



# Budgeting in Australia

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# Agenda

- **Australia's economic and fiscal performance**
- **History of pioneering budget reforms**
- **Structure of government expenditures**
- **Unique organizational arrangements**
- **Principles-based fiscal rules**
- **Accrual budgeting**
- **Outcome budgeting**
- **Special funds**
- **Role of Parliament**

# Times of Plenty

- **Exceptional economic performance**

- Structural reforms
- Commodity price boom

- **Enviably fiscal performance**

- Net debt eliminated
- Substantial tax reductions
- Increased expenditures
- Surpluses dedicated to special funds to address future fiscal challenges

# History of Pioneering Budget Reform

- **Continual change / reforms since 1984**
- **Running costs arrangements**
- **Abolishing manpower controls**
- **Carry-forwards of unused running costs appropriations**
- **Forward Estimates – baseline projections**
- **Program budgeting**
- **Program evaluation**
- **Efficiency dividend**

# Structure of government expenditures

- **Most public services are the primary responsibility of states and territories**
  - Education, health, welfare and community services, public order and safety, and infrastructure
- **Aside from defence, nearly all capital expenditure takes place by states and territories**
- **80% of total annual expenditures are authorized in special (permanent) legislation**

# Unique Organizational Arrangements

- **Powerful role for Cabinet committees**

- Fiscal guardians vs. “ad hoc” budgeting
- Strategic Budget Committee and Expenditure Review Committee

- **Three separate central agencies that have strong roles in the budget process**

- Department of Finance
- The Treasury
- Department of the Prime Minister and Cabinet

- **Limited role of spending agencies vis-a-vis their agencies in the budget process**

# Principles-Based Fiscal Rules

- **Charter of Budget Honesty**
- **Comprehensive legal framework for the formulation and conduct of fiscal policy**
- **Principles of Sound Fiscal Management**
  - Stated in general terms (“prudent levels,” “reasonable degrees”)
  - Do not mandate any specific fiscal targets
- **Fiscal Strategy Statement**
  - Government’s interpretation of the relevant fiscal terms
  - “Achieving budget surpluses, on average, over the medium term; keeping taxation as a share of GDP on average below the level for 2007-08; and improving the Government’s net financial worth over the medium-term”

# Accrual Budgeting

- **Legal basis for appropriations is accruals**
- **All decision-making during budget formulation and deliberations in Parliament however remain on cash-basis**
- **Little differences between cash-basis and accrual-basis fiscal results**
- **Appropriating cash for non-items (depreciation)**
- **“If we knew then what we know now, we would not have implemented accrual budgeting”**
- **Accruals did improve the management of assets and liabilities**

# Outcome Budgeting

- Legal basis for appropriations are outcomes
- Generally 1-5 outcomes per agency; most have only one
- Very broad, brief, aspirational definitions
  - “Higher pay; higher productivity”
  - “Assisting regions to manage their own futures”
  - Role of *Portfolio Budget Statements*
- In practice, outcomes are not integrated into decision-making during the budget formulation stage and in daily agency operations
- Overwhelming focus is on programs
  - Any discrete activity for which money is provided

# Special Funds

- **Managing in a surplus environment**
- **2006: *Future Fund***
  - **To finance government employees' pension obligation**
- **2007: *Higher Education Endowment Funds***
  - **Annual investment income on capital available**
  - **Closed in 2008**
- **2008: Creation of Three Funds**
  - **Virtual funds**
  - **Both capital and investment income available for disbursement**
  - **No difference between the government simply retaining the surpluses and subsequently dedicating them to the respective policy areas rather than creating separate funds**

# Role of Parliament

- **Limited Role**
  - **Explicit constitutional restrictions**
  - **Enshrined Westminster political traditions**
  - **Strong party discipline**
- **Outcome budgeting further limits Parliament's role**
- **The Senate has a robust budget review and scrutiny function**
  - **Government rarely enjoys majority in the Senate**
- **Limited analytical capacity**
  - **Rely on Australian National Audit Office**

# For further information



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