Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

17 October – 18 October 2012

Question: **SBT 129-134**

Topic: **Final Budget Outcome – Government Sector Liabilities**

Written: **Received from Committee – 26 October 2012**

Senator JOYCE asked:

Referring to Table 7, page 13 of the 2011-12 FBO, total liabilities of the Australian Government general government sector for the 2011-12 year's end increased from an estimated $467.6 billion at budget to an outcome of $579.6 billion.

129. Does this not constitute an increase of $112 billion, or an error of around 24 per cent, in less than two months?

According to the commentary on page 12 in the 2011-12 FBO (especially the last paragraph), the very large variation in "total liabilities" from Budget in such a short time frame, "… is the result of a large difference between the long-term discount rate used in the budget (6 per cent per annum) and the actual bond rate as at 30 June 2012 (3.1 per cent per annum) used to value the superannuation liability." Also, "The use of the two different rates is the usual practice, applied in previous budgets and final budget outcomes, and reduces the volatility in reported liabilities for budget reporting purposes."

130. How does such practice purportedly *reduce* the volatility in the reporting of "total liabilities" from publication to publication – that is, from FBO to MYEFO to Budget to FBO to MYEFO and so on?

131. Is volatility not maximised (as opposed to reduced) by this reporting policy whenever the relevant interest rate at estimates publication dates (eg MYEFO and Budget) varies from the long-term discount rate (the rate instead used for those estimates)?

132. What is the value in these estimates (of total liabilities) when such a large and known difference in interest rates is used, and such a large error reported at FBO is inevitable?

133. Shouldn't an estimate be the best guess at the time of an expected outcome, to be reported at FBO? As such, shouldn't the best estimate at the time of the relevant interest rate be used?

134. Is the current reporting policy on these estimates worthy of review?

Answer:

129. Yes, it is a variance of that magnitude.

130-134. Budget and MYEFO estimates adopt a very long-term actuarially-determined discount rate in valuing superannuation liabilities (6 per cent, which approximates the 30 year average of the long term government bond rate) because it is a more appropriate discount rate to use as superannuation liabilities are a long-term liability. For the purpose of actuals reporting in the FBO, the Australian Accounting Standards require that long-term liabilities are valued using market yields on 10 year government bonds.

Using a stable long-term discount rate creates the least volatility in reported liabilities for estimates purposes as it does not change from update to update as much as would occur if the 10 year government bond rate was used.