



# *Understanding the Budget*

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Economic Policy Section

Parliamentary Library



## Includes

- Budget Papers
- PBS
- MYEFO
- FBO
- Consolidated AR
- 209 Annual Reports



## Excludes

- PAES
- Legislation
- Approp Bills
- CGC reports
- ANAO reports
- Monthly reports

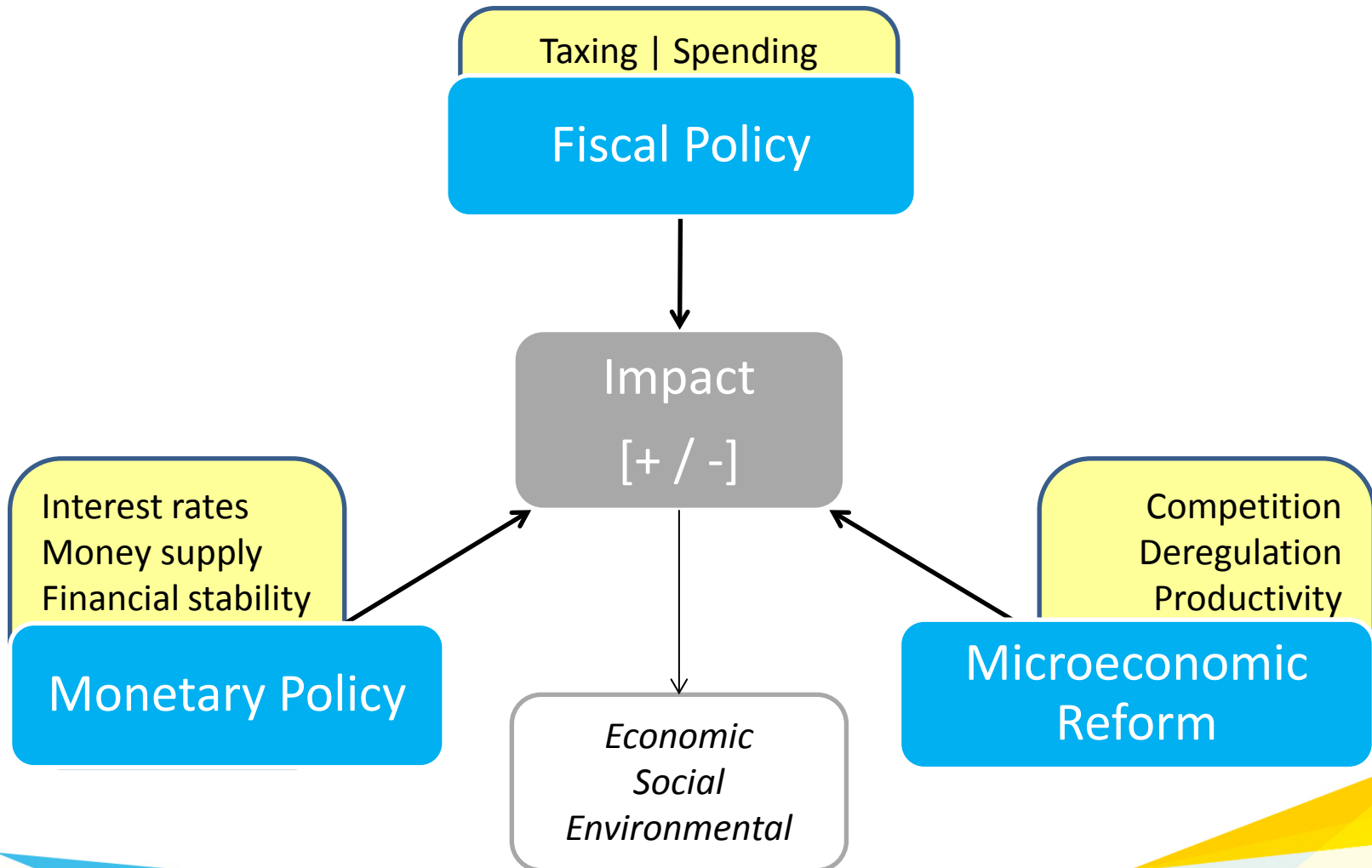


# Part 1: What is the Budget?

Adrian Makeham-Kirchner



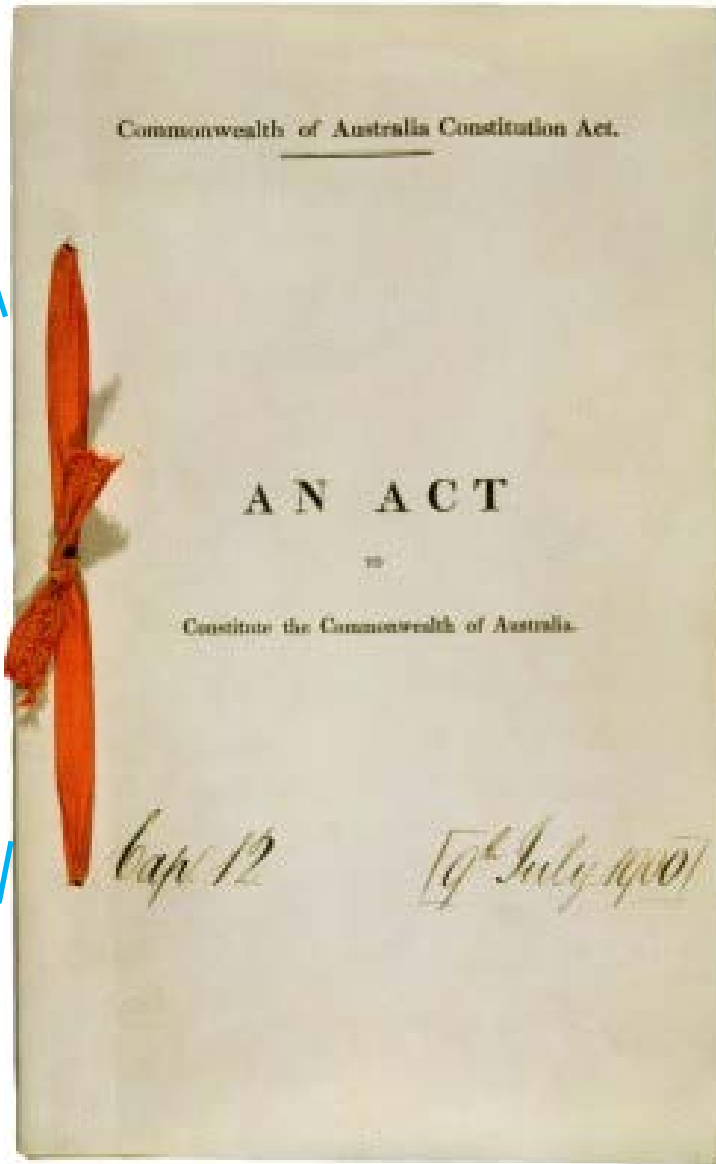
# The policy toolkit





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.

s96. ...the Parliament may grant **financial assistance to any State** on such terms and conditions as the Parliament thinks fit.



