

# CHARTER OF BUDGET HONESTY

STATEMENT BY  
THE HONOURABLE PETER COSTELLO, M.P.,  
TREASURER OF THE COMMONWEALTH OF AUSTRALIA  
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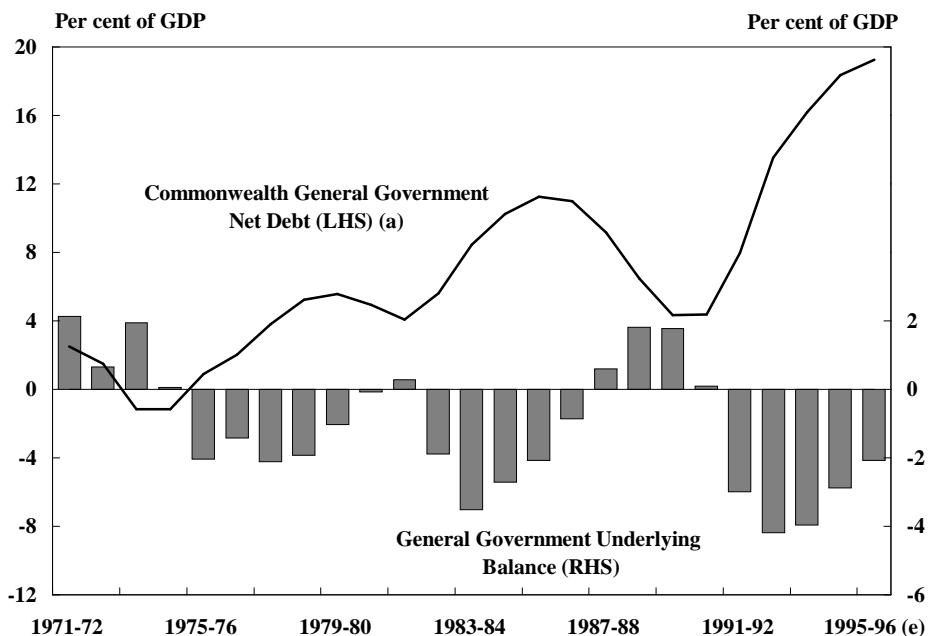
## INTRODUCTION

The Government is to introduce legislation in the Budget sittings of Parliament to establish a new fiscal framework, implementing the Government's election commitment to a Charter of Budget Honesty.

The Government's proposed legislation aims to produce better fiscal outcomes through institutional arrangements to improve the formulation and reporting of fiscal policy.

The need for improved fiscal outcomes is demonstrated by the persistence of Commonwealth deficits over the past 25 years. These deficits have led to a ratcheting up of Commonwealth general government net debt relative to GDP over time as shown in Chart 1.

**CHART 1: COMMONWEALTH GENERAL GOVERNMENT NET DEBT AND UNDERLYING BALANCE**



(a) Net debt data as at end June. Data from June 1988 to June 1995 are sourced from the ABS *Public Sector Financial Assets and Liabilities* publication (ABS Cat. No. 5513.0). Data prior to June 1988 are Treasury estimates.

(e) Estimate.

The adoption of the new fiscal framework through legislation has the objective of applying the new arrangements to all future governments by law.

It is the right of the Australian people to be fully informed about the current state of the Government's finances and the future outlook.

Throughout the last election, the then Government affirmed the 1995-96 budget forecasts, implying a 1996-97 underlying deficit of \$590 million and a 1997-98 underlying surplus of \$2.7 billion. In fact, revised figuring by the Department of the Treasury which was presented to the incoming Government and released by me on 12 March 1996 showed underlying deficit estimates of \$7.6 billion and \$7.3 billion for 1996-97 and 1997-98 respectively. It is reprehensible that this revised figuring was not made publicly available before the election.

The proposed Charter of Budget Honesty legislation outlined below will ensure that this situation is never repeated by requiring an independent fiscal and economic report to be released by the Secretaries to the Department of the Treasury and the Department of Finance prior to all future elections.

The proposed legislation will prevent future governments going to an election on the basis of misleading information on the fiscal and economic outlook. It will ensure that at all times governments can be held properly to account for their fiscal and economic policies.

## OVERVIEW

The proposed legislation will establish an integrated fiscal framework that provides for greater discipline, transparency and accountability in fiscal policy.

**Fiscal discipline** will be directly enhanced by:

- ensuring that fiscal policy is formulated in accordance with principles of sound fiscal management;
- requiring governments to outline how they will reverse stimulatory fiscal measures adopted to dampen an economic downturn; and
- enhancing public scrutiny of fiscal objectives and performance.

