

CHARTER OF BUDGET HONESTY
COSTING ELECTION COMMITMENTS

GUIDELINES ISSUED JOINTLY BY THE SECRETARIES
TO THE DEPARTMENTS OF THE TREASURY
AND OF FINANCE AND DEREGULATION

2010

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INTRODUCTION

The *Charter of Budget Honesty Act 1998* (the Charter) outlines arrangements under which the Secretaries to the Treasury and of the Department of Finance and Deregulation (the Secretaries) may be requested to cost Government and Opposition election commitments during the Caretaker Period prior to a general election.

The Charter also provides that the responsible Secretaries may, jointly, issue written guidelines recommending approaches or methods to be used in the preparation of policy costings.

This document provides such guidelines. It aims to inform those requesting policy costings of the general methodology that is to be applied, what information will need to be supplied when requesting a policy costing, and what will be produced.

The guidelines are not intended to give detailed indications about how individual policies are costed. Rather, they outline the principles and processes to be followed by the Department of the Treasury (Treasury) and the Department of Finance and Deregulation (Finance), with the aim of achieving consistent and transparent policy costings. This document has four parts:

- **Part 1** outlines the main statutory provisions for costing election commitments in the Charter;
- **Part 2** outlines the aims of the Secretaries in undertaking policy costings and the broad methods to be followed;
- **Part 3** specifies how requests for costings should be made, including the information required for a costing to proceed and the processes for dealing with requests; and
- **Part 4** deals with issues relating to the content and timing of public reports on policy costings released by the Secretaries.

Appendices A to C provide further details on standard costing conventions and details the information required for costing requests.



Ken Henry
Secretary to the Treasury



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Finance and Deregulation

PART 1: STATUTORY PROVISIONS — SUMMARY

Part 8 of the Charter sets out the arrangements for the costing of election commitments.

The provisions apply only during the Caretaker Period following the issuing of a writ for a general election. They relate to the costing of publicly announced policies of the Government and the Opposition. The obligations of the Charter are independent of, but have precedence over, the Caretaker conventions. The Charter makes no provision for costing publicly announced election commitments made by minority parties and independent Senators or Members.

REQUESTS FOR COSTING OF ELECTION COMMITMENTS

The Charter, under Clause 29, details how requests for the costing of election commitments are to be made. It provides that, during the Caretaker Period prior to a general election, the Secretaries may be asked by the Prime Minister, or the Leader of the Opposition through the Prime Minister, to cost their publicly announced policies.

A request is to:

- be in writing;
- fully outline the policy to be costed, giving relevant details; and
- state the purpose or intent of the policy.

A request from the Leader of the Opposition is to be provided to the Prime Minister, who may then refer it to the responsible Secretaries. Secretaries are not obliged or authorised to take action in relation to any request, unless the Prime Minister has referred the request to them. The Prime Minister or the Leader of the Opposition may withdraw a request at any time. A withdrawal by the Prime Minister must be in writing to the Secretaries. A withdrawal by the Leader of the Opposition (in writing) is to be given to the Prime Minister, who will then notify the Secretaries of the withdrawal.

HOW POLICY COSTINGS ARE PREPARED

The Charter, under Clause 30, details how the policy costings are to be prepared. It provides for the Secretaries to issue written guidelines (this booklet) recommending approaches or methods to be used in preparing costings (see **Part 2** and **Appendix A**). It also divides responsibility for costings between the Secretaries: the Secretary to the Treasury is responsible for costing policies affecting revenue; while the Secretary of the

Department of Finance and Deregulation is responsible for costing policies that affect government outlays and expenses. If necessary, in order to fully cost a policy, the relevant Secretary may request in writing more information from either the Prime Minister or the Leader of the Opposition.

PUBLIC RELEASE OF COSTINGS

The Charter, under Clause 31, outlines the requirements for the public release of policy costings. The Charter requires the relevant Secretary to publicly release a costing as soon as practicable after the request is received and before polling day. If the costing cannot be undertaken before polling day, either due to insufficient information or time constraints, the relevant Secretary is to publicly release a statement to that effect. Secretaries are not obliged or authorised to take any further action in relation to a policy costing request on or after polling day.

