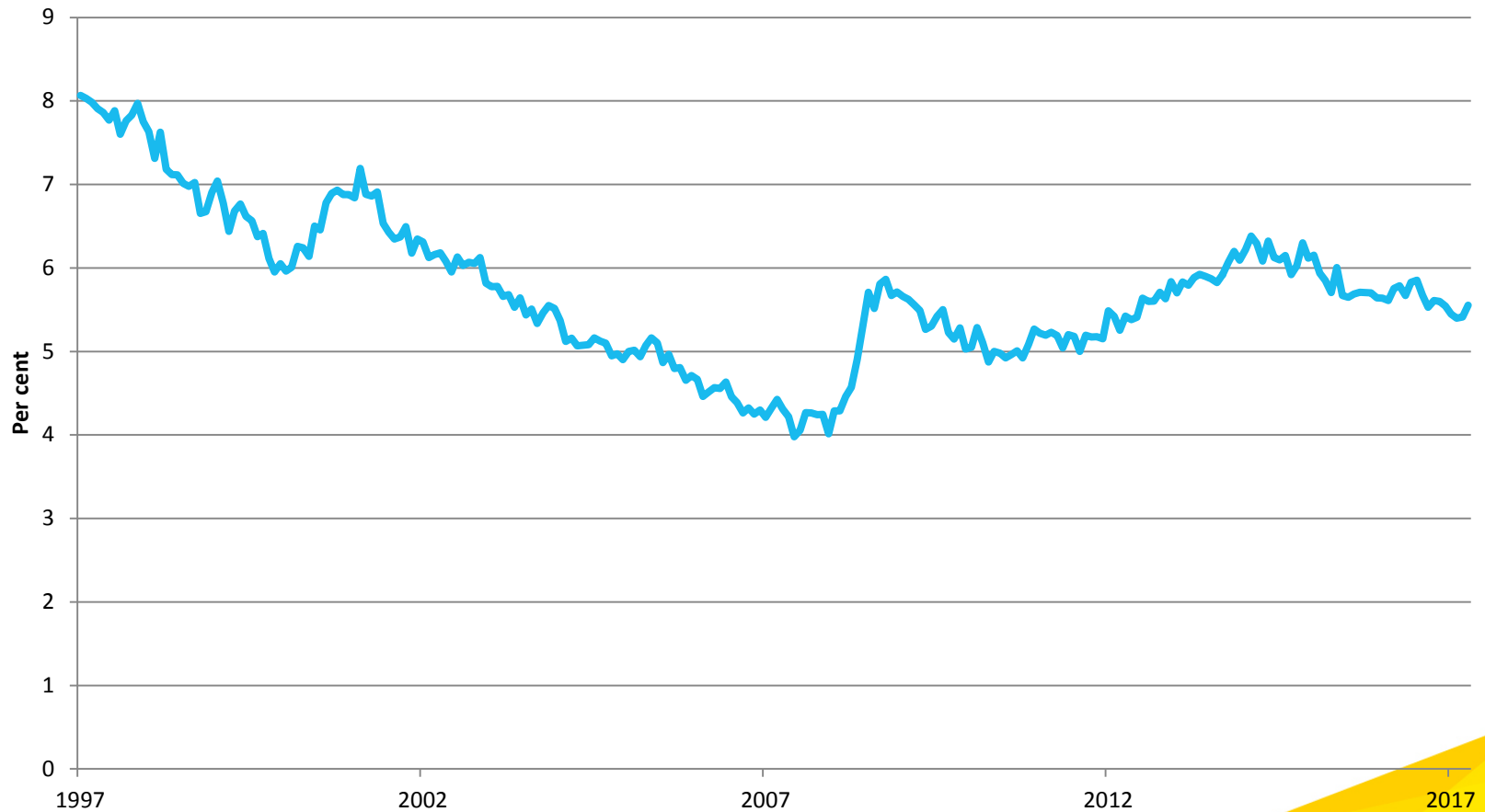


Participation



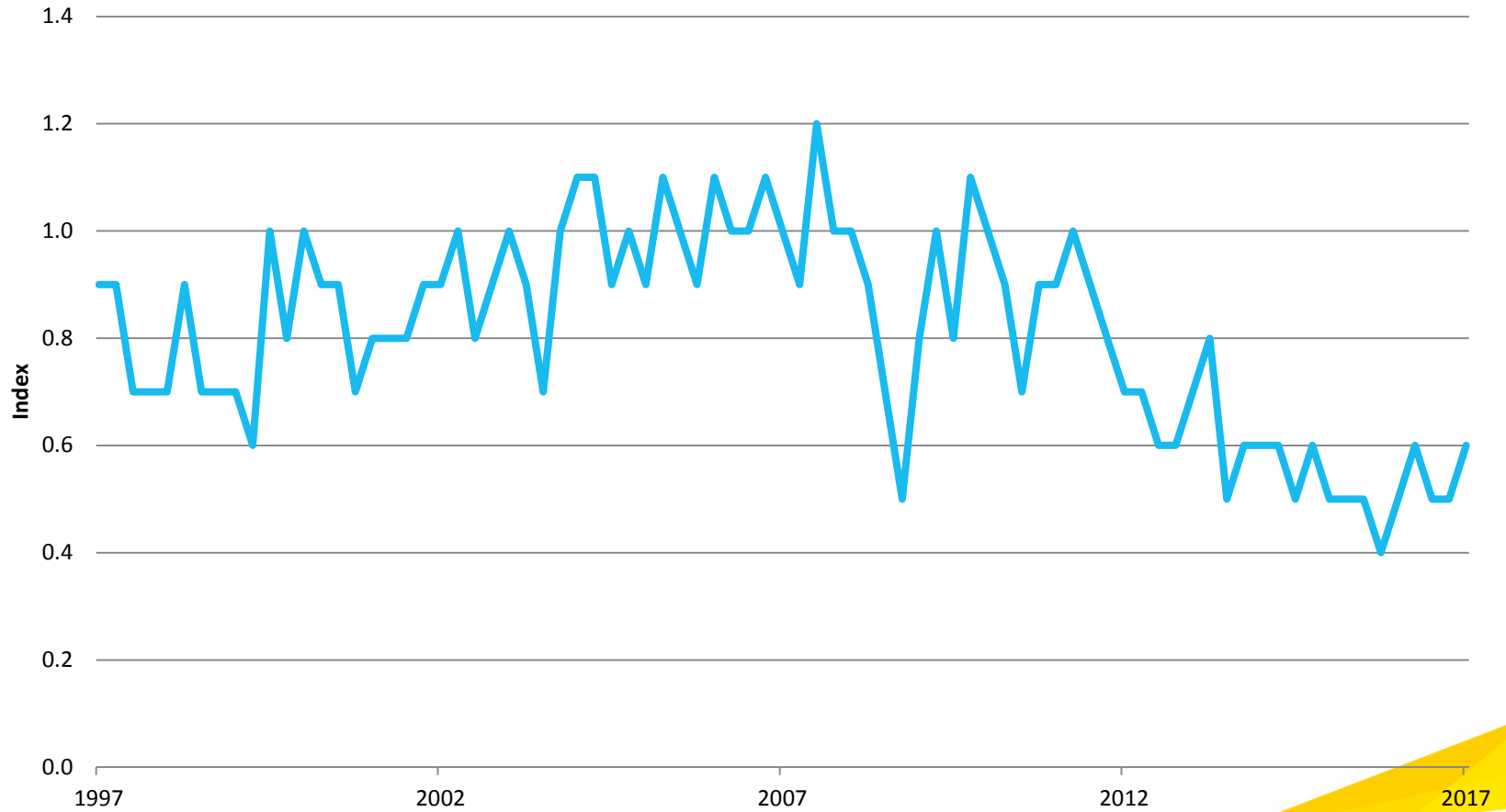


