

Overview of the Budget Process

What is the Budget?

The Budget is the Commonwealth Government's main annual financial outline of the economic and fiscal outlook for Australia. It is comprised of a series of documents, including the <u>Budget papers</u>, the Budget speech, the Budget overview, and information on each government Minister's area of responsibility (their 'portfolio'). The Budget provides an estimate of money coming in (<u>revenue</u>), money going out (<u>expenses</u>), and how much is owed (<u>gross</u> and <u>net debt</u>). The Budget is also a policy statement on the government's priority areas of focus and how they intend to meet their objectives.

The Budget is predominantly forward-looking: information contained in the Budget papers is generally presented for a five-year period (current financial year, Budget financial year, <u>forward estimates</u>).

The Budget Process

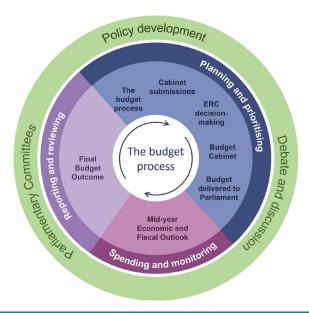
The budget process is a decision-making process for allocating public resources to the Government's policy priorities. It is through this process that the government gains the Parliament's authority to spend money through the passage of the <u>annual appropriation</u> acts and other legislation that establishes <u>special appropriations</u>, etc.

The principles and requirements around the Budget process are set out in the <u>Charter of Budget Honesty Act 1998</u> (the Charter).

The Budget is the first of three main annual budget reporting documents required by the Charter.

- The Budget sets out the economic and fiscal outlook, and the government's fiscal strategy.
- 2. The Mid-Year Economic and Fiscal
 Outlook (MYEFO) provides updated
 information on the government's fiscal
 performance, which can be assessed
 against the fiscal strategy set out in the
 budget.
- 3. The <u>Final Budget Outcome (FBO)</u> provides the final fiscal outcomes for the year.

In addition, the <u>Public Governance</u>, <u>Performance and Accountability Act 2013</u> (the PGPA Act) requires the annual preparation of Consolidated Financial Statements (CFS) which provide a full audited picture of the Commonwealth's finances.



Summary of key dates

The budget process is a cycle that continues throughout the year. In a typical year:

- September October: Budget planning commences
- December February: Development and costing of new policy proposals
- February April: Expenditure Review Committee (ERC) decision making
- 2nd Tuesday of May: Release of the Budget
- Late June: Parliament passes Appropriation Bills

Other key dates

- By end of January or within 6 months of the release of Budget (whichever is later)
 MYEFO provides updated information
- Within 3 months of EOFY:
 Actual fiscal outcomes for the financial year are provided through the FBO
- As soon as practicable after the EOFY:
 Annual CFS to be provided to the
 Auditor-General.

FACT SHEET

PLANNING AND PRIORITISING

Budget Process Operational Rules

In a typical year, the Treasurer and the Minister for Finance prepare a submission for Cabinet to seek agreement to the Budget Process Operational Rules (BPORs), the process and timetable for the Budget.

Budget Prioritisation Process

Once key dates have been set out in a timetable by the Department of Finance, portfolio ministers begin to prepare new policy proposals (NPPs).

Portfolio Budget Submissions

Once the new proposals have authority to come forward, agencies prepare Portfolio Budget Submissions documents throughout January and February for consideration by the ERC.

The Portfolio Budget Submission typically collects all new expenditure and savings proposals.

What is the role of Commonwealth entities (agencies)?

The agencies assist the portfolio ministers in preparing the Portfolio Budget Submission. This includes drafting and costing the new policy proposals for agreement with Department of Finance.

Agencies also prepare public <u>Portfolio</u>
<u>Budget Statements</u> that outline details of funding through Appropriation Bills.

Throughout the process, all entities are required to keep their estimates and actuals reporting up to date in the government-wide Central Budget Management System.

ERC decision-making

The Expenditure Review Committee of Cabinet (ERC) is responsible for developing the Budget in line with the Government's priorities.

The ERC considers the Portfolio Budget
Submissions, which contain details of spending and revenue for the Budget and during the year after the Budget is handed down.

