



Parliamentary
Budget Office

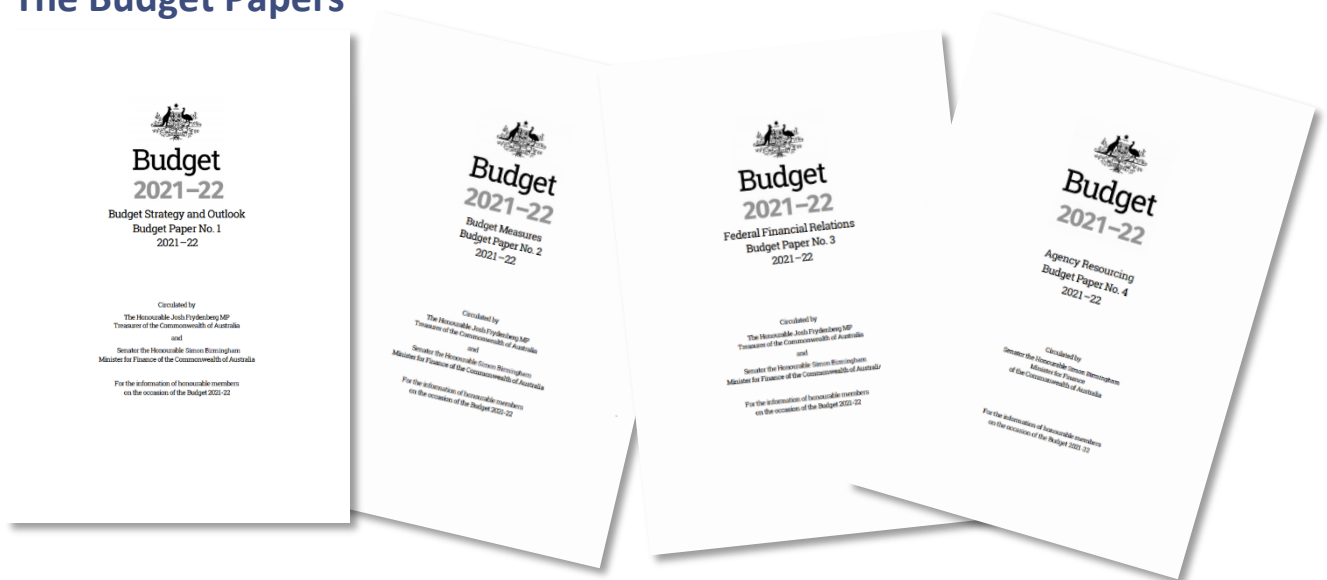
UNDERSTANDING THE BUDGET

In 5 tables

May 2021

This is an introductory guide to the Budget
Papers based on the 2020-21 Budget.
Look out for our updated guide after the
2021-22 Budget.
See our [Online Budget Glossary](#) for more
detail on key terms related to the Budget.

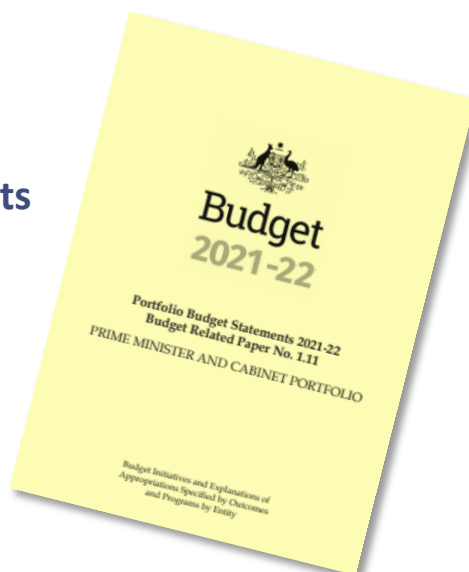
The Budget Papers



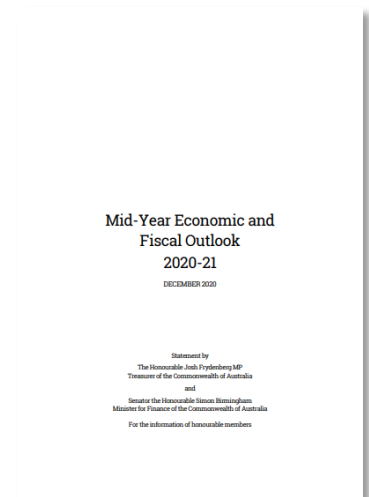
The Budget “At a Glance”