Unemployment





Wages

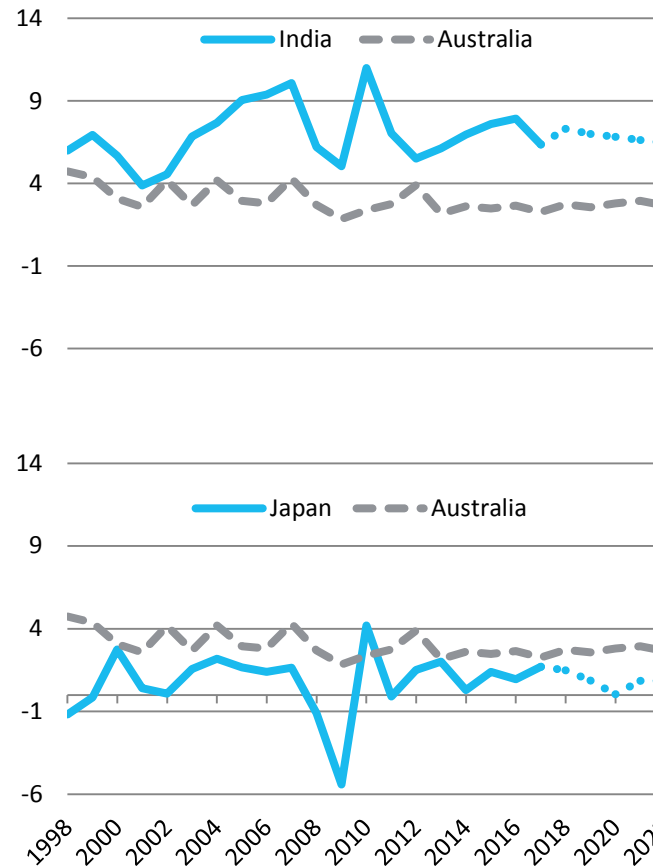




