

4.5 BUDGET CURRENT EXPENDITURE FORWARD ESTIMATES

INTRODUCTION

A system for estimating forward expenditures is essential for aiding governments in the control of their future budget positions, for measuring their success in achieving stated targets and for giving a broad indication of any changes in resource allocations arising either from deliberate policy decisions or as a result of demand-driven factors.

There is no one budget aggregate measure which is unequivocally the best at meeting each of these needs. The three aggregates presented in the table below (for the Budget Sector in total) and, in the following tables (for individual agencies), give alternative views of the recent and future trends in Budget current expenditures.

Table 4.3: Budget Current Expenditure Aggregates, 1995-96 to 1998-99

Aggregate		1995-96	1996-97	1997-98	1998-99
Consolidated Fund					
Recurrent Allocations	\$m	19,912	20,460	20,808	21,251
Growth: nominal	%	n.a.	2.8	1.7	2.1
real	%	n.a.	0.8	(-) 1.4	(-) 0.3
As a proportion of GSP	%	11.9	11.6	11.1	10.7
Total Current Payments	\$m	19,771	20,547	20,936	21,633
Growth: nominal	%	n.a.	3.9	1.9	3.3
real	%	n.a.	1.9	(-) 1.2	0.9
As a proportion of GSP	%	11.8	11.7	11.2	10.9
Net Cost of Services	\$m	21,078	21,453	21,604	22,144
Growth: nominal	%	n.a.	1.8	0.7	2.5
real	%	n.a.	(-) 0.2	(-) 2.3	0.1
As a proportion of GSP	%	12.6	12.2	11.5	11.2

EXPLANATION

In interpreting the usefulness of these aggregates, it is important to understand the relationships between them, including the differing coverage of transactions that they encompass. Both Consolidated Fund recurrent allocations and net cost of services are aggregates controlled directly or indirectly through the Budget process, with the former representing the level of cash support appropriated by Parliament and the latter the level of operating expenses incurred by the agency. In contrast, total current payments is not formally controlled in aggregate and represents the total level of cash payments made for operating purposes, funded from all sources, including the revenues and cash resources of agencies.

Detail of these concepts are set out below. Reference should also be made to the Introduction to Budget Paper No. 3, which contains a detailed explanation of the various terms.

Consolidated Fund Allocations

Consolidated Fund allocations represent the aggregate over which the Government (as opposed to individual Ministers and agencies) has the greatest degree of control, as it is these amounts which form the basis of the formal budgetary process and are presented to Parliament in the annual Appropriation Bills.

Once the Appropriation Bills are passed by Parliament, the Government is authorised to draw those amounts from the Consolidated Fund to support the services provided by Budget Sector agencies (and to pay for certain services provided by Non Budget Sector agencies). As such, the forward estimates of Consolidated Fund appropriations provide a strong indication of the extent to which the Government has restrained, or intends to restrain, the use of taxpayers' funds.

However the Consolidated Fund does not cover all transactions which contribute to the overall Budget result and hence it does not provide a comprehensive picture of the Budget result, on either an historic or forward estimates basis. Furthermore it recognises transactions only when they result in a cash payment or receipt, even though an action may have been taken which imposes a liability to make a future payment (e.g. superannuation commitments).

Total Current Payments

The main advantage of total payments data as a forward estimates aggregate is that they provide a comprehensive view of the total value of services (measured on a cash basis) to be made available in the year by the Budget Sector and its agencies, not only the level of Consolidated Fund support.

Information on a total payments basis is provided by agencies for incorporation in the Budget Papers. To the extent that sources of cash other than the Consolidated Fund are used to fund their services, there is an inherent degree of uncertainty in forward estimates, as an agency may not necessarily attain the level of user charges revenue, grants from industry bodies, etc. that it has assumed in making its estimates.

Net Cost of Services

The net cost of services represents the full amount committed from the public purse (as opposed to charges on users or donations, etc.) for the services provided in a year by an individual program, agency or the total Budget Sector.

As an accrual accounting concept, this aggregate records costs whether or not they result in a cash payment in the year, and whether or not any cash payment is made out of the resources of the agency or made from a central allocation (e.g. the "Crown Transactions" allocation for the cash payments in respect of superannuation). The Treasurer sets the net cost of services for each Budget Sector agency as an upper limit on commitments, with any increase above this limit subject to the Treasurer's approval. In order to provide adequate flexibility between years, agencies are able to transfer forward or backward up to 2 per cent of net cost of services between years (or such higher amount as may be agreed).

FORWARD ESTIMATES BY AGENCY

Forward estimates of Consolidated Fund Allocations, Total Payments and Net Cost of Services are shown by portfolio and agency in Table 4.5.

