



Parliamentary
Budget Office

Online Budget Glossary

November 2024

Release 1.4

Release 1.2

December 2021

This update reflects the change in reporting of measures in Budget Paper 2 from an accrual basis to a cash basis.

Release 1.3

March 2023

This update incorporates several new glossary entries. These are bracket creep, conservative bias allowance, decisions taken but not yet announced, elasticity, financial statements, fiscal space, fiscal sustainability, Intergenerational Report, marginal tax rates, net worth, non-tax revenue, tax revenue, and unemployment rate.

Release 1.4

November 2024

This update incorporates several new glossary entries.

© Commonwealth of Australia 2024

Copyright notice

This work is licensed under the Creative Commons Attribution-Noncommercial-NoDerivs 4.0 International License <https://creativecommons.org/licenses/by-nc-nd/4.0/deed.en>



Attribution

This publication should be attributed as follows: Parliamentary Budget Office, Online Budget Glossary.

Use of the Coat of Arms

The terms under which the Coat of Arms can be used are detailed on the following website:

<https://www.pmc.gov.au/government/commonwealth-coat-arms>

Feedback

If you found this report useful, or have suggestions for improvement, please provide feedback to feedback@pbo.gov.au.

Contents

Overview	1
Accrual accounting	2
Administered	3
Alternative financing	4
Appropriations	5
Automatic stabilisers	6
Bracket creep	7
Budget	8
Budget aggregates	9
Budget paper	10
Capital	11
Capped funding	12
Cash accounting	13
Charter of Budget Honesty	14
Committed and uncommitted funding	15
Concessional loan	16
Conservative bias allowance	17
Consolidated Revenue Fund	18
Consumer price index (CPI)	19
Contingency reserve	20
Debt	21
Decisions taken but not yet announced (DTBNYA)	22
Demand-driven program	23
Departmental funding	24
Elasticity	25
Equity	26
Expense	27
Final Budget Outcome (FBO)	28
Financial statements	29
Financial year (FY)	31
Fiscal balance (FB)	32
Fiscal policy	33
Fiscal space	34
Fiscal stimulus	35
Forward estimates	36
General government sector	38
Grant	39

Gross40	
Gross debt	41
Gross domestic product (GDP)	42
Headline cash balance (HCB)	43
Indexation	44
Inflation	45
Intergenerational Report	46
Marginal tax rate	47
Measure	48
Medium term	49
Mid-Year Economic and Fiscal Outlook (MYEFO)	50
Net	51
Net capital investment	52
Net debt	53
Net financial worth	54
Net operating balance (NOB)	55
Net worth	56
Nominal	57
Non-financial asset	58
Non-tax revenue	59
Not for publication (nfp)	60
Ongoing program	61
Parameter	62
Payment	63
Portfolio Budget Statement (PBS)	64
Pre-Election Economic and Fiscal Outlook (PEFO)	65
Program	66
Public debt interest (PDI)	67
Public non-financial corporation	68
Real	69
Receipt	70
Recession	71
Revenue	72
Tax revenue	73
Terminating program	75
Uncapped funding	76
Underlying cash balance (UCB)	77
Unemployment rate	78
Unlegislated measure	80

Overview

The Parliamentary Budget Office (PBO) Online budget glossary explains key terms related to the Australian Government budget in a non-technical way.

Terms in the glossary include those used in the Australian Government budget papers as well as some related terms that are important for understanding the budget in the context of the broader economy.

The PBO welcomes suggestions for additional terms to be included in future updates of the glossary. If you find this glossary useful, or have suggestions for improvement or additional terms, please provide your feedback to feedback@pbo.gov.au.

All links in the glossary are current as of November 2024.

Accrual accounting

Accrual accounting records income when it is earned, and records costs when they are incurred, regardless of when the related cash is received or paid. Under accrual accounting, government income is called ‘revenue’ and costs are generally called ‘expenses’. As an example, under accrual accounting, goods and services tax revenue is recorded in the financial year that the goods and services are purchased, even though the government may not receive the related tax amounts until the following financial year.

Accrual accounting differs from cash accounting, which records income when cash is received, and records costs when cash is paid out, regardless of when those amounts are incurred. Under cash accounting, government income is called 'receipts' and costs are called 'payments'.

The Commonwealth Budget presents both accrual and cash indicators. *Budget Paper No. 2*, which details new government spending and tax measures, was presented in accrual terms (showing the impact of new measures on the fiscal balance) prior to the *2020-21 Budget*. However, the 2020-21 Budget presented budget measures on a cash basis, and it is now convention for *Budget Paper No. 2* to be presented in cash terms (showing the impact of new measures on the underlying cash balance).

Accrual accounting and cash accounting can give different estimates for budget aggregates because the timing between earning revenue or incurring expenses might differ from when the related cash transition occurs.

For many items, accrual and cash estimates are similar, but in some cases they are very different. For example, most Medicare rebates are paid electronically immediately after a doctor's visit, so the accrual and cash estimates of the costs are very similar. In contrast, the accrual and cash costs of some of the Commonwealth Government's superannuation schemes are very different. The government accrues the obligation to pay eligible individuals' superannuation benefits during their employment, which is reflected as increased liabilities under accrual accounting. The government does not, however, actually make any payments until the individual retires, so the cash costs are zero until then. This means there is a large difference between the accrual and cash estimates of these superannuation costs.

Appendix A of the PBO's report no. 01/2020 *Alternative financing of government policies: Understanding the fiscal costs and risks of loans, equity injections and guarantees* contains more details on which budget aggregates are in accrual or cash terms.

Related terms in the PBO glossary: budget, budget aggregates, budget paper, cash accounting, expense, fiscal balance, financial year, measure, payment, receipt, revenue, underlying cash balance

Administered

Administered funding is spending that is managed by government agencies but that they do not directly control. Administered funds include programs governed by eligibility rules and conditions that are set out in legislation, such as income and family support payments, and grant programs that are managed by agencies. In contrast, departmental funding is managed and controlled directly by departments and agencies. Typically, these funds are used for the purpose of day-to-day operations and program-support activities.

For example, government assistance for the costs of child care as set out in the *A New Tax System (Family Assistance) (Administration) Act 1999* is an administered expense, and the costs associated with making the assistance payments, such as paying Services Australia staff to assess assistance claims, is a departmental expense.

Administered expenses are a much larger component of total expenses than departmental expenses, accounting for around 86 per cent of total expenses in 2019-20. Details of administered funding across all Commonwealth Government agencies are published in the budget in *Budget Paper No. 4: Agency Resourcing*. Commonwealth Government agencies also report their administered items in greater detail in their Portfolio Budget Statements (budget information for a Government Minister's area of responsibility) and in annual reports.

Related terms in the PBO glossary: budget, budget paper, departmental, expense, Portfolio Budget Statement, program

Alternative financing

Alternative financing refers to when governments fund policies or projects using alternatives to the typical approach of paying for them directly with cash (sometimes known as ‘direct funding’). Alternative financing often involves the government providing money to another entity, like a company or individual, in exchange for a financial return in the future. In contrast, under direct funding, the funds are not expected to be repaid. Examples of alternative financing include loans and examples of direct funding include income support payments like the age pension.

Alternative financing arrangements can include:

- purchasing an equity stake in a company (known as an ‘equity injection’) — for example the Commonwealth Government’s 100 per cent ownership stake in NBN Co Limited.
- making loans, such as concessional loans, which are offered at more favourable conditions than those the borrower could obtain from a bank or other commercial lender. Examples include the government’s drought loans, Higher Education Loan Program (HELP), or infrastructure loans.
- providing a guarantee that the government will assume responsibility for payment where an eligible party defaults — for example the First Home Loan Deposit Scheme. In these cases, the expectation of a financial return may not apply.

In recent years, successive governments have been making greater use of alternative financing. There can be sound policy reasons for using alternative financing arrangements to fund particular government policies. Many of the costs associated with alternative financing, such as a change in the value of financial assets, are not fully captured in some commonly used indicators of the budget position such as the underlying cash balance (collectively known as ‘budget aggregates’).

Due to the complexity of alternative financing arrangements, their value and cost can be more uncertain than those of direct funding. For example:

- the value of an ownership stake can change over time, depending on a valuation of the business
- there is uncertainty around whether and when loans will be repaid
- there is uncertainty around how many parties will default on payments guaranteed by the government.

For further information:

- see the Parliamentary Budget Office’s report no. 01/2020, *Alternative financing of government policies: Understanding the fiscal costs and risks of loans, equity injections and guarantees* for an explanation of alternative financing arrangements and their impact on the budget
- see the Department of Finance’s *Investment Instruments* entry in their Commonwealth Investments Toolkit for an explanation of when the government might use alternative financing.

Related terms in the PBO glossary: budget, budget aggregates, concessional loan, equity, grant, payment

Appropriations

An appropriation is the authority to draw down an amount from the Commonwealth's Consolidated Revenue Fund, by way of legislation (an appropriation Act), for the specific purposes identified in the relevant appropriation Act.

There are two types of appropriation Acts:

- special appropriations
- annual appropriations

Special appropriations (sometimes called Standing appropriations) account for approximately 80% of Commonwealth spending and are limited by purpose, rather than time or quantum. Most special appropriations are non-discretionary in nature and include payments such as the aged pension, JobSeeker and Medicare benefits, where the eligibility conditions are specified in legislation, but the total expenditure varies depending on the number of beneficiaries. Special appropriations do not expire except through a decision of parliament.

Annual appropriations account for approximately 20% of Commonwealth spending and are limited to a defined amount of money, which is specified in the relevant appropriation Act. Unspent annual appropriations do not automatically lapse at the end of the financial year, with the remaining monies available until the appropriated amount is exhausted, or until the repeal date specified in the appropriation Act is reached. From 2015 onwards, annual appropriation Acts have been automatically repealed 3 years after they are passed by the Parliament. At this time, any unspent monies cease to be available to the relevant government entity.

Automatic stabilisers

Automatic stabilisers are parts of government policy that adjust automatically to work against changes in economic conditions such as recessions. Two commonly cited examples are unemployment benefits and taxation revenues.

In an economic downturn or recession:

- more people may become unemployed and the total cost of unemployment benefits, which are paid to all eligible recipients, will be higher as a result
- personal and company incomes will likely be lower, and income taxes, which are charged as a share of income, will automatically be lower as a result.

Both the higher unemployment benefits and lower taxes happen automatically without the government changing its existing policies. By putting more money into the economy and taking less out, this helps to support households and businesses during an economic downturn or recession. If the economy is booming, automatic stabilisers work in reverse and can help prevent the economy from ‘overheating’. For this reason, the policies are said to work ‘counter cyclically’ (that is, against the economic cycle).

Automatic stabilisers can be contrasted with ‘discretionary’ fiscal policy, which is any policy requiring a new decision by the government. For example, during the Global Financial Crisis of 2007/09, increased expenditure by the government on unemployment benefits (due to an increased number of recipients) was an automatic stabiliser, while oneoff payments to low and middleincome individuals and households with dependent children, were part of a fiscal stimulus package of discretionary measures.

The effectiveness of taxes and benefits as automatic stabilisers will be affected by the administrative arrangements for collection or payment. For instance, corporate taxes are collected as instalments, with the instalment rate based on past income. In an economic downturn, instalment rates may not adjust quickly, with the reduction in tax only realised when company tax returns are lodged after the end of the year.

Related terms in the PBO glossary: demanddriven program, fiscal policy, fiscal stimulus, measure, recession

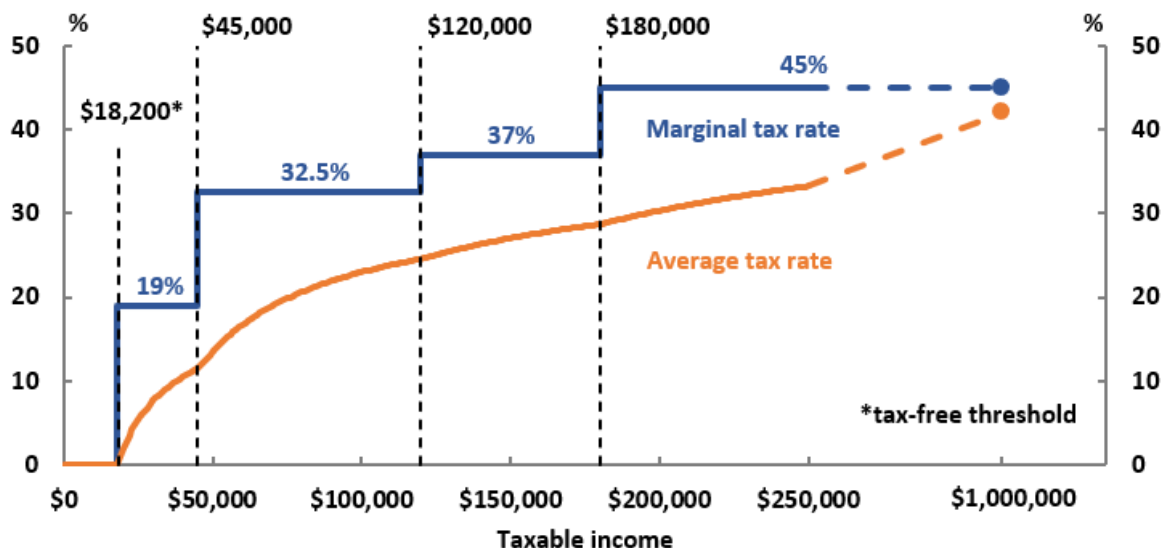
Bracket creep

Bracket creep describes a situation where income growth causes individuals to pay a higher share of their income in tax, even though there may not have been changes to tax rates or thresholds. Bracket creep is usually associated with rising wages, such as in an inflationary environment.

Bracket creep is one result of Australia's progressive personal income tax system, which involves a series of tax 'brackets' with tax rates that increase with income. This system ensures higher income earners pay a greater share of their income in tax compared to individuals earning lower incomes.

Because tax brackets in Australia are not indexed to income growth, individuals whose income increases over time will see a greater share of their income subject to higher tax rates, even if their income has simply risen in line with inflation. This impact occurs regardless of whether income growth pushes their income into the next tax bracket. Figure 1 demonstrates how an individual's marginal and average tax rates increase with taxable income.

Figure 1: Marginal and average tax rates in Australia, 2022-23



Source: Parliamentary Budget Office, Budget Explainer no 1/2021 *Bracket creep and its fiscal impact*

For example, consider an individual with an annual income of \$80,000. Their marginal tax rate is 32.5% and they pay around \$16,500 in tax, which is an average tax rate of 20.6%. If this individual's income were to increase by 6% to \$85,000, they would now pay around \$18,100 in tax, an increase of almost 10%, to an average tax rate of 21.3%, even though they remain in the same marginal tax bracket.

Bracket creep has a positive impact on the budget because it typically means that tax revenues grow as a proportion of the economy over time without the need for governments to explicitly increase taxes. Governments can choose to adjust tax rates or thresholds to reduce the impact of bracket creep – this is sometimes referred to as 'returning' bracket creep.

For further information see the PBO's Budget Explainer no 1/2021 *Bracket creep and its fiscal impact*.

Related terms in the PBO glossary: Indexation, inflation, marginal tax rate, tax revenue

Budget

The budget is the Commonwealth Government's main annual financial report that outlines the economic and fiscal outlook for Australia. It is comprised of a series of documents, including the budget papers, 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 (revenue), money going out (expenses), and how much is owed (net debt). 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 the first of three main annual budget reporting documents required by the *Charter of Budget Honesty Act 1998* (the Charter).

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

The Charter does not mandate a timeframe for the release of the budget, however it typically occurs on the second Tuesday in May and is accompanied by a budget speech. The budget is tabled in the House of Representatives by the Treasurer, along with the Appropriation Bills which allow for the spending of public funds.

Although the Treasury and Department of Finance work to prepare the budget papers, they are the government's documents and are signed off by the Treasurer and the Finance Minister.

The budget includes expenses and revenue estimates for the current financial year, the budget year, and the following three financial years (known as the forward estimates period). Estimates are published at the general government sector level through budget papers, and at the portfolio level through Portfolio Budget Statements. All budget documents and related material can be found on the budget website.

Related terms in the PBO glossary: budget paper, Charter of Budget Honesty, net debt, expense, Final Budget Outcome, financial year, forward estimates, general government sector, MidYear Economic and Fiscal Outlook, Portfolio Budget Statement, revenue

Budget aggregates

Budget aggregates are summary indicators that provide information on the government's financial position. Some widely cited budget aggregates are the underlying cash balance, the net operating balance, the fiscal balance, and net debt. A single budget aggregate can only present a partial picture but combined they provide a good summary of the government's financial situation and its impact on the broader economy. 'Aggregate' refers to the fact that these indicators look at total impacts, such as total government cash flows.

Four of the main budget aggregates (fiscal balance, net operating balance, underlying cash balance and headline cash balance) show whether the budget is in surplus or deficit, while three (net worth, net financial worth and net debt) provide information about the government's assets and liabilities.

If the government or media say that the budget is in surplus or deficit, they are generally referring to the underlying cash balance, but sometimes to the net operating balance or fiscal balance. If the budget is in surplus, all income received by the government (for example through income taxes) is larger than all the spending by the government (for services such as Medicare rebates, and social welfare payments such as the age pension). The particular calculations depend on the particular budget aggregate, including whether it records transactions when economic events occur (known as accrual accounting), or when money is actually paid or received (known as cash accounting).

Indicators that show the budget surplus or deficit are important, but they do not provide information about the government's assets. Information about the government's assets is provided by indicators such as net worth, net financial worth and net debt.

Public accounting standards and agreements between Commonwealth and state Treasurers set out a minimum set of budget aggregates that are updated at every budget, MidYear Economic and Fiscal Outlook, Final Budget Outcome, and (in the leadup to a general election) the PreElection Economic and Fiscal Outlook. Budget aggregates are found in several places in the budget papers.

- *Statement 3: Fiscal Strategy and Outlook of Budget Paper No. 1* gives projections for the budget aggregates that show whether the budget is in surplus or deficit.
- *Statement 7: Debt Statement of Budget Paper No. 1* provides projections of net debt.
- *Statement 10: Australian Government Budget Financial Statements of Budget Paper No. 1* provides complete projections of the budget aggregates.

For further information:

- see Appendix A of the Parliamentary Budget Office's report no. 01/2020 *Alternative financing of government policies: Understanding the fiscal costs and risks of loans, equity injections and guarantees* for an explanation of budget aggregates
- on technical detail on budget aggregates, see the Department of Finance's *Major fiscal aggregates* and the Australian Bureau of Statistics' *Government Finance Statistics manual*.

Related terms in the PBO glossary: accrual accounting, budget, budget paper, cash accounting, Final Budget Outcome, fiscal balance, headline cash balance, Mid-Year Economic and Fiscal Outlook, net, net debt, net financial worth, net operating balance, Pre-Election Economic and Fiscal Outlook, underlying cash balance

Budget paper

The budget papers are four key documents produced as part of every budget that outline the economic and fiscal outlook of the Commonwealth Government. Together, they provide a large amount of information about the government's current and projected financial position (including revenue, expenses and the level of net debt), details of the government's fiscal strategy, new government decisions, and funding provided to the states and territories.