Outlook for the global economy

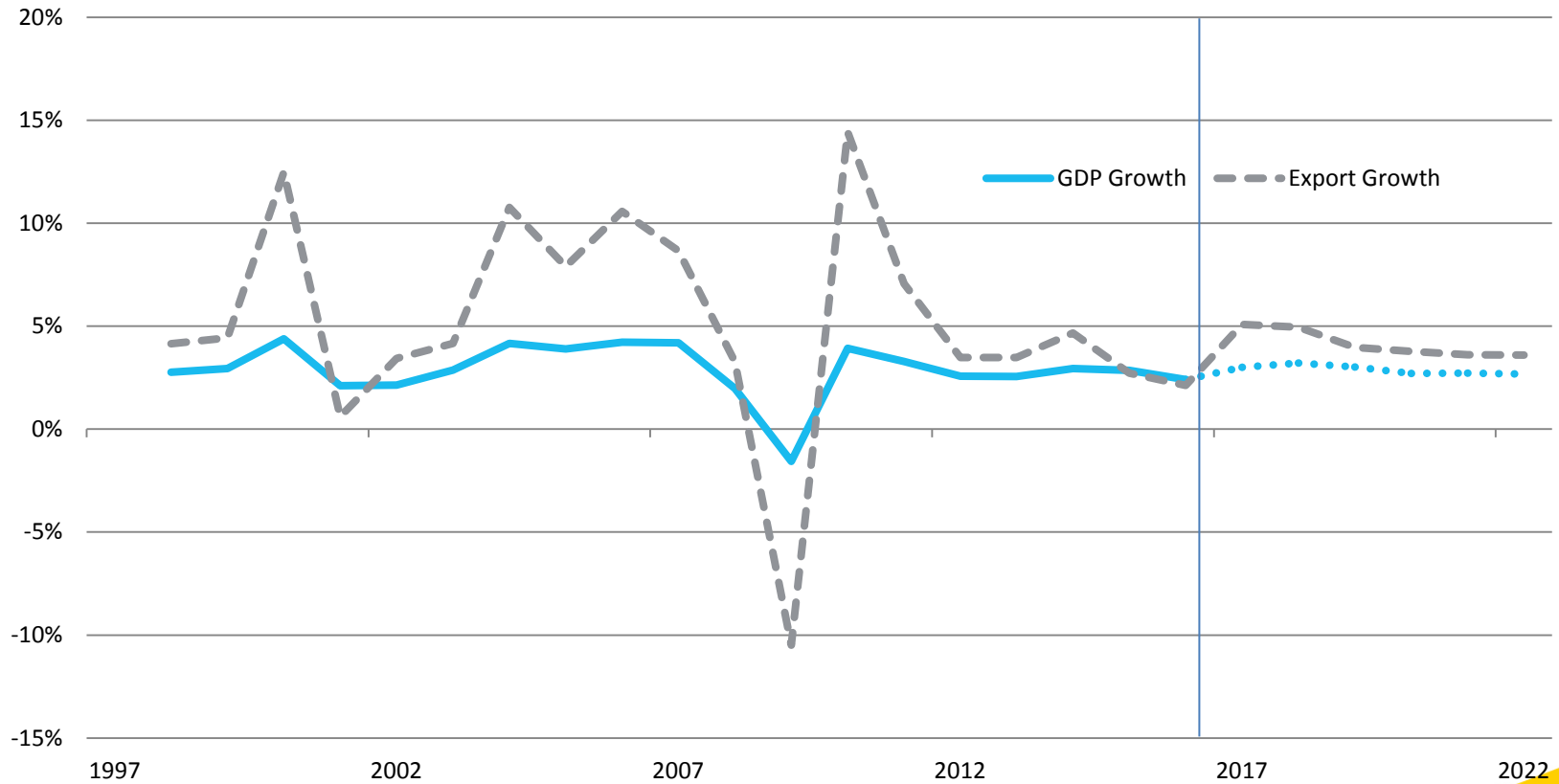