COMMONWEALTH BODIES ASSISTANCE IN PREPARATION OF COSTINGS

Clause 32 provides for Australian Government bodies to provide information to help prepare costings at the request of either Secretary.

PART 2: COSTING PROTOCOLS AND METHODS

SECRETARIES' OBLIGATIONS IN COSTING POLICIES — CLARITY AND TIMELINESS

The Secretaries will aim to be clear, transparent and timely in costing policies. In undertaking policy costings, the Secretaries will:

- endeavour to provide their best estimate of the full cost of a policy (including departmental expenses where requested and feasible);
- endeavour to complete the costing in the shortest time possible, generally within five business days (noting that where additional information is required, the five days will exclude the time taken to obtain the additional information);
- cost policies in a manner consistent with methodologies used to prepare the Budget statements and fiscal reports required under the Charter;
- cost both Government and Opposition policies in a consistent manner;
- only provide financial costings, and not provide policy advice or assessments of the economic impact of policies; and
- produce a self-contained written report on the costing that fully justifies the published costings.

COSTING VARIABLES

Policy costings will focus on the effect of a policy on the Australian Government's key Budget aggregates (both cash and accruals) and include both the estimated cost and savings associated with a proposal, encompassing both revenue and expenses. They will be produced in a manner consistent with normal Budget costing methodologies. A list of costing conventions is at **Appendix A**.

Costing estimates will be provided for the forward estimates period (that is the current financial year plus the following three years). Where a revenue/expense cost is likely to be significantly different beyond the forward estimates period – for example, because the measure is not scheduled to commence or reach 'maturity' until after the forward estimates period – it may be necessary to include a statement about the financial impact of the policy in the relevant years beyond the forward estimates. Where a measure is specified to run for a finite period that extends beyond the forward estimates years (for example, a 10-year period) the Secretaries will endeavour to

provide their best estimate of the cost of the policy in the relevant years beyond the forward estimates.

Policies will be costed in accrual and cash terms, with both the impact on the fiscal balance and the underlying cash balance reported as well as the impact on the headline cash balance as appropriate. It is expected that most costings will involve revenue elements only or expenses elements only. However, where relevant the revenue and expenses components of a policy will be identified separately.

As with existing arrangements individual costings may take account of direct behavioural responses, but will generally not incorporate second round effects. The costing will focus on first round effects and the direct budgetary consequences of policies. Similarly, costings will generally not account for the impact on Public Debt Interest (PDI) payments, unless it is an explicit policy objective to affect the level of interest payments, or the policy involves transactions of financial assets (such as loan schemes). PDI costings will normally assume no change to the debt management strategy.

In the case of costing a policy package, both the cost of individual components and the overall cost of the package will be undertaken, and where feasible to do so, the effect of one component of a package on another will be taken into account and reported.

Where there is a difference between a costing request and the publicly released policy an effort will be made to clarify the difference. If that is not possible the costing will be based on information provided in the costing request.

COSTING ASSUMPTIONS

Consistency and transparency of costing assumptions

Assumptions used in costings (for example, the numbers of people making use of a particular rebate or estimates of taxable incomes) will be the most appropriate available, based on the best professional judgment of the Secretaries. As noted in **Part 4**, the nature of assumptions used will be made clear by the Secretaries when publicly releasing costings and any caveats associated with the assumptions will be outlined. To maintain consistency, assumptions used in one policy costing will generally be used again for costing similar policies.

The Charter allows the Secretaries to request an Australian Government body (for example, other government departments or agencies) to provide information to assist in the costing. An Australian Government body is required by the Charter to comply with such a request in time to allow the information to be taken into account in the preparation of the policy costing, unless it is not practicable for the body to do so, or where providing the information would contravene another law of the Commonwealth. The Secretaries will ensure consultations take place with other

relevant departments or agencies, at senior management level, as a matter of course in producing a costing, so as to help ensure the assumptions chosen are the best possible. However, the final responsibility for the assumptions used will remain with the Secretaries.

Any economic data or forecasts used in costings will be consistent with the most recent publicly released estimates. The Charter requires the public release of a pre election economic and fiscal outlook report within ten days of the issue of the writ for a general election. This will be the basis of the economic parameters to be used in costing election commitments.

