

**Senate Economics Legislation Committee**  
**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates

2017 - 2018

**Division/Agency:** Budget Policy Division  
**Question No:** 173  
**Topic:** Recurrent and Capital Budget  
**Reference:** Written  
**Senator:** Whish-Wilson, Peter

**Question:**

Budget Paper No. 4 – Statement 4 prioritises, in effect, the allocation of borrowing to capital spending when assessing the impact of capital and recurrent spending on debt, stating: *"...where borrowing is greater than capital spending, the government can be said to be financing recurrent spending from debt."*

Yet in assessing the impact of portfolio spending on debt:

Table 4 notionally allocates the annual change in borrowing requirements according to portfolios' share of total expenses in each year, over the period from 2008-09 to 2017-18.

1. Is it the intention when allocating debt to recurrent or capital spending to assume that capital spending is the first use of debt?
2. Why wasn't the impact of portfolio spending on debt attributed on the basis of capital spending—to the extent that capital spending accounts for the annual change in borrowing requirements—rather than total expenses?
3. Does the current method of determining the impact of portfolio spending on debt attribute a higher proportion of debt to those portfolios with a high recurrent expenditure, rather than those portfolios with high capital expenditure?

**Answer:**

1. As noted on page 4-12 of Budget Statement No. 4, except in limited circumstances, government revenue is not tied to specific recurrent or capital expenditure. All of the money flowing to the government - from taxes or borrowing - funds the full suite of government spending, capital and recurrent. Nonetheless, the analysis of capital and recurrent spending in Budget Statement No. 4 proceeds on the basis that where borrowing is greater than capital spending, the government can be said to be financing recurrent spending from debt.
- 2.-3. Capital expenditures were not taken into account when allocating debt by portfolios given data constraints.