Major trading partners



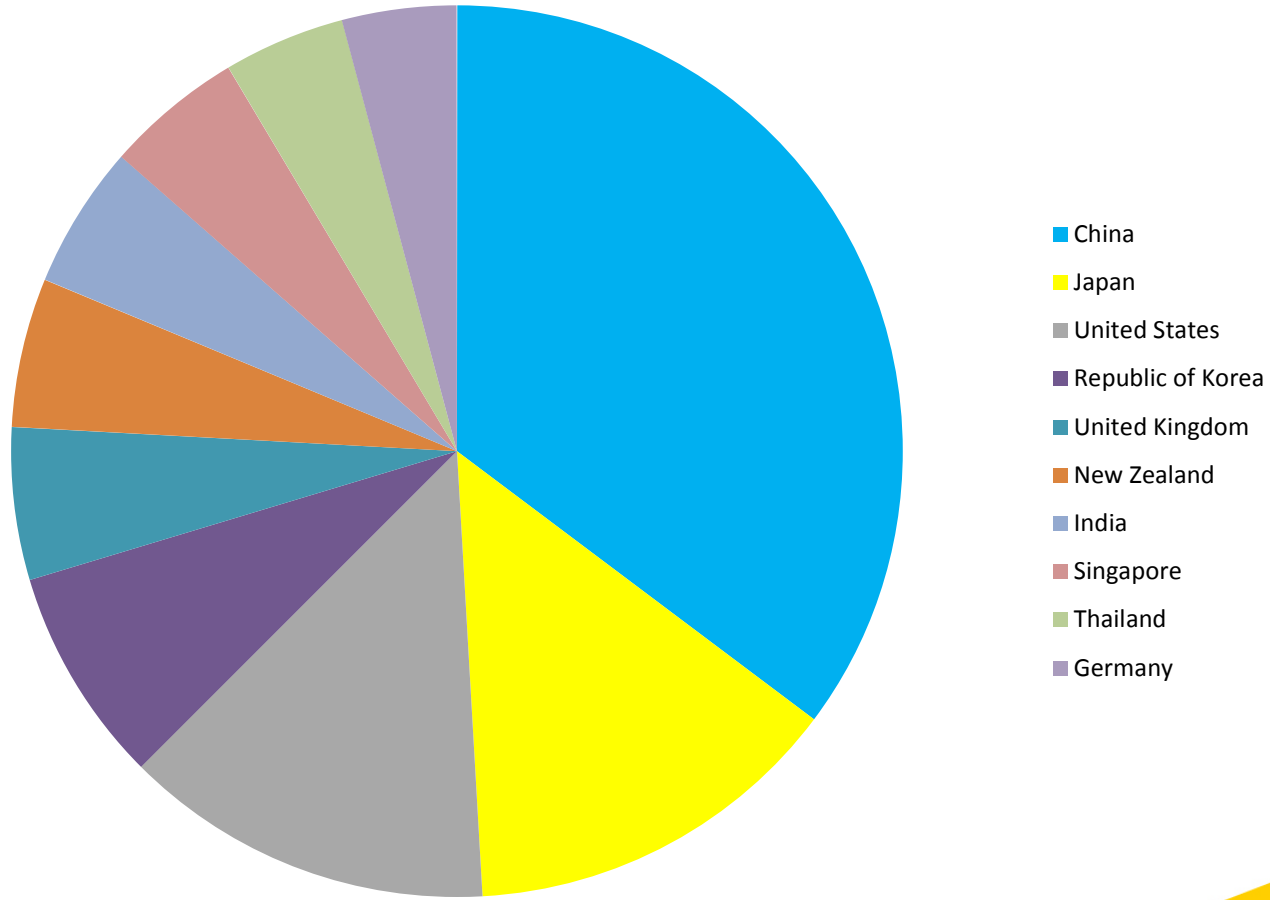


Global growth