In preparing the budget papers, all government decisions and other circumstances that have an effect on revenue and expenses must be taken into account. The four budget papers are described below, with specific references to the sections in the relevant *2021-22 Budget Papers*.

Budget Paper No. 1: Budget Strategy and Outlook contains a set of chapters known as 'statements' that provide high level information about the overall economic outlook and the government's fiscal position. It contains forecasts of key economic parameters (such as gross domestic product (GDP) growth, unemployment and the consumer price index), the government's fiscal strategy and outlook, estimates of government revenue, expenses and net capital investment, and the level of government net debt. It also presents detailed financial statements and historical budget statistics.

Budget Paper No. 2: Budget Measures outlines new decisions the government has taken. It contains details of every new decision, or 'measure', announced since the preceding MidYear Economic and Fiscal Outlook, including a description and the financial impact over the current financial year, the budget year and the following three financial years (the forward estimates). Measures are grouped according to the component of the Commonwealth Government's finances they primarily affect – revenue (Part 1), expense (Part 2) or capital (Part 3).

Budget Paper No. 3: Federal Financial Relations contains information on payments made by the Commonwealth to the states and territories. These payments fall into two categories: payments for specific purposes (Part 2) and general revenue assistance (Part 3).

- Payments for specific purposes are funds provided on the condition that the states and territories spend the money as directed, such as to fund schools and public hospitals.
- General revenue assistance refers to funds provided to the states and territories without any conditions attached, for example revenue from the goods and services tax.

Budget Paper No. 4: Agency Resourcing contains information on funding for each government agency. This includes the type of legislative authority that allows a government agency to spend public funds (the appropriation type) and the amount of money that it is allowed to spend (Part 1). It also details the expected level of staffing for each government agency (Part 2).

For further information:

- the Parliamentary Library's Quick Guide to the Commonwealth Budget describes the aim and contents of each budget paper
- the current budget papers can be found on the Budget website.

Related terms in the PBO glossary: budget, capital, consumer price index, expense, gross domestic product, measure, MidYear Economic and Fiscal Outlook, net debt, parameter, payment, revenue

Capital

Capital comprises assets, some of which can be used to directly produce goods or services.

Capital includes financial assets such as cash and loans, and non-financial assets such as buildings and machinery. Some economic theories also define other types of capital, for example human capital (such as the stock of knowledge and skills), and natural capital (the stock of natural assets that support life).

Non-financial assets, like land, buildings and machinery, are combined with labour inputs to produce goods and services. For example, a farm uses farm machinery, land and the effort of farm labourers to produce crops. Looking across the economy as a whole, the total value of all of these goods and services is called gross domestic product.

The total value of all capital used for production in the economy at a given point in time is known as the 'capital stock'.

- Increases in the capital stock from acquiring existing assets or creating new assets are referred to as 'investments'.
- The decrease in the value of the capital stock as a result of the production process is referred to as 'depreciation'. For example, suppose a manufacturer invests in a machine worth \$100,000. At the end of the next year, the machine is valued at \$90,000, reflecting its use at the factory. The \$10,000 decrease in the value of the machine is depreciation due to wear, accidental damage or becoming gradually obsolete.

In a Commonwealth Government budget context, capital generally refers to nonfinancial assets. As such, net capital investment is defined as the net sale and investment in nonfinancial assets less depreciation expenses. See the net capital investment entry for further detail, including where information on the government's investment can be found in the budget papers.

Related terms in the PBO glossary: gross domestic product, net, net capital investment, non-financial asset

Capped funding

Capped funding is where the government provides a fixed sum of money for a program. This means that the maximum amount of government spending on the program will not change, even if, for example, there are changes in the demand for the program or costs are higher than expected.

Capped funding can be distinguished from uncapped or demanddriven funding, which does not have any fixed limits on spending. For example, a commitment that *the government will provide \$500 million for the construction of a road from A to B* is a capped funding commitment, while *the government will fund construction of a road from A to B* is uncapped because the precise amount is not specified and depends on a range of external factors. Income support payments, such as the JobSeeker payment, are demanddriven because the total amount of government spending depends on the number of eligible recipients.

One reason governments allocate capped spending is to provide some assistance and support while limiting their expenditure. Unlike demanddriven programs, where the final expenses can be hard to predict, spending on capped programs is certain and will not change unless the government chooses to amend the amount allocated to the program.

The main risk with capped funding is that the allocated amount of funds may not be enough to achieve the objectives of the program. In this case, additional sources of funding will need to be found by the funding recipient to deliver the program, unless the government chooses to increase the capped amount.

Capped funding can be ongoing (such as a fixed amount provided for a program every year) or terminating (such as a oneoff grant). Capped funding can be a fixed dollar amount or can increase each year in line with inflation.

Capped funding can be allocated in a number of ways, including through oneoff grants, establishing competitive processes or allocating funding on a 'firstin, first-served' basis until the cap is reached.

Related terms in the PBO glossary: demand-driven program, expense, grant, inflation, program, uncapped funding

Cash accounting

Cash accounting records income when cash is received, and records costs when cash is paid out, regardless of when those amounts are earned or incurred. For example, under cash accounting, goods and services tax receipts are recorded in the financial year they are received, even though those tax amounts may relate to goods and services purchased in the previous financial year. Under cash accounting, government income is called ‘receipts’ and costs are called ‘payments’.

Cash accounting differs from accrual accounting which records income when it is earned, and records costs when they are incurred, regardless of when the amounts are actually received or paid out. Under accrual accounting, government income is called ‘revenue’ and costs are generally associated with ‘expenses’.

The Commonwealth budget presents both accrual and cash indicators. *Budget Paper No. 2*, which details new government spending and tax measures, was presented in accrual terms (showing the impact of new measures on the fiscal balance) prior to the *2020-21 Budget*. However, the *2020-21 Budget* presented budget measures on a cash basis, and it is now convention for *Budget Paper No. 2* to be presented in cash terms (showing the effect of new measures on the underlying cash balance).

For many items, cash and accrual estimates are similar, but in some cases they are very different. For example, most Medicare rebates are paid electronically immediately after a doctor’s visit, so the cash and accrual estimates of the costs are very similar. In contrast, the cash and accrual costs of some of the Commonwealth’s superannuation schemes are very different. The government accrues the obligation to pay eligible individuals’ superannuation benefits during their employment, which is reflected as increased liabilities under accrual accounting. The government does not, however, actually make any payments until the individual retires, so the cash costs are zero until then. This means there is a large difference between the cash and accrual estimates of these superannuation costs.

Appendix A of the PBO’s report no. 01/2020 *Alternative financing of government policies: Understanding the fiscal costs and risks of loans, equity injections and guarantees* contains more details on which budget aggregates are in cash or accrual terms.

Related terms in the PBO glossary: accrual accounting, budget, budget aggregates, budget paper, expense, financial year, fiscal balance, measure, payment, receipt, revenue, underlying cash balance

Charter of Budget Honesty

The *Charter of Budget Honesty Act 1998* (the Charter) is the legal framework for conducting government budget policy in Australia. The Charter aims to improve budget policy outcomes by establishing a set of rules and principles that guide how the government sets and reports on its budget performance.

To facilitate public scrutiny of fiscal policy and performance, the Charter mandates the government to publicly release the following reports:

- a budget that sets out the economic and fiscal outlook, and the government's fiscal strategy
- a Mid-Year Economic and Fiscal Outlook (MYEFO) that provides updated information on the government's fiscal performance that can be assessed against the fiscal strategy set out in the budget. The MYEFO must be published by the end of January in each year, or within six months after the latest budget
- a Final Budget Outcome that provides the final fiscal outcomes for the year, and must be published within three months of the end of each financial year
- a Pre-Election Economic and Fiscal Outlook report if a general election is called
- an Intergenerational Report at least once every five years, which assesses the long-term sustainability of current government policies over the next 40 years.

The Charter outlines the information that should be included in each of these publications and what accounting standards to use when reporting financial information.

Importantly, the Charter sets the objective of the government's fiscal policy, which is to maintain ongoing economic prosperity and the welfare of Australians. It sets out five principles of fiscal management and requires the government to publish fiscal strategies consistent with these principles. The principles include ensuring policy decisions have taken account of the financial effects on future generations, and managing financial risks carefully, including by maintaining government debt at prudent levels.

Fiscal strategy statements are typically found in *Statement 3: Fiscal Strategy and Outlook of Budget Paper No. 1*. For example, in the *2021-22 Budget*, the government's short-term fiscal strategy was to drive down the unemployment rate to pre-COVID-19 level or below, and ensure the economic recovery from the COVID-19 pandemic was sustained and secure. The government's medium-term fiscal strategy was to stabilise and then reduce debt as a percentage of GDP.

The Charter outlines arrangements under which the Treasury, the Department of Finance and the Parliamentary Budget Office (PBO) may be requested to cost election commitments during the caretaker period prior to a general election. The caretaker period begins at the time the House of Representatives is dissolved and continues until the election result is clear or, if there is a change of government, until the new government is appointed. During the caretaker period, a party can request a costing from the Department of Finance, the Treasury or the Parliamentary Budget Office, but not from more than one of these.

Related terms in the PBO glossary: budget, budget paper, debt, Final Budget Outcome, financial year, fiscal policy, MidYear Economic and Fiscal Outlook, net financial worth, PreElection Economic and Fiscal Outlook

Committed and uncommitted funding

In the context of funds allocated to a program, committed funding is money that the government has a contractual or other legal obligation to pay. These funds are usually part of a fixed overall amount of money allocated to a program, known as the capped funding amount. The money remaining after accounting for committed funds is called ‘uncommitted’ funds. Uncommitted funds may be taken out of a program and used to fund new initiatives without increasing the budget deficit (or reducing the surplus).

For example, if the budget allocated \$10 million for a grants program and then entered into contracts for specific grants worth a total of \$6 million, that \$6 million of funding is committed. The remaining \$4 million of funding is uncommitted. At this point, if the government decided not to continue with the grants program, that \$4 million could be reallocated to another program without affecting the budget position. The government may not be able to recoup some or all of the \$6 million they have already committed.

The distinction between committed and uncommitted funds is usually made when a program is managed by a government agency or other operator on the government’s behalf (known as an administered program).

The term ‘commitment’ can be used in a variety of ways, however this material relates to the relatively narrow concept of contractual or legal obligations.

Related terms in the PBO glossary: administered funding, budget, budget aggregates, capped funding, grants, program

Concessional loan

Concessional loans are loans offered by governments so businesses and individuals can borrow money on more favourable terms than they could get from a bank or other commercial lender. These more-favourable terms can include:

- reduced interest rates
- no repayments for several years
- an extended interest-free period.

Concessional loans are used to support policy objectives when private financing is unavailable or unaffordable. For example, the Commonwealth Government's drought loans are offered to help farm business owners prepare for, manage and recover from drought. These loans are concessional as they offer belowmarket interest rates and the first two years are interest free. The Commonwealth Government's biggest concessional loan program is the Higher Education Loan Program (HELP), which provides loans to students for higher education tuition costs.

Concessional loans can represent a net improvement or deterioration in government finances. This will depend on the amount of:

- revenue generated from the loan — for example from interest payments
- principal repaid — as with all loans, there is a risk that some of the loan will not be repaid in full
- expenses payable by government — most notably public debt interest, which is the cost to the government of borrowing to fund the loans.

Concessional loans are a form of alternative financing and differ to grants in that there is an expectation that loans will be repaid.

The accounting treatment of concessional loans is similar to standard loans but there are additional components to recognise the more-favourable terms of the loan.

For further information:

- see the Parliamentary Budget Office's report no. 01/2020, *Alternative financing of government policies: Understanding the fiscal costs and risks of loans, equity injections and guarantees* for an explanation of concessional loans and their impact on the budget
- see the Department of Finance's *Q&A – Concessional Loans* for answers to commonly asked questions on concessional loans
- see the Department of Finance's *Investment Instruments* entry in their Commonwealth Investments Toolkit for an explanation of when the government might use concessional or standard loans
- on more technical details and worked accounting calculations, see *Appendix A* of the Department of Finance's *RMG115: Accounting for concessional loans*
- see PER062, PER314 and PER649 in the PBO's *2019 Post-election report of election commitments* for examples of election commitment costings that include concessional loan schemes.

Related terms in the PBO glossary: alternative financing, budget, expense, grant, public debt interest, revenue

Conservative bias allowance

The conservative bias allowance (CBA) is an aggregate provision in the Australian Government budget to take account of the historical tendency to underestimate expenses over the forward estimates. The purpose of the CBA is to reflect the inherent uncertainty in expense estimates the further into the future the projections are made. The CBA is typically the largest component of the government's contingency reserve.

Including the CBA in the budget estimates means that the overall budget bottom-line is more realistic over the forward estimates period than it would otherwise have been. The CBA is not a policy reserve and therefore no 'savings' can be claimed by adjusting it down.

Because it is an aggregate adjustment, the size of the CBA does not imply underestimation in any specific program, but only for the sum of all relevant programs in total. In calculating the size of the CBA, only program-specific factors are included, such as demographic factors that may impact eligibility for programs.

The CBA does not account for economic parameter variations, such as changes in prices or new policy decisions. For example, the possibility of a change in age pension payment rates due to increases in the consumer price index (an economic parameter variation) or a change in the payment rate for the age pension (a new policy decision) are not taken into account by the CBA.

The amount of the CBA provision is calculated as a certain percentage of total expenses, excluding goods and services tax (GST) payments to the states and territories. Because uncertainty is greater the further into the future a forecast is made, the level of CBA varies for each year of the forward estimates. Amounts for the CBA are presented in budget paper 1. The 2022-23 Budget Paper No. 1 shows the amounts on page 172, for example.

The current CBA provision is set to 0% for the budget year, 0.5% for the following year (the first forward year), 1% for the next year and 2% for the final year. If, for example, total expenses were estimated to be around \$600 billion and GST payments to the states and territories around \$80 billion, the total amount of CBA provisioned would add \$2.6 billion to forecast expenses for the first year of the forward estimates.

For further information on the CBA and its budget treatment see the PBO's budget explainer no 2/2021 The Contingency Reserve.

Related terms in the PBO glossary: budget, contingency reserve, expense, forward estimates, parameter, program

Consolidated Revenue Fund

The Consolidated Revenue Fund (the Fund) acts like the Commonwealth Government's bank account, where all of its deposits and withdrawals of money are made.

All money raised or received by the Commonwealth Government automatically forms part of the Fund and all expenditure by the Commonwealth Government also comes out of the Fund. For example:

- revenue from personal income and other taxes, interest earned on government loans, and dividends from government investments are all included in the Fund
- spending on government policies and programs, such as payments of Medicare benefits or the age pension, are made from the Fund. All grants and payments to state and territory governments, such as those for hospitals and schools, also come out of the Fund.

The only exception to the above is money received by Commonwealth entities that are legally separate to the Commonwealth Government (known as 'Corporate Commonwealth entities'), such as Australia Post. In these cases, money received does not automatically form part of the Consolidated Revenue Fund.

The Consolidated Revenue Fund was created to ensure Commonwealth Government spending is first reviewed by members of the Parliament. Money can only be drawn from the Consolidated Revenue Fund to pay for Commonwealth Government activities once the Parliament has approved the expenditure by passing an appropriation.

The Consolidated Revenue Fund was established by section 81 of the Australian Constitution.

While it can be helpful to think about the Consolidated Revenue Fund as a bank account, technically this is not the case. The Official Public Account group of accounts, provided by the Reserve Bank of Australia, act as the Commonwealth Government's actual bank account. This is where most of the operations of the Consolidated Revenue Fund take place.

Related terms in the PBO glossary: expense, grant, payment, program, revenue

Consumer price index (CPI)

The consumer price index (CPI) is one of the most frequently used indicators of inflation, which measures the price changes facing households.

In Australia, the CPI is one of the main indicators used to adjust government payments, like the JobSeeker payment, to reflect the change in prices over time.

Typically, the general level of prices across the economy rises over time, which is called inflation, but prices can also fall (this is called deflation). If prices are rising, \$100 in 2025 will not buy as much as \$100 in 2020. Another way of saying this is that the same nominal amount of money has lower purchasing power.

To measure inflation, the CPI calculates the percentage change in the price of a fixed collection or ‘basket’ of goods and services that reflects the spending habits of households. If households spend more of their income on an item, that item will have a larger share or ‘weight’ in the basket of goods and services, and its price changes will have a bigger influence on the CPI.

The Australian Bureau of Statistics (ABS) calculates and publishes the CPI every three months.

The CPI is not a cost-of-living index even though both of them measure changes in the prices of goods and services that households buy. The CPI measures the changes in the price of a fixed basket of goods and services, while a cost-of-living index measures changes in the minimum amount a household would need to spend to maintain the same standard of living. The ABS also publishes Selected Living Cost Indexes that provide a better indication of the cost of living than the CPI.

The ABS publishes the latest CPI figures in its *Consumer Price Index, Australia* release as well as answers to common questions on how to calculate and interpret the CPI and similar cost-of-living metrics.

This Reserve Bank of Australia ‘explainer’ on inflation and its measurement discusses inflation and the calculation and limitations of the CPI.

Related terms in the PBO glossary: indexation, inflation, nominal, payment

Contingency reserve

The contingency reserve is an allowance within the budget for policy changes or other items that the government expects but cannot allocate to specific government programs or publish separately in the budget.

There is a range of items that may be put into the contingency reserve. These include:

- the ‘conservative bias allowance’ that accounts for the tendency for the costs of some existing government programs (particularly demand-driven programs) to be higher than estimated
 - this is typically the largest component of the contingency reserve and is calculated as a fixed share of total expenses (after adjusting for goods and services tax payments to the states).
- items that are too sensitive to be disclosed separately, such as those that are commercial-in-confidence or that affect national security
- a provision for underspends in the current financial year
- decisions that are taken by government but were not announced before the budget, or were made too late to be included in individual agency estimates. The total value of these decisions are published in the budget papers as ‘decisions taken but not yet announced’
- expenses where the final cost depends on negotiations with another entity such as state and territory governments
- provisions for other specific events and pressures that are expected to affect the budget estimates but have not yet taken place.

Funds in the contingency reserve are not yet agreed to by Parliament (through an appropriation) but are still included to ensure that budget aggregates reflect expected outcomes. The value of the contingency reserve changes over time as new and updated information is available.

When funds held in the contingency reserve are appropriated to a government entity, their value is removed from the contingency reserve and allocated to a specific government entity or program.

The contingency reserve is included as an aggregate expense in the budget papers and updated at every MidYear Economic and Fiscal Outlook. The general practice has also been for items in the contingency reserve not classified as commercialinconfidence or national securityinconfidence to be identified in the budget update released before a general election, known as the Pre-Election Economic and Fiscal Outlook.

The *2021-22 Budget (Statement 6: Expenses and Net Capital Investment of Budget Paper No. 1)* provides an example of how the contingency reserve is presented in the budget (Table 6.17) and how the conservative bias allowance component is calculated (Pages 193-194).

Related terms in the PBO glossary: budget, budget aggregates, budget paper, demanddriven program, expense, MidYear Economic and Fiscal Outlook, PreElection Economic and Fiscal Outlook, program

Debt

Government debt refers to the amount of money that the government owes its lenders at a particular point in time. In broad terms, it measures how much successive governments have spent over the receipts they have collected. Going into debt allows the government to fund activities that it could not otherwise afford.

