

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

2015 - 2016

Department/Agency: Treasury

Question: SBT 32

Topic: GDP

Reference: Hansard page no. 91 - 21 October 2015

Senator: Canavan, Matthew

Question:

Senator CANAVAN: I just wanted to return to some questioning from Senator Ketter earlier around growth and expenditure. There was a discussion around the expenditure as a proportion of GDP. I would like to focus on just expenditure in the broad sense—payments or expenses. First of all, are you able to tell us what is the real growth in expenses over the forward estimates?

Mr Flavel: Do you mean the average?

Senator CANAVAN: Yes, the average over the forward estimates.

Mr Flavel: I should know it, but I can do the calculation.

Senator CANAVAN: Whatever you have got that is easily accessible.

Mr Flavel: Real growth in payments in 2015-16, 1.1 per cent; 2016-17, one per cent; 2017-18, 1.9 per cent; and 2018-19, 3.2 per cent.

Senator CANAVAN: So we are talking maybe around two per cent?

Mr Flavel: The number in my mind is around two per cent, but I stand to be corrected on it.

Senator CANAVAN: That seems a relatively moderate growth in spending. I am not asking you for an opinion there; I am more asking in comparison to historical growth in Commonwealth government spending.

Mr Flavel: That is a relative judgement, but I would just observe that if one looks at the history of real growth in payments, which is available in the budget documents, there have been periods where there has been higher and lower growth, including in the most recent past. For instance, we are talking about an average of two over the forward estimates, but real growth in payments in 2013-14 was 7.8 per cent. In 2008-09, at the time of the GFC and the stimulus package, it was 12.7. So, depending on the fluctuation, averages may well have been higher over previous—

Senator CANAVAN: I think I can recall the former government putting in place a cap on growth in expenditure at about two per cent real. Something around that level would be consolidating a budget, generally speaking, if you are able to keep growth below two per cent in real terms. Is that fair, given population growth and—

Mr Flavel: I think, in fairness, the previous government's commitment was actually linked to the return to normal conditions, so it was not just at two per cent; it was two per cent with a caveat attached to it as well.

Senator CANAVAN: But it is fair to say that, over the period of the former government, expenditure growth was higher than two per cent. I think it was around 3½ or so. Is that—

Mr Flavel: I am always a bit wary about that—firstly because I do not have the calculation, and the other thing is it is actually inherently difficult to assign particular financial years to a particular government. I have just quoted you the figures from history which show that in the most recent past there have been particular financial years where, in fact, real growth has been seven, eight, 12 per cent.

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Senator CANAVAN: The figures I have in front of me are that, under the former government, in real terms growth was around 3.6 per cent and going forward it would have been around 3.7 per cent a year, in real terms, whereas the figures you have mentioned are that over the forward estimates expenditure growth is sitting well below two at the moment, but in the last year of the forward estimates it is going back up to what I suppose would be more a long-term average of around three.

Regarding comparisons of how things have turned out relative to expectations—and I do not expect you to have these figures—I have gone back and looked at them for expenses. In the 2013 MYEFO expenses in 2013-14 were expected to be \$412 billion; they actually ended up at \$413.8 billion. In 2014-15 in MYEFO they were meant to be \$417.8 billion; they have ended up at \$420.3 billion. In 2015-16 it is \$436 billion; in the budget they are actually coming out lower at \$435.5 billion. In 2016-17 in MYEFO the projection was for \$457.1 billion, and in the last budget they estimated it well below that at \$452.7 billion. They are the only years that are comparable between the first MYEFO of this government and the current budget. Does that accord with your general understanding—that expenditure growth is coming below expectations relative to MYEFO, at least in the last two years, and very close to expectations in those first two comparative years?

Mr Flavel: I think it is best if I take the analysis for that on notice. You mentioned the 2016-17 MYEFO—that has not, by definition—

Answer:

The result for total expenses of the Final Budget Outcome (FBO) for 2013-14 was \$1.7 billion higher than estimated at the time of the 2013-14 MYEFO. The result for total expenses for the 2014-15 FBO was \$0.1 billion higher than estimated at the time of the 2013-14 MYEFO.

The expected position for total expenses in 2015-16 and 2016-17 has been reduced from 2013-14 MYEFO to 2015-16 Budget by \$1.5 billion and \$4.4 billion respectively.

Expenses \$b	2013-14	2014-15	2015-16	2016-17
2013-14 MYEFO	412.1	417.8	436.0	457.1
2014-15 Budget	415.3	414.8	431.1	453.8
2013-14 FBO	413.8	na	na	na
2014-15 MYEFO	na	422.9	436.5	456.1
2015-16 Budget	na	420.3	434.5	452.7
2014-15 FBO	na	417.9	na	na
Last Published relevant update*	413.8	417.9	434.5	452.7
Nominal growth between 2013-14 MYEFO and last published (%)	0.41%	0.02%	-0.35%	-0.97%
Variance between 2013-14 MYEFO and last published (\$b)	1.7	0.1	-1.5	-4.4

*Note: *Last Published relevant update* is 2013-14 FBO for 2013-14, 2014-15 FBO for 2014-15, 2015-16 Budget for 2015-16 and 2015-16 Budget for 2016-17.