Assumptions regarding behavioural responses of the people affected by policies will be taken into account where it is normal practice to do so. In some instances, behavioural effects will be a significant element of the costing. Where there are significant behavioural effects, the assumptions used in the costing will be clearly identified in the publicly released costing report. In some cases, behavioural responses will be uncertain, ambiguous, difficult to quantify or of small magnitude. In these situations behavioural effects will not be included and this will also be made clear in the costing report. The inclusion of behavioural effects in costings will reflect the best professional judgment of the Secretaries and will be decided on a case-by-case basis. Where appropriate, sensitivity analysis will be undertaken to demonstrate the impact of different assumptions regarding behavioural responses.

Moreover, while costings will generally be the Secretaries' best assessment of the cost of a policy, in cases where assumptions are particularly uncertain, Secretaries may choose to publish costings as a range of possible outcomes.

Variations in assumptions from those specified by parties

Where a Treasury/Finance or a joint costing uses different assumptions to those specified in a party costing request, the costing advice will explain the reason for using different assumptions.

PART 3: REQUESTS FOR COSTINGS AND PROCESSING

REQUESTS FOR COSTINGS — PROCEDURES AND STANDARDS

Further to **Part 1**, requests for costings can be made during the Caretaker Period prior to a general election. They must be made by either the Prime Minister or the Leader of the Opposition through the Prime Minister. The Secretaries are not obliged to take any action on requests unless these are received through the Prime Minister.

The provision of full information to the Secretaries at the outset will help to minimise unnecessary delays. Requests for costings are to: be in writing; fully outline the policy to be costed, giving relevant details, including any underlying assumptions; and state the purpose or intention of the policy. **Appendix B** contains a pro-forma indicating the information normally required for a costing to be prepared.

A request should fully outline the design features of the policy. It will assist in the preparation of costings if detailed information is provided on the assumptions that parties may have used in making their own assessments regarding the cost of policies. However, it should be noted that all assumptions used in the costing will be those of the Secretaries. Where there is an inconsistency between the stated intention of the policy and its design features, the policy will be costed on the basis of its design features.

Departmental expenses will be included in costings where analysis of the policy shows that these are material. In undertaking the costing of departmental expenses existing programs/policies of a similar nature will be used as a guide.

DEPARTMENT OF THE TREASURY/DEPARTMENT OF FINANCE AND DEREGULATION RESPONSIBILITIES

Under the Charter, the Secretary to the Treasury is responsible for costing aspects of policies affecting revenue, while the Secretary of the Department of Finance and Deregulation is responsible for costing aspects of policies that affect government outlays and expenses.

Since the Charter was framed, Budget responsibility for costing non-taxation revenue policy proposals has been passed to Finance. Accordingly, the Secretary to the Treasury will refer non-taxation revenue costings to the Secretary of Finance and Deregulation for costing under these guidelines.

A policy may have implications for both revenue and expenses. In these cases the Secretaries will jointly cost the policy. Costing requests received will be divided between the Secretaries on a case-by-case basis. In some cases, it may not be clear if a

policy will affect only revenue or expenses. Therefore, to facilitate timely and accurate costings, costing requests should be forwarded to both Secretaries simultaneously. In all cases, the Secretaries will ensure close consultation between their departments in administering the costing process in order to minimise delays.

Upon receiving a request from the Prime Minister (or the Leader of the Opposition through the Prime Minister), the relevant Secretary (or Secretaries jointly) will issue a press release to inform the public they have been asked to cost a policy. The press release will broadly outline the policy to be costed.

TIMELINES FOR SUBMITTING COSTING REQUESTS

Costing requests should desirably be submitted to the relevant Secretaries during business hours, preferably by 5.30 pm on a weekday. Business hours for the purpose of these guidelines are the weekday hours from 8.30 am to 5.30 pm. Requests received by Secretaries outside of these hours will be taken as having been received the next business day, unless otherwise specifically agreed in advance with the relevant Secretaries. These timing conventions will apply to both the public release of information regarding the request, as well as commencement of work on the costing.