Budget Cabinet

Decisions of the ERC require the endorsement of the Cabinet. For a May Budget, a meeting of the full Cabinet – the Budget Cabinet – will typically be held in April to consider all the ERC's decisions.

Once a proposal has been endorsed by the Cabinet, it becomes a Budget measure.

Budget measure is the term that refers to a <u>policy decision/s</u> announced by the Government in *Budget Paper No. 2* and the Treasurer's Budget speech.

Budget delivered to Parliament

On Budget night, the Treasurer tables the annual Appropriation Bills for the forthcoming year in the House of Representatives and the second reading speech on Appropriation Bill (No. 1). Since 1994, the Appropriation Bills have typically been tabled on the second Tuesday in May.

Budget documents

Budget documents typically fall into two main categories:

- 1. Those that mainly report **proposed** spending and revenue (e.g. Budget Papers, Portfolio Budget Statements and other resources)
- 2. Those that mainly report **actual** spending and revenue (e.g. Final Budget Outcome, Consolidated Financial Statements).

The government releases the budget papers and related documents on Budget night.

SPENDING AND MONITORING

Appropriation Bills

Legislative authority required for the Commonwealth to provide funding for a specific purpose can be provided through appropriation bills or through specific legislation related to the program. Appropriation Bills No. 1 and No. 2 are introduced to the Parliament on Budget night.

For more information on Appropriations, please see <u>Parliamentary Library's Quick Guide: Appropriations and the powers of the Senate.</u>

Examination of the Budget

Senate Estimates Committees

After the Budget is tabled, the Senate estimates committees scrutinise the Appropriation Bills and other budget documents, including the Portfolio Budget Statements.

Ministers and senior public servants appear before the committees to explain how departments and authorities have used or propose to use public money.

The estimates committee process is generally finished in time for parliament to pass the Appropriation Bills before the end of June.

Mid-year Economic and Fiscal Outlook

The MYEFO is a shorter publication that provides updated information on the Government's fiscal position and compares estimated expenditure to actual expenditure since the Budget was delivered.

<u>Timeframe:</u> Under the Charter, the MYEFO must be released within six months of the Budget, or by the end of January in a given year, whichever is later. The MYEFO is typically released in December.

REPORTING AND REVIEWING

Final Budget Outcome and Consolidated Financial Statements

The Final Budget Outcome (FBO) reports the actual financial results for the general government sector, and analyses reasons for any budget variances. The Consolidated Financial Statements (CFS) covers all of that material and includes data for other sectors of government. It is audited by the Australian National Audit Office.

Timeframe: The Charter requires the release of the FBO by 30 September (no later than three months after the end of financial year). The PGPA Act requires the preparation and presentation (to the Auditor-General) of annual CFS as soon as practicable after the end of each financial year.

GLOSSARY OF KEY TERMS

Appropriation/s	An amount of public money that Parliament authorises for spending.
Central Budget Management System (CBMS)	CBMS manages the flow of financial information between Finance and Commonwealth Government entities to facilitate cash and appropriation management, preparation of budget documentation and financial reporting.
Expenditure Review Committee (ERC)	The ERC considers new expenditure and revenue proposals during and between Budget updates, including gender responsive budgeting. Decisions of the ERC require the endorsement of the Cabinet.
Forward estimates	The forward estimates period includes the budget year, and the following three years.
Measure	A measure is a government decision that involves one or more changes to current government policy.
Portfolio Budget Statement (PBS)	These complement the main set of budget papers by providing more detailed budget information for a portfolio, including detail on its proposed objectives and programs.

For more information and detailed definitions, please see the PBO's online budget glossary.

USEFUL SOURCES:

- Parliamentary Library:The Commonwealth Budget: a quick guide
- Department of Finance:<u>Financial reporting for Commonwealth entities</u>
- Department of Finance:
 <u>The Budget Process</u>
- Federal Register of Legislation:

 <u>Charter of Budget Honesty Act 1998</u>
- Federal Register of Legislation:

 <u>Public Governance, Performance and Accountability Act 2013</u>