Portfolio Budget Statements



Mid-Year Economic and Fiscal Outlook



The Budget Papers

The budget is presented in four books, called *Budget Papers*, plus a number of supporting documents. The budget can be found at: budget.gov.au

Budget Paper 1: Budget Strategy and Outlook

Budget paper 1 (BP1) provides high-level information about the Commonwealth Government's fiscal position and the overall economic outlook, including:

- the international and domestic economic outlook (**page 2 of this document**)
- the fiscal outlook of the Commonwealth (**page 3**), including estimates of the budget balance, revenue, expenditure and investment
- how the fiscal outlook has changed since the previous budget update (**page 4**)
- the government's balance sheet position — including the assets, liabilities and debt position of the government (**page 10**).

Budget Paper 2: Budget Measures

Budget paper 2 (BP2) contains details of policy measures undertaken since the last MYEFO (**page 6**). Each budget measure is classified according to what aspect of the Commonwealth's finances it mostly affects (receipts or payments).

BP2 includes a summary table as well as a detailed description of each individual measure (**page 8**).

Budget Paper 3: Federal Financial Relations

Budget paper 3 (BP3) contains information on payments made by the Commonwealth Government to the states and territories (including GST).

Budget Paper 4: Agency Resourcing

Budget paper 4 (BP4) contains information on the funding for each government agency.

Portfolio Budget Statements

Portfolio Budget Statements (PBS) contain more detail on the proposed activities and expenditures of each agency within each portfolio.

At a Glance

The "At a Glance" documents (often known as "Glossies") are a series of pamphlets which highlight some key aspects of the Budget.

Mid-Year Economic and Fiscal Outlook

The Mid-Year Economic and Fiscal Outlook (MYEFO) provides an update on the budget position and economic outlook around mid-way through the year. This is the main point of comparison for the budget.

Note: The illustrative tables and charts in this document are those from the 2020-21 Budget, and will be updated after the 2021-22 Budget to reflect any changes to their appearance and/or location.

Economic forecasts

The Government's economic forecasts underpin the forecasts for taxes and spending.

Budget paper 1 provides high-level information about the overall economic outlook in Statement 1, including a summary of the key items in Table 2 (these items are known as 'economic parameters'):

Table 2: Major economic parameters^(a) Economic growth

	Outcome	Forecasts			
	2019-20	2020-21	2021-22	2022-23	2023-24
Real GDP	-0.2	-1 1/2	4 3/4	2 3/4	3
Employment	-4.3	2 3/4	1 3/4	1	1 3/4
Unemployment rate	7.0	7 1/4	6 1/2	6	5 1/2
Consumer price index	-0.3	1 3/4	1 1/2	1 3/4	2
Wage price index	1.8	1 1/4	1 1/2	2	2 1/4
Nominal GDP	1.7	-1 3/4	3 1/4	4 1/2	5

(a) Real GDP and nominal GDP are percentage change on preceding year. The consumer price index, 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.

Economic growth

Growth in the size of the economy, **gross domestic product (GDP)**, is measured by the Australian Bureau of Statistics.

- **Nominal GDP** measures the total value of goods and services produced. Many budget amounts are presented as a share of nominal GDP, which can assist with making meaningful comparisons over time.
- **Real GDP** removes the effect of price change, or inflation, over time to measure the volume of goods and services produced. The percentage growth in real GDP is one of the most commonly used measures for the health of the economy.

Employment

Employment is the percentage growth in the number of people who have a job.

The **unemployment rate** is the percentage of the workforce who are looking for a job.

Inflation

Inflation is the growth in prices over time.

