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HOUSE OF REPRESENTATIVES

CHARTER OF BUDGET HONESTY BILL 1996

EXPLANATORY MEMORANDUM

(Circulated by authority of the Treasurer, the Honourable Peter Costello, MP)



CHARTER OF BUDGET HONESTY BILL 1996

TABLE OF CONTENTS

GENERAL OUTLINE

FINANCIAL IMPACT STATEMENT

NOTES ON CLAUSES

- Clause 1 - Short title
- Clause 2 - Commencement
- Clause 3 - The Charter of Budget Honesty

SCHEDULE 1 - CHARTER OF BUDGET HONESTY

PART 1 - PURPOSE AND OVERVIEW

- Clause 1 - Purpose of Charter of Budget Honesty
- Clause 2 - Overview of obligations

PART 2 - INTERPRETATION

- Clause 3 - Interpretation

PART 3 - PRINCIPLES OF SOUND FISCAL MANAGEMENT

- Clause 4 - Formulation of Government fiscal policy
- Clause 5 - The principles of sound fiscal management

PART 4 - FISCAL STRATEGY STATEMENT

- Clause 6 - Tabling and public release of fiscal strategy statements
- Clause 7 - Purpose of fiscal strategy statement
- Clause 8 - Fiscal strategy statement to be based on the principles of sound fiscal management
- Clause 9 - Contents of fiscal strategy statement

PART 5 - ANNUAL GOVERNMENT REPORTING

Division 1 - Budget Economic and Fiscal Outlook Report

- Clause 10 - Tabling and public release of budget economic and fiscal outlook reports.
- Clause 11 - Purpose of budget economic and fiscal outlook reports
- Clause 12 - Contents of budget economic and fiscal outlook report
- Clause 13 - Commonwealth bodies to provide information to help prepare report

Division 2 - Mid-Year Economic and Fiscal Outlook Report

- Clause 14 - Tabling and public release of mid-year economic and fiscal outlook reports
- Clause 15 - Purpose of mid-year economic and fiscal outlook reports
- Clause 16 - Contents of mid-year economic and fiscal outlook report
- Clause 17 - Commonwealth bodies to provide information to help prepare report

Division 3 - Final Budget Outcome Report

- Clause 18 - Tabling and public release of final budget outcome reports
- Clause 19 - Contents of final budget outcome report

PART 6 INTERGENERATIONAL REPORT

- Clause 20 - Tabling and public release of intergenerational reports
- Clause 21 - Contents of intergenerational report

PART 7 PRE-ELECTION ECONOMIC AND FISCAL OUTLOOK REPORT

- Clause 22 - Public release of pre-election economic and fiscal outlook report
- Clause 23 - Purpose of pre-election economic and fiscal outlook report

Clause 24 - Contents of pre-election economic and fiscal outlook reports

Clause 25 - Contents of pre-election economic and fiscal outlook report - statement by responsible Ministers and Secretaries

Clause 26 - Division of responsibility between Secretaries

Clause 27 - Responsible Minister to provide information to help prepare report

Clause 28 - Commonwealth bodies to provide information to help prepare report

PART 8 - COSTING OF ELECTION COMMITMENTS

Clause 29 - Requests for costing election commitments

Clause 30 - How policy costings are to be prepared

Clause 31 - Public release of policy costings

Clause 32 - Commonwealth bodies to provide information to help prepare report

CHARTER OF BUDGET HONESTY BILL 1996

GENERAL OUTLINE

The *Charter of Budget Honesty Bill* puts in place a legislative framework for the conduct and reporting of fiscal policy. This Bill aims to produce better fiscal outcomes through introducing institutional arrangements to improve the formulation and reporting of fiscal policy. The Bill will also ensure that relevant economic and fiscal information is available during the caretaker period.

To achieve these outcomes the Bill establishes an integrated fiscal framework that will:

- directly enhance fiscal discipline by ensuring that fiscal policy is formulated in accordance with principles of sound fiscal management;
- enhance public scrutiny of the conduct of fiscal policy and accountability of government by requiring governments to be explicit about their fiscal policy intentions and ensuring that comprehensive fiscal information is released at regular intervals;
- make available comprehensive fiscal information prior to elections; and
- introduce arrangements for more equal access to the Departments of the Treasury and Finance for the costing of election commitments by both the Government and the Opposition.

