

DEPARTMENT OF THE TREASURY

SUBMISSION TO THE JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT REVIEW OF ACCRUAL BUDGET DOCUMENTATION

The new accrual budgeting and reporting framework was introduced by the Government in the 1999-2000 Budget to enhance financial management in the Commonwealth. The purpose of accrual budgeting is to improve the identification of the longer-term financial implications of government activities, and to more closely link the total cost of resources used to the outcomes to be achieved.

The Commonwealth's budget papers are prepared in accordance with the *Charter of Budget Honesty Act 1998*. The Charter sets out in legislation requirements for governments in reporting on public finances. It requires a range of fiscal reports to be presented publicly on an annual basis, including a statement outlining the government's fiscal objectives and priorities. The International Monetary Fund has drawn from the Charter of Budget Honesty in compiling its *Code of Good Practices on Fiscal Transparency*.

The Government's budget documentation is prepared jointly by Treasury and the Department of Finance and Administration. Treasury also prepares a Budget Overview to provide a more accessible summary for non-specialist readers. The presentation of information in the budget papers is determined by the Government, with Treasury, the Department of Finance and Administration and other Commonwealth departments and agencies assisting in the preparation of the documentation.

In general terms, Treasury has primary responsibility for preparing budget documentation relating to the:

- presentation of the principal budget aggregates and the Government's fiscal strategy and objectives;
- presentation of the economic assumptions underpinning the budget estimates;
- reporting of taxation revenue estimates;
- reporting of taxation expenditure estimates; and
- the conduct of Commonwealth-State financial relations.

The Department of Finance and Administration (Finance) has primary responsibility for:

- the production of the consolidated budget estimates — including estimates of the principal budget aggregates and associated reconciliation tables — through the Accrual Information Management System (AIMS);
- the preparation of accrual financial statements in accordance with Government Finance Statistics and Australian Accounting Standards requirements;
- the preparation of a statement of budget risks;
- the outcomes and outputs framework, including the format of Portfolio Budget Statements;
- the reporting of expenses, capital and non-taxation revenue estimates; and
- the appropriation framework.

Issues raised by the Committee in the Terms of Reference concerning Portfolio Budget Statements and the general reporting framework will be addressed by Finance in its submission to the Inquiry. Comments on some of the issues of specific relevance to Treasury are outlined below.

To assist the Committee in its review, a brief outline of the structure of the primary budget documentation is attached in Attachment A. The structure and presentation of the budget documentation is reviewed each year, and improvements are made as necessary.

Presentation of the budget aggregates

The Charter of Budget Honesty requires budget fiscal reporting to be based on external reporting standards, defined as the concepts and classifications set out in the Government Finance Statistics (GFS) framework and public sector accounting standards.

- The Government Finance Statistics (GFS) reporting standards are determined by the Australian Bureau of Statistics (ABS) in line with International Monetary Fund (IMF) reporting requirements.
 - The GFS reporting framework is a specialised statistical system designed to support economic analysis of the public sector. It allows comprehensive assessments to be made of the economic impact of government and is based on the relevant international statistical standards (the *System of National Accounts 1993 (SNA93)* prepared by the United Nations and the draft accrual version of the IMF's *A Manual on Government Finance Statistics*).
- The relevant Australian Accounting Standard for government reporting is AAS31, *Financial Reporting by Government*.
 - AAS31 sets out requirements for Australian governments preparing accrual-based general purpose financial reports, including reporting the assets they control, any liabilities incurred, and their revenues and expenses. Australian governments reporting under AAS31 must prepare an operating statement (also known as the profit and loss statement), a statement of financial position (or balance sheet), and a statement of cash flows.

The Government provides aggregate estimates in the budget documentation against both standards. However, to improve the readability of the budget documentation, the majority of tables in the main body of Budget Paper No. 1 (Budget Strategy and Outlook) are presented on a GFS basis. This includes the budget aggregates, along with all revenue and expense estimates in Budget Papers 1 and 2. This approach was introduced for the 2000-01 Mid-Year Economic and Fiscal Outlook (MYEFO).

- Budget estimates are presented in Statement 9 of Budget Paper No. 1 on a basis consistent with the Uniform Presentation Framework (UPF), which was introduced following the May 1991 Premiers' Conference. The UPF is designed to ensure that Commonwealth, State and Territory governments provide a common core of financial information in their budget papers, thereby facilitating a better understanding of individual governments' budget papers and providing for more meaningful comparisons of each government's financial results and projections. The format for the UPF is based on the GFS framework.
- Estimates prepared on a AAS31 basis are provided in Statement 10 of Budget Paper No. 1 and as an appendix to the MYEFO.