A common measure of inflation is the **consumer price index (CPI)**, which captures how much the prices of all the goods and services purchased by a typical household have grown.

The **wage price index (WPI)** shows how much wages, on average, grow for the same job.

Tip: Have last year's budget nearby so you can compare the economic forecasts.

Do you need more information?

Statement 2 of BP1 contains more detail on the economic outlook.



The budget balance

There are many aggregate estimates in the Budget. When people talk about the budget surplus or deficit, they are usually talking about the **underlying cash balance**.

Budget paper 1 provides high-level information about the Commonwealth's budget position. The forecast budget balance is usually shown in the very first table.

Deficit = negative
underlying cash balance

Table 1: Budget aggregates

	Actual	Estimates				
	2019-20	2020-21	2021-22	2022-23	2023-24	Total(a)
Underlying cash balance (\$b)(b)	-85.3	-213.7	-112.0	-87.9	-66.9	-480.5
Per cent of GDP	-4.3	-11.0	-5.6	-4.2	-3.0	
Net operating balance (\$b) ← Accrual	-92.3	-197.9	-103.4	-83.5	-58.5	-443.3
Per cent of GDP	-4.7	-10.2	-5.1	-4.0	-2.7	

(a) Total is equal to the sum of amounts from 2020-21 to 2023-24.
(b) Excludes net Future Fund earnings before 2020-21.

Surplus = positive
underlying cash balance

What is a budget surplus?

- The budget is in **surplus** when the government's receipts are greater than its payments.
- The budget is in **deficit** when the government's payments are greater than its receipts.

Many numbers in the budget are shown on both a cash accounting basis and an accrual accounting basis.

The **underlying cash balance** is a cash estimate while the **net operating balance** is an accrual estimate. Differences between the two are often because of *timing*:

- Cash accounting recognises income and expenses when money changes hands.
- Accrual accounting recognises income when it is earned and costs when they are incurred, regardless of when any cash is received or paid. Accrual figures give information about money that will need to change hands in the future.

The government and media usually quote the cash figure for the budget balance.

How do I calculate the underlying cash balance?

The underlying cash balance is broadly *equal to receipts less payments*.



Do you need more information?

Detailed information on revenue forecasts can be found in BP1, Statement 5. Detailed information on expense forecasts can be found in BP1, Statement 6.

What has changed since MYEFO?

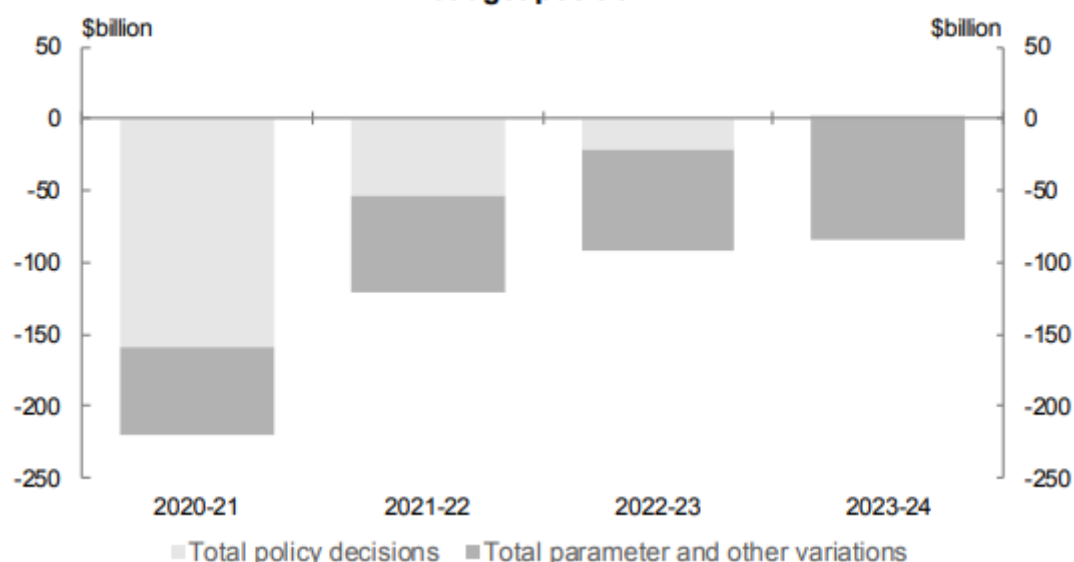
Budget forecasts are revised as circumstances change. These differences are generally due to either policy decisions or parameter variations.