More specifically, the Bill requires that governments conduct fiscal policy in accordance with a number of principles of sound fiscal management. These principles seek to ensure fiscal policy takes account of short term issues such as cyclical economic downturns, while recognising the importance of medium term issues such as the sustainability of government debt and national saving.

In addition, the Bill will require that governments provide regular fiscal and economic reports including:

- a statement each year on their fiscal strategy and how that strategy accords with principles of sound fiscal management;
 - a report on the economic and fiscal outlook each year at the time of the budget;
 - a report updating the budget economic and fiscal outlook with the latest available information approximately six months after the budget has been introduced.
- a report providing fiscal outcomes for the completed financial year shortly after the end of that year; and
- a report every 5 years on the long term and intergenerational consequences of existing fiscal policy.

The Bill also requires that Secretaries to the Treasury and Department of Finance release a pre-election report that will provide updated fiscal and economic projections. In addition, the Bill requires that Secretaries to the Treasury and Department of Finance cost and publicly release the fiscal impact of announced election commitments as requested by the Government or the Opposition.

FINANCIAL IMPACT STATEMENT

B There is no financial impact.

B

B

B

CHARTER OF BUDGET HONESTY BILL 1996

NOTES ON CLAUSES

Clause 1 - Short title

Clause 2 - Commencement

Clause 3 - The Charter of Budget Honesty

1. These clauses are self explanatory.

SCHEDULE 1 - CHARTER OF BUDGET HONESTY

PART 1 - PURPOSE AND OVERVIEW

Clause 1 - Purpose of Charter of Budget Honesty

2. This clause provides a general description of the purpose of the Charter.

Clause 2 - Overview of obligations

3. This clause provides an outline of obligations under the Charter.

PART 2 - INTERPRETATION

Clause 3 - Interpretation

4. Clause 3 defines the terms used in the Charter. The scope and intent of the definitions are largely self explanatory. However, in relation to *GFS Australia* the following points should be noted:

Government Finance Statistics, Australia: Concepts, Sources and Methods is a reference manual that provides a detailed explanation of the sources, concepts and methods used by the Australian Bureau of Statistics (ABS) in compiling government finance statistics. The manual is based on international standards for government financial reporting published by the International Monetary Fund.

Reference to publications such as *GFS Australia* is unusual in legislation. However, there are a number of reasons for this reference.

- GFS concepts have national and international status and are widely understood and accepted.
- This link removes the need to define the concepts and technical terminology contained in the Bill which would add significant complexity to the Bill.
- The link also ensures that the definitions keep pace with the latest developments in government finance statistics. The Charter is linked to the most current version of *GFS*

Australia and other ABS publications (including CD ROM services) that supersede or enhance *GFS Australia*.

As the Charter does not create enforceable rights or obligations and as the references to *GFS Australia* will only relate to definitions of financial concepts it is unlikely to create problems in the interpretation of the legislation.

5. The Public Sector Accounting Standards Board is referred to in the definition of external reporting standards. The Public Sector Accounting Standards Board is a body of the Australian accounting profession which issues accounting standards for the public sector. It is the intention of the Charter that if this body is renamed or if its functions are moved to a different body, the government should report on a basis that is consistent with the standards issued by the new body.

PART 3 - PRINCIPLES OF SOUND FISCAL MANAGEMENT

Clause 4 - Formulation of Government fiscal policy

6. This clause requires that fiscal policy be set in a sustainable medium term framework and based on the principles of sound fiscal management set out in clause 5.

Clause 5 - The principles of sound fiscal management

7. This clause sets out principles of sound fiscal management. These principles are self explanatory. They aim to focus attention on a range of issues that should be addressed if fiscal policy is to be sustainable over time. In doing so they take account of the need to address short term issues such as cyclical economic downturns, while recognising the importance of medium term issues such as the sustainability of government debt and national savings.

8. The principles set out in this clause will establish a framework for setting and assessing fiscal policy without restraining a government or Parliament from their pursuit of other non-fiscal objectives.

PART 4 - FISCAL STRATEGY STATEMENT

Clause 6 - Tabling and public release of fiscal strategy statements

9. This clause requires the Treasurer to publicly release and table a fiscal strategy statement each year, at the time of the budget. The clause also allows for the Treasurer to release a new fiscal strategy statement should economic conditions alter or the government wish to change fiscal objectives.