Election costing requests should be received by the responsible Secretaries no later than 5.30 pm on the sixth business day prior to polling day for the election (that is Thursday in the penultimate week before the election), to enable the public release of the policy costings by 5.30 pm on the Thursday before polling day for the election. This will allow time for costings to be publicly scrutinised before polling day. Should requests be received later than the specified time, the Secretaries will endeavour to cost the policy and release the costing. However it may not be possible to complete the costing in time for release on the Thursday before polling day for the election. The Secretaries will send a letter and issue a press release early in the campaign reminding both parties of the submission deadline.

TIMELINES FOR PROVISION OF COSTINGS

As noted in **Part 2**, the Secretaries will endeavour to complete and release a costing within five business days of receiving a request. However, this may not be possible in the case of complex costing requests where data is difficult to obtain, or where more detailed information needs to be provided by the party. In such cases, a public statement to that effect will be made by the relevant Secretary at the outset, or when it becomes clear that the costing cannot be completed within the time frame. Where additional information is required, the five days will exclude the time taken to obtain the additional information.

FURTHER INFORMATION REQUIRED FOR COMPLETION OF COSTINGS

If the Secretaries consider that further information is required, they may request information from the Prime Minister, or from the Leader of the Opposition, as appropriate, in writing. Secretaries will endeavour to ask for such additional information within two business days of receiving the costing request. Further discussion between Finance and/or Treasury officials and advisers in the offices of the Prime Minister or the Leader of the Opposition may be necessary as part of that process. Additional information provided in such discussions should be followed up in writing and forwarded to the Secretaries.

Officials may seek clarification of points relating to the costing request from the requesting party. Such requests may be by email or telephone. The officer seeking additional information will make a note of the information sought and responses received, and seek confirmation from the costing party of the accuracy of the note. Such request for clarification will be noted in the final costings advice where the information materially affects the costing outcome.

WITHDRAWAL OF REQUEST FOR COSTING

As noted in **Part 1**, withdrawal of a request for a costing may be made at any time. A withdrawal by the Prime Minister must be in writing to the Secretaries and a withdrawal by the Leader of the Opposition is to be in writing to the Prime Minister, permitting the Prime Minister to notify the Secretaries of the withdrawal in writing.

SECURITY ARRANGEMENTS

Security arrangements will be similar to those applied at Budget time and the confidentiality of the costings will be protected until they are publicly released.

PART 4: REPORTING — PUBLIC RELEASE OF POLICY COSTINGS

As noted in **Part 1**, the Charter requires that costings be publicly released as soon as practicable after a costing request has been made and before polling day.

REASONS FOR NON-RELEASE OF POLICY COSTINGS

Where a policy costing is not possible, the Secretaries will issue a press release, no later than the close of business on the last business day before polling day, stating reasons why the policy cannot be costed.

The non-release of a policy costing may be due to:

- time constraints that prevent the policy being costed before polling day;
- the withdrawal of the request for a costing by the Prime Minister or the Leader of the Opposition;
- insufficient information about the policy to allow the Secretaries to cost it properly;
or
- insufficient data available to cost the policy reliably.

Secretaries are not obliged or authorised to take any further action in relation to a policy costing received on or after polling day.

PUBLISHED POLICY COSTING REPORT — CONTENTS AND PROTOCOLS

When a policy costing is published, the published report will include the request submitted under Clause 29(2) of the Charter; any request for further information made by the Secretaries; and any further information forwarded to the Secretaries or obtained in discussions with parties.

The report will also include the following:

- an outline of the specific costing methodology and assumptions used (including any economic and behavioural assumptions) in sufficient detail to allow an understanding of how the costing was determined;
- a table setting out the annual Budget cost against the current financial year and the following three financial years (where assumptions are particularly uncertain, the Secretaries may choose to report costings as a range of likely outcomes);

- an explanation detailing any significant differences between the assumptions specified in a party costing request and those used in a Treasury or Finance costing; and
- where the Secretaries consider it appropriate, a sensitivity analysis which shows the extent to which changes in assumptions could produce different costing estimates.

Appendix C outlines the pro-forma that will be used by the Secretaries when releasing a policy costing.