What are parameter variations, and how are they different to policy decisions?

- The effect of **policy decisions** represents the change to the finances of the Commonwealth that arises because of the new decisions, or 'measures', of the government. →
- **Parameter (and other) variations** are any changes to the finances of the Commonwealth that are not due to a policy decision. These are generally outside the direct control of the government. Parameter variations mostly occur because of changes in the broader Australian or international economy, including changes to the composition or demographics of the Australian population. →

The policy decisions and parameter variations sum to the total change in the budget position.

Chart 1: Effect of policy decisions and parameter and other variations on the budget position



Source: 2020-21 Budget Paper 1, Statement 3, page 3-12

Where can I find information on how the budget estimates have changed?

Budget paper 1, Statement 3 includes a table known as the **reconciliation table** (shown on the next page), which reconciles projections from the previous budget update with the current projections. This table is a helpful summary of the budget, because it shows the total change and what has driven that change.

The reconciliation table steps through the how the projections of the underlying cash balance have changed from the previous budget to the mid-year budget update (MYEFO), then from MYEFO to the current budget.

Do you need more information?

A reconciliation of the net operating balance, which is on an accrual basis, is available in Table 5 of BP1, Statement 3.



Table 4: Reconciliation of underlying cash balance estimates

	Estimates				Total \$m
	2020-21 \$m	2021-22 \$m	2022-23 \$m	2023-24 \$m	
2019-20 MYEFO underlying cash balance(a)	6,054	8,351	4,044	14,912	33,360
Per cent of GDP	0.3	0.4	0.2	0.6	
Changes from 2019-20 MYEFO to 2020-21 Budget			2		
Effect of policy decisions(b)(c)					
Receipts	-11,830	-32,815	-10,867	11,514	-43,998
Payments	-147,952	21,045	11,324	8,866	189,187
Total policy decisions impact on underlying cash balance	= -159,782	-53,860	-22,191	+ 2,648	-233,184
Effect of parameter and other variations(c)					
Receipts	-41,004	-54,512	-61,329	-76,012	-232,857
Payments	-18,922	11,981	8,407	8,475	47,784
Total parameter and other variations impact on underlying cash balance	= -59,926	-66,493	-69,736	+ -84,486	-280,642
2020-21 Budget underlying cash balance	-213,654	-112,003	-87,883	= -66,926	-480,466
Per cent of GDP	-11.0	-5.6	-4.2	-3.0	

(a) 2023-24 as published in the medium term projections, page 36 of the 2019-20 MYEFO.

(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

(c) A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.

How to calculate the effect of policy decisions and parameter variations

Each of these effects can be broken down by which aspect of the government's finances they impact:

- An increase in receipts has a **positive** effect on the budget balance.
- An increase in payments has a **negative** effect on the budget balance.

Therefore, the total effect of either policy decisions or parameter variations is:

$$\begin{array}{l}
 \text{effect on receipts} \\
 \text{less effect on payments} \\
 \text{1 equals total effect of policy decisions or parameter variations}
 \end{array}$$

How to calculate the total change in the budget balance

$$\begin{array}{l}
 \text{underlying cash balance as at MYEFO} \\
 \text{plus total impact of policy decisions since MYEFO} \\
 \text{2 plus total impact of parameter and other variations since MYEFO} \\
 \text{equals underlying cash balance}
 \end{array}$$

New measures

A “measure” is a particular policy decision or action the government has decided to take, this can include an amendment to an existing policy.

Where can I find information on new measures?

