

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Additional Budget Estimates Hearing – February 2009

Department of Finance and Deregulation

Finance and Deregulation Portfolio

Outcome 1, Output 1.1

Topic: Interest Expenditure

Question reference number: F65

Type of Question: Written

Date set by the committee for the return of answer: 9 April 2009

Number of Pages: 1

Senator Coonan asked:

Does Finance cost interest expenditure? When Cabinet considers measures from now on, given that the Budget is in deficit, will each costing include the interest component that will be used to borrow the money? If not, why not? How will Cabinet know the true cost of the policy if this is not included?

Answer:

Aggregate interest costs are included in the underlying cash and fiscal balances. Costings of individual policies generally do not include any interest component but may do so when they involve transactions in financial assets and liabilities. This is a long standing convention to ensure the consistency of published costings over time. It should be noted that the cost of financing a policy is not directly affected by whether the budget is in deficit or surplus. This reflects the fact that the financing costs can be either a direct interest cost or the cost of interest receipts forgone.