INFORMING PARTIES OF THE PUBLIC RELEASE OF COSTING AND DELIVERY OF COSTING REPORTS

The offices of both the Prime Minister and the Leader of the Opposition will be advised at least four business hours in advance of the expected public release time of all costings, but not of the content of the reports. The requesting party will also be informed of the hand delivery arrangements and public release approximately one hour prior to the release. When a costing is to be released, hard copy costing reports will be provided to the Parliament House offices of both the Prime Minister and the Leader of the Opposition at approximately the same time, with the costing provided to the requesting party first. Shortly after the delivery of the document, costings will be publicly released to the press and on the joint Finance-Treasury election costings website. As noted in **Part 2 (Page 4)**, the Secretaries will aim to produce a written report that provides a full explanation of the costing. However, a further statement may be issued if the Secretaries judge that further clarification of a costing and the methods used is required.

Summary of key protocols, processes and timelines

- Secretaries will aim to ensure that all costings are provided in a timely manner and are clear, consistent and transparent and follow a list of costing conventions outlined in Appendix A;
- All requests for costings must be made through the Prime Minister;
- Requests for costings must be in writing and fully outline the policy to be costed, giving relevant details and underlying assumptions (use format provided at Appendix B);
- Costings for policies affecting taxation revenue will be conducted by the Treasury Secretary; and costings regarding government outlays, expenses and non-taxation revenue will be costed by the Finance and Deregulation Secretary; or policies may be costed jointly;
- All costing requests must be forwarded to both Secretaries simultaneously;
- Upon receipt of a costing request, the relevant Secretaries will issue a press release which broadly outlines the policy to be costed;
- Costing requests should be submitted to relevant Secretaries during business hours (8.30 am to 5.30 pm on a weekday) or will be recorded as having been received the next business day;
- Costing requests should be submitted on the sixth business day prior to polling day for the election (to allow five working days for the costing to be completed and allow public release on the Thursday before polling day). This will allow time for published costings to be publicly scrutinised before polling day. Should requests be received later than the specified time, the Secretaries will endeavour to cost the policy and release the costing. However it may not be possible to complete the costing in time for release on the Thursday before polling day for the election;
- Secretaries will send letters to parties reminding them of the submission deadlines;
- Secretaries will endeavour to complete costings in the shortest time possible, generally within five business days of receiving a costing request;
- Should Secretaries require more details for the costing, they may seek further information in writing and/or officials may hold discussions with the relevant parties (any time taken to obtain further information will not count towards the five business days). All follow-up information must be provided in writing to the Secretaries;

Summary of key protocols, processes and timelines (continued)

- Withdrawal of a request for a costing can be made at any time, in writing, through the Prime Minister;
- Security arrangements will be similar to those applied at Budget time;
- Where Secretaries are not able to complete a costing due to time constraints, lack of information or other reasons, they will issue a press release outlining reasons for non-completion; and
- Secretaries will publish completed costings, detailing methodology and other relevant factors. The offices of the Prime Minister and the Leader of the Opposition will both be advised in advance (by at least four business hours) of the expected public release time of a costing, but not of the content of the report.

APPENDIX A: COSTING CONVENTIONS

The following are standard conventions for the preparation of fiscal costings:

- Costings will focus on the effect of a policy on the Australian Government's key Budget aggregates (both cash and accruals). They will be produced in a manner consistent with normal Budget costing methodologies.
- Economic data and forecasts used in the preparation of costings will be consistent with the pre-election economic and fiscal outlook report.
- Costings will be on a current price basis.
- Costs will be on a June financial year basis and costings will be provided for the current financial year and the following three financial years.
- Full year, part year and one off effects (the steady state full year cost will be made clear) will be distinguished.
- Costings will generally be best point estimates. However, in some cases the Secretaries may consider it appropriate to report ranges rather than point estimates.
- Costings will be prepared in accrual and cash terms. For each policy, the impact on the fiscal balance and underlying cash balance (and headline cash basis as appropriate) will be reported.
- Where relevant, the revenue and expense components of a policy costing will be identified separately (it is expected that most costings will typically involve revenue elements or expense elements only).
- In undertaking costings, departmental expenses will be included where analysis of the policy shows that these are material. Existing programs/policies of a similar nature will be used as a guide. Costings will not generally account for the impact on Public Debt Interest (PDI) payments, except in those circumstances outlined in Part 2 of these guidelines.
- Assumptions used in costings will be based on the best professional judgment of the Secretaries.