The Government's major fiscal measures — the ***underlying cash balance*** and the ***fiscal balance*** — are taken from the GFS framework, because these measures provide information on the economic impact of government operations on a basis that is broadly consistent with the national accounts and balance of payments. Both measure net lending (that is, the gap between Commonwealth general government saving and investment), with the underlying cash balance providing a cash measure of net lending, and the fiscal balance providing an accrual measure. A derivation of the fiscal balance is provided in Attachment B.

- A surplus indicates that the general government sector is saving more than enough to fund recurrent expenditure and investment in non-financial assets (ie, to fund the acquisition of assets such as property, plant and equipment).

Because the current account deficit measures the national gap between saving and investment, the fiscal balance provides a measure of the Commonwealth's direct contribution to the current account deficit.

Accrual budgeting has provided a richer set of information on the Commonwealth's overall financial performance. Under cash accounting, the budget only contained information on cash flows and net debt.

- Under accrual accounting, aggregate cash flow information is retained in the cash flow statement (in a slightly different form).
- However, the budget now also provides an operating statement, which reports accrual revenue, expenses and net capital investment.
- There is also a complete balance sheet providing information on assets and liabilities. The accrual balance sheet provides detailed information on assets and liabilities. It includes a measure of net worth, which is calculated as total assets less total liabilities.
 - Net worth is a broader measure than net debt, which includes a subset of the Commonwealth's financial assets and liabilities. Under cash accounting, information was provided only on net debt.

Budget parameters and assumptions

Detailed information is provided on economic forecasts in the budget documentation. The budget papers provide year-average forecasts (for the current year and the budget year), through-the-year forecasts (for the budget year), and outcomes for the previous year. (Attachment C provides a duplicate of the table provided in Statement 3 of the 2001-02 Budget setting out domestic economy forecasts.)

- The forecasts for the overall economy and each sector are discussed in detail in Budget Paper No. 1. The discussion provides details supporting the economic forecasts, and explains in some depth how recent events have influenced economic outcomes and the forecasts.

The forecast years are the current and budget years, and forecasts are made by taking into account all available economic information. Beyond those years, projections for economic parameters are based on long-term trend data.

The MYEFO has been expanded in recent years and provides outcomes for the previous year along with revised forecasts for the full set of economic parameters for the current year. Forecasts are also provided in the MYEFO for "real GDP", employment, wages and the CPI in the next financial year, with projections provided for the following two years.

- The MYEFO also provides reasons for the major movements in the forecasts since the Budget.

The presentation of fiscal strategy information

The Charter of Budget Honesty requires a fiscal strategy statement to be publicly released and tabled at the time of each budget. Among other things, the fiscal strategy statement is required to specify the Government's long-term fiscal objectives, explain the broad strategic priorities on which the budget is based, specify the key fiscal measures against which fiscal policy is set and can be assessed, and provide information on short-term fiscal policy actions adopted for the purpose of moderating cyclical economic fluctuations. Statement 1 of 2001-02 Budget Paper No. 1 provides the Government's fiscal strategy statement for 2001-02.

The presentation of revenue estimates and variations

The presentation of taxation revenue estimates has remained broadly unchanged since the introduction of accrual budgeting, although the focus has shifted towards reporting the estimates on an accrual (tax liability method) basis.

Nevertheless, Statement 5 of Budget Paper No. 1 contains an historical appendix providing comparative data on Commonwealth revenue on a cash basis since the early 1990s. Table A2 in Statement 11 provides a long-run series showing Commonwealth cash taxation revenue, non-taxation revenue and total revenue. Cash estimates of revenue are published in the budget documentation to allow readers to make historical comparisons across years on a consistent basis, and to assess the contribution of taxation revenue to the underlying cash balance.

The accrual taxation estimates are prepared using the *Tax Liability Method (TLM)* of revenue recognition, under which revenue is recognised when an assessment of a tax liability is made or cash payment is received by the Australian Tax Office or the Australian Customs Service (ACS). This method retains some elements of cash revenue recognition (for example, when assessment and payment occur at the same time).

Detailed tax revenue estimates are provided in several sections of the budget documentation.