# Dimensions: Legal and Policy

## Appropriation

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

## Budget Papers

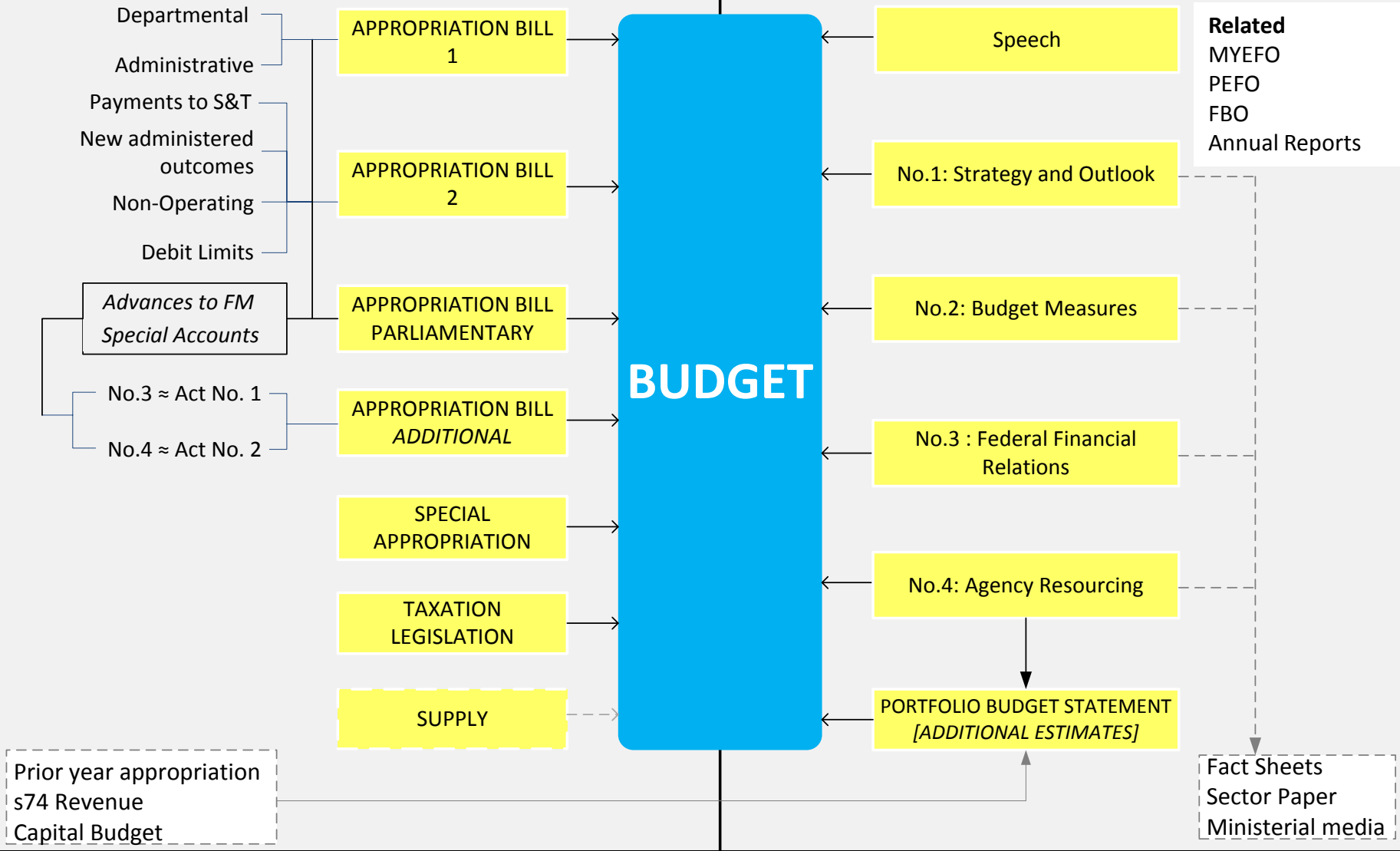
A point in time explanation of how the appropriated money will be distributed, and the annual statement of Government priorities



