

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 2012

15 – 17 February 2012

Question: AET 1282

Topic: Spending has never returned to the pre-GFC levels that were predicted prior to the GFC

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Senator Bushby asked:

I would like to ask why, in general, spending has never returned to the pre-GFC levels that were predicted prior to the GFC and why it is predicted to grow beyond that which was predicted during the depths of the GFC, despite us coming out in a better overall economic shape than was projected at the time. Looking at that, I note that these figures are taken from budget paper No.1. In the 2008-09 budget paper, for 2010-11 it was predicted that our expenses would be \$323 billion-odd. In the 2009-10 budget paper, when the GFC was at its worst, that had gone up to \$334.5 billion as the projected expenses. That was quite clearly because of decisions made about stimulus packages and so on. But then in the 2011-12 budget paper, by which time it was known that we had come out in better shape, the expenses—I assume this is probably an actual—for 2011 was \$349 billion, which was some \$5 billion higher than what was predicted even in the depths of the GFC, despite the fact that we came out in better shape. The same story runs for 2011-12: looking at budget papers from the past, expenses continue to go up despite the fact we came out in better shape. Even with MYEFO in 2011-12 it has continued to go up. The economy actually came through in better shape than was predicted in those depths and yet spending continued to go up beyond that which was predicted at the worst of times. What has happened there?

Mr Ray: I think I can make some general remarks but it may be better to come back with a considered response. You are talking in nominal dollars. If you are talking about that period, the economy is actually a lot bigger than was being projected at that time as well.

Senator Wong: The proportion of GDP maybe a more sensible measure than the nominal figures.

Mr Ray: That is right.

Senator Wong: Because if the economy is bigger, obviously that is going to have—

Senator Bushby: I would appreciate a response if you are going to take it on notice, that is sophisticated enough to explain where the difference is. Not just a, 'Well, let us just have a look at a simple proportion.' I like to know where the additional expenses are that occurred, particularly if they were prodded by the fact that the economy was stronger. Usually when the economy is strong, your expenses fall in terms of unemployment and welfare payments and so forth. They are offsetting.

Mr Ray: I was going to make a number of points. One is that, I think, if we went back in history, the tendency for spending to be higher when we get there than when it is in the last year of the forward estimates is not an usual phenomenon. It is for that exact reason that we have included conservative bias allowance. We review that each budget.

Senator Wong: We can have a long discussion about that, Senator.

Mr Ray: The second thing is that the detailed breakdown of why expenses might be higher in a particular year as a result—over a three or four years—is set out in the budget papers. One of the

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things that has affected spending in the recent past has been spending associated with the natural disaster season that Australia suffered last year. We would need to go back and unpick through the budget papers.

Senator Bushby: Yes, to the extent that it is reasonable to do so, I would like you to do that.

Answer:

Historically there is a tendency for agencies' estimates of expenses to be underestimated and revised upwards over time. As a result, the Conservative Bias Allowance is used to improve the accuracy of the forward estimates by anticipating this trend.

There are also other factors that affect the forward estimates. For example, consistent with the long standing practice, the forward estimates do not include extensions to currently-approved Defence operations beyond the current Budget year, leading to an upward revision to the estimates when such funding is agreed.

Further information on variations to the expense estimates can be found in the budget documents outlined below.

- A reconciliation of the expense estimates between the 2008-09 and 2009-10 Budgets can be found on page 6-4 in *Budget Paper No. 1 2009-10*. An explanation of variations in expense estimates between the 2009 Updated Economic and Fiscal Outlook and the 2009-10 Budget can be found on page 3-14 in *Budget Paper No. 1 2009-10*.
- A reconciliation of the expense estimates between the 2009-10 and 2010-11 Budgets can be found on page 6-4 in *Budget Paper No. 1 2010-11*. An explanation of variations in expense estimates between the 2009-10 MYEFO and the 2010-11 Budget can be found on page 3-18 in *Budget Paper No. 1 2010-11*.
- A reconciliation of the expense estimates between the 2010-11 and 2011-12 Budgets can be found on page 6-4 in *Budget Paper No. 1 2011-12*. An explanation of variations in expense estimates between the 2010-11 MYEFO and the 2011-12 Budget can be found on page 3-22 in *Budget Paper No. 1 2011-12*.
- A reconciliation of the expense estimates and an explanation of variations in expense estimates between the 2011-12 Budget and 2011-12 MYEFO can be found on page 49 in *Mid-Year Economic and Fiscal Outlook 2011-12*.