It is important to note that these estimates are in "inflation escalated" terms rather than constant prices, i.e. they take into account the current forecasts of wage and price inflation over the period. Estimates by agency which will appear in the 1997-98 and 1998-99 Budgets will differ from those shown in the table due to revised forecasts of wages and prices. In relation to the estimates of Consolidated Fund allocations in particular, it should be appreciated that these differences will not represent a change in the level of support to be provided to agencies, but simply a variation in the forecast of inflation.

Furthermore, the level of total payments are based on agencies' estimates of the amounts they will have available from sources other than the Consolidated Fund (e.g. user charges and grants from industry). To the extent to which these revenues ultimately exceed or fall short of current forecasts, total payments can be expected to vary.

RECONCILIATION BETWEEN THE BUDGET AND THE FORWARD ESTIMATES

Changes over time in the forward estimates of outlays for a particular year may occur for a number of reasons.

Firstly, the forward estimates are based on a continuation of the Government's current policies and programs. These will change over time as new programs are introduced or existing programs are enlarged or reduced. Such changes may or may not impact on the financial aggregates at the agency, portfolio or Budget Sector level as the changes may be offset through a reordering of priorities.

Secondly, existing policies may result in real expenditure growth or contraction where the policies are in terms of demand variables. To the extent that demographic forecasts for a particular year change, there will be a corresponding refinement in the forecast payments for such services.

Thirdly, changes over time in the forecasts of parameters such as wages growth and interest rates will result in changes in forecast expenditures between the time of the forward estimates being produced for a year and the Budget for that year.

As part of the discipline of maintaining its undertaking to restraining expenditure growth, the Government has committed itself to publishing, for each year's Budget, details of how those Budget Estimates differ from the previously released forward estimates for that year.

Table 4.4 shows a reconciliation between the total current outlays proposed in this Budget and the forward estimate for 1996-97 published in last year's Budget Papers.

Table 4.4: Reconciliation of 1996-97 Forward Estimates to 1996-97 Budget

	\$m
FORWARD ESTIMATE OF TOTAL 1996-97 CURRENT OUTLAYS AS SHOWN IN 1995-96 BUDGET	18,581
Adjustments to Reflect Changes In Coverage and/or Accounting Arrangements	
Electricity rate rebates for pensioners now a budget payment	37
Department of Fair Trading - activities brought on budget	41

Reclassification of Concord Hospital superannuation payments	(-) 8
Reclassification of State's share of higher education superannuation	(-) 19
Reclassification of expenditures between capital and current	
• Department of Transport	(-) 42
• Department of Urban Affairs and Planning	14
• Roads and Traffic Authority	69
ADJUSTED FORWARD ESTIMATE FOR 1996-97	18,673

SUBSEQUENT VARIATIONS**Parameter Changes**

Escalation adjustment	9
Superannuation	56
Debt servicing costs	67
CPI adjustment -	
• Commonwealth funded health programs	52
• Commonwealth funded HACC and disability programs	10
Revised Commonwealth funding -	
• Rural Assistance Authority	27
• State's matching contribution	8
• Employment schemes	(-) 48
Impact of increased enrolments on government schools expenditure and payments to non-government schools	17
Allocation of 1996 and 1997 ANTA "Growth Funds"	20
Increased payments for water and sewerage rate rebates	21
Provision for redundancy payments	20

Table 4.4: Reconciliation of 1996-97 Forward Estimates to 1996-97 Budget (cont)

	\$m
Parameter Changes (cont)	
Forestry Industry Restructure package - deferral and matching of funding by Commonwealth	56
Land and Water Conservation - various	11
Expenditure transferred from 1995-96	15
Victims Compensation Fund	15
National Rail Corporation - compensation payment	17
Health - shortfall in user charges and other revenue	19
Crown - refunds and remission of Crown revenue	15
Additional payments funded from agency revenue and use of cash balances etc; and other minor variations -	
• Health	30
• National Parks and Wildlife Service	9
• Other agencies	31
Post-Budget Policy Decisions	
Establishment of new agencies -	
• Waterways Authority	14
• Sustainable Energy Development Authority	17
Operating subsidy - Far West Energy	5
Impact of teacher (Schools and TAFE) 4 per cent salary offer	30
Other initiatives (refer Section 1.3)	33
Reversal of savings	
• School Student Transport Scheme	74
• Department of Agriculture	8
Other	(-) 10
Treasurer's Advance - incorporation in above adjustments	(-) 75
TOTAL CURRENT OUTLAYS - 1996-97 ESTIMATE	19,246