# CONSTITUTIONAL

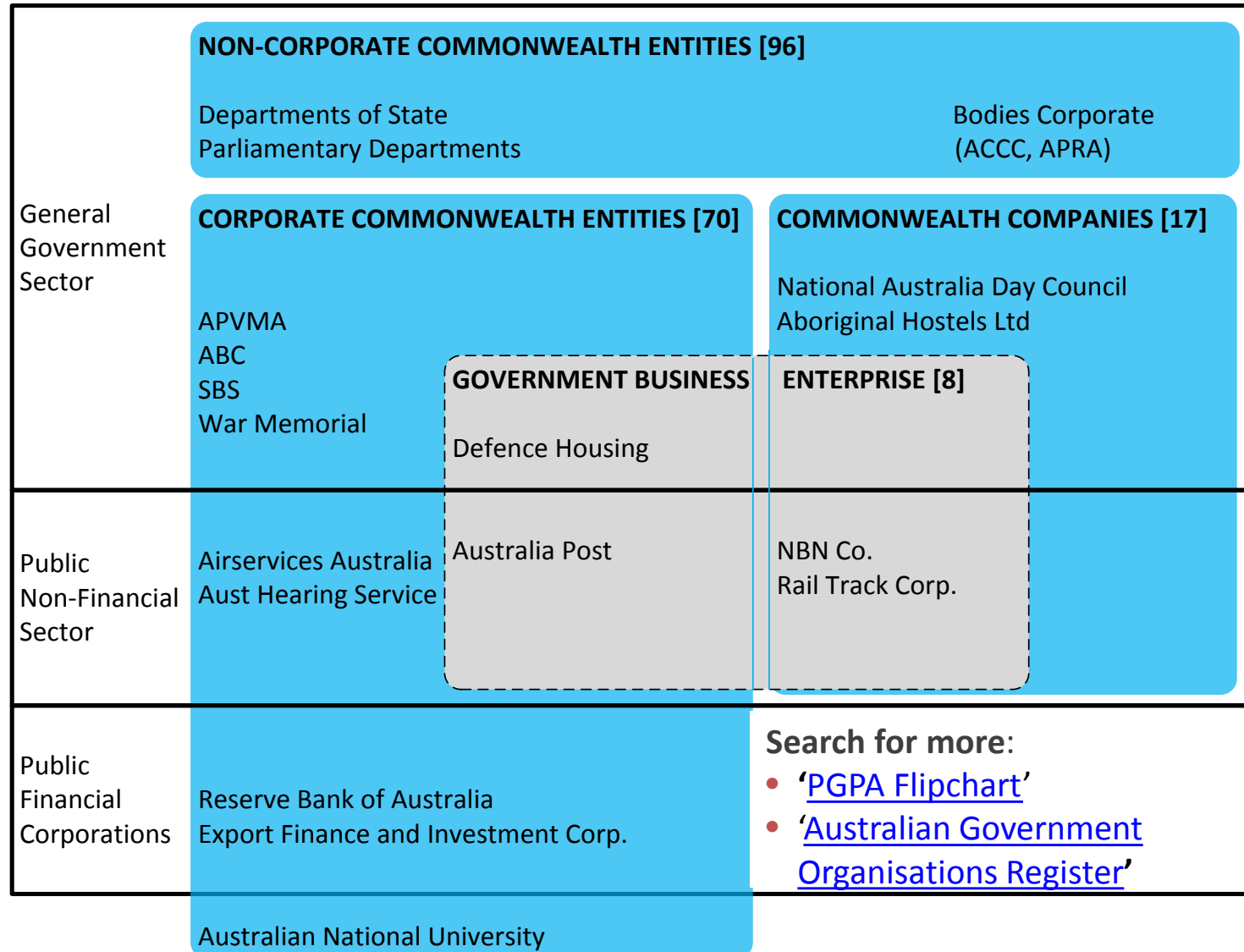
# POLICY

# BUDGET





# Sectors: Budget and 'Off-Budget'







# Appropriations: Annual and special

## Annual [and additional]

Appropriation Bills 1-4 and  
Parliamentary Depts.  
(maybe more)

- Portfolio>Dept>Outcome
- 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 annual appropriation

## Administered

Activities administered by an agency *on behalf of Government*

- Health and education payments
- Grants, subsidies
- Payments to entities

## Departmental

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

- Salaries
- Supplies and services
- Capital



# Special Accounts

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

- Types:
  - 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 built in flexibility:

- ***Contingency Reserve:*** matters 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.