For example, suppose the budget is in a cash deficit (receipts are lower than payments) and the government wants to increase the age pension payment. There are three options available:

- reduce other spending to find savings to pay for the pension increase
- increase receipts, for example by raising taxes
- borrow money from investors (go into debt) to fund the spending.

When an individual borrows money, they generally take out a loan. When the Commonwealth Government borrows money, it generally sells financial instruments, including bonds, which are collectively called ‘Australian Government Securities’. These are bought by investors who receive interest from the government at specified intervals and the principal at maturity, which is an agreed term ranging from months to several decades. The borrowing cost the government incurs through debt is called ‘public debt interest’.

There are two main measures of government debt, gross debt and net debt, and the numbers for each are often very different from each other.

In the budget papers, gross debt is the sum of Australian Government Securities on issue, based on their value when the securities were issued (their ‘face value’). While gross debt reflects the total amount of Commonwealth Government debt, it does not include any of the government’s financial assets that partly offset that debt, or any smaller debts that are not Australian Government Securities. For this reason, only looking at gross debt without net debt could give an incomplete picture of the government’s financial position.

Net debt is the sum of selected financial liabilities (including government securities, loans, deposits held, and other borrowings) minus the sum of selected financial assets (including cash and deposits, advances paid, and investments). In the net debt calculation, Australian Government Securities are valued as the price they are currently trading at (their ‘market value’) rather than their face value.

Compared to gross debt, net debt is a better indicator of the strength of the government’s financial position. While net debt is a widely used indicator of the financial health of a government, it has its own limitations. See the net debt entry in this glossary for more information.

Within the budget papers:

- *Statement 7: Debt Statement of Budget Paper No. 1* provides information on current and projected government debt, including the assumed interest rates on future borrowings and the share of bonds held by non-resident investors
- *Statement 10: Australian Government Budget Financial Statements of Budget Paper No. 1* provides complete projections of the government’s fiscal position, including projections of net debt.

Related terms in the PBO glossary: gross debt, net debt, payment, public debt interest, receipt

Decisions taken but not yet announced (DTBNYA)

Decisions taken but not yet announced (DTBNYA) is a component of the contingency reserve. The size of DTBNYA and its composition varies from time to time. This is because DTBNYA are policy decisions that have been taken by the Australian Government and included in the budget aggregates, but the details and costs of which have not yet been disclosed to the public.

DTBNYA includes new policies not yet announced as well as policies that have been announced but whose costs cannot be published. The total values of new DTBNYA for receipts and payments are presented in the summary tables in *Budget Paper No. 2*. Note that the contingency reserve includes only the amounts for DTBNYA for payments, not receipts.

There are several reasons why policy decisions may not be announced, or amounts cannot be published.

- The announced policy may be subject to commercial-in-confidence restrictions or its disclosure could prejudice national security. For example, the cost of the 2021-22 Budget measure, *COVID-19 Vaccine Manufacturing Capabilities*, was listed as not for publication (nfp) due to commercial-in-confidence sensitivities. Similarly, the fiscal impact of new listings to the Pharmaceutical Benefits Scheme is usually reported as not for publication.
- Some policies may have been finalised very late in the budget process. For example, the 2004-05 Budget included an allowance for the impact of the Australian Industrial Relations Commission's living wage case decision which was released less than a week before the budget.

The government can choose when it announces its policy decisions and may include some policies within DTBNYA in order to announce them later.

For further information see the PBO's budget explainer no 2/2021 *The Contingency Reserve* on DTBNYA and its budget treatment. At the 2022-23 Budget, DTBNYA was referred to as 'Decisions taken but not yet announced and not for publication'.

Related terms in the PBO glossary: budget aggregates, contingency reserve, measure, not for publication

Demand-driven program

A demand-driven program is a program where the required amount of funding is determined by the number of users, which can change over time. Each demand-driven program has its own eligibility criteria and can be accessed by anyone who meets the criteria.

Many government benefits and payments are demand-driven programs. For example, the JobSeeker payment provides financial support to anyone who meets the eligibility criteria, which includes being unemployed and looking for work, and meeting income and assets tests. The amount of funding required for the JobSeeker payment increases if there is a sudden rise in the number of people who are unemployed, as more people apply and become eligible for the payment — this is known as an increase in the demand for the program. Likewise, payments would be expected to fall in line with reduced unemployment. The age pension is another example of a demand-driven program.

A demand-driven program has no fixed limits on the number of places available or the number of people who can access the program, as long as eligibility criteria are met, which means funding cannot be capped. This can make it hard to predict spending, and final expenses can be higher or lower than expected.

Across all programs, the total difference between the expected and the final costs due to changes in demand is reflected in the ‘parameter and other variations’ section in the budget papers.

Related terms in the PBO glossary: budget paper, capped funding, expense, parameter, payment, program

Departmental funding

Departmental funding is managed and controlled directly by government agencies, with the head of the agency having responsibility for managing the funding. Typically, departmental funds are used for the purpose of day-to-day operations and to support programs for which the agency has responsibility. Departmental funding is distinguished from administered funding, which is managed by government agencies on behalf of the government as a whole.

For example, the government provides departmental funding to Services Australia, the government agency that provides income support payments such as the age pension. Services Australia uses this departmental funding to pay for the staff and equipment it needs to make income support payments to the public. The income support payments themselves are administered funding, which is governed by eligibility rules set out in legislation rather than being directly controlled by Services Australia.

Departmental expenses are generally much smaller than administered expenses and vary across time. For example, departmental expenses accounted for around 14 per cent of total expenses in 2019-20 and around 6 per cent of total expenses in 2020-21. They include the organisational costs of government agencies as well as the costs of corporations within the general government sector, such as the Australian Broadcasting Corporation; the costs of the Australian Defence Force; and the costs of the National Disability Insurance Scheme, which is under the control of the National Disability Insurance Agency.

While ‘departmental’ is a term usually associated with expenses (staff, office buildings and equipment), it can also relate to capital and revenue. Departmental funding includes the capital funding for the Department of Defence, mainly for military equipment. An example of departmental revenue is where an agency charges to recover the costs associated with managing a program or providing a service (for example the Australian Bureau of Statistics may charge users for providing custom statistical information that is not publicly available).

Details of departmental funding across all Commonwealth Government agencies are published in the budget in *Budget Paper No. 4: Agency Resourcing*. Commonwealth Government agencies also report their departmental items in greater detail in their Portfolio Budget Statements (budget information for a Minister’s area of responsibility) and in their annual reports.

Related terms in the PBO glossary: administered funding, budget, budget paper, expense, Portfolio Budget Statement, program, revenue

Elasticity

Elasticity is a technical term for a type of calculation used in economic and fiscal analysis, which usually relates to how quantities respond to changes in prices. It is expressed numerically as a measure of the percentage change of an economic variable in response to a percentage change in another related variable. Elasticity values can be positive or negative. The larger the value the more elastic or responsive one variable is to a change in a different variable.

Some examples of common types of elasticity include:

- A **price elasticity of demand** of -0.2 would indicate a negative elasticity and mean that demand has a low responsiveness to changes in price. In this case, a 10% increase in the price of a product would lead to only a 2% reduction in the quantity consumed.
- An **income elasticity of demand** of 1.2 would indicate a strong positive elasticity and would show that with every 1% increase in a person's income the quantity of a particular product consumed would increase by 1.2%.
- A **labour demand elasticity** of -0.5 would indicate a negative elasticity and show that if wages increase by 1% there would be a 0.5% decrease in the number of people employed.
- A **price elasticity of supply** of 2.5 would be a strong positive elasticity and mean there is a high responsiveness to changes in the price. In this case, a 1% increase in the price of a product would lead to 2.5% more of the product being supplied to the market.

Elasticities are widely used when determining the impact of potential policies on the amount of revenue (or expenses) that would be earned (or incurred) by the government.

For example, if a policy measure proposes to increase the wage for a group of workers, then the labour demand elasticity for this group of workers would affect the amount of tax revenue collected by the Australian Government, as shown below.

- If there were 10,000 workers in an industry, each earning \$42,000 a year, then the annual amount of tax revenue collected would be \$45.2 million (\$4,520 in tax per worker x 10,000 workers). If a policy measure were to increase the annual wage for these workers to \$42,420, then this would represent a 1% wage increase. This wage increase would lead to an increase in the tax paid per worker to \$4,600 and, assuming no change in the number of workers employed, increase tax revenue by \$0.8 million.
- Now, if this industry had a labour demand elasticity of say -0.5 , then this would mean that the number of workers employed in this industry would decrease by 0.5% to 9,950. The amount of tax revenue collected under the new policy would now be \$45.8 million (\$4,600 in tax per worker x 9,950 workers), leading to an increase in tax revenue of \$0.6 million.
- However, if the industry had a stronger negative labour demand elasticity of say -2 , then this would mean a decrease of 200 workers to 9,800. The amount of tax revenue would then be \$45.1 million (\$4,600 in tax per worker x 9,800 workers), which represents a decrease in tax revenue of \$0.1 million.

Related terms in the PBO glossary: expense, measure, revenue, tax revenue

Equity

An equity investment is a payment in exchange for an ownership stake in a business and a share of any profits. The money invested is called an ‘equity injection’ and the profits paid back are called dividends. In the Commonwealth Government budget context, examples of equity investments include:

- direct government ownership of shares in companies through Commonwealth Government investment funds
- the government’s sole ownership of NBN Co Limited to finance the delivery of the National Broadband Network.

These two examples show two different purposes of government equity investments.

- In the case of equity investments made by government investment funds, the investments are intended to generate revenue to be spent on specific policy objectives.
- In the case of investments such as NBN Co Limited, a government equity injection is a form of alternative financing to pay for a project. Under direct funding, such as a grant to build a road, the government does not expect to be repaid. With equity injections and most other types of alternative financing, such as government loans, the government provides financial resources in return for a financial asset. Equity injections can support projects that are large or where the risk profile makes private sector investment unlikely. Governments will generally take into account the broader social or public benefits of the investment.

In either case, the government may receive a flow of dividends from ownership and can sell its share of the investment at a later date. The effect of equity injections on the government’s fiscal position can be more uncertain than that of direct funding. For example, the value of an ownership stake can change over time, depending on the valuation of the business. Very limited information is provided in budget documents about these revaluation-related impacts of equity investments. Estimates of the valuation of individual equity investments, such as the National Broadband Network, are usually located within the annual reports of the administering government department rather than the budget papers.

Within the budget papers, information about equity investments includes:

- *Statement 7: Debt statement of Budget Paper No. 1*, which provides details of the major assets and liabilities on the Commonwealth Government’s balance sheet
- *Statement 10: Australian Government Budget Financial Statements in Budget Paper No. 1*, which shows the total dividends received from equity investments, and the estimated amount of equity investments held by the government within its net financial worth.

The PBO’s report no. 01/2020, *Alternative financing of government policies: Understanding the fiscal costs and risks of loans, equity injections and guarantees* contains more information on equity, other alternative financing arrangements, and their impact on the budget.

Related terms in the PBO glossary: alternative financing, budget, budget paper, debt, grant, net, net financial worth, program

Expense

Expense in the budget context refers to the cost of providing government services, excluding costs related to revaluations such as the write down of assets. Examples include spending on programs such as the age pension or Medicare, funding provided to the states and territories for public hospitals, or the wages paid to Commonwealth Government employees.

Expenses are recorded when costs are incurred, regardless of whether any cash is paid. This reflects an accrual accounting framework. This is distinct from payments, which are recorded when cash amounts are paid. For example, the expense associated with a Commonwealth Government employee's long service leave is recorded every year once an employee is eligible for the leave; however the cash payment will only be recorded when the employee takes their long service leave.

Expenses are presented in a number of different ways in the budget papers. For example, *Statement 6: Expenses and Net Capital Investment* of *Budget Paper No. 1* breaks down the estimates of expenses by government function (such as health, social welfare, and education) as well as information on the twenty government programs with the largest expenses.

Statement 10: Australian Government Budget Financial Statements of *Budget Paper No. 1* reports expenses in accordance with budget accounting standards. The financial statements and the associated notes provide detailed information on expenses for wages and salaries (largely wages for Commonwealth Government employees), the supply of goods and services (for example providing pharmaceuticals and health services), grants (largely, funding to the states and territories for services they deliver), and personal benefits (largely, social security pensions and allowances).

Budget Paper No. 4: Agency Resourcing reports expenses according to the Commonwealth Government agency that receives the funding. This funding is further split into administered and departmental expenses.

Related terms in the PBO glossary: accrual accounting, administered funding, budget, budget paper, departmental, net capital investment, payment, program, revenue

Final Budget Outcome (FBO)

The Final Budget Outcome (FBO) provides the Commonwealth Government's fiscal outcomes over the past financial year. It shows how much the government actually spent or received rather than how much it expected to spend or receive, and whether a projected budget surplus or deficit actually occurred.

The Final Budget Outcome is the last of three main annual budget reporting documents required by the *Charter of Budget Honesty Act 1998*. The other two main annual budget reporting documents are:

- the budget, that sets out the economic and fiscal outlook and the government's fiscal strategy
- the Mid-Year Economic and Fiscal Outlook, that provides updated information on the government's fiscal performance that can be assessed against the fiscal strategy set out in the budget.

The Charter of Budget Honesty requires that the Final Budget Outcome is released no later than three months after the end of the relevant financial year.

As an example, the *2018-19 Final Budget Outcome* was released in September 2019 and included:

- Part 1: information on budget aggregates for 2018-19, including analysis of the government's cash flows, revenue, expenses, net capital investment and the balance sheet (net debt, net financial worth and net worth)
 - Table 1 shows the budget was forecast to be in deficit in underlying cash balance terms for 2018-19 but the actual outcome was a balanced budget as a share of gross domestic product (GDP) (neither surplus nor deficit).
 - Table 3 shows how much tax was actually received from each major source of cash receipts, and can be compared to what was expected in the budget and MYEFO (Table 7 in *Statement 4: Revenue of Budget Paper No. 1* in the *2019-20 Budget* and Table 3.10 in *Part 3: Fiscal Strategy and Outlook* of the *2018-19 MYEFO*).
- Part 2: Commonwealth Government financial statements for 2018-19, covering the general government sector as well as the public financial corporations and public non-financial corporations sectors
- Part 3: details on Australia's federal and state financial relations for 2018-19, including actual payments to states and territories from goods and services tax revenue, and Commonwealth Government payments for services delivered by states and territories, such as for public hospitals and schools
- Appendix A, *Expenses by function and sub-function*: details how much was actually spent on each major function of government, and can be compared to the forecast spending in the equivalent tables in the budget and MYEFO (Table 3 in *Statement 5: Expenses and Net Capital Investment* of *Budget Paper No. 1* in the *2019-20 Budget* and Table 3.23 in *Attachment C* of the *2018-19 MYEFO*).

Related terms in the PBO glossary: budget, budget aggregates, Charter of Budget Honesty, expense, financial year, general government sector, MidYear Economic and Fiscal Outlook, net capital investment, net financial worth, public nonfinancial corporation, revenue

Financial statements

A financial statement is a report showing the financial activities and performance of an entity. The financial statements in the budget papers present a picture of the Australian Government's fiscal position and outlook for the period of the forward estimates, being the current budget year and the 3 following years.

Three financial statements are included in the budget papers – the balance sheet, operating statement, and cash flow statement.

- The balance sheet shows the government's financial position at a point in time (usually the end of a financial year). It lays out what the government owns (financial and non-financial assets) and what the government owes to others (liabilities), and presents budget aggregates such as net worth, net financial worth and net debt.
- The operating statement presents details of changes to the government's financial position over a financial year. This can be through government revenue, such as taxation revenue or sales of goods and services; through expenses, such as the payment of wages and salaries or the delivery of government programs; or through revaluations of existing assets. The operating statement includes budget aggregates, such as the operating balance and fiscal balance.
- The cash flow statement shows how government receives and uses cash over a period of time (usually a financial year), covering cash flows related to operating activities, investments and financing activities. It presents budget aggregates such as the underlying cash balance and the headline cash balance.

The financial statements in [Budget Paper No. 1](#) report consolidated outlooks for the general government sector, public financial corporations sector (which includes the Reserve Bank of Australia), public nonfinancial corporations sector (which includes NBN Co) and the total nonfinancial public sector. The statements are generally prepared consistent with the Australian Bureau of Statistics Government Finance Statistics methodology.

The financial statements are presented in line with the Uniform Presentation Framework agreed between the Australian, state and territory governments. This framework aims to ensure that government financial information is presented on a consistent basis in line with the relevant Australian Accounting Standard (AASB 1049). The financial statements are accompanied by several additional tables providing more detail for particular items.

In the 2022-23 Budget, the forecast financial statements can be found in *Budget Paper No. 1, Statement 9*. Forecast financial statements are also found in the Mid-Year Economic and Fiscal Outlook update, published around 6 months after the budget. Unaudited financial statement outcomes are published in the Final Budget Outcome, published no later than 3 months after the end of the relevant financial year, with fully audited outcomes presented in the Australian Government's Consolidated Financial Statements, published by the end of November each year.

For further information:

- see Appendix A in the PBO's research report no 01/2020 Alternative financing of government policies: Understanding the fiscal costs and risks of loans, equity injections and guarantees for a visual glossary of each financial statement
- see Notes to Financial Statements for a detailed explanation of the accounting basis.

Related terms in the PBO glossary: budget, budget aggregates, financial year, forward estimates, general government sector, headline cash balance, Final budget Outcome, fiscal balance, Mid-Year Economic and Fiscal Outlook, net debt, net financial worth, net worth, underlying cash balance

Financial year (FY)

A financial year (FY), sometimes known as a fiscal year or budget year, is a 12-month period used for financial reporting and taxation purposes that does not necessarily start on 1 January. In Australia, a financial year starts on 1 July and ends on 30 June. As dates differ between countries, some companies can also vary their individual financial years in order to match the financial reporting requirements for their related businesses overseas.

The peak holiday and retail season for Australia occurs in December and January so the timing of the financial year allows financial reports and tax returns to capture the whole impact of those seasons. If the financial year started on 1 January the total impact of this peak would be spread across two different reporting periods.

Ending the financial year on 30 June rather than 31 December also allows the peak activity around financial reports and tax returns to occur around and after June, rather than around and after December when more employees are likely to be taking breaks.

Fiscal balance (FB)

The fiscal balance (FB) is one of several indicators known as ‘budget aggregates’ that measure the impact of the government’s budget on the economy. Along with the underlying cash balance, or sometimes the net operating balance, the fiscal balance is one of the budget aggregates that may be referred to in discussions of whether the budget is in a surplus or a deficit position.

Broadly speaking, the fiscal balance is equal to the government’s revenue (for example from taxes) minus its expenses (from providing services such as Medicare and income support such as the age pension), adjusted for government capital investments such as military equipment (known as ‘net capital investment in non-financial assets’) when they are acquired or sold. This compares with the net operating balance which accounts for capital as it is used (through depreciation).

If the government has more revenue than it needs to finance its expenses and investment spending, the fiscal balance is positive and there is a surplus on a fiscal balance basis. If the government has to borrow money to finance its planned spending and investments, the fiscal balance is negative and there is a deficit on a fiscal balance basis.