**Public scrutiny** of the conduct of fiscal policy will be enhanced by:

- requiring governments to be more explicit about their fiscal policy intentions; and
- an improved reporting framework that will ensure comprehensive information is available in respect of fiscal developments.

This information will be required to be consistent with external reporting standards; the Government will have to explain the reason for any departure from those standards.

The proposed legislation will give particular attention to providing comprehensive fiscal information **prior to elections**.

- The legislation will require an independent pre-election report prepared by the Secretaries to the Treasury and the Department of Finance which will provide updated fiscal and economic projections.

- Arrangements for more equal access to Treasury and Finance costings of election commitments by the Government and the Opposition to allow the electorate to be better informed of the financial implications of election commitments.

The proposed legislation will substantially increase the **accountability of government** through improved disclosure of fiscal policy intentions and information on fiscal developments. The information provided will allow the public to better assess the conduct of fiscal policy by government.

The key features of the legislation — greater discipline in policy formulation, regular statements of fiscal objectives and increased accountability for government fiscal performance — will provide a strong impetus towards achieving better fiscal outcomes.

## DETAILS OF THE PROPOSED LEGISLATION

The Government's proposed legislation incorporates many of the recommendations of the National Commission of Audit. The main features of the fiscal framework to be established by the legislation are outlined below.

### FISCAL POLICY FORMULATION

The legislation will reform fiscal policy formulation through the introduction of principles for the sound management of fiscal policy and a formal requirement that each government clearly outline its fiscal strategy.

Inclusion of principles in the legislation will establish an appropriate environment for setting and assessing fiscal policy, without restraining government or Parliament in their pursuit of other, non-fiscal, objectives.

The principles, set out in Box 1, will require governments to give consideration to the impact of policy on: government debt and managing fiscal risks; national saving; the stability and integrity of the tax base; and equity between generations.

The principles focus attention on a range of issues that must be addressed if fiscal policy is to be sustainable over time. 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 saving.

Adherence to these principles will contribute to better fiscal policy outcomes.

To assist public evaluation of fiscal policy, governments will be required to present a *Fiscal Strategy Statement* each year. The objective of this Statement is to increase public awareness of a government's fiscal policy objectives and establish a benchmark for evaluating the conduct of fiscal policy. The Statement should:

- Outline the Government's longer term objectives for fiscal policy within which shorter term policies will be framed.

- Explain the broad strategic priorities on which the budget is based.
- Specify the Government's short-term fiscal objectives and expected outcomes or targets for key fiscal measures for the budget year and the following three years.
- Outline the key fiscal measures that the Government considers important and in terms of which fiscal policy will be set and assessed.
- Identify fiscal measures that are temporary in nature and adopted for the purpose of dampening economic downturns, and indicate the process for their reversal.

The fiscal strategy outlined in the Statement is required to be consistent with the principles for the sound management of fiscal policy contained in the legislation.

**BOX 1: PRINCIPLES OF SOUND FISCAL MANAGEMENT**

Fiscal policy should be directed to maintaining the on-going economic prosperity and welfare of the people of Australia and must therefore be set in a sustainable medium-term framework. To meet these objectives, a government's fiscal strategy should be framed in accordance with the following principles of sound fiscal management.

- Prudently manage financial risks faced by the Commonwealth, including by maintaining Commonwealth general government debt and contingent liabilities at prudent levels.
- Ensure that fiscal policy contributes to the achievement of adequate national saving and, as appropriate, to dampening cyclical fluctuations in economic activity, taking account of the economic risks facing the nation and their impact on the Government's fiscal position.
- Pursue spending and taxing policies that are consistent with a reasonable degree of stability and predictability in the level of the tax burden.
- Maintain the integrity of the tax system.
- Ensure that policy decisions have regard to their financial effects on future generations.

The requirement that a government outline the process to reverse discretionary fiscal measures undertaken to stimulate the economy during a downturn will contribute to a more balanced approach to fiscal policy over the course of the economic cycle. This will address the tendency of government debt to ratchet up over successive economic cycles when policy is left too loose for too long.

## FISCAL REPORTING

Enabling a government's fiscal performance to be assessed requires information on both fiscal objectives and progress in achieving those objectives.

The proposed legislation will require the reports summarised in Box 2 and discussed below. The requirements, including in respect of frequency, should be taken as minima.

<b><u>Report</u></b>	<b><u>Required Frequency</u></b>	<b><u>Responsibility</u></b>
Fiscal Strategy Statement	Annual	Government
Budget Economic and Fiscal Outlook	Annual	Government
Mid-year Economic and Fiscal Outlook	Annual	Government
Pre-election Economic and Fiscal Outlook	Election run-up	Treasury/Finance
Intergenerational Report	5 yearly	Government
Final Budget Outcome	Annual	Government

The proposed legislation will require that the Economic and Fiscal Outlook reports provide information that allows comparison against objectives and expected fiscal outcomes outlined in the Government's *Fiscal Strategy Statement*. The reports will enhance the availability of information on fiscal developments and assist the evaluation of government fiscal performance against its strategy.