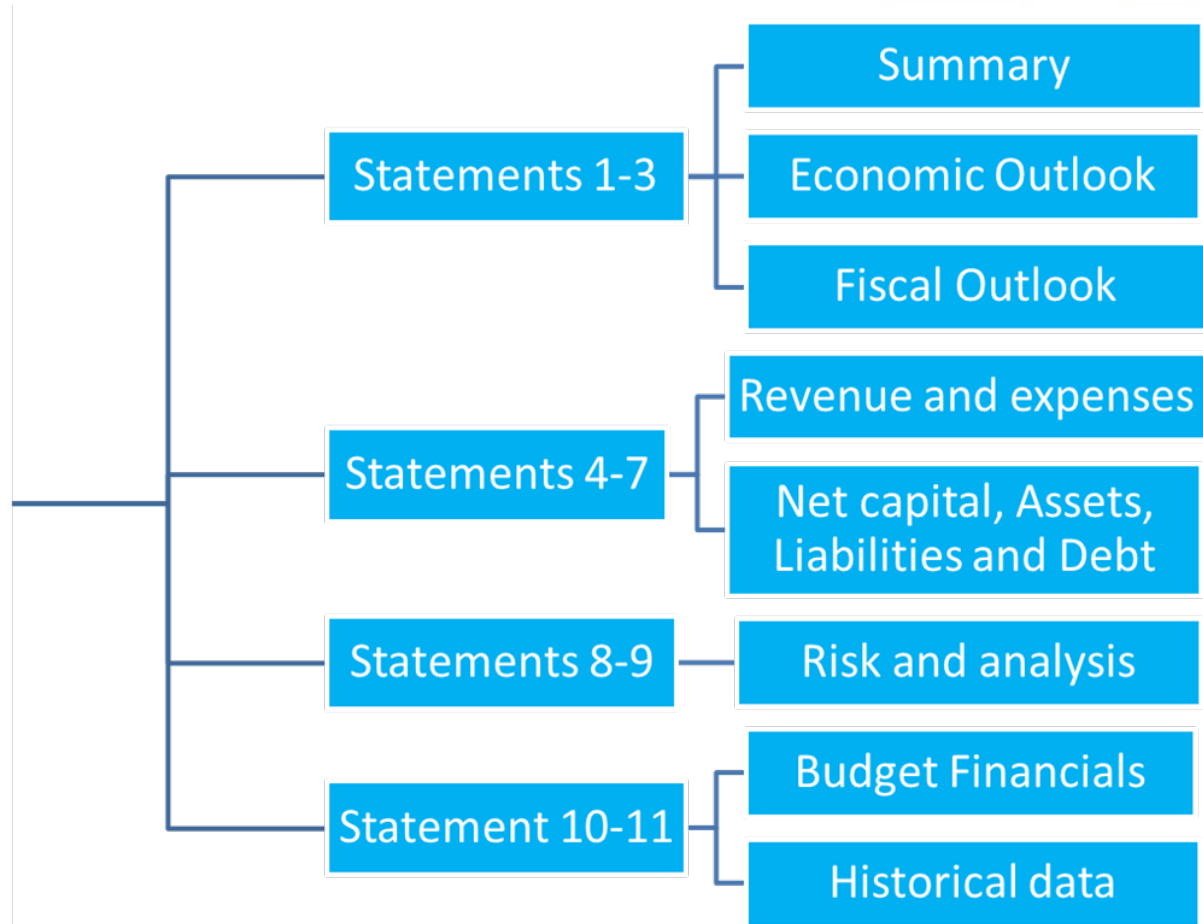
# Budget 2018-19

Budget Strategy and Outlook  
Budget Paper No. 1  
2018-19

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



**The Big Picture:** aggregates, economic statement, fiscal strategy, high level but detailed data.

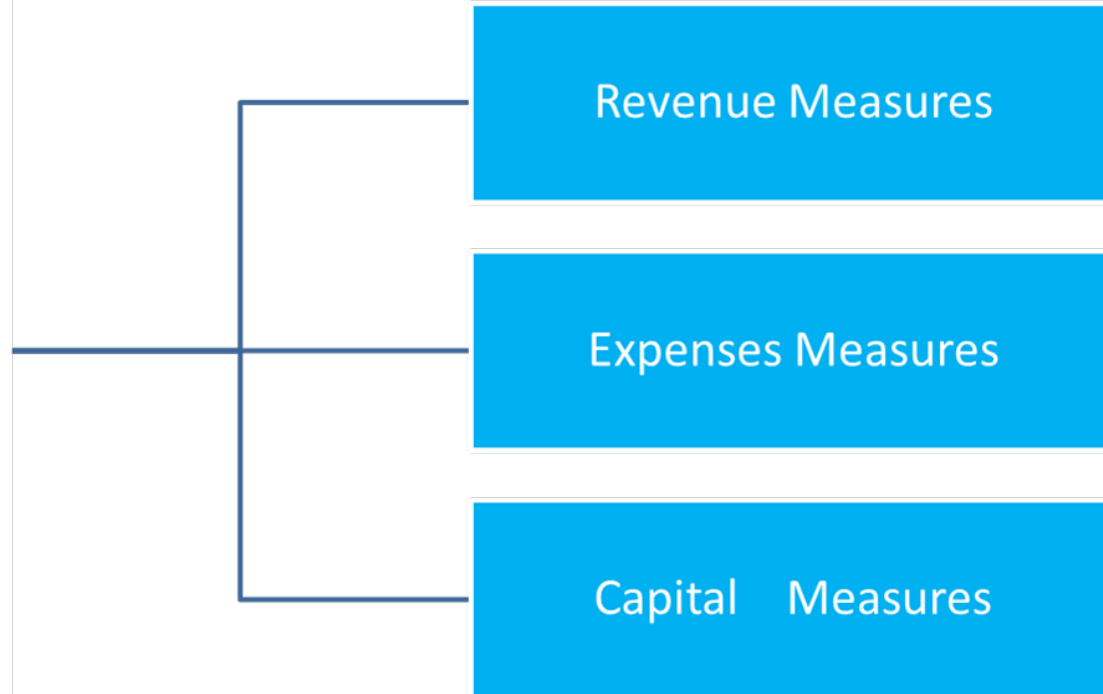


# Budget 2018-19

Budget Measures  
Budget Paper No. 2  
2018-19

Circulated by  
The Honourable Scott Morrison MP  
Treasurer of the Commonwealth of Australia  
and  
Senator the Honourable Mathias Cormann  
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**Changes:** new revenue, expense and capital policy. Details of measures and costings.



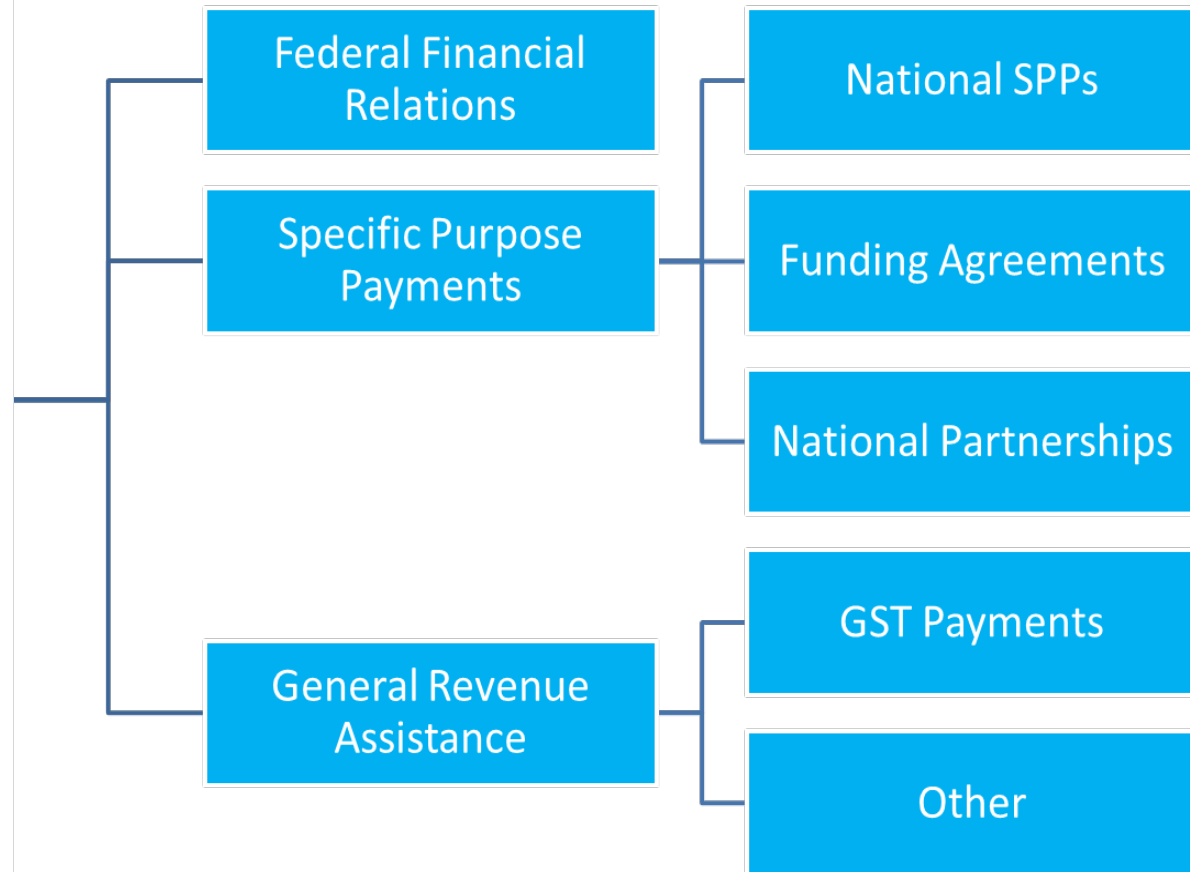
# Budget 2018-19

Federal Financial Relations  
Budget Paper No. 3  
2018-19

Circulated by  
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Senator the Honourable Mathias Cormann  
Minister for Finance of the Commonwealth of Australia

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on the occasion of the Budget 2017-18  
9 May 2017