Budget paper 2 (BP2) includes details of every measure undertaken since the last MYEFO. BP2 includes a summary table as well as further details on each individual measure, including:

- a description of the measure, and
- the projected costs or income associated with the measure.

The measures listed in BP2 are split into 2 sections: **receipts** and **payments**.

How do I interpret the numbers?

The numbers in the table represent the impact of the policy within the portfolio each year.

- A positive number for a **receipts** measure means the government has more money flowing in (and vice versa).
- A positive number for **payments** (or **capital**) measures means the government is spending more (and vice versa).

How do I find relevant measures?

Measures are listed under the relevant policy portfolio, according to the department responsible for implementing the measure.

Note: if more than one department is involved, the same measure may appear under multiple portfolios in the table.

If a topic does not clearly align with ministerial responsibilities then you may need to look across multiple portfolios to find relevant measures.

For example, most indigenous-specific measures will be listed under the Prime Minister and Cabinet portfolio, which includes the National Indigenous Australians Agency, however there may also be measures listed under other portfolios, such as Health, which may include indigenous-specific funding.

Look for relevant terms in the budget measure title or description to find any relevant measures.

Also, check the *Portfolio Budget Statements (PBS)* for more information.

Table 2: Payment measures since the 2020 Economic and Fiscal Update^(a)
(continued)

	2020-21 \$m	2021-22 \$m	2022-23 \$m	2023-24 \$m
PORTFOLIO NAME				
PARLIAMENT				
<i>Department of Parliamentary Services</i>				
Parliamentary Departments — additional funding	32.0	36.5	24.6	24.7
<i>Department of the Senate</i>				
Parliamentary Departments — additional funding	2.2	-	-	-
Portfolio total	34.2	+ 36.5	+ 24.6	+ 24.7
PRIME MINISTER AND CABINET				
<i>Australian Institute of Aboriginal and Torres Strait Islander Studies</i>				
Return of Cultural Heritage	-	-	-	-
<i>Australian Public Service Commission</i>				
JobMaker Plan — Deregulation Package(b)	1.3	0.9	1.0	-
<i>Department of the Prime Minister and Cabinet</i>				
COVID-19 Response Package — Relief and Recovery Fund — additional projects	-	-	-	-
Critical Technology — establishing an enhanced capability	3.0	2.6	-	-
Department of the Prime Minister and Cabinet — additional resourcing	24.1	10.7	2.5	1.9
JobMaker Plan — Deregulation Package(b)	7.6	6.7	-	-
JobMaker Plan — Second Women's Economic Security Package(b)	22.6	12.6	8.0	4.7
<i>National Drought and North Queensland Flood Response and Recovery Agency</i>				
Drought Response, Resilience and Preparedness Plan — extended support	-	19.6	-	-
Implementation of the 2019 Monsoon Trough: A Strategy for Long-Term Recovery	-	-	-	-

Department name →

Each row represents an individual measure

= \$120m

KEY
- zero
.. rounded to zero
nfp not for publication
* unquantifiable



Do you need more information?

Detailed information on each measure listed in the table can be found directly after the summary table. See next page.

New measures in detail

Further details of each budget measure can be found directly after the summary table in Budget paper 2.

This includes a **description** of the measure and additional **information on funding** sources.

If the measure is split across several portfolios, they will all be listed under the detailed measure description.

An example is on the next page.

How do I calculate the total impact of a measure?

The table presents the impact of the measure in each year of the forward estimates (**page 11**). Add together the impact in each year to get the total impact of the measure.

Check the description of the measure to find out if the policy is terminating or ongoing.

- If the impact of a measure is nil in the final year, the policy may be ending.
- If a measure has an impact in the final year, the policy may continue into the future.

A measure can have an effect in more than one section (i.e. receipts and payments). In this case the net impact of the measure can be found by summing up the impact in each year in each section.

Depending on the nature of the policy, particularly those where the financial impact is relevant for many years, the description may cover different time periods.

Other amounts included in the measure description may differ from those shown in the table. For example, they may include funding which:

- has been redirected from another area; or
- was included in a previous related budget measure.