The fiscal balance for a given financial year records revenue when it is earned and expenses when they are incurred, regardless of when any money is actually received or paid out during that financial year. For example, the fiscal balance records revenue from company taxes in the financial year a company earns the income even though it may not have to pay the tax until the following financial year. This accounting method is called accrual accounting and differs from the method used for another commonly used budget aggregate, the underlying cash balance, which is calculated on a cash accounting basis and records receipts and payments of cash when they occur.

The government publishes a breakdown of the fiscal balance at each budget update, showing that it can be viewed as revenue minus expenses (also known as the ‘net operating balance’) less net capital investment in non-financial assets. It also shows the difference between the fiscal and underlying cash balances. Examples of this difference can be seen in Table 3.2 in *Statement 3: Fiscal Strategy and Outlook* of *Budget Paper No. 1* in the *2021-22 Budget* and Table 3.2 in *Part 3: Fiscal strategy and outlook* of the *2020-21 Mid-Year Economic and Fiscal Outlook*.

Related terms in the PBO glossary: accrual accounting, budget, budget aggregates, cash accounting, expense, headline cash balance, net capital investment, net operating balance, non-financial asset, payment, receipt, revenue, underlying cash balance

Fiscal policy

Fiscal policy refers to the government's financial operations and management, including how much the government spends and on what, how much income the government has and from what sources, and how much the government borrows. 'Fiscal' means relating to government money.

Examples of fiscal policy include policies related to:

- revenue, such as the rates and scope of taxes like income tax and company tax
- expenses, such as the level of income support payments like the age pension and who is eligible for them
- the size and role of the government as a whole, such as how much the government should seek to redistribute income, and whether there should be restrictions on tax as a share of the total economy (a 'tax cap'), or on how much the government can borrow (a 'debt ceiling').

Fiscal policy can:

- influence the economy directly or indirectly. For example, fiscal policy has a direct influence when the government purchases equipment, and an indirect one when the government provides payments to, or taxes, households and businesses, changing their spending or saving behaviour.
- be expansionary or contractionary. That is, influencing the economy to grow faster or slower, respectively, than it would have without the government's actions.
- work over the short term and long term. For example, fiscal stimulus policies seek to avoid or reduce the severity or duration of a recession, while governments implement a range of other fiscal policies to achieve longer-term objectives, such as preparing the economy for the changes associated with an ageing population.
- be counter cyclical or pro cyclical. If the economy was heading into a downturn and fiscal policy was reducing the severity of the downturn, policy would be counter cyclical; if fiscal policy was intended to offset the downturn but actually reinforced it, it would be pro cyclical.

Fiscal policy can be distinguished from monetary policy. In Australia, monetary policy is set independently by the Reserve Bank of Australia, which sets official interest rates. For example, if it thinks inflation is above its target, the Reserve Bank can raise official interest rates to help bring it back down. Together, fiscal and monetary policy are aspects of 'macroeconomic policy', or policies to do with the operation of the economy as a whole. Different economists have different views about these two arms of policy, including about the relative effectiveness of monetary policy versus discretionary fiscal policy.

In Australia, the *Charter of Budget Honesty Act 1998* sets the legal framework for Commonwealth Government fiscal policy. The Charter sets out that the objective of fiscal policy is to maintain ongoing economic prosperity and the welfare of Australians. It includes obligations for the contents and frequency of budget documents, and requires governments to set out and report against a medium-term fiscal strategy based on principles of sound fiscal management.

Related terms in the PBO glossary: automatic stabilisers, budget, Charter of Budget Honesty, expense, fiscal stimulus, recession, revenue

Fiscal space

Fiscal space is a concept used to express the government's ability to undertake new or additional public spending without impairing its ability to service its debt. Broadly, the concept refers to how much capacity a government has to invest in new programs or initiatives, such as investing in infrastructure to adapt to climate change. Fiscal space can be created through increased government revenue, reduced or re-prioritised expenditure and/or increased borrowing capacity.

The concept of fiscal space is sometimes used when considering funding for programs that may drive growth in the economy or have longer term welfare benefits. Outlays of this nature are sometimes discussed as being able to pay for themselves over the long run, since they are likely to expand the productive potential of the economy and thereby create the fiscal space that is needed to pay for them. Such arguments are difficult to reliably assess. PBO costings typically do not include such effects (see the PBO's information paper no 3/2017 Including broader economic effects in policy costings).

The availability of fiscal space is often discussed in relation to developing and emerging market economies. For example, funding an infrastructure project may create additional jobs in the economy and funding to build a new school or hospital may generate gains to human capital.

Decisions of government will sometimes be framed as increasing fiscal space; for example, by increasing revenue, reducing or re-prioritising expenditure, increasing the government's borrowing capacity or reducing its cost of borrowing. Each of these strategies can be part of increasing the ability of government to take action in a sustainable way in the future, although it is typically the combined impact of all policies that is most relevant to increasing or decreasing fiscal space.

For further information:

- on the concept of fiscal space and how it relates to a country's macroeconomic situation see the report by the International Monetary Fund from June 2005 Volume 42 no 2 Back to Basics – Fiscal Space: What It Is and How to Get It
- on over 30 indicators of fiscal space and a database of over 200 countries see the working paper no 8157 by the World Bank from August 2017 A Cross-Country Database of Fiscal Space.

Related terms in the PBO glossary: debt, expense, program, revenue

Fiscal stimulus

Fiscal stimulus refers to government policies that aim to avoid or reduce the severity or duration of an economic downturn, such as a recession. Paying income support recipients, such as pensioners, a one-off top-up payment during a recession is an example of fiscal stimulus.

Fiscal stimulus is described as ‘discretionary’ fiscal policy — that is, it requires an explicit decision by the government. This is in contrast to parts of existing government policy known as ‘automatic stabilisers’ that adjust automatically to changes in economic conditions such as recessions. For example, during the Global Financial Crisis of 2007/09:

- one-off payments to low and middle income individuals and households with dependent children were part of a fiscal stimulus package of new policies in response to the crisis. These people were likely to spend a sizeable share of the payment, which would help to stimulate the economy by creating demand for goods and services in the short term.
- increases in the total amount of unemployment benefits paid were an automatic stabiliser. Without any change in policy, the total number of recipients of the unemployment benefit increased because the number of unemployed people increased.

Both discretionary fiscal stimulus and the automatic stabilisers are said to work ‘counter cyclically’ (that is, against the economic cycle). The kinds of policies that should be implemented depend in part on what has caused the economic downturn.

Fiscal stimulus can be distinguished from monetary stimulus, which is monetary policy to avoid or reduce the severity or duration of an economic downturn. In Australia, monetary policy is set independently by the Reserve Bank of Australia, which sets official interest rates. If the economy grows too slowly, the Reserve Bank can lower official interest rates to stimulate economic growth and employment.

Together, fiscal and monetary policy are aspects of ‘macroeconomic policy’, or policies to do with the operation of the economy as a whole. Different economists have different views about these two arms of policy, including about the relative effectiveness of monetary policy versus discretionary fiscal policy.

Related terms in the PBO glossary: automatic stabilisers, fiscal policy, recession

Forward estimates

The forward estimates period is the fixed time-frame over which the government presents its budget estimates. It includes the budget year, which commences from 1 July for the upcoming financial year, and the following 3 years (forward years 1, 2 and 3). For example, the forward estimates period for the 2023-24 Budget is from 2023-24 through to 2026-27. Forward estimates link high-level fiscal objectives to operational decision-making. They are a key part of the medium-term fiscal framework.

Australia's forward estimates system developed particularly during the 1980s and 1990s as a way to achieve fiscal discipline, accountability and operational flexibility. The *Charter of Budget Honesty Act 1998* sets out the Commonwealth Government's framework for budget reporting, and requires the [budget papers](#) to report figures over the forward estimates period. This includes:

- the estimated impact on the budget of new policies, known as '[measures](#)', both individually and in total
- the expected outcomes for high-level figures, known as '[budget aggregates](#)', that show whether the budget is projected to be in surplus or deficit and by how much, the projected amount of net debt, and the government's net financial worth.

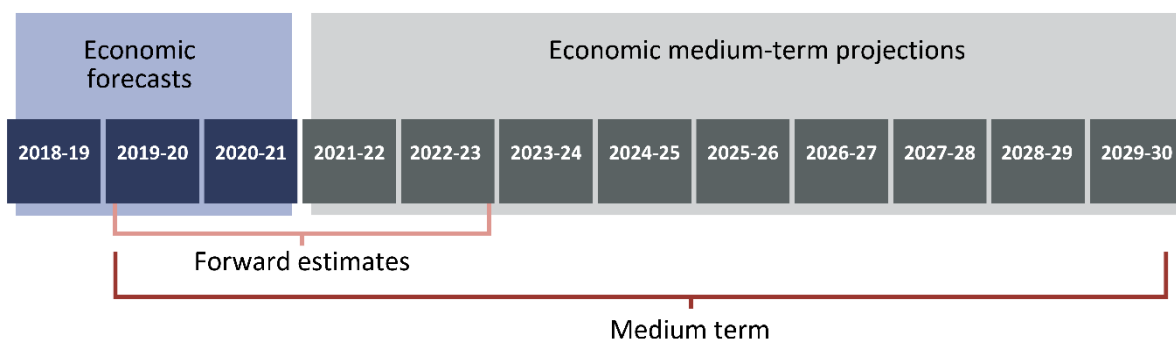
The forward estimates provide a rolling expenditure plan. Amounts included in the years following the budget year represent the financial impact of decisions already made for both revenue and expenses. The forward estimates provide the baseline against which decisions are made, and which are impacted by changing economic or program parameters.

Measures either terminate after a specific period or are ongoing. A measure continues unless it is explicitly terminated at a particular date or is replaced by a subsequent policy decision.

Many measures require legislation, but even when the required legislation has not been passed, or when there has been a change of government, the policy stays a part of the forward estimates until it is changed explicitly.

Typically, the final outcomes for the financial year before the budget year (2018-19 in the example below) are not yet known at budget, so the figures for that year are still estimated. This year and the next 2 years (2018-19 to 2020-21 in this example) are known as 'forecast' years and the next 2 years (2021-22 to 2022-23 in this example) are 'projections', as shown in the figure below. Budget outcomes in the year before the current year (2017-18 in this example) are called 'actuals' because the full-year outcome is known.

Figure: Forward estimates and the medium term for budget year 2019-20



Source: Parliamentary Budget Office adaption from *Budget Paper No. 1: Budget Strategy and Outlook 2019-20*.

Note that there is some variation in the definition of the forward estimates, and in some instances the budget year is excluded. For example, the cost of new policy measures in the government's annual budget is presented as an amount 'over the forward estimates', which includes the budget year. On the other hand, tables presented in the annual portfolio budget statements label only the last 3 years as 'forward estimates'.

Related terms in the PBO glossary: budget, budget paper, Charter of Budget Honesty, debt, financial year, measure, medium term, net, net financial worth, payment, receipt, revenue

General government sector

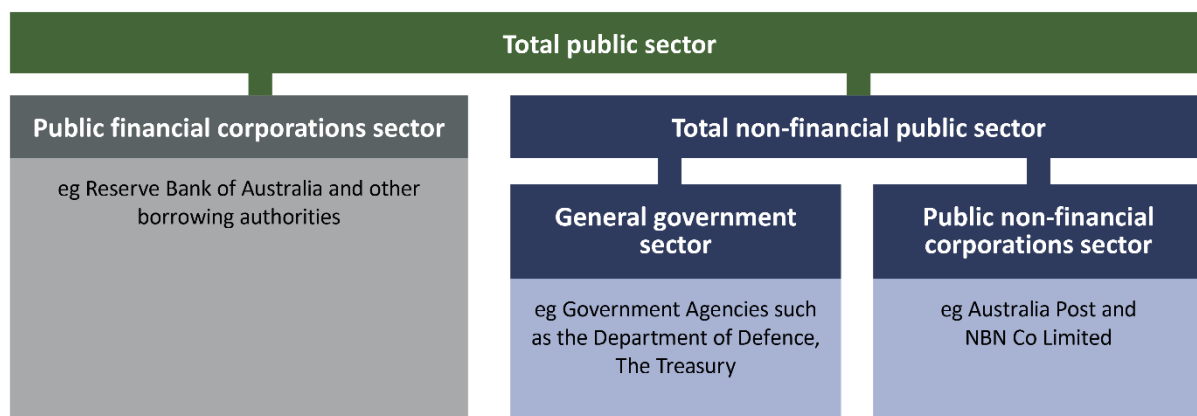
The general government sector primarily provides public services and benefits for free or at subsidised prices, funded mainly through taxes. These include goods and services for collective rather than individual consumption, such as defence, and others, such as health, that are provided to individuals at significantly subsidised prices. The sector includes Commonwealth Government departments such as the Department of Health and non-departmental bodies such as the Australian Aged Care Quality Agency, the Bureau of Meteorology, and the Australian Broadcasting Corporation.

Together, the general government, public financial corporations and public nonfinancial corporations sectors make up the total public sector (see figure below). General government sector entities can be distinguished from the following kinds of bodies in the total public sector by the kinds of goods and services provided and how they are funded.

- Public financial corporations provide financial products and services. An example is the Reserve Bank of Australia, which provides banking services to the Commonwealth Government.
- Public non-financial corporations are government-owned and controlled corporations that produce and charge for goods and services. These entities are financed through their own revenue and government funding. Examples include Australia Post and NBN Co Limited.

The financial statements in *Budget Paper No. 1* report consolidated figures for the general government sector, public financial corporations sector, public nonfinancial corporations sector, and the total nonfinancial public sector (the general government sector and public nonfinancial corporations sector).

Figure: Institutional structure of the public sector



Source: Parliamentary Budget Office adaption from
The Uniform Presentation Framework for presentation of budget information.

Related terms in the PBO glossary: budget paper, public non-financial corporation, revenue

Grant

A grant is an arrangement for the government to provide financial assistance to an external recipient. Grants are a form of ‘direct funding’, where money is transferred from the government to individuals or other entities. The majority of Commonwealth Government grants are provided to state and territory governments and assist with the delivery of services, including for schools and public hospitals. Other examples of Commonwealth Government grants include those for research and community organisations.

The government does not receive a financial benefit in exchange for a grant. Like other forms of direct funding, grants differ from alternative financing, such as equity injections and concessional loans.

The budget papers divide grants expense into one of two categories: current grants or capital grants. Current grants fund daytoday spending by the recipient, while capital grants are generally used to assist with infrastructure. For example, the Commonwealth Government’s schools funding provides both current grants to assist with the daytoday costs of schools and some capital grants for school infrastructure.

Grant funding can be capped or demand-driven. Many grants have capped funding, which means their funding is fixed and cannot be exceeded. For example, the *Small Business Bushfire Financial Support Line* has been granted a fixed amount of \$3.63 million for bushfire relief. In contrast, a demanddriven grant’s funding is generally determined by the number of eligible participants in the program. For instance, *Support to communities affected by bushfires – payments for children* is a demanddriven program and the total funding is determined by the number of eligible families.

For further information on the differences between grant funding and alternative funding, including their different impacts on the budget, see the PBO’s report no. 01/2020, *Alternative financing of government policies: Understanding the fiscal costs and risks of loans, equity injections and guarantees*.

Related terms in the PBO glossary: alternative financing, budget, budget paper, capital, capped funding, concessional loan, demanddriven program, equity, expense, program

Gross

Gross refers to a whole or total economic impact before offsetting adjustments have been made. This is distinct from net, which refers to the economic impact that remains after offsetting adjustments have been made.

As a simple illustration, suppose an individual earned taxable income of \$75,000 in the most recent financial year and paid \$16,000 in personal income tax in that same financial year. The individual's gross income in that financial year was \$75,000 and their net income was \$59,000 (\$75,000 minus \$16,000).

Not all economic impacts can be adjusted in this way — for example there is no such thing as a gross and net budget surplus. Where gross and net impacts are presented, it is often important to look at both to get a complete picture. For example:

- gross income typically refers to total income before tax or other deductions are applied. Looking at gross income shows how much someone earns overall, but net income gives a better indication of how much of their income is available for them to spend.
- gross debt is the total amount of Commonwealth Government debt before considering the government's financial assets that partly offset that debt. Only looking at gross debt without net debt would give an incomplete picture of the government's financial position.
- gross investment returns (in the context of government investment funds, such as the Future Fund) are investment returns before deducting management fees and expenses.
- gross domestic product (GDP) is the total value of all goods produced and services provided in the economy over a given period, before adjusting for depreciation of capital goods.

Related terms in the PBO glossary: capital, financial year, gross debt, gross domestic product, net, net debt

Gross debt

Gross debt is the total amount of Commonwealth Government debt before considering the government's financial assets that partly offset that debt. Only looking at gross debt without net debt could give an incomplete picture of the government's financial position.

Government debt refers to the amount of money that a government owes its lenders at a particular point in time. In broad terms, it measures how much successive governments have spent over the receipts they have collected. Going into debt allows the government to fund activities that it could not otherwise afford when its receipts are lower than its payments.

Debts are a type of liability (money owed by the government to another party) but only refer to amounts that are borrowed from lenders.

When an individual borrows money, they generally take out a loan. When the Commonwealth Government borrows money, it generally sells financial instruments including bonds, which are collectively called 'Australian Government Securities'. These are bought by investors who receive interest from the government at specified intervals and the principal at maturity, which is an agreed term ranging from months to several decades. The borrowing cost the government incurs through debt is called 'public debt interest'.

There are two main measures of government debt, gross debt and net debt, and the numbers for each are often very different from each other. This entry focuses on the definition of gross debt in the budget papers, rather than the slightly different one in the government's financial statements.

In the budget papers, gross debt is the sum of interest-bearing liabilities, mainly consisting of Australian Government Securities on issue, based on their value when the securities were issued (their 'face value'). While gross debt reflects the total amount of Commonwealth Government debt, it does not include any of the government's financial assets that partly offset that debt, or any smaller debts that are not Australian Government Securities. For this reason, only looking at gross debt without net debt could give an incomplete picture of the government's financial position.

Net debt gives a better picture of the government's financial position by also looking at financial assets that may offset the government's financial liabilities. In the net debt calculation, Australian Government Securities are valued at the price they are currently trading at (their 'market value') rather than their face value. While net debt is a widely used indicator of the government's financial position, it has its own limitations. For example, it is sensitive to the particular investment structures and strategies adopted by government investment funds. See the net debt entry in this glossary for more information.

Statement 7: Debt Statement of Budget Paper No. 1 provides information on the current and projected government gross and net debt, including the assumed interest rates on future borrowings and the share of bonds held by nonresident investors.

Related terms in the PBO glossary: debt, gross, net debt, payment, public debt interest, receipt

Gross domestic product (GDP)

Gross domestic product (GDP) is the total value of all goods and services produced within an economy over a given period of time, usually three months or one year. Growth in GDP measures the change in the total value produced from one period to the next.

GDP and GDP growth can be reported in nominal or real terms. Nominal GDP growth measures the change in the dollar value of all goods and services produced, which incorporates changes in both the quantity and prices of these goods and services. Real GDP growth, on the other hand, removes the effect of prices changing (known as ‘inflation’) and only measures the change in the quantity produced. This means that real GDP growth better reflects changes in how much a country is producing from one period to the next.