**Transfers:.** \$68.2 billion for GST, \$58.5 billion for specific payments. Detailed breakdown.

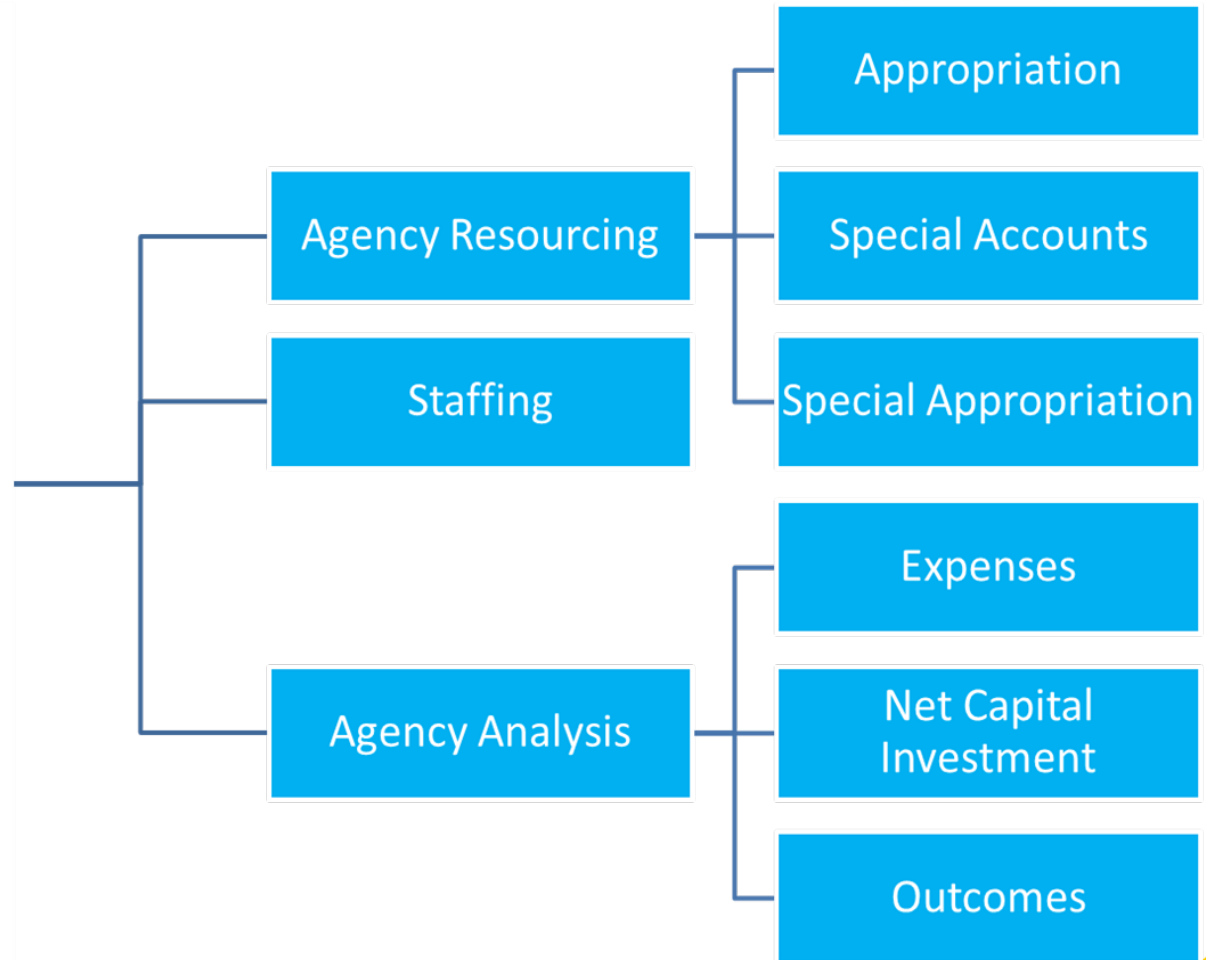


# Budget 2018-19

Agency Resourcing  
Budget Paper No. 4  
2018-19

Circulated by  
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



**Linkages:** Connects appropriations to government agencies to outline 'funding'. Also, staffing.





# Part 2: Impact of the economy on the Budget

Liz Wakerly



# First: some definitions

- Two key drivers of changes to the fiscal position
  - **parameter** variations: outside the Parliament's/ Government's direct control, such as macroeconomic factors [Seminar Part 2] (Budget Paper 1)
  - **policy** variations: within the Parliament's/ Government's direct control, such as new expenditure, changes to tax rules and/or eligibility [Seminar Part 3] (Budget Paper 1 and Budget Paper 2)



# Explaining the economic outlook

- Domestic and international outlook
- Three main points:
  1. Forecasts vary by institution
  2. Forecast revisions
  3. Uncertainty
    - a. confidence intervals
    - b. sensitivity analysis and scenarios.

# Domestic economic outlook

**Table 2: Major economic parameters<sup>(a)</sup>**

	Outcomes	Forecasts			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Real GDP	2.1	2 3/4	3	3	3	3
Employment	1.9	2 3/4	1 1/2	1 1/2	1 1/4	1 1/4
Unemployment rate	5.6	5 1/2	5 1/4	5 1/4	5 1/4	5
Consumer price index	1.9	2	2 1/4	2 1/2	2 1/2	2 1/2
Wage price index	1.9	2 1/4	2 3/4	3 1/4	3 1/2	3 1/2
Nominal GDP	5.9	4 1/4	3 3/4	4 3/4	4 1/2	4 1/2

(a) Year average growth unless otherwise stated. From 2016–17 to 2019–20, 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. The consumer price index is through-the-year growth to the June quarter.

Source: ABS cat. no. 5206.0, 6202.0, 6345.0, 6401.0 and Treasury.

