
FISCAL POLICY FRAMEWORK

Institutional framework

The current fiscal policy framework in Australia (comprising the Commonwealth government and six States and two Territories) reflects a process of continual evolution dating from the creation of the Australian federation and the commencement of the Australian Constitution in 1901.

Constitutional basis for taxation and expenditure

The *Commonwealth of Australia Constitution Act 1900* contains a number of provisions that form the basis of the Commonwealth's taxation and expenditure powers, including:

- the (Commonwealth) Parliament has the power to make laws for taxation and borrowing money on public credit (section 51);
- all revenue raised or money received by the Executive Government (of the Commonwealth) has to form one Consolidated Revenue Fund to be appropriated for the Commonwealth's purposes (section 81);
- no money can be drawn from the Treasury of the Commonwealth except under appropriation made by law (section 83);
- the Executive has the sole right to present expenditure proposals to Parliament (section 56); and
- other sections of the Constitution outline the relative taxation and expenditure responsibilities of the Commonwealth and the States (see the next section).

Fiscal policy roles and responsibilities

Responsibilities for Commonwealth fiscal policy and budget management are shared between the Treasurer and the Minister for Finance and Administration (MFA). The Administrative Arrangements Order defines the responsibilities of each Minister.

As well as each Minister having general responsibilities for fiscal policy and budget management, the Treasurer is responsible for the taxation system while the MFA monitors government expenditure.

The Commonwealth's legislative powers (including over fiscal matters) are limited to those prescribed in the Constitution. In some cases these powers are exclusive to the Commonwealth. In other cases legislative power may be levied by either the Commonwealth or States and Territories (in cases of conflict, the Constitution provides that the Commonwealth's laws prevail). In some areas the sharing of responsibilities is the subject of intergovernmental agreement (e.g. health and education).

Both the Commonwealth and the States have the Constitutional power to collect income taxes. However, under Commonwealth Government legislation enacted in 1942 only the Commonwealth does so. In addition, the Constitution prohibits the States from imposing customs or excise duties. Partly because of the above, federal fiscal arrangements are characterised by a high degree of vertical fiscal imbalance: the Commonwealth raises considerably more revenue than is required to finance its own-purpose outlays while the States raise insufficient revenue to meet their expenditure responsibilities.

This fiscal imbalance is addressed through payment by the Commonwealth of general purpose and specific purpose financial grants to the States. Formal agreement on the allocation of general purpose payments is reached at an annual meeting of the Heads of the Commonwealth and State Governments, having regard to the recommendations of the Commonwealth Grants Commission (a Commonwealth body that advises the Commonwealth Government on the distribution of general purpose assistance to the States). Specific purpose payments are payments for policy purposes related to particular activities. In most cases, these are subject to conditions reflecting Commonwealth policy objectives or national policy objectives agreed between the Commonwealth and the States.

The current allocation of revenue responsibilities and the system of financial assistance grants has confirmed the Commonwealth's responsibility for national fiscal management.

Fiscal accountability

The legal requirements on Executive Government for proper financial management are set out in the *Auditor-General Act 1997*, the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997* (these three acts replaced the *Audit Act 1901*). This legislation outlines: the appointment, powers and duties of the Auditor-General; the specific financial responsibilities of Secretaries (Chief Executive Officers) of government departments and heads of Commonwealth statutory authorities and Commonwealth-owned companies; the duties of accounting officers; and auditing and inspecting.

The *Charter of Budget Honesty Act 1998* (the Charter) aims to improve the Commonwealth Government's accountability for fiscal policy formulation. The Charter requires that governments release annual fiscal strategy statements (usually with each budget) based on the principles of sound fiscal management. In fiscal strategy statements governments must:

- specify the government's long-term fiscal objectives within which shorter-term fiscal policy will be framed;
- explain the broad strategic priorities on which the budget is or will be based; and
- specify the key fiscal measures against which fiscal policy will be set and assessed.

Fiscal reporting

The Charter also sets out the Commonwealth government's fiscal reporting requirements. The Charter provides for comprehensive economic and fiscal outlook reports at the time of each budget, at mid-year, and prior to elections. Among other things, each economic and fiscal outlook report must contain: fiscal estimates for the budget year and the following three financial years; the economic and other assumptions used in preparing those fiscal estimates; and a statement of risks that may have a material effect on the fiscal outlook. The Charter also requires that a final budget outcome report be released after the end of each financial year.

In 1997, the Commonwealth Government announced its intention to implement a fully integrated accrual accounting financial management framework, including audited consolidated financial statements of the Commonwealth from 1996-97, and a full accrual framework, including an accrual budget from 1999-2000.

In the early 1990s, a *Uniform Presentation Framework* was agreed among the Commonwealth and all States, requiring that each jurisdiction produce a uniform set of fiscal reporting tables. In addition, the Commonwealth and States have agreed to *Uniform Public Sector Accounting Standards* that will, from reporting periods ending on or after 30 June 1999, require all jurisdictions to compile a standard set of financial statements using recognised accounting standards.

Transparency

The current fiscal framework, including the Charter, aims to improve fiscal outcomes by enhancing the transparency of, and accountability for, fiscal policy.

Disclosure standard: International Monetary Fund Code of Good Practices on Fiscal Transparency

The International Monetary Fund (IMF) Code covers four broad areas of the fiscal framework and policy: clarity of roles and responsibilities; public availability of information; open budget preparation, execution and reporting; and independent assurances of integrity.

In April 1998, the Board of Governors of the IMF adopted the *Code of Good Practices on Fiscal Transparency — Declaration on Principles*. It did so in response to a clear consensus that good governance is of central importance to achieving macroeconomic stability and high-quality growth, and that fiscal transparency is a key aspect of good governance.

In October 1998, the G22 Working Group on Transparency and Accountability, in identifying steps to strengthen the international financial system, recommended that ‘fiscal authorities observe the IMF Code’.

Australia's fiscal framework is consistent with the principal features of the IMF Code. However, there are a number of minor inconsistencies.

A detailed assessment of Australia's conformity with the IMF Code is provided at Attachment A.