

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

29 May – 31 May 2012

Question: BET 134

Topic: Contingency Reserve

Hansard Page: Thursday 31 May 2012, page 32

Senator BUSHBY asked:

Senator BUSHBY: The budget papers show that the contingency reserve for budget year 2012-13 is a sizeable negative number of around \$670 million. I understand from evidence provided at finance estimates last week that the primary reason for this unusual occurrence was the lower than expected March quarter CPI outcome published by the ABS on 24 April. That constituted a revision to an economic parameter received too late in the process to be allocated to individual agencies or functions. Is that correct?

Senator Wong: I was there for those answers. There was a discussion about various things that might drive it. I am not sure these are the officials who can help you.

Dr Parkinson: That is a question that would best have been addressed to either finance or Mr Ray yesterday. We can try and get you an answer, but it is not one I have off the top of my head.

Senator BUSHBY: My understanding is that, Minister, that was given as one of the primary reasons.

Senator Wong: Yes. I was saying that there was a discussion of a range of factors associated with it. That is fine.

Dr Parkinson: Would you like us to try to get us an answer or are you happy with what you have already received?

Senator BUSHBY: It is the pretext to what I am going to ask now, essentially. It is establishing the context for the questions.

CHAIR: It is the preamble.

Senator BUSHBY: It is the preamble, yes. So as I understand the way it will work, the idea is that the CPI outcome caused you to lower your inflation forecast for this financial year and next. Is that correct?

Dr Gruen: The CPI outcome is one of the inputs. But obviously other things have led us to lower our forecasts for inflation. But the outcome told us something about how we were travelling.

Senator BUSHBY: What I am trying to understand is how a late surprise like that in terms of a lower than expected CPI would actually flow through to contribute to the change in the contingency reserve. That means you are assuming a lower CPI looking forward. That might result in lower expected outlays on social security and other payments indexed to the CPI.

Dr Gruen: We will have to take on notice the detail. We are certainly responsible for coming up with the CPI forecasts, but we are not responsible for how that feeds into changes to the contingency reserve. But we can certainly take it on notice and get you an answer.

Senator BUSHBY: Does that sound feasible that it may well have been the explanation?

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

29 May – 31 May 2012

Dr Gruen: I genuinely do not know enough about the contingency reserve to be able to answer the question.

Dr Parkinson: We would have to take that on notice.

Answer:

The Contingency Reserve balance is negative in 2012-13 primarily owing to the inclusion of revised economic parameters received late in the Budget process which reduced overall spending. Given the timing, these adjustments were not able to be allocated to individual agencies or functions. This is consistent with longstanding practice.