# International growth outlook

**Table 2: International GDP growth forecasts<sup>(a)</sup>**

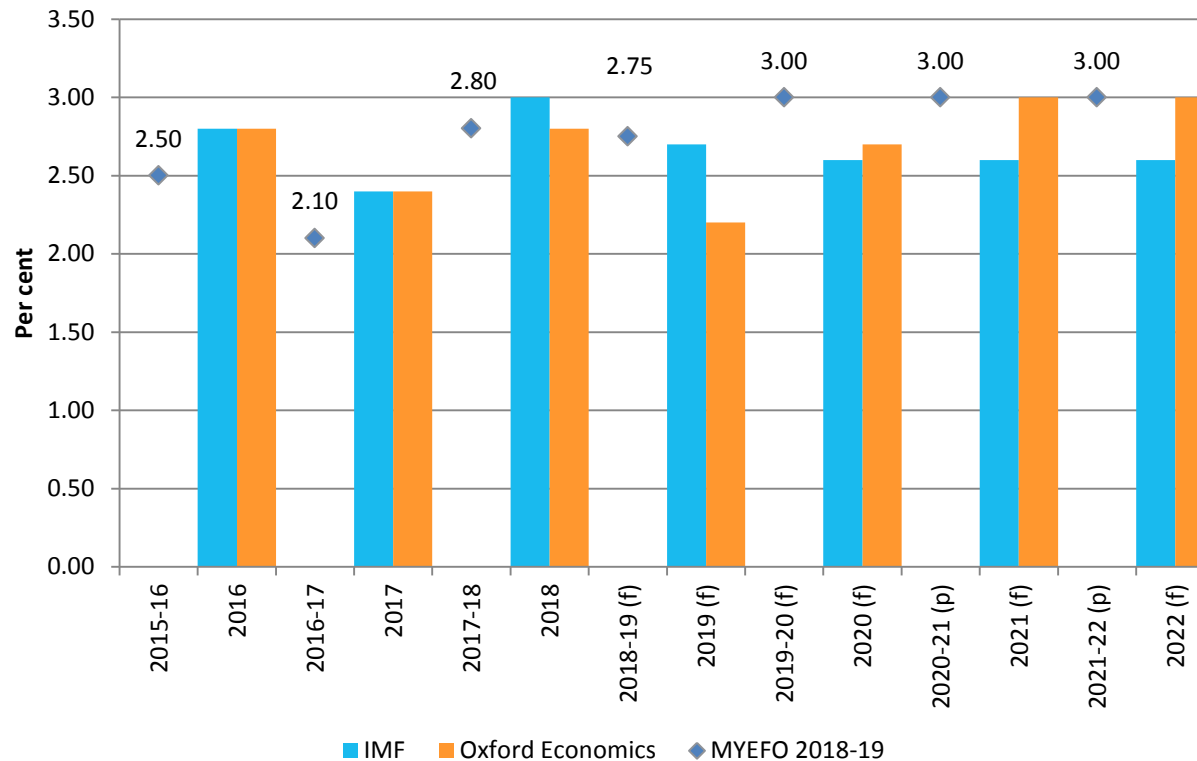
	Actuals	Forecasts		
	2017	2018	2019	2020
China	6.9	6 1/2	6 1/4	6
India	6.4	7 1/2	7 3/4	7 3/4
Japan	1.7	1 1/4	1	3/4
United States	2.3	2 3/4	2 1/2	2
Euro area	2.4	2	1 3/4	1 1/2
Other East Asia (b)	4.5	4 1/4	4 1/4	4 1/4
Major trading partners	4.6	4 1/4	4 1/4	4 1/4
World	3.8	3 3/4	3 3/4	3 3/4

(a) World and other East Asia growth rates are calculated using GDP weights based on purchasing power parity (PPP), while growth rates for major trading partners are calculated using goods export trade weights.

(b) Other East Asia comprises the Association of Southeast Asian Nations group of five (ASEAN-5), comprising Indonesia, Malaysia, the Philippines, Thailand and Vietnam, along with Hong Kong, South Korea, Singapore and Taiwan.

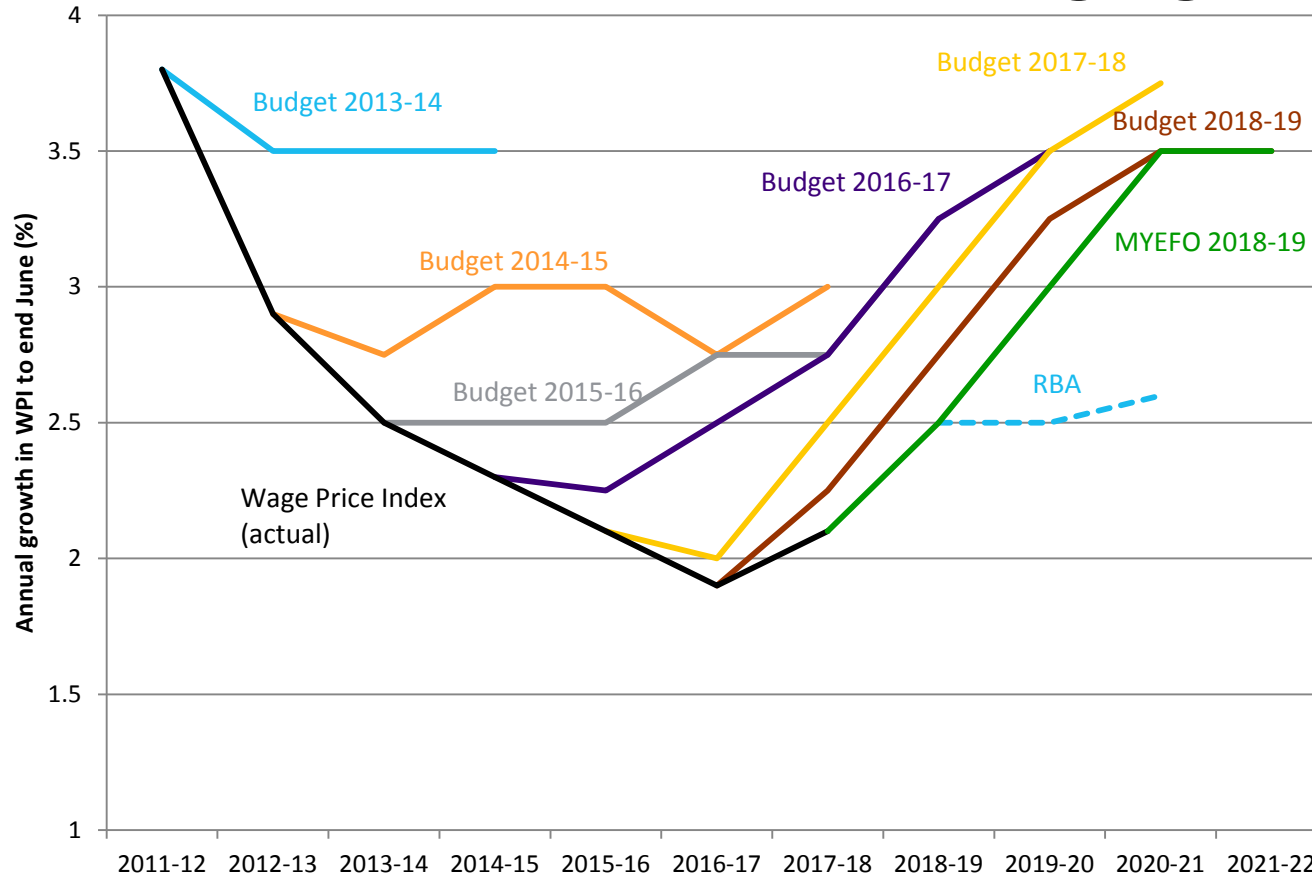
Source: National statistical agencies, IMF World Economic Outlook April 2018, Thomson Reuters and Treasury.