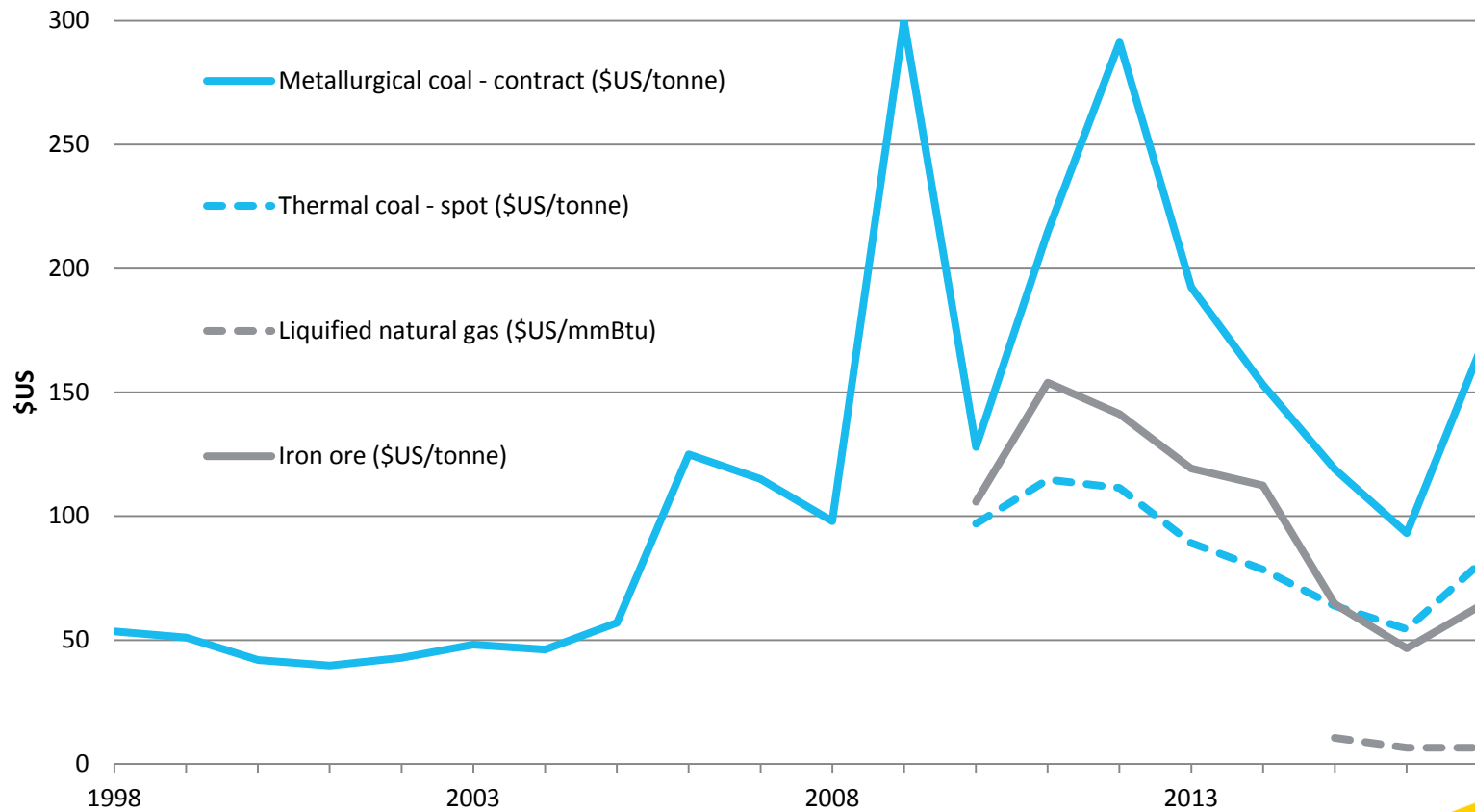


Uncertainties



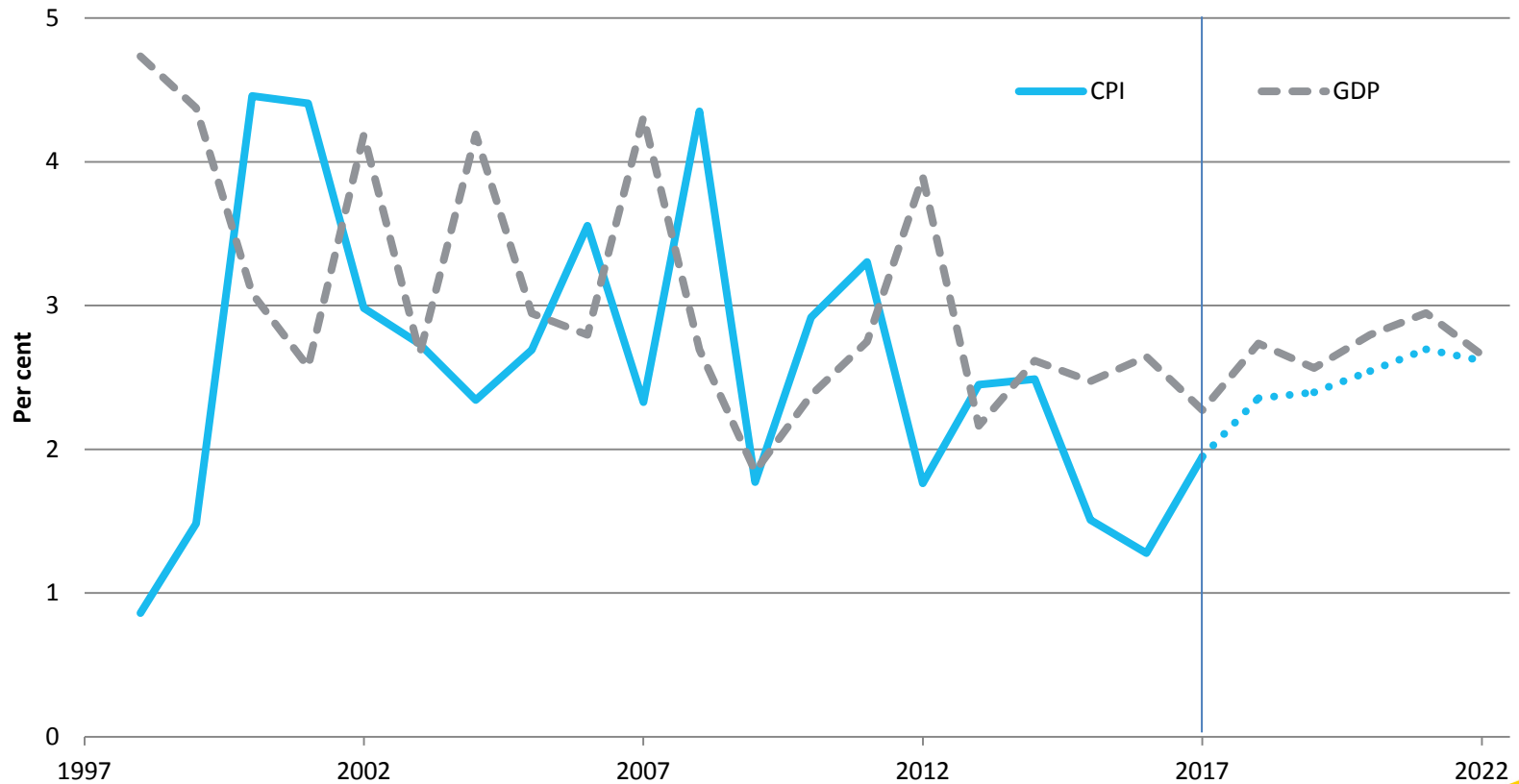