10. It is the intention of this clause that the most recent fiscal strategy statement will replace any previous fiscal strategy statements. The economic and fiscal reporting required under Part 5 of the Charter will evaluate fiscal performance against the expected outcomes and key fiscal measures announced in the most recent fiscal strategy statement.

Clause 7 - Purpose of fiscal strategy statement

11. This clause explains the purpose of the fiscal strategy statement.

Clause 8 - Fiscal strategy statement to be based on the principles of sound fiscal management

12. This clause requires the fiscal strategy statement to be consistent with principles of sound fiscal management set out in clause 5.

Clause 9 - Contents of fiscal strategy statement

13. Subclause 9(1) sets out what is to be included in the fiscal strategy statement.

14. Subclauses 9(1)(a), 9(1)(b) and 9(1)(e) are self explanatory.

15. Subclause 9(1)(c) requires that governments specify the key fiscal measures they consider important. The Bill does not identify the measures to be used. This reflects the fact that some measures will become less relevant and other measures more relevant as the focus of fiscal policy changes with governments. This clause does not specify a reporting framework but would apply equally under either cash or accrual frameworks.

16. Subclause 9(1)(d) requires that governments specify, for the budget year and three following years, their fiscal objectives and targets as well as anticipated outcomes for the fiscal measures outlined by requirements in subclause 9(1)(c).

17. The economic and fiscal outlook reports (required under part 5 of the Charter) will provide data on the objectives, targets and fiscal measures set out by government under the requirements of subclause 9(1)(c) and 9(1)(d).

18. Subclause 9(1)(f) requires that a government outline the process to reverse discretionary fiscal measures undertaken to moderate cyclical fluctuations in economic activity. This will ensure that temporary short term measures do not detract from the achievement of medium term objectives by continuing indefinitely and are accompanied by announcement of the process for reversing their fiscal impact.

19. Subclause 9(1)(g) requires a government to outline the reporting framework to be used for subsequent economic and fiscal outlook reports required under part 5 of the Charter. This should address whether a cash or accrual framework is going to be used and the extent to which GFS concepts and accounting standards will be used. This clause does not intend a detailed explanation to be provided.

20. Subclause 9(2) allows the most recent fiscal strategy statement to summarise information required by Subclause 9(1) if full details are set out in an earlier statement. This will reduce duplication as technical information already provided will not have to be reproduced. Examples of this may include temporary expenditure programs that may operate over a number of years and the details of the basis for fiscal reporting which will remain unchanged for long periods of time.

PART 5 - ANNUAL GOVERNMENT REPORTING

Division 1 - Budget Economic and Fiscal Outlook Report

Clause 10 - Tabling and public release of budget economic and fiscal outlook reports.

21. This clause requires the Treasurer to table and release a budget economic and fiscal outlook report each year with the budget.

Clause 11 - Purpose of budget economic and fiscal outlook reports

22. This clause explains the purpose of the budget economic and fiscal outlook report.

Clause 12 - Contents of budget economic and fiscal outlook report

23. Subclause 12(1) sets out what is to be included in the budget economic and fiscal outlook report.

24. It is the intention of subclause 12(1) that the budget economic and fiscal outlook report will provide data on the objectives, targets and fiscal measures outlined in a government's fiscal strategy statement (as required under subclauses 9(1)(c) and 9(1)(d)).

25. Subclause 12(1)(a) requires information to be presented for the Commonwealth budget sector and Commonwealth general government sector. The requirement for general government sector data reflects the fact that this framework provides a consistent basis which captures government activity more fully than the budget sector. Entities within the general government sector can be determined with reference to *GFS Australia*.

26. Subclause 12(1)(b) requires that economic and other assumptions used in preparing fiscal estimates be disclosed. This information will provide important background to the fiscal data provided in the report. These assumptions may include such information as anticipated economic growth and inflation rates.

27. Subclause 12(2) requires that the report required under subclause 12(1) is as comprehensive as possible. This is to ensure that the most up to date information is provided in the budget economic and fiscal outlook report.