# 1. Forecasts vary by institution: Australian real GDP growth



Sources: J Frydenberg (Treasurer) and M Cormann (Minister for Finance and the Public Service, [Mid-year economic and fiscal outlook 2018-19](#), 2018; International Monetary Fund (IMF), [Australia: Staff Report for the 2018 Article IV Consultation](#), January 2019; Oxford Economics, [Global Data Workstation](#).

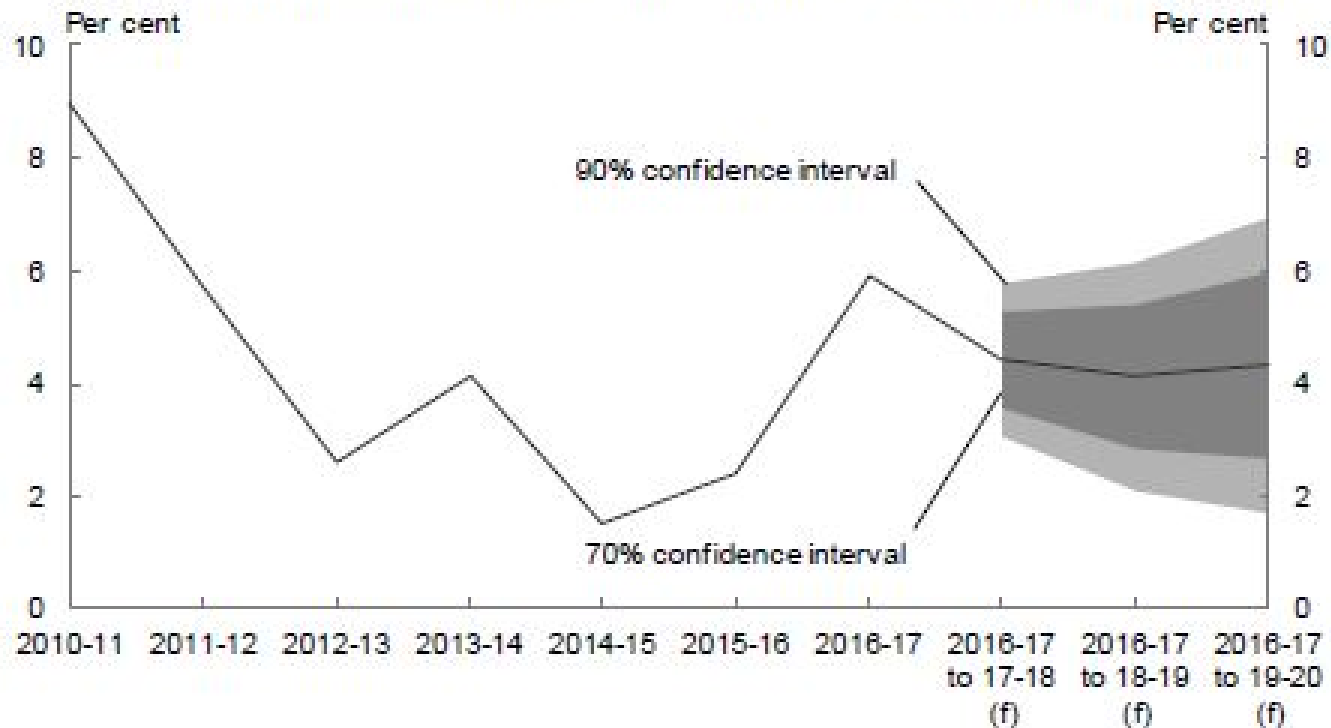
## 2. Forecast revisions: Australian wage growth



Sources: Australian Government, [Budget strategy and outlook: budget paper no.1](#), various years; J Frydenberg (Treasurer) and M Cormann (Minister for Finance and the Public Service), [Mid-year economic and fiscal outlook 2018-19](#), 2018; RBA, [Statement on Monetary Policy, Forecast table - February 2019](#).

# 3a. Uncertainty: confidence intervals

Chart 5: Confidence intervals around nominal GDP growth rate forecasts



Note: See note to Chart 3.

Source: ABS cat. no. 5206.0, Budget papers and Treasury.

Source: Australian Government, [Budget 2018-19: Budget strategy and outlook: budget paper no. 1](#), Statement 8, p. 8-7.





## 3b. Uncertainty–scenario: commodity prices

**Table 3.20: Illustrative impact of a permanent 10 per cent rise in non-rural commodity prices (per cent deviation from MYEFO level)**

	Impact after 1 year (2018-19)	Impact after 2 years (2019-20)
	per cent	per cent
Real GDP	0	1/4
GDP deflator	1/2	3/4
Nominal GDP	1/2	1
Employment	0	1/4
Wages	1/4	1/2
CPI	0	1/4
Company profits	1 3/4	3 1/4
Nominal household consumption	0	1/2

Source: Treasury.

**Table 3.21: Illustrative sensitivity of the budget balance to a permanent 10 per rise in non-rural commodity prices**

	2018-19	2019-20
	\$b	\$b
<b>Receipts</b>		
Individuals and other withholding taxes	0.6	1.9
Superannuation fund taxes	0.1	0.1
Company tax	1.3	3.2
Goods and services tax	0.0	0.3
Excise and customs duty	0.0	0.2
Other taxes	0.1	0.2
<b>Total receipts</b>	<b>2.1</b>	<b>5.9</b>
<b>Underlying cash balance impact(a)</b>	<b>2.2</b>	<b>5.9</b>

Source: J Frydenberg (Treasurer) and M Cormann (Minister for Finance and the Public Service), [Mid-year economic and fiscal outlook 2018-19](#), 2018, pp. 69-70.

## 3b. Uncertainty–scenario: commodity prices

- Sensitivity analysis of **US\$10 per tonne** FOB movement in iron ore price over the course of a year
- Takes into account share of iron ore in value of total exports (around 15 per cent in 2017-18)

**Table B: Sensitivity analysis of a US\$10 per tonne movement in iron ore prices**

	US\$10/tonne FOB <sup>(a)</sup> fall		US\$10/tonne FOB increase	
	2018-19	2019-20	2018-19	2019-20
Nominal GDP (\$billion)	-5.5	-12.3	5.5	12.3
Tax receipts (\$billion)	-1.2	-3.6	1.2	3.6

(a) Prices are presented in free-on-board (FOB) terms, which exclude the cost of freight.  
Source: Treasury.