GDP growth can also be reported ‘per capita’, which makes an adjustment for population growth. For example, if the economy was growing at 2 per cent per year but the population was growing at 3 per cent per year, the amount produced per person is actually decreasing, and GDP growth per capita would be negative.

The current and expected growth rate of GDP has important implications for the budget. In economic downturns or recessions, for instance, where GDP growth is low, revenue would be expected to grow slowly or fall. However, some payments, such as income support for the unemployed, may grow more quickly. This means that forecasts for the state of the economy are important inputs into forecasts for the state of the government’s budget and whether it will be in surplus or deficit. In the *2021-22 Budget*, projections for real and nominal GDP growth were provided in Table 1.2 in *Statement 1: Budget Overview of Budget Paper No. 1*.

GDP is also used when comparing the government’s financial position over time. Budget aggregates such as the fiscal balance, underlying cash balance and net debt are summary indicators that, together, give a picture of the financial situation of the government and how the government’s finances are affecting the rest of the economy. Comparing the dollar values of these aggregates over time is complicated by factors such as inflation, population, and productivity growth, so they are often presented as a share of GDP. An example is *Statement 11: Historical Australian Government Data in Budget Paper No. 1*.

While GDP is the main measure of economic growth, it does not capture everything that is important to economic or broader wellbeing. For example, it excludes the economic value of parents caring for their children, as this is not paid for. Conversely, it includes things that people might prefer they did not need to buy, such as an extra strong security door to prevent burglaries.

For more information:

- The Reserve Bank of Australia’s explainer titled *Economic growth* provides an overview on how GDP is measured and what is and is not captured in GDP statistics.
- The Australian Bureau of Statistics measures and publishes GDP results each quarter in its *Australia National Accounts: National Income, Expenditure and Product* release.

Related terms in the PBO glossary: budget aggregates, budget paper, inflation, nominal, payment, real, recession

Headline cash balance (HCB)

The headline cash balance (HCB) is one of several indicators known as ‘budget aggregates’ that measure the impact of the government’s budget on the economy. The headline cash balance measures the government’s cash transactions, and differs from the more commonly cited underlying cash balance (UCB) by also including financial investments that form part of government policy, such as student loans or equity injections.

When the government or the media say that the budget is in surplus or deficit, they are generally referring to another budget aggregate called the underlying cash balance, or sometimes to the net operating balance or fiscal balance.

The headline cash balance for a given financial year records the cash that is actually received or paid out by the government, regardless of when these amounts are incurred. For example, the headline cash balance records company tax paid to the government in a financial year even though the amount may relate to a company’s earnings from a previous financial year. This accounting method is called cash accounting; accrual accounting, the other method, records revenue when it is earned and expenses when they are incurred.

The headline cash balance differs from the underlying cash balance, which is a more commonly used budget aggregate, that also uses cash accounting. Relative to the underlying cash balance, the headline cash balance also includes:

- receipts and payments associated with making financial investments for policy purposes — for example when the government makes a student loan under the Higher Education Loan Program (HELP). Under successive governments, there has been a shift toward delivering more government policies using alternative financing arrangements such as government loans and equity injections, which creates a divergence between the underlying and headline cash balances.
- earnings from the Future Fund, which by law are not available to the government to pay its superannuation liabilities until 2020-21, and therefore are not included in the underlying cash balance until that year.

The government publishes the headline cash balance at each budget as well as how it is calculated. Examples of this can be seen in Table 3.3 in *Statement 3: Fiscal Strategy and Outlook* of *Budget Paper No. 1 in the 2021-22 Budget* and Table 3.3 in *Part 3: Fiscal Strategy and Outlook* of the *2020-21 Mid-Year Economic and Fiscal Outlook*.

The government also publishes detailed reconciliation between the underlying cash balance and headline cash balance estimates, including a breakdown of major components. Examples of this can be seen in Table 9 in *Statement 3: Fiscal Strategy and Outlook* of *Budget Paper No. 1 in the 2021-22 Budget* and Table 3.14 in *Part 3: Fiscal Strategy and Outlook* of the *2020-21 Mid-Year Economic and Fiscal Outlook*.

Related terms in the PBO glossary: accrual accounting, budget, budget aggregates, cash accounting, expense, financial year, fiscal balance, net operating balance, payment, receipt, revenue, underlying cash balance

Indexation

Indexation is a method of adjusting an economic variable by the movement in a price index, such as the consumer price index (CPI), to account for inflation.

For example, the JobSeeker payment for unemployed people is indexed to inflation, as measured by changes in the CPI. This means that if the rate of inflation as measured by the CPI goes up, the dollar amount of the payment grows in line with inflation. If inflation is higher than expected, the government has to increase payments faster than it expected.

Indexation is also relevant to some government revenue. For example, excise rates on fuel and petroleum products are adjusted twice a year by changes in the CPI to maintain the real cost of these rates, and visa application charges are indexed each year by the CPI.

The main indexes relevant to the budget are the CPI and a similar index for wages called the wage price index. The projected growth rates for these variables are reported in the *Major economic parameters* table in *Statement 1: Budget Overview* of *Budget Paper No. 1*.

The Australian Bureau of Statistics' *Frequently Asked Questions on the CPI* explain how to read and interpret a price index.

Related terms in the PBO glossary: budget, budget paper, consumer price index, inflation, parameter, payment, real, revenue

Inflation

Inflation is the general increase in prices that people pay for goods and services. The average level of prices across an economy typically rises over time (inflation) but prices can also fall (deflation). If prices are rising, \$100 in 2025 will not buy as much as \$100 in 2020. Another way of expressing this is that the same nominal amount of money has lower purchasing power.

The main indicator of inflation is the consumer price index (CPI) which measures the percentage change in the price of a fixed collection or ‘basket’ of goods and services that reflects the typical spending of households. Inflation measured through the CPI is referred to as ‘headline inflation’. Underlying inflation is similar to headline inflation, but excludes items that have experienced large price changes (for example sharp increases in the prices of fresh produce like bananas as a result of a cyclone that has destroyed banana crops).

If inflation is either too high or too low, it is not good for households and businesses. The Commonwealth Government has agreed an inflation target with the independent Reserve Bank of Australia (RBA) of average inflation between the target band of 2 and 3 per cent. The RBA influences interest rates across the economy to achieve the inflation target.

The inflation rate directly affects the budget through indexation. For example, many government payments to individuals, such as the JobSeeker payment, are indexed to inflation, meaning that the dollar amount of the payment goes up in line with inflation. If inflation is higher than expected, the government has to increase payments faster than it expected. The rate of inflation that the government includes in its budget forecasts is generally shown in the *Major economic parameters* table in *Statement 1: Budget Overview* of *Budget Paper No.*

<https://archive.budget.gov.au/index.htm>.

For further information:

- The Australian Bureau of Statistics publishes the latest CPI figures in its *Consumer Price Index, Australia* release.
- the RBA's ‘explainer’ on *inflation and its measurement* explores inflation in more detail and discusses the calculation and limitations of the CPI
- the RBA's ‘explainer’ on *Australia's inflation target* discusses the RBA’s approach to inflation targeting and the implications of inflation being too high or too low
- *Statement 2: Economic Outlook* in *Budget Paper No. 1* explores the impacts of inflation on the Australian economy and the effects if the expected level of inflation were different to forecasts.

Related terms in the PBO glossary: budget, budget paper, consumer price index, indexation, nominal, parameter, payment, real

Intergenerational Report

The Intergenerational Report (IGR) is a document prepared by the Australian Government to assess the long-term sustainability of current policies. The IGR analyses the impact on Australia's economic growth and fiscal position from possible demographic, technological and other structural trends to highlight significant risks and opportunities over the next 40 years.

The IGR is publicly released and tabled in Parliament by the Treasurer at least every 5 years, as mandated in the Charter of Budget Honesty Act 1998. Each IGR analyses how the trajectories of the drivers of long-term economic growth may, under current policy settings, affect the government's budget position over the longer term (40 years).

Each IGR has taken a slightly different focus. The 2002 and 2007 reports highlighted the future budget pressures from an ageing population. The 2010 report emphasised the challenge posed by climate change. In the wake of the global financial crisis, the 2015 report illustrated the long-term sustainability of alternative fiscal policy scenarios.

The latest IGR, 2021 Intergenerational Report, released on 28 June 2021, focused on the economic uncertainty associated with the unfolding COVID-19 pandemic. The report found the COVID-19 pandemic is likely to have long-lasting effects on the budget, noting that while the budget will improve as the economy recovers, it is projected to remain in deficit.

Each IGR updates long-term projections of population, participation and productivity, known as 'the 3 P's', which are fundamental factors for economic growth.

The IGR is one of 5 budget reporting documents under the Charter that aim to facilitate public scrutiny of fiscal policy and performance.

For further information:

- see the Parliamentary Library's *Quick Guide to the Commonwealth Budget*, which describes the aim and contents of the various reports included in the Charter
- see the Treasury website for all published Intergenerational Reports.

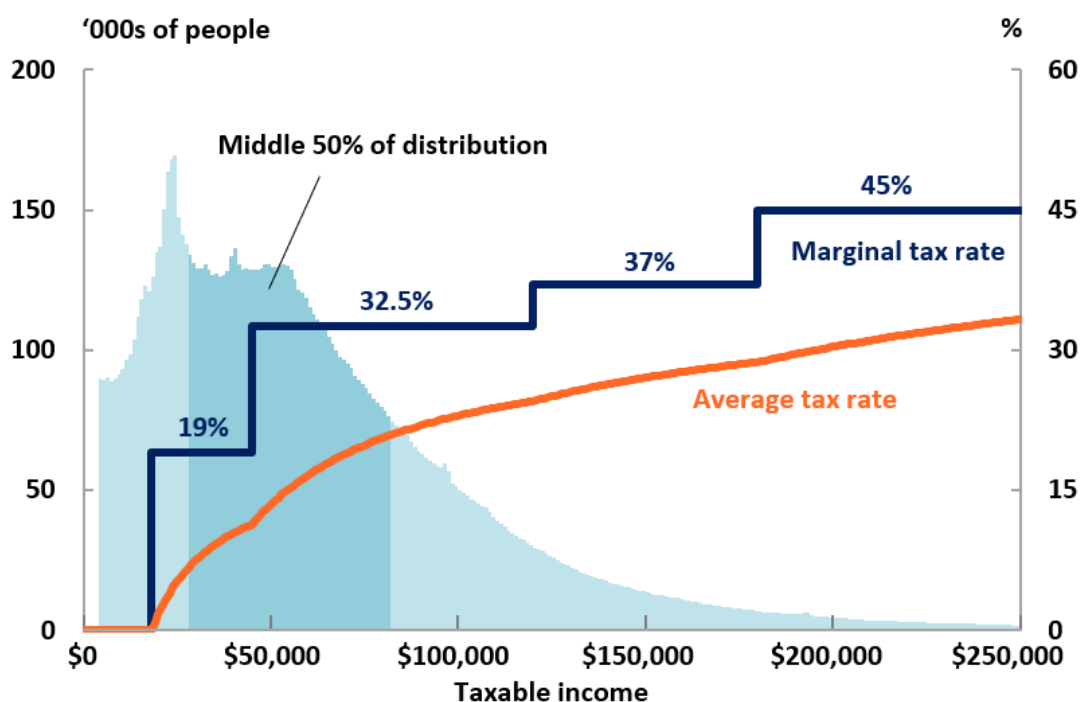
Related terms in the PBO glossary: budget, Charter of Budget Honesty, fiscal policy

Marginal tax rate

The marginal tax rate is the tax rate which applies to each additional dollar that an individual or company earns. Marginal tax rates are important because they may impact the decisions that individuals and businesses make around how much to work and how to structure their tax affairs.

Under Australia's personal income tax system, income is taxed via a series of tax brackets, see Figure 1. Most of the population earns an income that falls within the lower income ranges. Below the tax-free threshold, the marginal tax rate is zero.

Figure 1: Marginal and average tax rates in Australia, 2021-22



Source: Parliamentary Budget Office Budget explainer no 1/2021 *Bracket creep and its fiscal impact*

At certain intervals above the tax-free threshold, income tax rates increase such that higher-income earners pay a higher marginal tax rate than lower-income earners. This means that an individual's marginal tax rate will generally be the highest tax rate that they pay on any part of their income. In contrast, their average tax rate represents the overall share of an individual's income that they pay, which will generally be lower than their marginal tax rate, due to the tax-free threshold.

Analysis of marginal tax rates can be complicated by the presence of tax deductions, tax offsets, and other tax levies (such as the Medicare Levy) which can lead individuals to different amounts of tax than in the examples above.

For further information:

- on marginal tax rates and the related topic of bracket creep see the PBO explainer no 1/2021 *Bracket creep and its fiscal impact*
- about current individual income tax rates see the Australian Taxation Office's website.

Related terms in the PBO glossary: bracket creep, tax revenue

Measure

A measure is a government decision that involves one or more changes to current government policy. All measures that involve changes to receipts and payments are reported in *Budget Paper No. 2* of the budget papers. This budget paper gives a short description of the measure and the financial implications for the Commonwealth Government over the budget year and the following three years (the ‘forward estimates’ period). Measures generally include a breakdown of the financial implications by each affected government agency, but do not include the cost of any government debt required to fund the measure.

Below is an example of a measure from the *2021-22 Budget*. The financial estimates in the table are presented on a cash basis and demonstrate the impact of the measure on the underlying cash balance. Before the *2020-21 Budget*, the financial estimates in *Budget Paper No. 2* were presented on an accrual basis and demonstrated the impact of measures on the fiscal balance.

Table: Example measure from the 2021-22 Budget

Harry Butler Environmental Education Centre					
Expense (\$m)	2018-19	2019-20	2020-21	2021-22	2022-23
Department of the Environment and Energy	-	1.0	8.0	8.0	8.0

The Government will provide \$25.0 million over four years from 2019-20 to Murdoch University to establish the Harry Butler Environmental Education Centre (the Centre) to grow understanding of the positive relationship between economic development and environmental sustainability.

The Centre will bring together researchers, students, major corporations and the broader community to learn and explore the benefits that economic development can deliver to the ongoing understanding and protection of our natural environment.

Source: Part 1: Receipt measure of Budget Paper No. 2 in the 2021-22 Budget.

Budget measures show only the impact on the budget of the policy change. For example, if the government introduced a measure to increase schools funding, the measure would show only the additional cost, not the ongoing existing expenditure on schools. The total revenue by source and expenditure by program can be found in *Statement 4: Revenue* and *Statement 5: Expenses and Net Capital Investment* of *Budget Paper No. 1*, with further detail in the Portfolio Budget Statements for the responsible government agency.

Some measures are very simple, such as those involving a fixed amount of funding as shown in the example above. Others are more complex and there may be several changes as part of the one measure. Measures usually require legislation, though this is not always the case.

In *Budget Paper No. 2*, measures are classified according to what aspect of the Commonwealth’s finances they mostly affect: revenue, expenses or capital. A revenue measure is a government decision that mostly affects government income, usually through changes in taxation, although some revenue measures affect nontaxation revenue (for example revenue from penalties). An expense measure is a government decision that mostly affects government spending, often through payments or services that the government provides. This includes measures that save the government money by reducing expenditure. A capital measure is a government decision that mostly affects capital or assets held by the Commonwealth.

Related terms in the PBO glossary: accrual accounting, budget, budget paper, capital, debt, expense, fiscal balance, forward estimates, Portfolio Budget Statement, payment, program, revenue, unlegislated measures

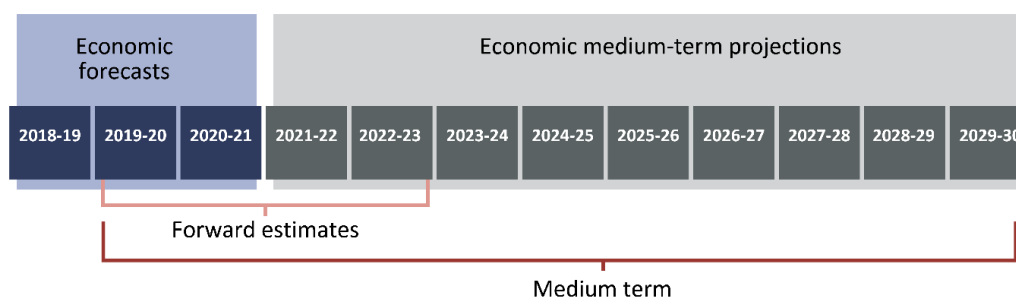
Medium term

The medium term is the period that includes the current budget year and the following ten years.

For example, the medium term for the *2019-20 Budget* is the period from 2019-20 to 2029-30. This period is made up of two components, as shown in the figure below.

- The four-year period from 2019-20 to 2022-23 is known as the ‘forward estimates’. This is the period over which the government presents its budget estimates.
- The seven-year period from 2023-24 to 2029-30 is known as the ‘medium-term projections’ period.

Figure: Forward estimates and the medium term for budget year 2019-20



Source: Parliamentary Budget Office adaption from *Budget Paper No. 1: Budget Strategy and Outlook 2019-20*.

Note: The first two years of the forward estimates are known as ‘forecast’ years and the next two are known as ‘projections’, so ‘economic medium-term projections’ start from 2021-22.

Information on the medium term varies by budget, but generally covers aggregated information (such as total receipts and total payments presented in *Budget Paper No. 1*), rather than detailed projections for particular revenue sources or spending programs.

Most of the information in the budget papers relates to the forward estimates period only. For example, the budget papers typically present the financial impacts of new policies and the Commonwealth Government financial statements over the forward estimates period. Occasionally, there is additional detail included about the medium term for certain government policies, particularly where the ongoing budget impact is significantly different after the forward estimates. For example, some components of changes to personal income taxes in the measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* (page 17 of *Budget Paper No. 2: Budget Measures 2019-20*) were scheduled to be implemented after the forward estimates period. The budget papers noted that the measure was estimated to reduce revenue by \$158 billion in total over the medium term, compared to \$19.5 billion over the forward estimates period.

The Parliamentary Budget Office (PBO) prepares independent projections of receipts and payments over the medium term to explain the drivers of changes in the budget balance, net debt, and net financial worth that might arise from government policies. These are published in the PBO’s mediumterm projections reports, which are available from the *Fiscal projections and sustainability* page of the PBO website.

Related terms in the PBO glossary: budget, budget paper, debt, forward estimates, measure, net, net financial worth, payment, receipt, revenue

Mid-Year Economic and Fiscal Outlook (MYEFO)

The Mid-Year Economic and Fiscal Outlook (MYEFO) provides updated information on the government's fiscal position and outlines any information that has changed since the most recent budget.

MYEFO is the second of three main annual budget reporting documents required by the *Charter of Budget Honesty Act 1998* (the Charter). The other two main annual budget reporting documents are:

- the budget, which sets out the economic and fiscal outlook and the government's fiscal strategy
- the Final Budget Outcome, which provides the final fiscal outcomes for the year.

The Charter requires that the Treasurer releases MYEFO by the end of January, or six months after the last budget, whichever is later. In recent years, MYEFO has been released in December.