This funding would **not** show up in the budget tables, which only show the **net impact** on the budget.

JobMaker Plan — higher education — additional support for students and education providers

Payments (\$m)

	2020-21	2021-22	2022-23	2023-24
Department of Education, Skills and Employment	171.2	231.0	173.3	324.9
Services Australia	4.2
Total — Payments	175.3	+ 231.0	+ 173.3	+ 324.9
<i>Related receipts (\$m)</i>				
Department of Education, Skills and Employment	-3.0	+ 4.5	+ 1.1	+ -1.6

Total cost:

= \$904.5m
less
\$1m
equals
\$903.5m

KEY

- zero

.. rounded to zero

The Government will provide an additional \$903.5 million over four years from 2020-21 to provide more places and support for people wanting to access higher education due to the impact of COVID-19, to establish new quality protections for the higher education system, and for the *Job-ready Graduates* reforms. Funding includes:

- creating disciplines of Professional Pathway Psychology and Professional Pathway Social Work to reduce the student contribution amounts for students studying units as part of a pathway to professional qualifications
- \$251.8 million over two years from 2020-21 for an additional 50,000 subsidised higher education short course places across a range of discipline areas
- \$298.5 million over four years from 2020-21 for an additional 12,000 Commonwealth supported places in 2021 in national priority areas to further meet demand for higher education
- \$19.2 million over four years from 2020-21 (and \$45.1 million over ten years to 2029-30) to revise the allocation method for the \$5,000 Tertiary Access Payment and to enable universities to administer the payment to eligible outer regional, rural and remote commencing students who re-locate for their studies
- \$0.4 million over four years from 2020-21 (including \$0.3 million in capital funding and \$1.2 million over ten years to 2029-30) to ensure students maintain a reasonable completion rate and do not take on excessive study loads and *Higher Education Loan Program* (HELP) debt
- expanding the Tuition Protection Service from 1 January 2021 to provide services to full-fee paying domestic higher education students, as well as waiving the 2020 HELP and VSL Tuition Protection Service levies to further support education providers' recovery from COVID-19.

The Government will also guarantee Commonwealth Grant Scheme (CGS) payments for higher education providers from 2021 to 2023 as they transition to new funding arrangements as part of the *Job-ready Graduates* reforms, and will maintain CGS funding caps at or above previous years' levels from 2025. This is estimated to cost \$238.9 million over four years from 2020-21 (and \$2.0 billion over ten years to 2029-30) and will support universities in managing the economic instabilities created by COVID-19.

This measure builds on the July 2020 Economic and Fiscal Update measures titled *COVID-19 Response Package — higher education, Higher Education Reform — more job ready graduates*, and *Higher Education Reform — additional support for regional Australia*.

Government debt

Net debt is a key measure of the government's balance sheet and is often used as an indicator of the sustainability of the government's financial position.

Borrowing can provide governments with flexibility to respond to unanticipated events, such as an economic downturn.

How does the budget balance affect the government's debt position?