Governments will also be required to have regard to external reporting standards such as Australian Bureau of Statistics government finance reporting, accounting profession standards and international systems of reporting. Where a government intends to diverge from these reporting standards, the proposed approach and the reasons for the departure are to be explained in the *Fiscal Strategy Statement* with reference to the principles of sound fiscal management. This requirement will place a greater degree of discipline on government reporting practices and ensure that government reporting practices keep pace with 'best practice' as set out in external standards.



## **Economic and Fiscal Outlook Reports**

The *Economic and Fiscal Outlook* reports will present fiscal projections that illustrate the consequences of the Government's fiscal strategy for fiscal aggregates and present the economic assumptions used in preparing the fiscal projections.

The Budget and Mid-year Economic and Fiscal Outlook reports will provide fiscal projections for the three years following the budget year, together with the economic and other assumptions on which they are based.

The reports should also include:

- Information on aggregate tax expenditures (revenue forgone by tax concessions and exemptions) in the budget year and forward estimates for the following three years. More detailed information on tax expenditures will be provided in a Tax Expenditures Report as part of the *Mid-year Economic and Fiscal Outlook* report documentation.
- A statement of risks, quantified where feasible, that may have a material effect on the fiscal outlook, including potential costs such as contingent liabilities, government commitments that are not yet included in the projections and negotiations that have yet to be finalised but which could have a material effect on the fiscal outlook. The statement of risks will highlight events that could give rise to future costs to the government. A discussion of the sensitivity of fiscal estimates to changes in assumptions should also be included.

The *Budget Economic and Fiscal Outlook* will be presented each year with the annual appropriations. The *Mid-year Economic and Fiscal Outlook* report is to be published by the end of December and tabled in Parliament at the earliest opportunity. It will update fiscal and economic projections presented in the *Budget Economic and Fiscal Outlook*.

These reports will ensure up to date information on the medium-term fiscal outlook is always publicly available. The information provided will enable the public to assess the performance of the government against announced fiscal targets.

## **Pre-election Economic and Fiscal Outlook Report**

The presentation of a *Pre-election Economic and Fiscal Outlook* report will ensure the availability of updated information prior to an election.

The report is to be released within 10 days following the announcement of an election.

This report will present an assessment of the economic and fiscal outlook prepared by the Secretaries to the Department of the Treasury and the Department of Finance.

The legislation will include formal requirements for governments to disclose information on all government decisions and circumstances with material fiscal or economic implications to the Secretary to the Department of the Treasury and the

Secretary to the Department of Finance so as to satisfy public interest that the reports are comprehensive.

### **Intergenerational Report**

The *Intergenerational Report* will assess the long-term sustainability of current policies, including taking account of the financial implications of demographic change.

The report will help ensure that fiscal policy addresses both short-term and long-term policy issues by highlighting the long run financial implications of existing policy.

Reflecting its focus on long-run issues, the report is to be published on a five-year cycle.

### **Final Budget Outcome**

The *Final Budget Outcome* will present details of fiscal outcomes for the preceding year. In years when the budget is brought down after the close of the financial year the material that would normally be included in this report may be incorporated into the *Budget Economic and Fiscal Outlook* report.

## **COSTING OF ELECTION COMMITMENTS**

The proposed fiscal framework will also modify the so-called caretaker convention regarding the costing of Government and Opposition election commitments.

During the caretaker period the proposed legislation will allow both the Prime Minister and the Leader of the Opposition to request that costings of their announced policies be prepared by the Secretaries to the Department of the Treasury and the Department of Finance. Requests may only be made by the Prime Minister or Leader of the Opposition with respect to his or her own party's policies.

The arrangement for costing policies will not affect the convention that discussions 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.

The availability and public release, on request, of independent costings by departments can assist in better informing the electorate about the financial implications of election commitments prior to the election.

Importantly, the proposed approach will change the current convention by providing potential alternative governments with equal access to departmental costings of policies during the caretaker period. This is consistent with the principle that governments should not have privileged access to the public service during the caretaker period.

The relevant Secretaries will publicly release the policy costings as soon as practicable after receiving a request.

Standardised practices for requesting and carrying out policy costings are to be developed through consultation and prescribed by regulation. Where published

statements and/or written advice provided with the costing request provide insufficient basis for costing the proposal, the Secretaries will consult with the Government or Opposition to clarify the relevant policy. Where in the judgement of the relevant Secretary there is insufficient information to produce costings, costings will not be provided and a statement to that effect will be publicly released by the Secretary.