28. Subclause 12(3)(a) requires that information required by subclause 12(1) is presented in accordance with external reporting standards as defined in Part 2 of the Bill. This will ensure that the reporting framework adopted by a government is:

- comparable with, and can be reconciled to, other sources of government financial reporting;
- soundly based and widely accepted; and
- consistent with recent developments in government financial reporting.

29. Subclause 12(3)(b) ensures that the basis for reporting under the Charter is fully transparent in requiring a government to identify departures from accepted government reporting practices.

30. It is the intention of subclause 12(3) that the reporting framework be consistent with that set out in the fiscal strategy statement as required under subclause 9(1)(g).

31. Subclause 12(4) allows the Treasurer to exclude information from the budget economic and fiscal outlook report that may negatively affect the commercial interests of the Commonwealth or threaten national security.

32. It is not the intention of subclause 12(4) to decrease transparency in fiscal and economic reporting or detract from government accountability.

Clause 13 - Commonwealth bodies to provide information to help prepare report

33. This clause requires all Commonwealth entities falling within the general government sector (as defined in *GFS Australia*) to supply information requested by the Treasurer for the preparation of the budget economic and fiscal outlook report.

34. This clause seeks to ensure that all Commonwealth general government entities provide information required to prepare the budget economic and fiscal outlook on a timely basis.

Division 2 - Mid-Year Economic and Fiscal Outlook Report

Clause 14 - Tabling and public release of mid-year economic and fiscal outlook reports

35. The purpose of this clause is to require the Treasurer to release and table a mid-year economic and fiscal outlook report by the end of January where a government has prepared a budget prior to the end of June or within six months of the budget where a budget has been handed down later in the year.

Clause 15 - Purpose of mid-year economic and fiscal outlook reports

36. This clause explains the purpose of the mid-year economic and fiscal outlook report.

Clause 16 - Contents of mid-year economic and fiscal outlook report

37. Subclause 16(1) sets out what information is to be provided in the mid-year economic and fiscal outlook report. The main function of the mid-year economic and fiscal outlook report is to update key information contained in the budget economic and fiscal outlook report.

38. Subclause 16(1)(b) requires that the mid-year economic and fiscal outlook report include a detailed statement of tax expenditures. This would be similar in content to the *Tax Expenditures Statement November 1995* produced by the Treasury (Australian Government Publishing Service catalogue no: 95 5759 8).

39. Subclause 16(2) requires the Government take into account all available relevant information in preparing the mid-year report required under subclause 16(1).

40. Subclause 16(3) requires that information required by subclause 16(1) be presented in accordance with external reporting standards as defined in the Bill. The meaning here is the same as for subclause 12(3).

41. Subclause 16(4) allows the mid-year report to summarise information required by clause 16 if full details are unchanged from the budget economic and fiscal outlook report. This will reduce duplication and allow the mid-year report to focus on changes since the most recent budget.

42. Subclause 16(5) allows the Treasurer to exclude information from the mid-year economic and fiscal outlook report that may negatively affect commercial interests of the Commonwealth or threaten national security. The meaning here is the same as for subclause 12(4).

Clause 17 - Commonwealth bodies to provide information to help prepare report

43. This clause requires that all Commonwealth general government entities provide information required to prepare the mid-year economic and fiscal outlook on a timely basis.

Division 3 - Final Budget Outcome Report

Clause 18 - Tabling and public release of final budget outcome reports

44. Subclause 18(1) sets out requirements for release and tabling of the final budget outcome report.

45. Subclause 18(2) provides for the information required by clause 18(1) to be incorporated in the budget economic and fiscal outlook report, as required under Division 1 of Part 5, if the budget is brought down after the start of a financial year. This will reduce the potential duplication and wastage of resources involved in producing two reports at this time.

Clause 19 - Contents of final budget outcome report

46. Subclause 19(1) sets out the content of the annual final budget outcomes report. The report is to include revenue and outlay/expense outcomes for the just completed financial year. Information is to be presented for both the budget sector and general government sector, with the intention of this requirement the same as for subclause 12(1)(a).

47. Subclause 19(2) requires the information presented in the final budget outcome to comply with external reporting standards. The intention of this subclause is the same as for subclause 12(3).

PART 6 INTERGENERATIONAL REPORT

Clause 20 - Tabling and public release of intergenerational reports

48. This clause requires the Treasurer to release an intergenerational report within five years of the commencement of the Act and every 5 years thereafter.