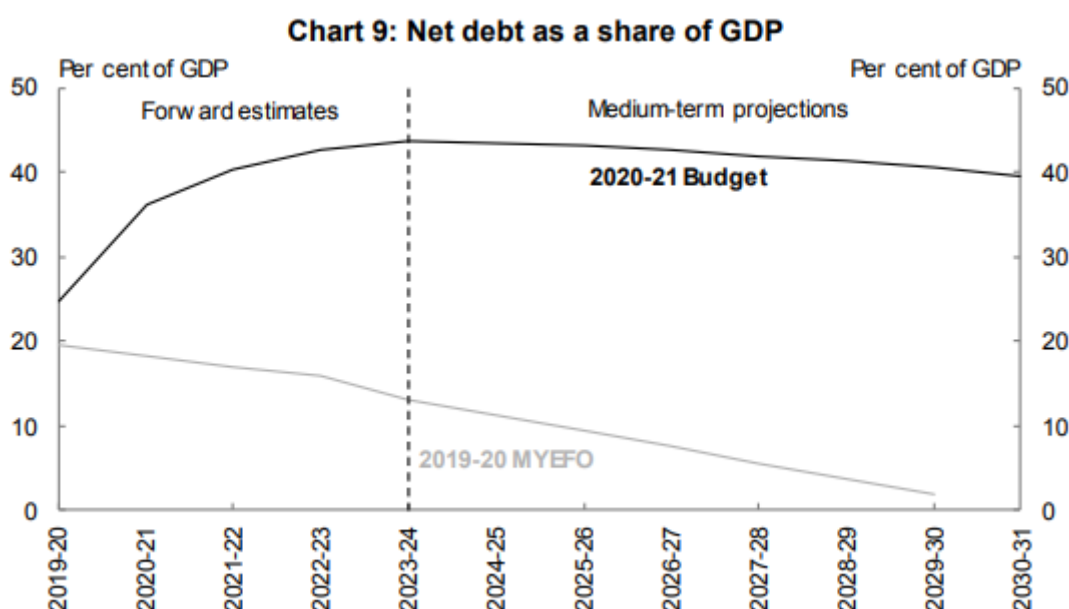
The government's debt position is affected by the amount spent or saved each year.

- A deficit means the government will need to borrow to cover expenses, and so will increase net debt. Additional debt will also increase interest payments in future years.
- A surplus means the government can pay down debt, and will decrease interest payments in future years.

How is debt calculated?

The Budget provides figures for both **gross debt** and **net debt**. Gross debt shows what the government owes, but does not take into account assets the government already has to pay it. Net debt includes those assets.

Net debt is equal to the sum of selected financial liabilities less the sum of selected financial assets.



Source: 2020-21 Budget Paper 1, Statement 3, page 3-32

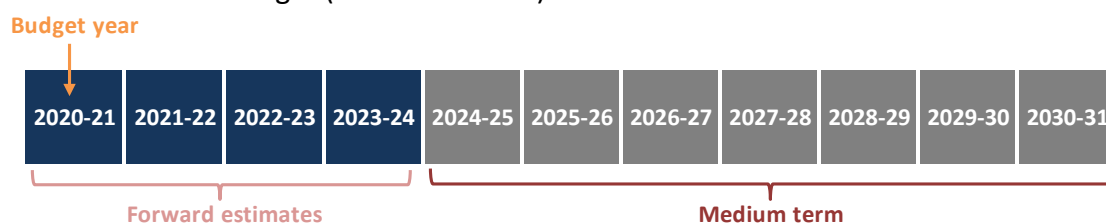
Do you need more information?

Detailed information on debt is available
in BP 1, Statement 3, Statement 7 and
Statement 11

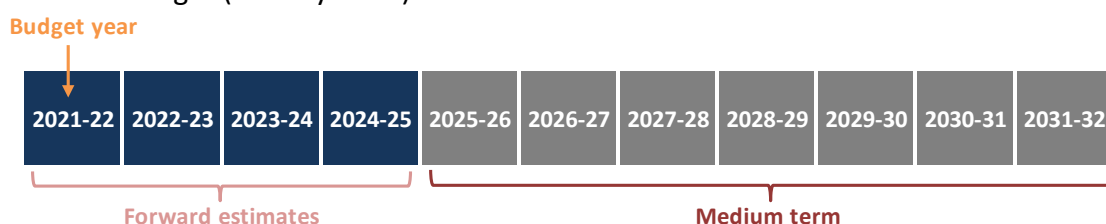


Time periods used in the budget

For the 2020-21 Budget (6 October 2020):



For the 2021-22 Budget (11 May 2021):



- The **Budget year** is the financial year covered by the budget.
- The **forward estimates** cover the budget year and the three years following. For the 2021-22 budget, the forward estimates will include 2021-22 to 2024-25.
- The **medium term** is the seven years following the forward estimates. For the 2021-22 budget, the medium term will include 2025-26 to 2031-32.

For more explanations of key budget terms, see our [Online Budget Glossary](#).