

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

23 – 24 February 2011

Question: AET 143

Topic: Flood Damage Bill

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Senator Corman asked:

Senator CORMANN—When looking at the funding obligations of the Commonwealth or their share of the recent flood damage bill in Queensland and through, mostly, eastern Australia, there are three options, as I understand it: defer the surplus and add to the government's current expenditure, hence the deficit; cut existing programs and reallocate that funding towards the damage bill; or impose a new tax to raise revenue to cover the damage bill. What is the impact of each of those three main options, according to Treasury?

Dr Henry—The principal impact is, of course, distribution. All of these are simply answering the question, 'Who is going to pay?' With respect to adding to the deficit and adding to borrowings, if that were the preferred approach, what that is saying is that, rather than today's taxpayers paying, future taxpayers will pay. It is a distributional issue.

With respect to financing the flood-related expenditures through cutting other government spending, then the view is being taken that, rather than taxpayers per se paying, it is recipients of various forms of government expenditure who will be denied benefits—yes, largely denied benefits—who will pay. With respect to a flood levy, the decision is, of course, that current taxpayers pay. It is essentially a distributional question.

Senator CORMANN—Given the current state of the economy, why was the mix of a levy and some spending cuts chosen?

Dr Henry—That is a policy question. It is properly one for the Treasurer to answer.

Senator CORMANN—Maybe you could take it on notice.

Senator Sherry—I will take it on notice.

Answer:

Decisions on how to finance disaster recovery expenditure were considered in the context of the prospect for strong growth and the potential for capacity constraints in the economy, as well as the importance of the Government's fiscal strategy of returning the budget to surplus in 2012-13. The Government considers that funding a proportion of the reconstruction costs from the flood and cyclone levy achieves a fair and equitable balance in paying as we go for the reconstruction of affected areas.