APPENDIX B: REQUEST FOR COSTING AN ELECTION COMMITMENT — PRO-FORMA

Name of policy	
Person requesting costing (Prime Minister/Leader of the Opposition):	
Date of public release of policy:	
Date of request to cost the policy:	
Summary of policy (please attach copies of relevant policy documents):	
Intention of policy:	
Description of policy	
What are the key assumptions that have been made in the policy including:	
Please note that where the request to cost a proposal differs from the announced policy, the costing will be on the basis of information provided in the costing request.	
Is the policy part of a package? • If yes, list and outline components and interactions with proposed or existing policies.	
Where relevant, is funding for the policy to be demand driven or a capped amount?	
Will third parties, for instance the States/Territories, have a role in funding or delivering the policy? • If yes, is the Australian Government contribution capped, with additional costs to be met by third parties, or is another funding formula envisaged?	
Are there associated savings, offsets or expenses? • If yes, please provide details.	

Description of policy (continued)	
What are the key assumptions that have been made in the policy including:	
<p>Does the policy relate to a previous budget measure?</p> <ul style="list-style-type: none"> • If yes, which measure? 	
<p>If the proposal would change an existing measure, are savings expected from the departmental costs of implementing the program. Will funding/cost require indexation?</p> <ul style="list-style-type: none"> • If yes, list factors used. 	
<p>What are the estimated costs each year? Are these provided on a cash or fiscal basis?</p>	
<p>What assumptions have been made in deriving the expected financial impact in the party costing (please provide information on the data sources used to develop the policy)?</p>	
<p>Has the policy been costed by a third party?</p> <ul style="list-style-type: none"> • If yes, can you provide a copy of this costing and its assumptions? 	
<p>What is the expected community impact of the policy?</p> <ul style="list-style-type: none"> • How many people will be affected by the policy? • What is the likely take up? • What is the basis for these impact assessments/assumptions? 	
<p>NOTE: it will be up to the professional judgment of the relevant Secretary as to whether these assumptions are adopted in a Treasury or Finance costing of the policy.</p>	

Administration of policy	
How will the policy be administered: who will administer the policy (for example, Australian Government Agency, States, non-government agency)?	
<p>Should Departmental expenses associated with this policy be included in this costing?</p> <ul style="list-style-type: none"> • If no, will the Department be expected to absorb expenses associated with this policy? • If yes, please specify the key assumptions, including whether Departmental costs are expected with respect to program management (by policy agencies) and additional transactions/processing (by service delivery agencies). 	
Intended date of implementation.	
Intended duration of policy.	
Are there transitional arrangements associated with policy implementation?	
List major data sources utilised to develop policy (for example, ABS cat. no. 3201.0).	
Are there any other assumptions that need to be considered?	

APPENDIX C: PUBLIC RELEASE OF COSTING — PRO-FORMA

Summary of costing:	
Person making the request:	
Date of request:	
Name of policy to be costed:	
Date of public release of policy:	
Costing request provided by the Prime Minister/Leader of the Opposition:	
Additional information requested (including date):	
Additional information received (including date):	

Financial implications (outturn prices)^(a)

Impact on	Current financial year	Current financial year + 1	Current financial year + 2	Current financial year + 3
Underlying cash balance (\$m)				
Fiscal balance (\$m)				

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in revenue or a decrease in expenses or net capital investment in cash terms.

Where relevant, state that the proposal has been costed as a defined or specified amount.
Where relevant, include separate identification of revenue and expense components.
Where appropriate, include a range for the costing or sensitivity analysis.
Qualifications to the costing (including reasons for the costing not being comprehensive).
Where relevant, explain effects of departmental expenses.
Where relevant, explain the reason for any significant differences between the assumptions specified in a party costing request and those used in a Treasury or Finance costing.
Other comments (<i>including reasons for significant differences between the estimated impact on the fiscal and underlying cash balances</i>).

Background information
<p>Costing methodology used:</p> <ul style="list-style-type: none"> • Costing techniques. • Policy parameters. • Statistical data used. • Behavioural assumptions used (as appropriate).