Clause 21 - Contents of intergenerational report

49. This clause sets out the purpose of the intergenerational report. The Charter does not specify the content of the report other than indicating that it is to assess the long term sustainability of current government policies. The content and format of the report are to be determined by the Treasurer.

PART 7 PRE-ELECTION ECONOMIC AND FISCAL OUTLOOK REPORT

50. Requirements in Part 7 of the Charter introduce obligations in the caretaker period following the issuing of a writ for an election and the election day.

Clause 22 - Public release of pre-election economic and fiscal outlook report

51. The pre-election economic and fiscal outlook report is the only fiscal report required in the Charter that is to be jointly released by the Secretary to the Treasury and the Secretary to the Department of Finance. (All other fiscal reports are released by the Treasurer.) It is intended that this report will be an independent report by the Secretaries.

Clause 23 - Purpose of pre-election economic and fiscal outlook report

52. This clause explains the purpose of the pre-election economic and fiscal outlook report, which is to provide independent updated information on the economic and fiscal outlook in the caretaker period. This will ensure that the public is fully aware of the current economic and fiscal outlook prior to an election.

Clause 24 - Contents of pre-election economic and fiscal outlook reports

53. This clause sets out what is to be included in the pre-election report. The clause requires the pre-election report to present updated information on the fiscal and economic outlook at the time the election is called.

54. Given the time constraint to produce the pre-election report, it is not required that tax expenditures be updated. However, measures involving new tax expenditures would be reported.

55. Subclause 24(4) allows the pre-election economic and fiscal outlook report to summarise information required by clause 24 if full details are unchanged from an earlier economic and fiscal outlook report (budget or mid-year). This will reduce duplication of previous reports and allow the pre-election report to focus on changes since the release of the last economic and fiscal outlook report.

56. Subclause 24(5) allows Secretaries to exclude information from the pre-election economic and fiscal outlook report that may negatively affect the commercial interests of the Commonwealth or threaten national security. The meaning here is the same as for subclause 12(4).

Clause 25 - Contents of pre-election economic and fiscal outlook report - statement by responsible Ministers and Secretaries

57. This clause ensures that the pre-election report provides the best available information and clarifies arrangements and responsibilities in the preparation of the report.

58. The Treasurer, Minister for Finance and Secretaries to the Treasury and Department of Finance are to sign off on the pre-election economic and fiscal outlook report.

- The Treasurer and Minister for Finance will indicate that they have complied with their obligations as outlined in clause 27.

- The Secretaries to the Treasury and the Department of Finance will indicate that the report reflects the best judgement of their Departments and incorporates all available relevant information (including that supplied by the Treasurer and Minister for Finance as required under clause 27).

Clause 26 - Division of responsibility between Secretaries

59. The purpose of this clause is to clarify the arrangements for the preparation of the pre-election report. The division of responsibilities outlined in this clause reflects the existing responsibilities of each Department as outlined in Administrative Arrangement Orders.

Clause 27 - Responsible Minister to provide information to help prepare report

60. The purpose of this clause is to ensure that Secretaries have all the information they require to prepare the pre-election report. The clause requires that the Treasurer and Minister for Finance disclose any information that may affect the fiscal outlook to the Secretary to the Treasury and the Secretary to the Department of Finance.

61. The purpose of this clause is to ensure that the Secretaries are made aware of all events or decisions that may impact on the economic and fiscal outlook. Under clause 25 the Treasurer and Minister for Finance must sign off on the reports indicating that they have complied with the requirements of this clause.

62. It is not the intent of this clause that the Treasurer and Minister for Finance disclose information where it is reasonable to assume that the Secretaries are already aware of that information. This will ensure that Ministers do not have to disclose volumes of information reflecting decisions that are already public knowledge or that a Secretary would be well aware of through other dealings with the Minister.

63. Subclause 27(2) requires timely disclosure of the information required under subclause 27(1) so that it can be incorporated in the pre-election report.

Clause 28 - Commonwealth bodies to provide information to help prepare report

64. This clause requires all Commonwealth entities falling within the general government sector (as defined in *GFS Australia*) to supply information requested by the Secretary to the Treasury and Secretary to the Department of Finance.