While there is flexibility on the exact contents and presentation of information, the Charter specifies that MYEFO must:

- update key information contained in the most recent budget's economic and fiscal outlook
- include a detailed statement on the impact of providing tax concessions, sometimes called 'tax expenditures', on the budget
- In practice, a summary is included in MYEFO with detail published separately on the Treasury website in the *Tax Benchmarks and Variations Statement*.
- include a debt statement that provides information about the government's current and projected debt levels.

In preparing the report, all government decisions and other circumstances that have a material effect on revenue and expenses must be taken into account. It is usual practice for an appendix to be included in the MYEFO report that summarises all policy decisions taken since the last budget, as well as any announced at MYEFO.

The most recent MYEFO report can be found on the budget website.

Related terms in the PBO glossary: budget, Charter of Budget Honesty, debt, expense, Final Budget Outcome, revenue

Net

Net refers to the economic impact that remains after any offsetting adjustments have been made. This is distinct from gross, which refers to a whole or total economic impact before any offsetting adjustments have been made.

As a simple illustration, suppose an individual earned taxable income of \$75,000 in the most recent financial year and paid \$16,000 in personal income tax in that same year. The individual's gross income in that financial year was \$75,000 and their net income was \$59,000 (\$75,000 minus \$16,000).

Not all economic impacts can be adjusted in this way — for example there is no such thing as a gross and net budget surplus. Where gross and net impacts are presented, it is often important to look at both to get a complete picture. For example:

- net income typically refers to gross (total) income minus taxes and deductions, so gives a better indication of how much of a person's income is available for them to spend.
- net debt adjusts gross debt, and other similar financial liabilities, for selected financial assets, so gives a better picture of the government's financial position than looking only at gross debt. It is a relatively narrow measure of the strength of the government's balance sheet but it is widely used.
- net financial worth is equal to the gross (total) value of financial assets minus the gross (total) value of liabilities on the Commonwealth Government balance sheet. It is a broader measure of the strength of the government's balance sheet than net debt.

Related terms in the PBO glossary: financial year, gross, gross debt, net debt, net financial worth

Net capital investment

Net capital investment measures the change in non-financial assets (such as infrastructure, land or equipment) over a period of time (usually a financial year). Net capital investment is calculated by deducting the value of any sales of non-financial assets from the value of non-financial assets purchased and adjusting for changes in the value of non-financial assets such as depreciation.

For example, if an individual purchases a new car for \$16,000, sells their old car for \$6,000, and the value of their home office equipment depreciates by \$1,000 due to wear and tear, their net capital investment would be positive \$9,000. This means the value of purchases over the period was greater than the combined value of sales and depreciation.

Financial assets (such as cash in the bank, shares in a company, or loans) are excluded from the calculation of net capital investment.

The main component of the Commonwealth Government's direct net capital investment is purchases of military equipment. Looking only at direct net capital investment understates the Commonwealth Government's total contribution to investment because the government funds a large amount of investment through other channels, including grants to the states and territories for infrastructure investments, equity injections into Commonwealth Government corporations, and concessional loans made for infrastructure investment.

As net capital investment includes large, infrequent asset purchases and sales, it can give a misleading picture of the recurring or 'day-to-day' income and expenses of government. This means that net capital investment is included in only some of the indicators, known as 'budget aggregates', that summarise the budget position. For example, the fiscal balance measure of whether the budget is in surplus or deficit includes net capital investment while the net operating balance excludes it.

Net capital investment and projections are published each budget update in several places in the [budget papers](#).

- Table 3.2 in *Statement 3: Fiscal Strategy and Outlook* of *Budget Paper No. 1* provides projections for net capital investment.
- Table 6.20 in *Statement 6: Expenses and Net Capital Investment* of *Budget Paper No. 1* includes estimates of net capital investment by function of government.

Net capital investment is also referred to as 'net acquisition of non-financial assets'.

For further information:

- see the Parliamentary Budget Office's (PBO's) *National fiscal outlook* publication series for further information on the level of national net capital investment, including a split of Commonwealth and state and territory government investment
- see Appendix A of the PBO's report no. 01/2020 *Alternative financing of government policies: Understanding the fiscal costs and risks of loans, equity injections and guarantees* for a visual glossary of the budget, including an explanation of budget aggregates.

Related terms in the PBO glossary: budget, budget aggregate, budget paper, concessional loan, equity, fiscal balance, financial year, grant, net, net operating balance, nonfinancial asset

Net debt

Broadly speaking, net debt adjusts the gross value of financial liabilities for the value of financial assets. It gives a better picture of the government's financial position than looking only at gross debt.

Government debt is the amount of money that a government owes its lenders at a particular point in time. Going into debt allows the government to fund activities that it could not otherwise afford when its receipts are lower than its payments.

When an individual borrows money, they generally take out a loan. When the Commonwealth Government borrows money, it generally sells financial instruments including bonds, which are collectively called 'Australian Government Securities'. These are bought by investors who receive interest from the government at specified intervals and the principal at maturity, which is an agreed term ranging from months to several decades. The borrowing cost the government incurs through debt is called 'public debt interest'.

There are two main measures of government debt, gross debt and net debt, and the numbers for each are often very different from each other. As it does not include any of the government's financial assets that partly offset debt, only looking at gross debt without net debt could give an incomplete picture of the government's financial position.

Net debt is the sum of selected financial liabilities (including government securities, loans, deposits held, and other borrowings) minus the sum of selected financial assets (including cash and deposits, advances paid, and investments). In the net debt calculation, Australian Government Securities are valued as the price they are currently trading at (their 'market value') rather than their value when the securities were issued (their 'face value').

While net debt is a widely used indicator of the government's financial position, it has its own limitations. First, not all government assets or liabilities are included in the measurement of net debt. For example, the value of any equity investments is not included. Net financial worth is a broader measure that includes all of the government's financial assets and liabilities. Second, excluding some types of assets and liabilities means that the calculation of net debt is sensitive to the particular investment structures and strategies adopted by government investment funds such as the Future Fund.

The Parliamentary Budget Office (PBO) publishes an alternative measure of net debt that adjusts for this factor, which is higher than the standard measure. See the PBO report *No. 01/2019: Net debt and investment funds – Trends and balance sheet implications* for further information.

Within the budget papers:

- *Statement 7: Debt Statement of Budget Paper No. 1* provides information on current and projected government debt
- *Statement 10: Australian Government Budget Financial Statements of Budget Paper No. 1* provides complete projections of the government's fiscal position, including projections of net debt and net financial worth.

Related terms in the PBO glossary: debt, gross debt, net, net financial worth, payment, public debt interest, receipt

Net financial worth

Net financial worth measures the total financial assets (such as cash or shares in a company) held by a person or organisation at a fixed point in time, minus the value of any liabilities, such as outstanding debts.

For example, if an individual had \$1,000 in a bank account and \$2,000 outstanding on a personal loan, their net financial worth would be negative \$1,000, meaning that their financial obligations were larger than their financial assets. The value of physical assets (such as cars or houses) is not included in the calculation of net financial worth because these are classified as nonfinancial assets.

For the Commonwealth Government, net financial worth is one of several indicators known as ‘budget aggregates’ that provide information on the government’s financial position. The Commonwealth Government’s main financial assets are investments and loans, and its main liabilities include debt and superannuation entitlements for public servants and military personnel. Compared to some other indicators, net financial worth is:

- a broader measure of the government’s financial position than net debt, which only includes some of the government’s financial assets and liabilities
- a narrower measure than net worth, which includes all of the government’s assets (both financial assets and non-financial assets such as buildings).

The government publishes an update of the net financial worth in its financial statements at each budget, MidYear Economic and Fiscal Outlook and Final Budget Outcome. Net financial worth is typically measured as at the end of the financial year.

For further information:

- see *Statement 10: Australian Government Budget Financial Statements* of *Budget Paper No. 1* for an example of the net financial worth presentation in budget documents
- see Appendix A and Appendix C of the Parliamentary Budget Office’s (PBO’s) report no. 01/2020, *Alternative financing of government policies: Understanding the fiscal costs and risks of loans, equity injections and guarantees* for an explanation of the net financial worth calculation
- see the Department of Finance’s *Major fiscal aggregates* for budget aggregate definitions
- see the PBO’s report no. 01/2019 *Net Debt and Investment Funds – Trends and balance sheet implications* for further information on the calculation of net debt and its relationship to net financial worth.

Related terms in the PBO glossary: budget, budget aggregate, Final Budget Outcome, financial year, MidYear Economic and Fiscal Outlook, net, net debt, nonfinancial asset

Net operating balance (NOB)

The net operating balance (NOB) is one of several indicators known as ‘budget aggregates’ that measure the impact of a government’s budget on the economy. The net operating balance measures the net costs of providing government services excluding costs related to revaluation, such as the write down of assets.

The net operating balance is equal to the government’s revenue (for example from tax collections) minus its expenses (for example from providing services such as Medicare and support such as the age pension).

If revenue is larger than expenses in a given year, the government has a net operating surplus, and if expenses are larger than revenue, the net operating balance is in deficit. If the net operating balance is negative, the government has to borrow money from financial markets or sell its assets in order to fund its daytoday operations.

The net operating balance for a given financial year records the amount of revenue earned and expenses incurred by government, regardless of when cash is received or paid. For example, company tax revenue on all applicable transactions in a financial year would be part of the net operating balance even though the cash could be received in the next financial year. This accounting method is called accrual accounting and differs from the cash accounting method used for a more commonly used budget aggregate, the underlying cash balance.

The net operating balance is an indicator of daytoday revenue and expenses and includes depreciation to account for the use of capital equipment. It does not include the purchases or sales of financial assets, such as equity in NBN Co Limited, or nonfinancial assets, such as military equipment or infrastructure. Transactions in non-financial assets are included in the budget aggregate called the fiscal balance, which is equal to the net operating balance less net capital investment in nonfinancial assets.

The government publishes a breakdown of the net operating balance at each budget update. Examples of this can be seen in Table 10.1 in *Statement 10: Australian Government Budget Financial Statements of Budget Paper No. 1* in the *2021-22 Budget*, and Table 3.9 in *Part 3: Fiscal strategy and outlook* of the *202021 MidYear Economic and Fiscal Outlook*.

The budget papers also distinguish between changes to the net operating balance over time due to ‘parameter and other variations’ that are outside the government’s direct control, and changes due to policy decisions that the government has made. Parameter and other variations mainly occur because of changes in the economy or composition of the population, or outcomes from policy decisions (for example where costs are higher or lower than that expected in the previous budget update). Examples are in Table 3.6 in *Statement 3: Fiscal Strategy and Outlook of Budget Paper No. 1* in the *2021-22 Budget*, and Table 3.9 in *Part 3: Fiscal Strategy and Outlook* of the *202021 MidYear Economic and Fiscal Outlook*.

Related terms in the PBO glossary: accrual accounting, budget, budget aggregates, budget paper, cash accounting, expense, financial year, fiscal balance, headline cash balance, net, net capital investment, nonfinancial asset, parameter, revenue, underlying cash balance

Net worth

Net worth is an important and top-level measure of the financial health of the Australian Government. Increasing net worth means the financial position is becoming stronger over time. Decreasing net worth shows the position is eroding over time. Net worth is calculated by measuring the total value of assets minus liabilities held by the government at a fixed point in time. The Australian Government uses net worth as one of several 'budget aggregates' that provide information on the government's financial position.

Net worth is the broadest reported indicator of the government's financial position. It is broader than other concepts such as net debt or net financial worth. However, net worth is less precise than some other indicators. This is because the value of some non-financial assets, such as landmark buildings, can be difficult to measure.

The Australian Government's assets include financial assets such as loans issued under the Higher Education Loan Program and cash held at the bank, and non-financial assets such as buildings and specialist military vehicles. Its main liabilities include debt and superannuation entitlements for public servants and military personnel. The annual budget balance contributes to changing the level of net worth.

The Australian Government publishes an update of its net worth (measured as at the end of the financial year) in the financial statements at each Final Budget Outcome. Forecasts for net worth are presented in the annual budget and Mid-Year Economic and Fiscal Outlook. These budget reporting documents aim to facilitate public scrutiny of fiscal policy and performance under the Charter of Budget Honesty Act 1998.

For further information:

- see Table 2 in Statement 9: Australian Government Budget Financial Statements of Budget Paper No. 1 for an example of the net worth presentation in budget documents
- see Appendix A and Appendix C of the PBO's report no 01/2020 Alternative financing of government policies — Understanding the fiscal costs and risks of loans, equity injections and guarantees for a visual explanation of the net worth calculation
- see the Department of Finance's Major fiscal aggregates for budget aggregate definitions.

Related terms in the PBO glossary: budget aggregates, debt, financial statements, fiscal policy, net debt, net financial worth

Nominal

When something is reported in nominal terms, its dollar value has not been adjusted to remove the effects of prices changing over time (known as ‘inflation’ if prices rise, and ‘deflation’ if prices fall). In contrast, reporting something in real terms means that its value has been adjusted for price changes. As prices typically increase over time, nominal figures usually increase faster than real ones.

Suppose you pay \$1 for an apple today, but then pay \$1.05 in a year’s time. Even though the real value you receive is the same (one apple), the nominal amount you pay for an apple is higher in a year’s time. The price rise is due to inflation.

Nominal figures are used when people are interested in the total monetary amount received or paid. For example, government revenue and expenses in the budget papers are reported in nominal terms. In contrast, real figures are used to compare quantities over time. For example, growth in real gross domestic product (GDP) is usually preferred to growth in nominal GDP to evaluate economic performance, as it measures the total economic output adjusted for price changes.

The following table from *Statement 1: Budget Overview of Budget Paper No. 1* in the *2021-22 Budget* reports GDP growth in both real and nominal terms, along with other major economic parameters.

Table: Major economic parameters (per cent)

	Outcome		Forecasts			
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Real GDP	-0.2	1 1/4	4 1/4	2 1/2	2 1/4	2 1/2
Employment	-4.2	6 1/2	1	1	1 1/4	1 1/4
Unemployment rate	6.9	5 1/2	5	4 3/4	4 1/2	4 1/2
Consumer price index	-0.3	3 1/2	1 3/4	2 1/4	2 1/2	2 1/2
Wage price index	1.8	1 1/4	1 1/2	2 1/4	2 1/2	2 3/4
Nominal GDP	1.7	3 3/4	3 1/2	2	4 3/4	5

Source: Table 1.2 in *Statement 1: Budget Overview of Budget Paper No. 1* in the *2021-22 Budget*.

Note: 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.

Some government payments or taxes are indexed, often to the consumer price index. This means that the nominal amount of the payment or tax usually increases over time, but the real value is maintained.

Related terms in the PBO glossary: consumer price index, expense, gross domestic product, inflation, parameter, payment, real, revenue

Non-financial asset

Assets provide benefits to their owner and can be either non-financial assets, such as buildings or equipment, or financial assets, such as cash or shares in a company. Non-financial assets can be tangible, such as land, buildings or roads, or intangible, such as some computer software.

The benefits that owners get from their non-financial assets include:

- using the asset to produce goods and services—for example a delivery van owned by a business
- generating income — for example the rent earned from an individual’s investment property
- increases in the value of the asset over time—for example increases in the value of a family’s house.

For the Commonwealth Government, the main type of nonfinancial asset is specialist military equipment, and the main types of financial assets are investments such as those through the Future Fund. Other kinds of nonfinancial assets held by the Commonwealth Government are land and buildings, including landmark buildings such as the Australian Parliament House and the Australian War Memorial. In some cases, including for landmark buildings, the value of nonfinancial assets can be difficult to measure.

For the Commonwealth Government, the total value of nonfinancial assets owned at the end of each financial year can be found on the balance sheet in the budget financial statements included in *Budget Paper No. 1*, the *MidYear Economic and Fiscal Outlook* and the *Final Budget Outcome*.

Related terms in the PBO glossary: budget, budget paper, Final Budget Outcome, financial year, MidYear Economic and Fiscal Outlook, net capital investment

Non-tax revenue

Non-tax revenue is any revenue collected from sources other than taxation. This is a large category that includes many quite different items. Non-tax revenue includes revenue received in return for directly providing goods and services, dividend income or revenue obtained through royalties, fines and penalties, as well as cost recovery. The revenue is paid into the Consolidated Revenue Fund.

The government publishes tax and non-tax revenue estimates in each budget. These are found in Budget Paper No. 1 – Statement 4: Revenue. Non-tax revenue represents around 8% of total revenue for the Australian Government.

Some prominent examples of non-tax revenue include:

- Dividends from the Reserve Bank of Australia: The Reserve Bank of Australia earns a net profit from interest, fee income, and valuation gains in most years. After addressing any unrealised gains/losses and crediting some earnings to its Reserve Fund, the remainder is paid as a dividend to the Australian Government.
- Future Fund earnings: The Future Fund is a financial asset fund, set up to strengthen the Australian Government's long-term financial position by investing seed capital. The purpose of these investments is to enable government to fund the currently unfunded superannuation liabilities as and when they fall due – when members of Australian Government defined benefit superannuation schemes retire. In the budget papers, the net earnings of the Future Fund are included in the underlying cash balance under non-tax receipts, largely within the 'interest' and 'dividends' categories.
- Liquefied natural gas royalties: The Australian Government, as well as state and territory governments, own Australia's mineral and petroleum resources on behalf of the community. Companies that extract mineral and petroleum resources, such as those that are used to make liquefied natural gas, must pay royalties to be able to use Australia's non-renewable resources.
- Interest: This includes interest from loans, particularly for education.
- Sales of goods and services: The largest component here is amounts received from the states and territories for the funding of the National Disability Insurance Scheme.
- Cost recovery fees: In certain circumstances, the Australian Government charges a fee when a good, service or regulation is provided directly to a specific individual or organisation. Such a fee will be non-tax revenue provided that the fee charged is commensurate with the cost of providing the good, service or regulation.

From time to time, revenue sources can be reclassified from tax revenue to non-tax revenue and vice versa due to accounting standard changes. For example, in 2015 most visa application charges were reclassified from non-tax revenue to tax revenue, "to reflect a sustained change in the nature of revenue" (see the 201516 Mid-Year Economic and Fiscal Outlook).

The terms tax and non-tax revenue are accrual accounting concepts. The equivalent cash accounting concepts are tax and non-tax receipts.

For more information on Australia's methodology for classifying non-tax revenue see the Australian Bureau of Statistics' website on Government Finance Statistics.

Related terms in the PBO glossary: accrual accounting, budget, cash accounting, Consolidated Revenue Fund, receipts, revenue, tax revenue

Not for publication (nfp)

‘Not for publication’ refers to estimates which have been calculated when preparing the budget but are not published in the budget papers. The main reasons for not publishing estimates are that their publication would provide information that should not be disclosed to the public for either commercial-in-confidence or national security reasons.

For example, on page 134 of *Budget Paper No. 2* in the *2021-22 Budget*, the financial impacts for the measure *COVID-19 Manufacturing Capabilities* are ‘not for publication’ due to commercial-in-confidence sensitivities. This measure detailed the Government’s provision of funding to the Department of Industry, Science, Energy and Resources to work with the Department of Health to Develop an onshore COVID-19 mRNA vaccine manufacturing capability in Australia.

