

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

23 – 24 February 2011

Question: AET 178

Topic: 2010 – 11 Budget

Habsard Page: E 113 – E 114

Senator Bushby asked:

Senator BUSHBY—I have actually got the relevant sections here but I will ask some more questions and then I will come back to you if I can find the point. Certainly the evidence was that there were regular reviews now as opposed to what was entirely ad hoc up until that point. Does Treasury participate in those reviews?

Mr Ray—We did in 2009-10, yes.

Senator BUSHBY—Are you able to tell me the dates of when that review started?

Mr Ray—Not off the top of my head, but I am happy to take it on notice. As the minister said, the review has been tabled which probably had the date of the review on it.

Senator BUSHBY—Would it have had the date when—

Mr Ray—It may have had some information in it so I will take it on notice.

Senator BUSHBY—I am interested in the date that Treasury was first advised that the review was about to commence and notified you that you could participate in that review.

Senator Wong—I thought the evidence—and again I think it was in my portfolio estimates not these—was that government, both when you were in government and obviously in the last term, is advised by departments of the appropriateness of reconsidering the CBA. I am talking from my memory here, so I might be wrong. If I am wrong, we will correct it. Departments went away and did the review and the results of the review were then advised to the government.

Senator BUSHBY—I have the quote here from Tuesday, 19 October:

Mr Tune—Not so much in the way it operates, because we think that the way it operates is probably appropriate, the process itself, the mechanism. But we do do an annual review of the appropriateness of the percentages that apply under the conservative bias allowance.

Senator FAULKNER—How long has that annual review—

Mr Tune—The last couple of years, and we have done ad hoc reviews in the past as well, I should add.

So I think my recollection was correct.

Senator Wong—I am not sure what he was referring to in the first part of that answer, whether that is looking at it in terms of putting the budget together or the actual review process which produced the report such as the one I tabled. I thought the evidence was that, prior to that one, it had been a number of years since there had been one done. There are small ‘r’ reviews and capital ‘R’ reviews I suspect, but that is fine.

Senator BUSHBY—I guess what I am talking about is the annual review of the adjustment rates that apply under the conservative bias allowance. Senator Faulkner goes on:

Senator FAULKNER—You might let the committee know when the ad hoc reviews took place and when they became annual. They became annual relatively recently, I understand.

Mr Tune—In the 2009-10 budget onwards.

... ..

Mr Tune—There have been two annual reviews. We have had two, we had the 2009-10 budget and then we did one in the lead up to the 2010-11 budget.

Quite a bit of a discussion that took place at the hearing establishing that they have become annual. I am interested in knowing when that is done and particularly for the last one, the most recent one, when that process commenced and when Treasury first received advice that that was occurring and when, to your knowledge—and I know you have to take this on notice—the process wound up and Treasury’s involvement

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ceased?

Mr Ray—This is not the 2009-10 budget, this is the 2010-11 budget?

Senator BUSHBY—The 2010-11 budget, yes.

Mr Ray—I think this might be one of those sorts of definitional things about what a review is. We, and our colleagues in Finance, tend to look at all the estimates each year. I think what Mr Tune was referring to is that we take a closer look each year at the conservative bias allowance ratios. I am happy to take it on notice but it is something that we do each year ahead of the budget, and our people work in consultation with Finance.

Senator BUSHBY—Because there has been an adjustment since the election in the conservative bias allowance?

Mr Ray—That is the standard.

Senator Wong—That is standard.

Mr Ray—That is the standard thing that has been done at MYEFO on a number of years.

Senator BUSHBY—That presumably was done on the basis of a consideration of what those rates should be?

Mr Ray—It was done on the consideration that it would be appropriate to do the standard drawdown.

Senator BUSHBY—You looked at it to decide whether it was appropriate to do the standard drawdown and a decision was made to change that and revise it downward, is that right?

Mr Ray—A decision was taken that the standard drawdown should be made at MYEFO, that is correct.

Senator BUSHBY—But the rates that were applied through MYEFO were revised downward compared to what were in the May 2010 budget?

Mr Ray—That is correct, and that happens every year. In recent times, that is what happened.

Senator BUSHBY—As you get closer?

Mr Ray—As you get closer.

Senator BUSHBY—And you have a better understanding of what is going on?

Mr Ray—We got closer and therefore our estimates are—

Senator BUSHBY—Okay that is fine. If the coalition had won the election which was held in August of 2007 would that same downward revision still have occurred?

Mr Ray—It would have been a decision for the Minister for Finance and Deregulation and for the Treasurer of the day.

Senator BUSHBY—If they decided to revise those downwards in accordance with that or in any other way, that would have been a legitimate decision of the minister for finance and the Treasurer?

Mr Ray—Yes, we have been through this before, but it would not have been a saving.

Senator Wong—That is the issue.

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Answer:

The Conservative Bias Allowance (CBA) is an allowance set aside in the Contingency Reserve. This allowance – built into the forward estimates period – takes into account the tendency of future expense estimates to be revised upwards in subsequent budget years.

Each year, in the lead up to both the Budget and the Mid-Year Economic and Fiscal Outlook (MYEFO), a downwards adjustment (or drawdown) is made to the CBA provision. As illustrated below, the allowance (% of expense) for a given year is drawdown progressively over time until it is completely backed out in the budget year.

Applicable CBA rates

	2009-10	2010-11	2011-12	2012-13	2013-14
	Budget	FE1	FE2	FE3	
2009-10 Budget	0	0.5	1	2	
2009-10 MYEFO	0	0.25	0.75	1.5	
		Budget	FE1	FE2	FE3
2010-11 Budget	0	0	0.5	1	2
2010-11 MYEFO		0	0.25	0.75	1.5

The Department of Finance and Deregulation (Finance) and the Treasury review the forward estimates – including the CBA – in preparation of the Budget each year.

A review of the applicable CBA rates was undertaken in the lead up to the 2009-10 Budget. It was determined that a reduction be made to the rates by 0.5 percentage points across the forward years from 2.5 per cent in FE3, 1.5 per cent in FE2 and 1.0 per cent in FE1, to 2.0 per cent in FE3, 1.0 per cent in FE2, and 0.5 per cent in FE1. The Government disclosed these adjustments in the 2009-10 Budget Paper 1. No changes have been made to the rates since this review.

Whilst no changes were made to the rates applied to the CBA in the lead up to the 2010-11 Budget, the usual drawdown occurred. Whilst the rates themselves did not change, the expenses these rates applied to had varied. As a result of these changes, adjustments were made to the contingency reserve to account for changes in the total value of the allowance.