65. This clause only allows Secretaries to obtain fiscal information from other Commonwealth general government entities during the caretaker period for the purpose of preparing the pre-election economic and fiscal outlook report under Part 7 of the Charter. In the absence of this clause, it is unclear whether Commonwealth general government entities would have to comply with such a request.

PART 8 - COSTING OF ELECTION COMMITMENTS

66. The provisions of Part 8 only apply during the caretaker period following the issuing of a writ for an election and the election day.

67. It is the intention of Part 8 that:

- these obligations are independent of, but have precedence over, the caretaker conventions;
 - the arrangements for costing policies do not affect the convention that during the caretaker period contact between officials and the opposition be subject to a request by non-government parties to the Minister concerned and subject to the agreement of that Minister; and
- the Treasurer or Minister for Finance not be able to have their Departments cost government or opposition policies.

68. The intention of Part 8 of the Charter is to make available to both the government and the opposition resources of the Departments of the Treasury and Finance during the caretaker period to cost election commitments, so that the public can be made fully aware of the fiscal impact of such commitments.

Clause 29 - Requests for costing election commitments

69. It is the intention of this clause that Secretaries will only prepare costing on the request of the Prime Minister or Leader of the Opposition (subject to the agreement of the Prime Minister).

70. The intention of this clause is that during the caretaker period the Prime Minister can only request costing of government election commitments and the Leader of the Opposition can only request costing of opposition election commitments.

71. The use of the term 'publicly announced policies' in the subclause 29(1) means that policies which have not been announced by a government or opposition will not be costed. This will ensure that the Departments of the Treasury and Finance are not involved in developing policy for either a government or an opposition in the caretaker period.

72. Subclause 29(2) requires that requests for costings comprehensively outline the policy to be costed.

73. Subclause 29(4) requires the Prime Minister to approve costing requests from the Leader of the Opposition before the Secretaries to the Treasury and Department of Finance can act upon such requests.

74. Subclause 29(5) allows the Prime Minister or Leader of the Opposition to withdraw a request they have made. This will ensure that where election policies change the Departments of the Treasury and Finance do not produce out of date costings.

Clause 30 - How policy costings are to be prepared

75. Subclause 30(1) allows the Secretary to the Treasury and the Secretary to the Department of Finance to issue guidelines for the preparation of policy costings during the caretaker period. The purpose of such guidelines would be to clarify the Departments' approach to costing policies.

76. Subclause 30(2) sets out the division of responsibilities between the Secretary to the Treasury and the Secretary to the Department of Finance in preparing costings. This reflects the responsibilities of each department as outlined in Administrative Arrangement Orders.

77. Subclause 30(2) allows the Secretary to the Treasury and the Secretary to the Department of Finance to seek more information from the Prime Minister or Leader of the Opposition in order to

meet a request to cost policies. The purpose of this subclause is to allow detail to be added to the costing requests without requiring a new request to be submitted.

Clause 31 - Public release of policy costings

78. Subclause 31(1) requires the Secretary to the Treasury or the Secretary to the Department of Finance to release policy costings when completed. By requiring the costings to be made publicly available there is a limited scope for the results of the costings to be misrepresented. It is the intention of the subclause that comprehensive details of the methodology used for the costings, including the underlying assumptions used, will be provided with the costings. The subclause also requires that the costings be prepared promptly.

79. Subclause 31(2) requires the Secretary to the Treasury or the Secretary to the Department of Finance to release a statement if they have been unable to prepare costings because of inadequate information or time. This will reduce the pressure on the Departments to prepare costings where it is not feasible to do so.

80. Subclause 31(3) allows the Secretary to the Treasury or the Secretary to the Department of Finance to cease work on policy costings requested under Part 8 of the Charter from the day of the election.

Clause 32 - Commonwealth bodies to provide information to help prepare report

81. This clause requires that all Commonwealth entities falling within the general government sector (as defined in *GFS Australia*) will supply information to the Secretary to the Department of the Treasury and Secretary to the Department of Finance if requested to do so.

82. This clause only allows Secretaries to obtain fiscal information from other Commonwealth general government entities in the caretaker period for the purpose of preparing the policy costings requested under Part 8 of the Charter. In the absence of this clause, it is unclear whether Commonwealth general government entities would have to comply with such a request.