Table: Example 'nfp' measure from the 2021-22 Budget

COVID-19 Vaccine Manufacturing Capabilities

Payments (\$m)	2020-21	2021-22	2022-23	2023-24	2024-25
Department of Industry, Science, Energy and Resources	nfp	nfp	nfp	nfp	nfp

Source: *Part 2: Payment Measures* of *Budget Paper No. 2* in the *2021-22 Budget*.

When figures are not published, the abbreviation ‘nfp’ appears in a table instead of the estimated figure. The actual figures are still included in the calculation of budget aggregates.

Related terms in the PBO glossary: budget, budget paper, measure

Ongoing program

An ongoing program is a government program with no specified end date. Many important government programs are ongoing. Examples include the provision of income support and assistance to families such as the age pension and Child Care Subsidy, and assistance with the cost of higher education through the Higher Education Loan Program (HELP).

An ongoing program will typically continue until there is a government decision to end the program. In many cases, ending the program will also require the approval of Parliament. In contrast, a terminating program has a specified end date. For example, as part of the COVID-19 fiscal stimulus, the government made temporary payments to certain income-support recipients, such as the temporary Coronavirus Supplement.

Related terms in the PBO glossary: program, terminating program

Parameter

Parameters are elements that affect the price, cost, or amount of government activities. Parameters can relate to the general economy, such as the rate of employment growth or inflation, or be activity-specific, such as the number of people receiving a welfare payment like the age pension.

To help understand changes in the government's financial position, the budget papers distinguish between changes to the government's finances due to 'parameter and other variations' that are outside the government's direct control, and changes due to policy decisions that the government has made. Parameter variations mainly occur because of changes in the economy or composition of the population, or outcomes from policy decisions (for example where costs are higher or lower than that expected in the previous budget update).

Table 3.5 in *Statement 3: Fiscal Strategy and Outlook of Budget Paper No. 1 in the 2021-22 Budget* shows how much of the overall change in the government's financial position since the last budget is due to parameter and other variations, and how much is due to policy changes. The main economic parameters used in preparing the budget, including economic growth as measured by gross domestic product (GDP) growth, are shown in Table 1.2 in *Statement 1: Budget Overview of Budget Paper No. 1 in the 2021-22 Budget*.

Parameter and other variations can affect both government receipts and payments. To use some illustrative examples, suppose that the budget showed that:

- tax receipts were \$4 billion higher in 2018-19 than had previously been forecast. Of this total change, \$1 billion was because the government had implemented tax increases since the last budget and the remaining \$3 billion was because the economy, and therefore employment and tax receipts, were growing faster than previously expected. In this case, the budget papers would show that parameter and other variations accounted for \$3 billion of the change in tax receipts and policy decisions accounted for \$1 billion.
- total government payments in 2018-19 were \$500 million higher than expected. Of this, \$250 million was due to a policy change that made more people eligible to receive welfare payments, such as unemployment benefits, and \$250 million was due to inflation being higher than expected, meaning that welfare payments linked to inflation were higher than expected. In this case the budget papers would show that parameter and other variations and policy decisions each accounted for \$250 million of the total change in payments.

Statement 3: Fiscal Strategy and Outlook of Budget Paper No. 1 in the 2021-22 Budget describes the total changes to receipts and payments, and provides a breakdown of how much is due to policy decisions and how much is due to parameter and other variations.

Related terms in the PBO glossary: budget, budget paper, gross domestic product, inflation, payment, receipt

Payment

Payments capture all outgoing cash transactions from the Commonwealth Government to individuals, organisations or other levels of government. In the Commonwealth budget context, payments are those that affect the underlying cash balance and comprise cash transactions for operating activities and the purchase of non-financial assets. Examples include an age pension payment, a Medicare rebate for a doctor's visit, and the wages of a Centrelink employee.

Payments are recorded when cash transactions occur, regardless of when costs are incurred. This reflects a cash accounting framework. The equivalent to a payment in the other accounting framework, known as 'accrual accounting', is an expense. Expenses are recorded when costs are incurred, regardless of when any cash is paid.

The largest areas of government payments are for:

- **grants and subsidies** — largely comprising payments to state, territory and local governments, including for services delivered by states and territories such as public hospitals
- **personal benefits** — largely comprising age pension payments, payments to people with disabilities, payments to families, and income support payments such as the Jobseeker payment
- **the supply of goods and services** — largely comprising payments for a range of health goods (for example pharmaceuticals) and health services (for example attendance at doctors' surgeries), and payments under the National Disability Insurance Scheme
- **payments to employees** — largely comprising wage and salary payments for Commonwealth Government employees.

Government payments can be split into administered payments (which reflect the payments or benefits that are provided through government programs) and departmental payments (which reflect the costs incurred by government agencies in delivering programs, including wages and physical assets like buildings and computers).

The information on payments published in the budget papers includes:

- examples of the aggregate levels of payments – Table 2 and Table 6 in Statement 3: Fiscal Strategy and Outlook of Budget Paper No. 1
- a breakdown of cash payments for operating activities – Table 10.3 in Statement 10: Australian Government Budget Financial Statements of Budget Paper No. 1
- the reasons for changes in payments between the current and previous budget update – Table 3.5 in Statement 3: Fiscal Strategy and Outlook and related commentary on pages 79 to 84 of Budget Paper No. 1.

Related terms in the PBO glossary: accrual accounting, administered funding, budget, budget paper, cash accounting, departmental, expense, grant, headline cash balance, program, receipt, underlying cash balance

Portfolio Budget Statement (PBS)

Portfolio Budget Statements (PBSs) complement the main set of budget papers by providing more detailed budget information for a Minister's area of responsibility (their 'portfolio'). They provide greater detail on the proposed objectives and programs under each portfolio, including the associated financial statements that show revenue, expenses, assets and liabilities over the forward estimates period. For example, the 201920 Education and Training Portfolio Budget Statements contain information about both existing programs and new measures to improve outcomes in schools, childcare, higher education and research, and how programs in other portfolios contribute to these outcomes.

The Portfolio Budget Statements are tabled in Parliament on budget night. All entities under the same portfolio report in the same Portfolio Budget Statement rather than reporting separately. For example, the Australian Taxation Office (ATO) is an entity within the Treasury portfolio and the Treasury Portfolio Budget Statements will include a section relating to the ATO.

For each Commonwealth Government entity, the Portfolio Budget Statement will include:

- the funding proposed to be made available to the entity
- the expected impact on the entity of the government's announced measures
- the outcomes that the government expects the entity to work towards
- detailed information and performance targets for each of the programs the entity will pursue
- the budgeted financial statements of the entity.

Updated information may be presented throughout the year through Portfolio Additional Estimates Statements (which are produced following the MidYear Economic and Fiscal Outlook) or Portfolio Supplementary Additional Estimates Statements for each portfolio that has its financial resourcing changed.

For further information:

- current Portfolio Budget Statements can be found on the Budget website
- the Parliamentary Library's *Quick Guide to the Commonwealth Budget* provides detailed information about all documents produced as part of the budget cycle.

Related terms in the PBO glossary: budget, budget paper, expense, forward estimates, measure, MidYear Economic and Fiscal Outlook, program, revenue

Pre-Election Economic and Fiscal Outlook (PEFO)

The Pre-Election Economic and Fiscal Outlook (PEFO) provides an up-to-date picture of the economic and fiscal outlook in the lead-up to a general election. It takes account of government policy decisions and all other circumstances (such as changes in economic conditions) that may have a material effect on the economic and fiscal outlook and were in existence before the issue of the writs for the general election.

Unlike the other regular budget documents, such as the budget and the Mid-Year Economic and Fiscal Outlook, the PEFO is delivered by the Secretaries of the Departments of Finance and the Treasury, and not the government. The PEFO is required to be published within 10 days of the issue of the writs for a general election.

The PEFO provides a consistent starting point, or 'baseline', that is used for all election commitment costings. In the preparation of its election commitments report, the Parliamentary Budget Office costs all election commitments and party election platforms relative to this baseline. In this way, the election commitments report shows whether a party's platform, if implemented in full, would improve or deteriorate the budget relative to the situation that was expected before the election.

In accordance with the Charter of Budget Honesty Act 1998, the PEFO includes the following key elements:

- fiscal estimates and projections for the current financial year and the following four financial years
- economic and other assumptions for the current financial year and the following four financial years used in preparing these updated fiscal estimates
- a discussion of the sensitivity of the fiscal estimates to changes in the economic assumptions
- an updated statement of material risks to the fiscal outlook, and an updated debt statement
- a list of policy decisions taken by the government since the last budget update, including decisions that were taken but not announced at the time.

For the 2019 election, the *Pre-Election Economic and Fiscal Outlook 2019* was released on 17 April 2019 (writs for the general election were issued on 11 April 2019). As the writs for the election were issued shortly after the release of the *2022-23 Budget* on 2 April 2019, the PEFO referred to information published in the *2019-20 Budget*, including where it was unchanged.

Related terms in the PBO glossary: budget, Charter of Budget Honesty, financial year, MidYear Economic and Fiscal Outlook

Program

A program is an activity or group of activities the government undertakes to achieve a specific purpose. Programs typically aim to deliver benefits, services or welfare payments to individuals, businesses, or communities. Examples of major Commonwealth Government programs include income support for seniors, Family Tax Benefit, assistance to the states and territories for public hospitals, and the National Disability Insurance Scheme.

Performance criteria and estimated expenses for government programs are detailed in the annual Portfolio Budget Statements of Commonwealth Government entities, such as government departments. As part of their annual reports, government entities report on the actual results achieved for programs compared to the performance criteria published in their Portfolio Budget Statements.

The Portfolio Budget Statements for the *202122 Budget* can be found on the 202122 Budget website. Table 6.3.1 in *Statement 6: Expenses and Net Capital Investment* of *Budget Paper No. 1* in the *2021-22 Budget* reports the 20 largest programs in terms of expenses in the financial year.

Related terms in the PBO glossary: budget, budget paper, expense, financial year, Portfolio Budget Statement

Public debt interest (PDI)

Public debt interest (PDI) is the borrowing costs of the government, mainly incurred through issuing and servicing government debt, and recorded as a cost to government in the budget.

In 2020-21, public debt interest expenses were around \$17 billion, about the same size as expenditure on the Family Tax Benefit.

The government funds its programs through receipts or borrowings. For example, suppose the budget is in cash deficit (receipts are smaller than payments) and the government wants to increase the age pension payment. There are three options available:

- reduce other spending to find savings to pay for the pension
- increase receipts, for example by raising taxes
- borrow money from investors to fund the additional payments. These borrowed amounts would incur interest, which increase the government's public debt interest costs.

When an individual borrows money they generally take out a loan. When the Commonwealth Government borrows money, it generally sells financial instruments including bonds, which are collectively called 'Australian Government Securities'. These are bought by investors who receive interest from the government at specified intervals and the principal at maturity, which is an agreed term ranging from months to several decades.

Public debt interest estimates reflect the cost of both the government debt already issued and its expected future borrowings. These are calculated using the contracted interest rates incurred on existing debt and on projected interest rates for future borrowings.

An increase in estimated public debt interest could mean one or a combination of the following:

- actual interest rates are higher than previously predicted
- the amount of expected future borrowings has increased.

Conversely, a decrease in public debt interest could mean lower than expected interest rates and/or borrowing.

Public debt interest is an important element when considering the overall cost of new government policies, called 'measures', and their impact on the budget. Although each measure that has a financial impact will result in a change to public debt interest, the longstanding convention in *Budget Paper No. 2* is that the public debt interest is not attributed to any individual policy measure. In some cases, however, the interest the government pays (or forgoes) to secure the funding can be the largest cost associated with the policy. For this reason, it is standard practice for the Parliamentary Budget Office to include the estimated public debt interest impact in costings when financial assets are purchased or sold.

Public debt interest in total is reported as an expense in *Statement 6: Expenses and Net Capital Investment* and *Statement 10: Australian Government Budget Financial Statements* of *Budget Paper No. 1* in the *2021-22 Budget*. Information on the current and projected government debt, including the assumed interest rates on future borrowings and the share of bonds held by non-resident investors, is found in *Statement 7: Debt Statement* of *Budget Paper No. 1* in the *2021-22 Budget*.

Related terms in the PBO glossary: budget, budget paper, debt, expense, measure

Public non-financial corporation

Public non-financial corporations are government-controlled corporations that produce and charge for goods and services. Examples include Australia Post, which sells postal services, and NBN Co Limited, which sells broadband network access to internet service providers.

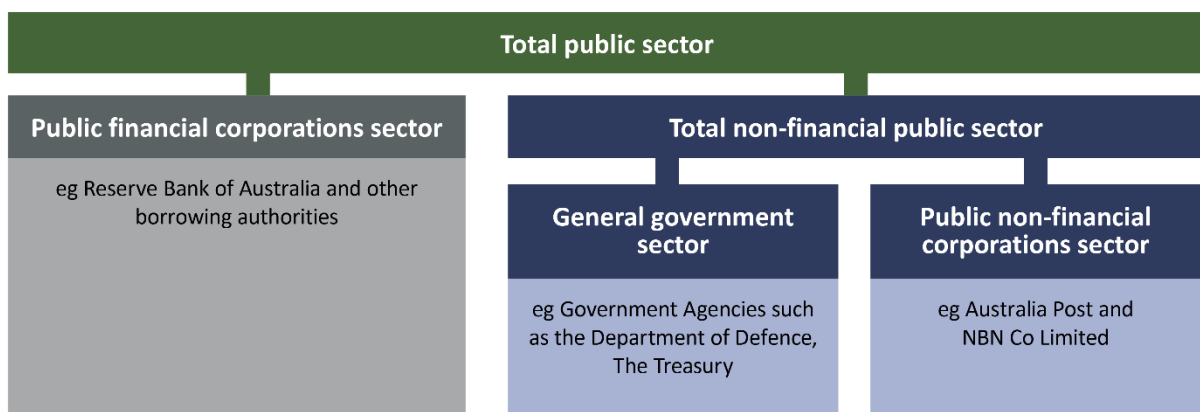
Public nonfinancial corporations are financed through their own revenue. They may pay dividends to government and, in general, they are legally distinguishable from the governments that own them. Public non-financial corporations do not include government corporations that are predominantly government-funded such as the Australian Broadcasting Corporation.^f

Together, general government sector entities, public financial corporations and public non-financial corporations, make up the total public sector (see figure below). Public non-financial corporations can be distinguished from these other kinds of bodies in the total public sector by the kinds of goods and services provided and how they are funded.

- The general government sector primarily provides public services and benefits for free or at subsidised prices, funded mainly through taxes. These include goods and services for collective rather than individual consumption, such as defence, and others, such as health, that are provided to individuals at significantly subsidised prices.
- Public financial corporations provide financial products and services. An example is the Reserve Bank of Australia, which provides banking services to the Commonwealth Government. In contrast, public non-financial corporations produce non-financial goods and services.

Statement 10: Australian Government Budget Financial Statements of Budget Paper No. 1 reports consolidated figures for the general government sector, public financial corporations sector, public nonfinancial corporations sector, and the total nonfinancial public sector (the general government sector and public nonfinancial corporations sector).

Figure: Institutional structure of the public sector



Source: Parliamentary Budget Office adaption from
The Uniform Presentation Framework for presentation of budget information.

Related terms in the PBO glossary: general government sector

Real

When something is reported in real terms, its dollar value has been adjusted to remove the effect of prices changing over time (known as ‘inflation’ when prices rise and ‘deflation’ when prices fall). In contrast, reporting something in nominal terms means that its value has not been adjusted for price changes. By removing the influence of inflation, the real value enables comparisons of quantities at different points in time as though the price of goods and services had not changed. As prices typically increase over time, nominal figures usually increase faster than real ones.

Suppose you pay \$1 for an apple today, but then pay \$1.05 in a year’s time. Even though the nominal amount you pay for an apple is higher in a year’s time, the real value you receive is the same (one apple). The price rise is due to inflation.

Real figures are used to compare quantities over time. For example, growth in real gross domestic product (GDP) is usually preferred to growth in nominal GDP when evaluating economic performance, as it measures the total economic output adjusted for price changes. In contrast, nominal figures are used when people are interested in the total monetary amount received or paid. For instance, government revenue and expenses in the budget papers are reported in nominal terms.

The following table from *Statement 1: Budget Overview of Budget Paper No. 1* in the *2021-22 Budget* reports GDP growth in both real and nominal terms, along with other major economic parameters. Inflation, as measured by the consumer price index, is greater than zero in each year, meaning that prices of goods and services are expected to rise over time. As such real GDP growth is below nominal GDP growth in each year.

Table: Major economic parameters (per cent)

	Outcome	Forecasts				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Real GDP	-0.2	1 1/4	4 1/4	2 1/2	2 1/4	2 1/2
Employment	-4.2	6 1/2	1	1	1 1/4	1 1/4
Unemployment rate	6.9	5 1/2	5	4 3/4	4 1/2	4 1/2
Consumer price index	-0.3	3 1/2	1 3/4	2 1/4	2 1/2	2 1/2
Wage price index	1.8	1 1/4	1 1/2	2 1/4	2 1/2	2 3/4
Nominal GDP	1.7	3 3/4	3 1/2	2	4 3/4	5

Source: Table 1.2 in *Statement 1: Budget Overview of Budget Paper No. 1* in the *2021-22 Budget*.

Note: 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.

Some government payments are indexed, often to the consumer price index. This means that the nominal amount of the payment usually increases over time, but the real value of the payment is maintained.

Related terms in the PBO glossary: consumer price index, expense, gross domestic product, inflation, nominal, parameter, payment, revenue

Receipt

Receipts are the government's income, recorded at the time they are received as reported on a 'cash accounting' basis. In the Commonwealth budget context, receipts are those that affect the underlying cash balance. The majority of government receipts are tax receipts, such as company tax, personal income tax, and goods and services tax. The government also receives non-tax receipts, such as interest earned on government loans and dividends from government investments.

Under the cash accounting framework, receipts are recorded at the time they are received by the government. The equivalent to a receipt in the other accounting framework, known as 'accrual accounting', is revenue. Revenue refers to income recorded when it is earned or can be reliably measured, regardless of when any money is actually paid to the government.

To calculate whether the budget is in a cash surplus or deficit in a given financial year, total payments, such as spending on pensions, are subtracted from the government's total receipts. If receipts are higher than payments, the budget is in a cash surplus. If payments are higher than receipts, the budget is in a cash deficit.

The government publishes total receipts (and revenue) estimates at each budget update. For example, *Statement 5: Revenue* of *Budget Paper No. 1* in the *2021-22 Budget* explores receipts estimates, major receipts sources, and how they are expected to change over time. Table 5.7 provides a breakdown of total receipts estimates for 2021-22.

Related terms in the PBO glossary: accrual accounting, budget, budget paper, cash accounting, financial year, headline cash balance, payment, revenue, underlying cash balance

Recession

A recession is a significant period of diminishing economic activity across the economy as a whole.

While there is no single accepted definition of a recession, economists would agree that to be a recession, a downturn would have to last more than a few months and affect many industries rather than particular parts of the economy. There is also no standard definition for an economic depression, which is often understood to be a more severe version of a recession.

Broadly speaking, there are a few common approaches to defining recessions.

