Appendix H – Glossary

Accrual and cash accounting

Since the 1999–2000 fiscal year, Commonwealth Government financial statements have been reported on both an accrual and cash basis.

Accrual accounting

Under accrual accounting, income is recognised when it is earned and costs when they are incurred, regardless of whether any cash is received or paid. For example, the goods and services tax is considered to accrue when a transaction for a good or service occurs, rather than when the tax on that transaction is paid to the Australian Taxation Office (ATO).

Under accrual accounting, government income is referred to as ‘revenue’, costs as ‘expenses’.

Cash accounting

Under cash accounting, receipts and payments are recognised when the cash amounts are paid. For example, a receipt for the goods and services tax is only recorded when the amount of goods and services tax accrued by an entity is actually paid to the ATO.

Under cash accounting, government income is referred to as ‘receipts’, costs as ‘payments’.

Administered and departmental funding

Administered funding is managed by government departments and agencies on behalf of the government as a whole. Departments and agencies do not have direct control over these funds, which are normally related to activities governed by eligibility rules and conditions established by legislation, although they are responsible for disbursing these funds.

Departmental funding is managed and controlled directly by departments and agencies, with the Departmental Secretary or Agency Head having responsibility for allocating the funding. Typically, these funds are used for the purpose of day-to-day operations and program support activities.

For example, the government provision of unemployment benefits is an ‘administered’ expense item (the value of the benefits) with an associated ‘departmental’ expense (the costs of the processing). Similarly, company tax is an ‘administered’ revenue item with associated ‘departmental’ costs of the ATO collecting the revenue.

Budget balances

Fiscal balance

The fiscal balance, also referred to as net lending/borrowing, measures, in accrual terms, the gap between the government’s revenue and expenses from its operations, less net capital acquisitions (such purchases of land and buildings less any sales of such assets).

Underlying cash balance

The underlying cash balance measures, on a cash accounting basis, the gap between the government’s receipts and payments from its operations less net cash capital acquisitions.

Headline cash balance

The headline cash balance reflects a broader range of cash transactions into and out of the general government sector. Unlike the underlying cash balance, it includes receipts and payments from transactions in financial assets related to government policies and programs (such as loans, equity injections, and the sales or purchases of financial assets). For example, financial transactions related to administering the Higher Education Loan Programme (HELP) and financial transactions related to the sale of the Government's stake in the National Broadband Network or Western Sydney Airport would be included in the headline cash balance while financial assets transactions related to the general financial management of the Commonwealth, such as transactions conducted by Australian Office of Financial Management to manage the liquidity of bond markets, are not included in the headline cash balance.

Capped and uncapped funding

A capped funding item is one that is not demand driven. That is, the maximum amount of expenditure for the program is fixed and is not affected by external factors. For example, a commitment of *$500 million for road construction* is a 'capped' funding commitment while a commitment *to construct a road from x to y* is 'uncapped' because the precise amount depends on a range of external parameters.

The PBO does not undertake analysis to assess whether a capped funding amount would be sufficient to achieve the objective of the associated policy proposal.

Election commitment

An election commitment is a policy that a party has publicly announced and intends to seek to have implemented after the election. Election commitments that would have a material effect on the Commonwealth budget estimates are included in the post-election report.

Forward estimates and medium term periods

The forward estimates period is the budget year and the following three financial years. The 2019–20 Budget forward estimates period is therefore 2019–20 to 2022–23. Note that the budget year is the financial year (commencing on 1 July) following the release of the budget.

The medium term period, strictly speaking, refers to the seven financial years following the forward estimates period. Most medium term projections, however, are presented over the forward estimates period and the medium term together. In this report, that is from 2019–20 to 2029–30.

Gross domestic product (GDP)

GDP is the market value of all final goods and services produced within a country in a given period of time. GDP is reported in both 'nominal' terms, measuring the value of goods and services produced using the actual prices paid for goods and services, and 'real' terms, measuring the quantity of goods and services produced by making allowance for changes in prices over time. Presenting budget aggregates as a share of GDP enables more useful comparisons over long periods of time when the amounts are complicated by factors such as inflation, population and productivity growth. For example, Commonwealth Government tax receipts were $59 billion in 1985–86 compared to $418 billion in 2017–18, but in both years were 22.6 per cent of GDP. The GDP projections used in the post-election report are taken from the 2019 Pre-election Economic and Fiscal Outlook.

Interactions

An interaction arises when two or more proposals (or individual components of a proposal) would have different budgetary implications when implemented together, compared to the sum of the budgetary implications of implementing the proposals (or individual components of a proposal) in isolation.

Pre-election Economic and Fiscal Outlook (PEFO)

PEFO is a report produced under the *Charter of Budget Honesty* by the Secretary to the Treasury and the Secretary of the Department of Finance within 10 days of the issue of the writs for a general election. The purpose of PEFO is to provide updated information on the economic and fiscal outlook, taking into account to the fullest extent possible, all government decisions and all other circumstances that may have a material effect on the economic and fiscal outlook that were in existence before the issue of the writs for the election.

PEFO provides the starting point or 'baseline' budget estimates and economic parameters that underpin the analysis presented in the post-election report.

Public debt interest

Public debt interest (PDI) is the borrowing costs of the government, incurred through the issuance and servicing of government debt in the form of Australian Government Securities. PDI estimates are calculated using the contract interest rates incurred on existing debt, when issued, and on projections of future interest rates for future debt issuance, based on market interest rates across different time horizons. Although each policy with a financial impact will result in a change to PDI, changes in PDI are typically calculated on the net impact of all policies rather than on each policy separately, except for policies that have a direct impact on the government balance sheet.

Rounding costing estimates

All estimates provided in budgets and post-election reports are rounded to a certain number of decimal points or significant figures. The level of rounding applied in different costing estimates varies, depending on the size and nature of the commitment. The methodology section of each individual costing document outlines the level of rounding that has been applied when generating those costing estimates.

In many cases, totals may not be equal to the sum of individual components. This is because the totals are generally calculated from the unrounded estimates for individual components.

Tax and non-tax revenue

A tax is a compulsory payment to the government. There is usually no clear or direct link between the payment of taxes and the provision of particular services by government. Tax revenue or receipts include income taxes, goods and services tax, excise and tariffs.

Examples of non-tax revenue are interest receipts (mostly received on loans given by the Commonwealth Government to state governments), dividend receipts, and receipts from the sale of goods and services by government.

Tax-to-GDP cap, constrained tax receipts and unspecified tax cuts

A tax-to-GDP cap refers to a commitment to maintain tax receipts at or below a nominated share of GDP. Longer term fiscal projections, such as those in *Intergenerational Reports*, have commonly assumed a tax-to-GDP cap. The fiscal projections in the 2019 Pre-election Economic and Fiscal Outlook reflect the government's commitment in its fiscal strategy to maintain the tax-to-GDP ratio at or below 23.9 per cent of GDP.

Constrained tax receipts are receipts after the application of the tax-to-GDP cap.

Unspecified tax cuts refer to the value of additional unspecified tax adjustments that would be required to prevent taxes rising above the nominated tax-to-GDP cap in each year.

Unconstrained tax receipts are the level of tax receipts that would be expected to be raised before any tax-to-GDP cap is applied.

Terminating and ongoing policies

Terminating

A terminating policy is one that has a specified end date. An example would be a policy to provide funding over four years for a project. At the end of the four years the project would end and the policy would be terminated.

Ongoing

An ongoing policy is one that does not have a specified end date. In the post-election report, policies are assumed to be ongoing unless specified otherwise by parties.