

Senate Finance and Public Administration Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Finance and Administration Portfolio

Department of Finance and Administration

November Estimates Hearings 2003-04 – 4 November 2003

Question: 31 C (i)

Outcome: 1, Output: 1.2

Topic: Monthly Financial Statements

Hansard page: N/A

Written Question on Notice: 4 November 2003

Senator Forshaw asked:

Page 2 also states that non-taxation receipts from dividends also had an impact. Can the Department confirm that this dividend was that amount being held off from the 2003-04 Budget announcement, as reported in an article by Morgan Mellish 'Coffers overflowing, tax cut in the air' from the Australian Financial Review 22/9/2003.

What is the value of this dividend, and what is the breakdown of bank sources for this dividend? Eg. What portion was interest earned on the term deposit, etc.

Answer:

The Morgan Mellish article (attached) makes the statement "However, only \$1.3 billion out of the latest \$2.264 billion profit will go into government coffers this financial year. The rest, \$964 million, will be paid the following year." This is correct as confirmed by the Reserve Bank of Australia (RBA) in Note 3 of its Financial Statements in its Annual Report 2003 as reproduced below:

NOTE 3 DISTRIBUTION TO AUSTRALIAN GOVERNMENT*

Section 30 of the *Reserve Bank Act* requires that the net profits of the Reserve Bank of Australia, less amounts set aside for contingencies or placed in the RBRF as determined by the Treasurer, shall be paid to the Australian Government (see Note 1 (i) for details). Of the sum payable to the Australian Government of \$2 264 million out of profits for 2002/03, \$1 300 million will be paid in August 2003 and the balance of \$964 million will be paid in 2004/05.

**Reserve Bank of Australia Annual Report 2003, page 84.*

The value of the dividend received and referred to in the discussion on underlying cash on page 2 of the *July and August 2003 Monthly Financial Statements* was \$1,300 million. This was part of an overall dividend due from the RBA to the Australian Government of \$2,264 million in regard to the 2002-03 year.

The bank sources for this dividend are disclosed in the RBA Statement of Distribution as reproduced below:

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STATEMENT OF DISTRIBUTION For the year ended 30 June 2003
Reserve Bank of Australia and Controlled Entities*

	Note	2002	2003
		\$M	\$M
Net Profit		2 173	1 868
Transfer from Unrealised Profits Reserve	5	222	1 1
Transfer from asset revaluation reserves	5	2	10
Earnings available for distribution		2 397	1 889
<i>Distributed as follows:</i>			
Reserve Bank Reserve Fund	5	133	—
Payable to the Australian Government	3	2 264	1 889
		<u>2 397</u>	<u>1 889</u>

*Reserve Bank of Australia Annual Report 2003, page 78.

In addition, the RBA in its Net Profits note discloses the sources of revenue. This is reproduced below:

	Note	2003	2002
		\$M	\$M
NOTE 2 NET PROFITS*			
<i>Interest revenue</i>			
Overseas investments	1(c)	1 056	1 186
Australian dollar securities	1(d)	1 062	957
Overnight settlements		37	30
Gold loans	1(b)	19	22
Loans, advances and other		1	1
		<u>2 175</u>	<u>2 196</u>
<i>Net gains/(losses) on securities and foreign exchange</i>			
Overseas investments	1(c)	1 036	207
Australian dollar securities	1(d)	49	(99)
Foreign currency	1(c)	(150)	360
		<u>935</u>	<u>468</u>
<i>Dividend revenue</i>			
Earnings on shares in Bank for International Settlements	3		4
<i>Fees and commissions</i>			
Banking services fees received		20	20

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Other revenue

Reimbursement by Australian Government for loan management and registry expenses	1	1
Rental of Bank premises	4	5
Sales of note products	19	19
Other	<u>13</u>	<u>14</u>
	<u>37</u>	<u>39</u>
Total	<u>3 170</u>	<u>2 727</u>

**Reserve Bank of Australia Annual Report 2003, page 83.*

There is no information disclosed which identifies the revenue attributable to Term Deposit Interest.

Date: 22 December 2003

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Attachment A

Factiva

Dow Jones & Reuters

News

Coffers Overflowing, Tax Cut In The Air

Morgan Mellish

707 words

22 September 2003

Australian Financial Review

4

English

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John Howard must be licking his lips. He's headed towards a historically difficult-to-win fourth election and the government's coffers are overflowing.

That means just one thing there's plenty of scope for a tax cut. And the pre-election sweetener could be substantial.

The final budget outcome, due in the next fortnight, will show just how much money he has to play with.

Some are predicting the bottom line could be \$2 billion higher than forecast. That would improve the starting point for next year's budget, making a tax cut much more likely.

The extra cash is primarily coming from stronger than expected company profits flowing from the buoyant non-farm economy, as well as tight control over expenses, helped by low unemployment.

"You'd imagine as we're heading into an election year, the government would scrape around for a tax cut," says Access Economics director Chris Richardson . "But, in this case, we think the economy is just handing them the money.

Access, a Canberra-based forecasting group, predicts the final budget outcome will show the underlying cash balance for 2002-03 was up to \$6 billion well up on the official \$3.9 billion forecast made in May.

That's up to an extra \$2 billion the government wasn't counting on. Company tax revenues are expected to be well above the official \$31.3 billion forecast.

"The government upgraded its company tax projections in the [May] budget, but it looks like they may not have upgraded them by enough," Richardson says. "It's going to be hard for them to hide just how healthy their finances are."

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Former Keating adviser and HSBC chief economist John Edwards says: "It would be an amazing thing if, going into the 13th consecutive year of prosperity, we didn't have a reasonably healthy fiscal situation.

"Since they can take into account expected surpluses over two or three years, the cut could be substantial."

Any way you look at it, Howard is sitting pretty. And he has already acknowledged he is prepared to hand back large surpluses in the form of tax cuts.

"Once you've attended to the things that need money spent on them, if you've got money over it's better to give that back by way of tax relief than to find something new to spend it on just for the sake of spending it," the Prime Minister has said.

Further evidence of the government's confidence about its finances can be seen in its decision to delay receipt of nearly \$1 billion of Reserve Bank dividend.

RBA profits get paid to the government each year. However, only \$1.3 billion out of the latest \$2.264 billion profit will go into government coffers this financial year. The rest, \$964 million, will be paid the following year.

This will make the 2003-04 budget a bit tighter, but it will bolster the 2004-05 budget the year the likely tax cuts would come in.

Officially, the government says it is "smoothing" the central bank's profits over several years. But the only previous occasion this was done in the past decade was to help pay for the 2000-01 tax cuts and there's been some very lumpy RBA profits in that time.

So why are the government's finances so strong?

The economy has held up remarkably well despite the drought and global slowdown. Consumer spending is buoyant and that has led to double-digit profit growth for much of the corporate sector.

While the economy has been healthy, Frank Drenth, executive director of the Corporate Tax association, says official forecasts have also underestimated how fast corporate tax revenue is growing.

"There is a tendency to err on the side of caution," Mr Drenth said. "After all, if you were Treasury, would you rather be \$1 billion over or \$1 billion under?"

As well, the jobless rate is low, meaning there's been no blow-out in welfare payments, and the government has kept a tight rein on other big spending areas such as health and education even with higher spending on defence and security.

Editorial, page 62

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