Source: J Frydenberg (Treasurer) and M Cormann (Minister for Finance and the Public Service), [Mid-year economic and fiscal outlook 2018-19](#), 2018, p. 71.

Price	March 2018	MYEFO 2018-19	29 March 2019
Iron ore (US\$/tonne)	69.72 ( <a href="#">Market Index</a> )	55 ( <a href="#">MYEFO</a> )	86.37 ( <a href="#">Market Index</a> )



# Part 3: Impact of policy decisions on the Budget

Phillip Hawkins



# Policy decisions

## Australian War Memorial — digitisation and sustainment program

### Expense (\$m)

	2017-18	2018-19	2019-20	2020-21	2021-22
Australian War Memorial	-	4.1	4.1	1.6	1.6
<i>Related capital (\$m)</i>					
<i>Australian War Memorial</i>	-	1.7	-	-	-

The Government will provide an additional \$13.1 million over four years from 2018-19 to enhance the Australian War Memorial's (AWM) digitisation program and support the delivery of its core activities.

This measure will increase the rate of the preservation of the AWM National Collection, focusing on objects which are at significant risk of deterioration in the short term. Funding will also be provided to assist the AWM in sustaining its operational functions in line with the current higher demand for its services.

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



# Costing

Current year + Budget Year + forward estimates

## Better targeting skilled visas

		Current year + Budget Year + forward estimates				
		2016-17	2017-18	2018-19	2019-20	2020-21
Revenue	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
	<b>Total — Revenue</b>	<b>25.0</b>	<b>35.0</b>	<b>5.0</b>	<b>-55.0</b>	<b>-90.0</b>
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
	<b>Total — Expense</b>	<b>-</b>	<b>11.4</b>	<b>-27.6</b>	<b>-51.1</b>	<b>-65.3</b>
Capital	<i>Related capital (\$m)</i>					
	<i>Department of Immigration and Border Protection</i>	-	5.0	-	-	-

Medium/  
long  
term



# 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

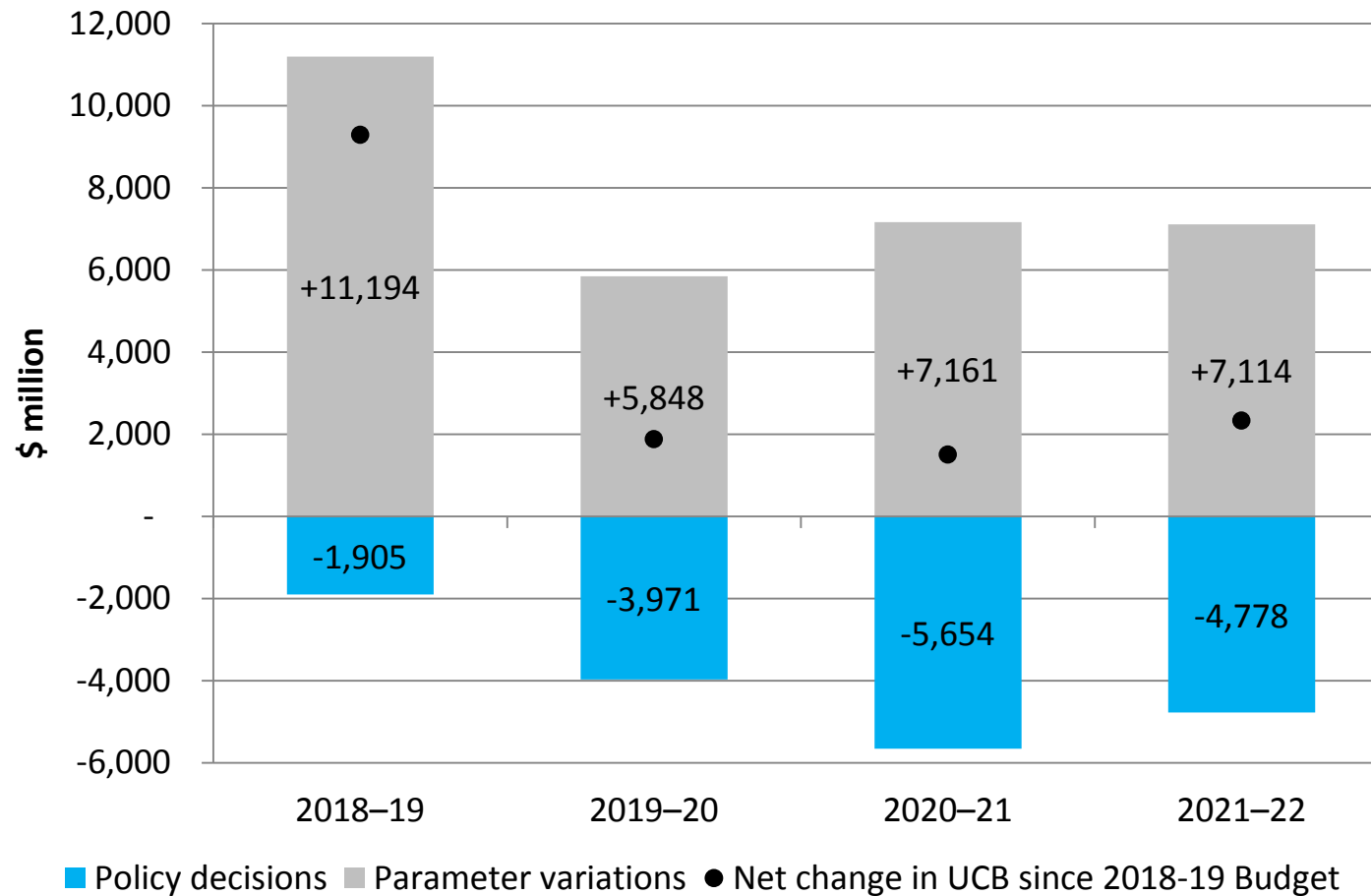


# Things to keep in mind

- Measures are costed over the forward estimates, but what happens over the 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
- Revenue | receipts and expenses | payments reflect different fiscal outcomes [accrual | cash]



# Policy and parameter variations





# More information

## Library Resources

- Review: [aph.gov.au/library/budgetreview](http://aph.gov.au/library/budgetreview)
- *Includes presentation, papers and seminars*

# Examples: Accrual + Cash