- One commonly used definition is that a recession is two consecutive three-month periods ('quarters') of negative growth in real gross domestic product (GDP). Under this definition, the economy is in a recession if the total value of all of the goods and services produced in an economy, adjusted for inflation, falls for two or more quarters in a row. This is sometimes referred to as a 'technical' recession.
- Another approach is to look at a wider range of indicators of economic activity. In the United States, the National Bureau of Economic Research publishes its assessment of when recessions occur there. The Bureau, a non-profit non-partisan organisation, reviews measures including real GDP, economy-wide employment, and real income, as well as others. Most, but not all, of the recessions identified by the Bureau feature a technical recession.
- Conceptually, one broad definition of recession is a sustained period of growth below the growth rate that would occur if all of the available workers and equipment ('capital') were being fully used. We cannot observe this 'potential' growth rate directly, so a rule-of-thumb sometimes used to identify recessions is that unemployment rises by more than a set amount over a given period of time, for example more than 1.5 percentage points over 18 months.

Under any approach, economic output per person (one measure of productivity) can also be falling without there being a recession. For example, if the economy grew at 2 per cent per year, but the population grew at 3 per cent per year, then the amount of production per person decreased over the year.

Governments may implement policies to help avoid or reduce the severity or duration of a recession. These can be either new policies, known as 'fiscal stimulus', or parts of existing government policy, known as 'automatic stabilisers', that adjust automatically to changes in economic conditions, such as recessions.

For more information, see the National Bureau of Economic Research Frequently Asked Questions about their method for dating recessions. The academic paper *The difference between a recession and a depression* includes more detail on defining recessions and depressions.

Related terms in the PBO glossary: automatic stabilisers, fiscal policy, fiscal stimulus, gross domestic product, inflation, real

Revenue

Revenue is government income, recorded at the time it is earned as reported on an ‘accrual accounting’ basis. The majority of government income is made up of tax revenue, such as company tax, personal income tax, and goods and services tax. The government also receives non-tax revenue, such as interest earned on government loans and dividends from government investments.

Under the accrual accounting framework, revenue is recorded when government income is earned or when it can be reliably measured, regardless of when any money is actually received by the government. The equivalent to revenue in the other accounting framework, known as ‘cash accounting’, is a receipt. Receipts refer to income recorded when the government actually receives the cash amounts.

There are two different ways of calculating whether the budget is in surplus or deficit in accrual accounting terms: the net operating balance and the fiscal balance. To calculate whether the budget is in an accrual surplus or deficit in a given financial year, total expenses, such as spending on pensions, are subtracted from the government’s total revenue (mainly taxation). If expenses are higher than revenue, the budget is in deficit in net operating balance terms. If revenue is higher than expenses, the budget is in net operating surplus. The fiscal balance calculation of budget balance also includes net capital investment (mainly the purchase of non-financial assets, such as military equipment). When the government or media refer to a budget surplus or deficit, they are generally referring to either the underlying cash balance (a cash accounting measure), but sometimes to the fiscal balance or net operating balance (both accrual accounting measures).

The government publishes total revenue (and receipts) estimates at each budget update. For example, *Statement 5: Revenue* of *Budget Paper No. 1* in the *2021-22 Budget* explores revenue estimates, major revenue sources, and how they are expected to change over time. Table 5.9 provides a breakdown of total revenue estimates for 2021-22.

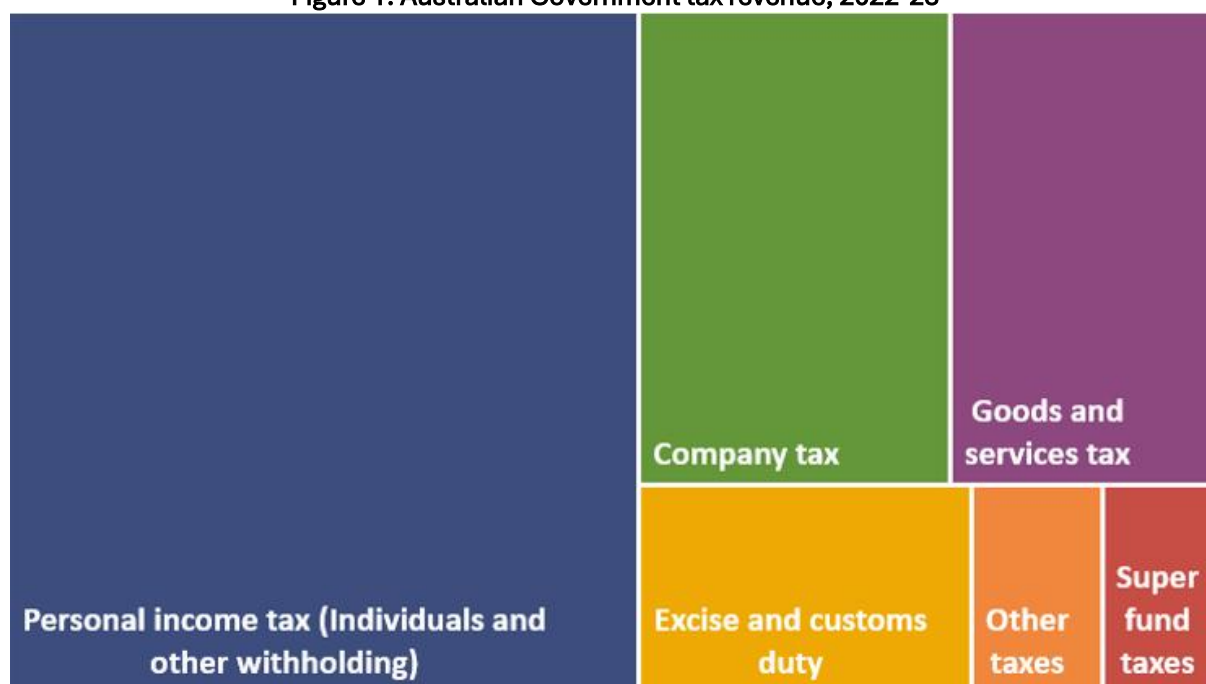
Related terms in the PBO glossary: accrual accounting, budget, budget paper, cash accounting, expense, financial year, fiscal balance, net capital investment, net operating balance, non-financial asset, receipt, underlying cash balance

Tax revenue

Tax revenue is government income that is collected from individuals, corporate entities and some other sources. Payment of tax is compulsory and, importantly, there is no direct link between the payment made to the government and the provision of goods or services by the government to the payee. All tax revenue is paid into the Consolidated Revenue Fund.

Tax revenue makes up more than 90% of all Australian Government revenue, with the remaining amount made up of non-tax revenue. The government publishes tax revenue forecasts at each budget update, such as in Budget Paper No. 1, Statement 4: Revenue of the 2022-23 Budget. Figure 1 shows the major components of tax revenue.

Figure 1: Australian Government tax revenue, 2022-23



Source: 2022-23 Budget

The majority of tax revenue is from personal income tax. Under Australia's personal income tax system, an individual's income is taxed via a series of tax rates that increase with income. Apart from taxes on individuals and companies, the majority of remaining Australian Government tax revenue is from taxes on consumption, such as the goods and services tax (GST), and excise and customs duties on specific goods, including alcohol, tobacco, and fuel.

The 'other taxes' category includes cost recovery levies. These are imposed when a good, service or regulation is provided to a group of individuals or organisations (eg an industry sector) rather than to a specific individual or organisation. The funds collected are 'earmarked' to fund activities provided to the group that pays the levy.

Taxes do not include payments from an entity to the government in exchange for the provision of goods or services at a market price (or cost of provision). Fees for goods, services or regulation may be treated as a tax if the level of the fee is well in excess of the market value or cost of providing the good, service or regulation concerned.

From time to time, revenue sources are reclassified from tax revenue to non-tax revenue and vice versa due to changes in accounting standards. For example, in 2015 most visa application charges were reclassified from non-tax revenue to tax revenue, “to reflect a sustained change in the nature of revenue” (see the 2015-16 Mid-Year Economic and Fiscal Outlook).

The government’s fiscal strategy usually includes an element relating to tax. For example, the 2022-23 Budget included a target of “maintaining a sustainable tax burden consistent with a tax-to-gross domestic product (GDP) ratio at or below 23.9% of GDP” (Budget Paper No. 1, page 77).

The terms tax and non-tax revenue are accrual accounting concepts. The equivalent cash accounting concepts are tax and non-tax receipts.

For further information on personal income taxes and the related topic of bracket creep see the PBO explainer no 1/2021 Bracket creep and its fiscal impact.

Related terms in the PBO glossary: accrual accounting, cash accounting, Consolidated Revenue Fund, non-tax revenue, receipts, revenue

Terminating program

A terminating program is a government program with a specified end date.

Fiscal stimulus measures designed to assist households and businesses in an economic downturn are generally examples of terminating policies. For example, as part of the response to the Global Financial Crisis of 2007/09, the government made oneoff payments to low and middle income individuals and households with dependent children.

While a terminating program has a specified end date, an ongoing program will typically continue until there is a government decision to end the program. In many cases, ending the program will also require the approval of Parliament. Many important government programs are ongoing. Examples include the provision of income support and financial assistance to families such as the age pension and Child Care Subsidy.

Related terms in the PBO glossary: fiscal stimulus, measure, ongoing program, program

Uncapped funding

Uncapped funding is where the government does not specify a limit to the sum of money allocated for a program. This means that the maximum amount of government spending on the program may change, for example if there are changes to the demand for the program or any other external factors. Uncapped funding is typically used by governments when delivering welfare and other demand-driven social benefits and programs. Examples are pensions like the age pension and income support payments like the JobSeeker payment. In each case, the total amount of spending depends on factors including the number of eligible recipients.

The cost to the government of uncapped programs depends on the number of eligible recipients for the payment or service and the cost to the government per recipient. In the budget context, these factors are known as ‘parameters’. If the parameters that influence the cost of a program turn out to be higher or lower than forecast in the budget papers, then the final amount of spending under a program with uncapped funding will likely also be higher or lower than the budget estimates.

For example, spending on the JobSeeker payment could be higher than expected because:

- unemployment was higher than the government expected, or
- inflation was higher than expected. This is because the JobSeeker payment is indexed to inflation, meaning that the dollar, or nominal, amount of the payment goes up in line with inflation as measured by the consumer price index (CPI).

Uncapped or ‘demanddriven’ funding can be distinguished from capped funding, which does have fixed limits on spending. For example, a commitment that *the government will provide \$500 million for the construction of a road from A to B* is a capped funding commitment, while a commitment that *the government will fund construction of a road from A to B* is uncapped because the precise amount is not specified and depends on a range of external factors.

Related terms in the PBO glossary: capped funding, demand-driven program, nominal, parameter, program

Underlying cash balance (UCB)

The underlying cash balance (UCB) is the difference between the government's receipts and its payments. It is one of several indicators known as 'budget aggregates' that measure the impact of the government's budget on the economy. When the government or the media say the budget is in surplus or deficit, they are generally referring to the underlying cash balance, or sometimes the net operating balance or fiscal balance.

The underlying cash balance is equal to the government's receipts (for example from tax collections) minus its payments from providing services (such as Medicare) and support (such as the age pension). The types of receipts and payments used in the calculation include those from buying and selling nonfinancial assets, such as buildings or equipment. If receipts are larger than payments in a given year, the government has an underlying cash balance surplus, and if payments are larger than receipts, the underlying cash balance is in deficit.

If the underlying cash balance is in deficit, the government has to borrow money because it does not have sufficient cash to fund its daytoday operations and the net purchases of assets, like the equipment it uses to deliver goods and services.

The term 'underlying' is used because it excludes some cash transactions that are captured in a broader, but less commonly used, measure of the budget balance using the cash accounting method called the headline cash balance. If the headline cash balance is in deficit, the government has to borrow to fund its overall operations, including its financial investments, such as government loans.

Both the underlying cash balance and headline cash balance for a given financial year record the cash that is actually received or paid out by the government, regardless of when these amounts are incurred. For example, these balances record company tax paid to the government in a financial year even though the amount may relate to a company's earnings from a previous financial year. This accounting method is called cash accounting and differs from the method used for the fiscal balance, which is calculated on an accrual accounting basis, and records revenue when it is earned and expenses when they are incurred.

The government publishes a breakdown of the underlying cash balance at each budget update. It also shows the difference between the fiscal and underlying cash balances. Examples of this can be seen in Table 3.2 in *Statement 3: Fiscal Strategy and Outlook of Budget Paper No. 1* in the *202122 Budget* and Table 3.2 in *Part 3: Fiscal strategy and outlook of the 202021 MidYear Economic and Fiscal Outlook*.

The budget papers also distinguish between changes to the underlying cash balance over time that are due to 'parameter and other variations' that are outside the government's direct control, and changes due to policy decisions that the government has made. Parameter variations mainly occur because of changes in the economy, composition of the population or outcomes from policy decisions (for example where costs are higher or lower than that expected in the previous budget update). Examples are in Table 3.5 in *Statement 3: Fiscal Strategy and Outlook of Budget Paper No. 1* in the *2021-22 Budget* and Table 3.4 in *Part 3: Fiscal strategy and outlook of the 202021 MidYear Economic and Fiscal Outlook*.

Related terms in the PBO glossary: accrual accounting, budget, budget aggregates, budget paper, cash accounting, expense, financial year, fiscal balance, headline cash balance, net, net operating balance, nonfinancial asset, parameter, payment, receipt, revenue

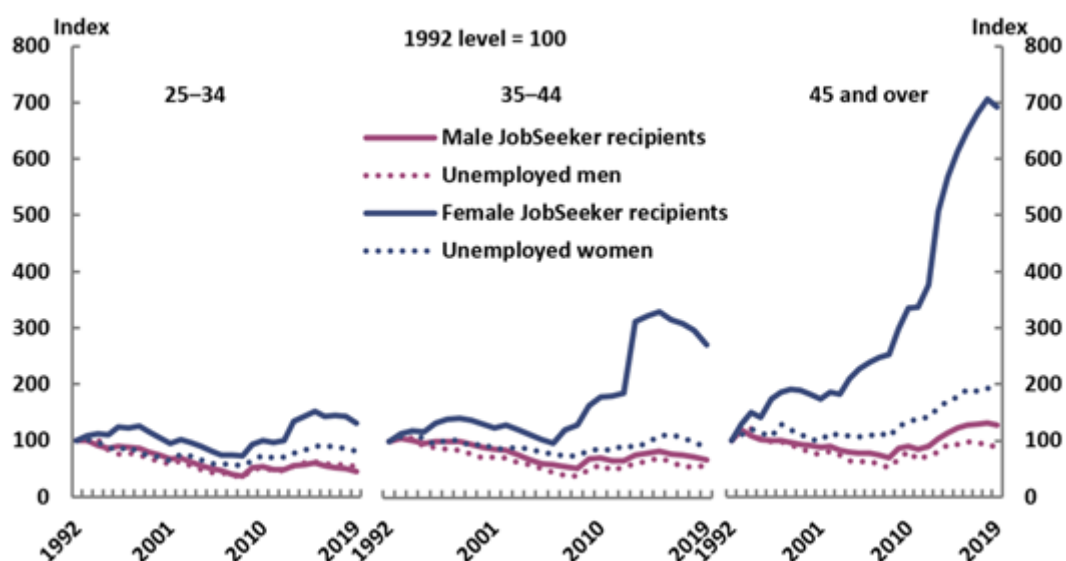
Unemployment rate

The unemployment rate is the percentage of people in the labour force who are unemployed – those who are not in paid employment but are actively looking for work. It is a key parameter used to measure the economy's performance. A high unemployment rate indicates limited employment opportunities in an oversupplied labour market. A low unemployment rate indicates a tight labour market, a potential scarcity of skilled labour, and future wage and cost pressures.

The unemployment rate is published by the Australian Bureau of Statistics in its monthly Labour Force publication, which also includes many other related statistics on employment, participation and hours worked. The unemployment rate can also be measured for a subset of the labour force using demographic categories, such as age and gender. This can aid the design of targeted policies to address specific social and economic issues.

People who are looking for work can apply to receive Australian Government unemployment benefits. When the unemployment rate increases, spending on unemployment benefits increases. The main income support payment for people who are looking for work and are between 22 years old and the Age Pension age is JobSeeker (previously Newstart allowance). Historically, there has been a close relationship between the unemployment rate and JobSeeker payments. However, this is no longer the case, as changes to the eligibility criteria for other welfare payments have diverted some people to the JobSeeker payment, see Figure 1. This has been the case for a significant number of female welfare recipients who are aged 45 and over.

Figure 1: JobSeeker recipients and unemployed persons by gender and age, 1992 to 2019



Source: Parliamentary Budget Office Budget research report no. 03/2020

JobSeeker Payment: Understanding economic and policy trends affecting Commonwealth expenditure

The unemployment rate is dependent on the size of the labour force – the number of people available to work. The labour force represents the total pool of working age people (15 years or older) who either have a paid job of at least one hour a week (the employed) or are not in a paid job but are actively looking for work (the unemployed).

Not all people without a paid job are classified as unemployed. For example, people losing their jobs will only count as unemployed (and thus increase the unemployment rate) if they continue to look for a job. Alternatively, they may leave the labour force to undertake activities such as further education, a common outcome during a recession.

The following example shows how the unemployment rate is calculated. If there are 9.5 million employed people and 0.5 million unemployed people, there would be 10 million people in the labour force ($9.5 \text{ million} + 0.5 \text{ million} = 10 \text{ million}$). The unemployment rate – the share of people in the labour force who are unemployed – would then be 5% ($0.5 \text{ million} \div 10 \text{ million} = 5\%$).

The ABS also publishes an *underemployment* rate, measuring the percentage of the labour force who are employed but would prefer to work more hours and are available to do so.

For further information on:

- measures of unemployment see the Australian Bureau of Statistics' Unemployment: Labour Statistics: Concepts, Sources and Methods
- the changing trend between the unemployment rate and JobSeeker payments see the PBO's research report no. 03/2020 JobSeeker Payment: Understanding economic and policy trends affecting Commonwealth expenditure.

Related terms in the PBO glossary: expense, parameter, recession

Unlegislated measure

An unlegislated measure is a policy that has been announced by the government and included in its latest budget or economic update, but is not yet legislated by Parliament. The announced costs, revenue or savings from the measure that are published in the latest update cannot be realised until the legislation for the policy is passed by Parliament.

For example, if the government proposes saving money by restricting access to a legislated spending program, this budget proposal is an unlegislated measure if Parliament needs to change the law to realise the savings. The savings from this measure are included in the budget but if the government cannot get the legislation passed, the savings would not be realised and the budget estimates would need to be adjusted accordingly. Budget estimates would also be adjusted if Parliament passed an amended version of the legislation with different estimated savings.

Not all budget measures require legislation. The measures that do are of interest because they can potentially have large effects on the budget that depend on the parliamentary process.

The Parliamentary Budget Office (PBO) publishes regular information on unlegislated measures with significant financial implications, where the enabling legislation has not passed Parliament after more than a year or where the announced start date has passed.

The PBO's unlegislated measures reports can be found on the *Unlegislated measures* page of the PBO's website.

Further information about unlegislated measures is available on the *frequently asked questions* section of the PBO's website.

Related terms in the PBO glossary: budget, measure