Commodity prices



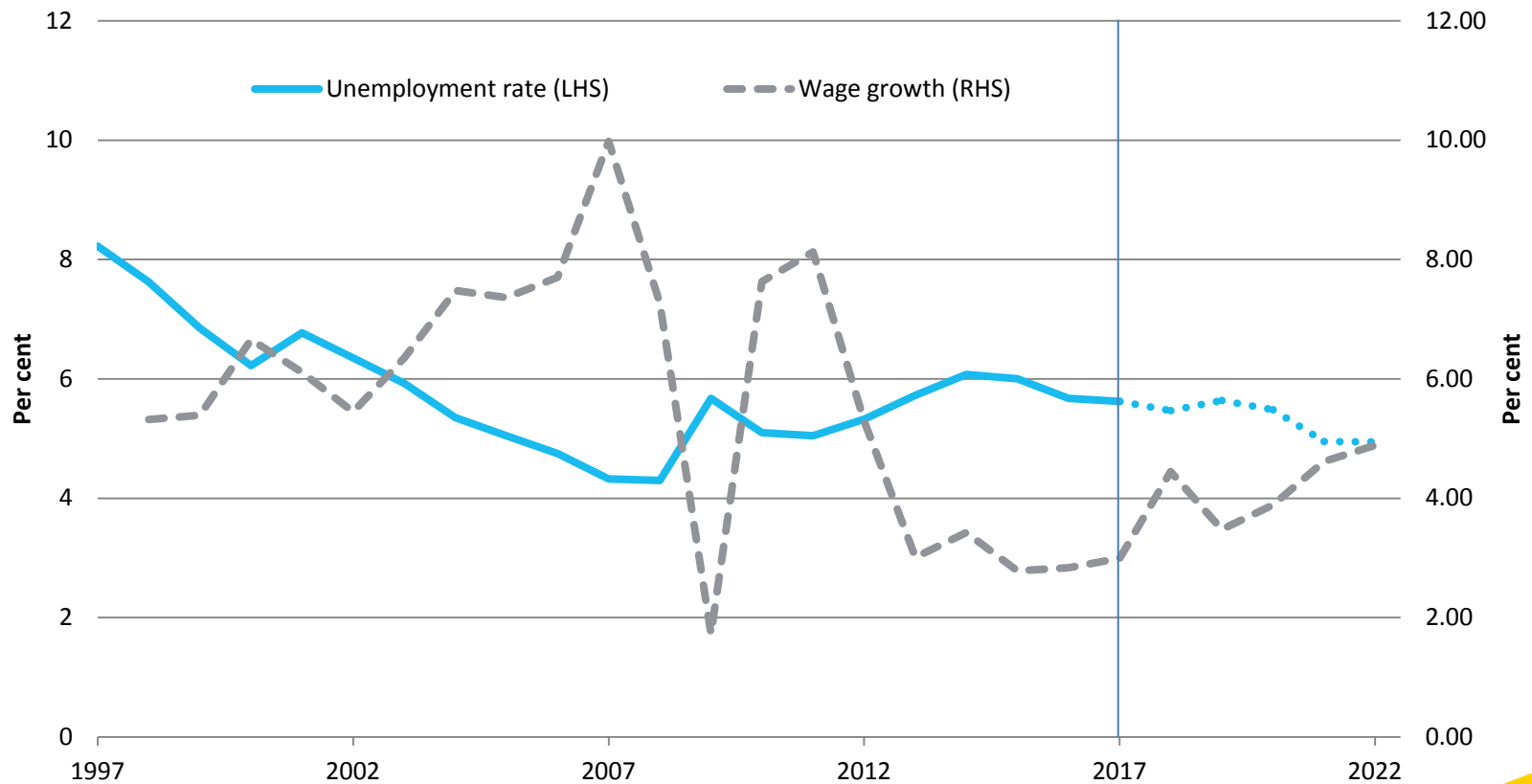


Headline figures





Headline figures





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