- Statement 5 of Budget Paper No. 1 includes estimates of taxation and non-taxation revenue, by head of revenue. It provides information on the variations in taxation and non-taxation revenue estimates between MYEFO and the budget, summary information on the major revenue measures and discussion of other parameter-driven changes to the revenue estimates. These estimates are all presented on a GFS basis.
 - Appendix A of Budget Statement 5 provides tables showing the movements in each of the major categories of estimated taxation revenue since the MYEFO.
 - Taxation revenue estimates are also reported on a AAS31 basis in notes 3 and 4 to the AAS31 financial statements.
- Budget Paper No. 2 provides a detailed description of all new revenue measures.

The Commonwealth revenue and expenses estimates in Statement 5 and Statement 6 do not include goods and services tax (GST) collections and equivalent payments to the States. This is because the Government considers that the Commonwealth collects GST revenue as an agent for the States and Territories.

Nonetheless, estimates of GST receipts are shown in several parts of the 2001-02 Budget papers.

- Estimated GST receipts appear in Box 1 of Statement 2.
- Estimates of GST receipts and associated payments to the States are included in the Commonwealth general government financial statements prepared on a UPF consistent basis that appear in Statement 9.
- The provision of GST revenue to the States and Territories is also discussed in detail in Budget Paper No. 3.

The Charter of Budget Honesty requires budget economic and fiscal outlook reporting to include an overview of the estimated tax expenditures for the budget year and the following three financial years. This information is summarised in Budget Statement 5 and in MYEFO. Detailed estimates of tax expenditures are contained in the Tax Expenditures Statement (TES), which is released separately at around the same time as MEYFO. The TES is prepared by Treasury with the assistance of the Australian Taxation Office.

Improvements in budget documentation since 1999-2000

The reporting format for early accrual budgets was a mix of GFS and AAS31, with most data being provided on a AAS31 basis. The mix of reporting standards caused some difficulties for users of the budget documents.

Responding to user feedback, Finance and Treasury have worked to provide a more consistent reporting framework.

Improvements to the budget documentation since 1999-2000 include:

- a move to a more consistent reporting framework: most information in the budget papers is now presented on a GFS basis;
 - AAS31 financial statements are provided in a separate statement, with a table providing a full reconciliation between the AAS and GFS numbers;
- the provision of information on expenses and capital on a functional basis in Statement 6 of the 2001-02 Budget rather than in the outputs and outputs framework; and
- provision of a guide to the budget papers, reproduced in Statement 1, to assist readers to find information in the budget papers.

As part of an ongoing process of continuous improvement, Treasury is happy to consider suggestions to improve the budget papers further. Accordingly, Treasury welcomes the JCPAA's review of accrual budget documentation and looks forward to the opportunity of discussing matters of specific interest in greater detail with the Committee.

Department of the Treasury
June 2001

STRUCTURE OF THE 2001-02 BUDGET DOCUMENTATION

<p>Budget Paper No. 1</p> <p>Budget Strategy and Outlook 2001-02</p> <p>Budget Paper No. 1 is comprised of 11 Statements.</p>	<p>Statement 1</p> <p>Overview of budget and economic forecasts. Discussion of the Government's medium-term fiscal strategy. The Government's key Budget priorities.</p>
<p>Statement 2</p> <p>Changes to the budget estimates since the 2000-01 <i>Mid-Year Economic and Fiscal Outlook</i> (MYEFO). Summary of revenue, expenses, net debt and net worth estimates. Analysis of the sensitivity of the budget estimates to changes in key economic parameters.</p>	<p>Statement 3</p> <p>Economic developments since MYEFO. The outlook for the domestic and international economies. Revised economic parameter forecasts.</p>
<p>Statement 4</p> <p>The role of productivity growth and new technology in economic growth. The United States experience. The Australian productivity acceleration. The outlook for productivity growth and the role of government.</p>	<p>Statement 5</p> <p>Developments in taxation and non-taxation revenue since MYEFO. Forward estimates of revenue. Summary of revenue policy measures. Revenue statistics.</p>
<p>Statement 6</p> <p>Developments in expenses and net capital investment since MYEFO. Forward estimates of expenses and net capital investment, presented by government function. Summary of expenses and net capital investment policy decisions since MYEFO. Expenses statistics.</p>	<p>Statement 7</p> <p>Details of the Commonwealth's budget funding requirement. Budget funding programme.</p>
<p>Statement 8</p> <p>Trends in the finances of the Commonwealth, State and Local levels of government. Size and structure of the Australian public sector.</p>	<p>Statement 9</p> <p>Government Finance Statistics financial statements for the Commonwealth government sectors.</p>
<p>Statement 10</p> <p>Australian Accounting Standard financial statements for the Commonwealth general government sector. Notes to the Accounting Standard financial statements. Statement of financial risks. Additional Commonwealth Government agency statistics.</p>	<p>Statement 11</p> <p>Discussion of external budget reporting standards. Historical data for the Commonwealth's key fiscal aggregates. Discussion of budget concepts.</p>

Budget Paper No. 2**Budget Measures**

Detailed information on the Government's budget policy initiatives

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

Detailed information on the Commonwealth's financial relations with the State, Territory and Local Governments

Budget Paper No. 4**Agency Resourcing**

Information on the resource requirements and resource bids of Commonwealth government agencies, including the Appropriation Bills.

Budget Speech

A transcript of the Treasurer's budget speech as delivered on 22 May.

Budget Overview

An overview of the 2001-02 Budget, providing summary information on the Government's:

- current and forecast budget position;
- economic forecasts; and
- budget priorities and strategy.

Budget Related Papers**Portfolio Budget Statements**

Detailed information on the expected financial position of each Commonwealth government agency.

Internet

The Commonwealth budget papers and budget related information are available on the central Budget website at: www.budget.gov.au

CALCULATION OF THE FISCAL BALANCE IN THE 2001-02 BUDGET

General Government Revenue		General Government Expenses	
	\$b		\$b
Individuals Taxation	82.8	Social Security and Welfare	68.2
Company Taxation	27.2	Health	26.8
Other Income Tax	7.2	Education	11.5
Indirect Tax	24.7	Defence	12.2
Fringe Benefits Tax	3.5	Public Debt Interest	5.1
Other Taxes	1.3	Inter-Governmental Assistance	5.0
Non-taxation Revenue	12.1	Other Expenses	32.1
Total Revenue	\$158.8	Total Expenses	\$160.9
Net Operating Balance		-\$2.0	
Net Capital Investment		-\$1.2	
FISCAL BALANCE		-\$0.8	

2001-02 BUDGET: DOMESTIC ECONOMY FORECASTS

	Outcomes(b)		Estimates		Forecasts	
	1999-00 Year Average	2000-01 Year Average	2001-02 Year Average	Four Quarters to June 2002		
Panel A - Demand and output(c)						
Household consumption	4.5	2 3/4	3	3 1/4		
Private investment						
Dwellings	12.4	-25	5	14		
Total business investment(d)	3.6	0	5	9		
Other buildings and structures(d)	-11.0	-22	6	10		
Machinery and equipment(d)	8.8	5	3	7		
Private final demand(d)	5.0	0	3 1/2	4 3/4		
Public final demand(d)	5.6	2 1/4	2 1/4	0		
Total final demand	5.1	1/2	3 1/4	3 3/4		
Change in inventories(e)						
Private non-farm	-0.6	1/4	- 1/4	1/4		
Farm and public authorities	0.0	0	0	0		
Gross national expenditure	4.5	1/2	3	4		
Exports of goods and services	9.2	6	5	7		
Imports of goods and services	12.5	0	4	7		
Net exports(e)	-0.9	1 1/4	1/4	0		
Gross domestic product	4.3	2	3 1/4	4		
Non-farm product	4.4	2 1/4	3	3 3/4		
Farm product (at basic prices)	4.0	-6	7	13		
Panel B - Other selected economic measures						
External accounts						
Terms of trade	4.3	4	- 3/4	- 1/2		
Current account balance						
\$billion	-33.7	-20 1/2	-20			
Percentage of GDP	-5.3	-3	-3			
Labour market						
Employment (labour force survey basis)	2.7	2	1	1 1/2		
Unemployment rate (per cent)(f)	6.6	6 1/4	7	7		
Participation rate (per cent)(f)	63.4	63 3/4	63 3/4	63 3/4		
Prices and wages						
Consumer price index - headline	2.4	6	2	2		
Consumer price index - 'ongoing'(g)	2.4	3 1/4	2 1/2	2 1/4		
Gross non-farm product deflator	1.8	4	1 1/2	1 1/2		
Average earnings (national accounts basis)	2.8	3 1/2	3 3/4	3 3/4		

(a) Percentage change on preceding year unless otherwise indicated.

(b) Calculated using original data.

(c) Chain volume measure.

(d) Excluding private sector net purchases of second-hand public sector assets.

(e) Percentage point contribution to growth in GDP.

(f) The estimate in the final column represents the forecast level in the June quarter 2002.

(g) The 'ongoing' CPI is the headline measure abstracting from the impact of *The New Tax System*.