

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Finance and Deregulation Portfolio

Department of Finance and Deregulation

Supplementary Estimates Hearing – October 2010

Outcome 1, Program NA

Topic: Conservative bias allowance

Question reference number: F13

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Senator Faulkner asked:

Are you able to say to the committee when perhaps the first ad hoc review took place?

Mr Tune—No, I could not. I will take that on notice.

Senator FAULKNER—You might let the committee know when the ad hoc reviews took place and when they became annual. They became annual relatively recently, I understand.

.....

Senator KROGER—Has it changed much over that time?

Mr Tune—It has changed a fair bit. I will have to take it on notice because it will take me far too long to read it all out, but I do have the history here in front of me. It has changed probably 10 times since 1987; not every year of it changes. There are three years of it that you have in there and sometimes it is only one year we change.

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Senator FAULKNER—Could I just ask one other question? Is that all right? Very few treasurers or ministers for finance it would seem to me have spoken much about the conservative bias allowance. It got so it became an issue as a result of events post the election. That is fair enough. I do not want to make a partisan comment about that; we understand that is the case. It has not been spoken about much publicly by treasurers and ministers for finance, but Treasurer Costello did speak about it, didn't he, in the 2004 budget? That is my recollection.

Mr Tune—Can I take that one on notice, please? ,,,,,,

Mr Tune—I was probably involved in that budget, but I do not know if I can remember that far back. Can I take that on notice, please?

Answer:

(a) The first ad hoc review of the Conservative Bias Allowance (CBA) took place prior to the 1988-89 Budget. At least eight additional ad hoc reviews have occurred since then. The Government agreed in the 2009-10 Budget that the performance of the CBA be reviewed annually by Finance, in consultation with the Department of the Treasury, prior to each budget.

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(b) The CBA rates have changed nine times since the introduction of the CBA in the 1987-88 Budget, fluctuating over approximately two decades by 0.75 per cent in the first year of the forward estimates, by 1.5 per cent in the second year of the forward estimates, and by 3.25 per cent in the third year of the forward estimates. A history of the relevant rates are outlined in the table below:

	<i>Per cent of estimated aggregate expenditure</i>		
	FE 1	FE 2	FE 3
1987-88 Budget	0.25	0.50	0.75
1988-89 Budget	0.50	0.75	1.00
1991-92 Budget	0.50	1.00	1.50
1992-93 Budget	0.75	1.25	1.75
1997-98 MYEFO	1.00	1.50	2.00
1998-99 Budget	1.00	2.00	3.00
2005-06 Budget	1.00	2.00	4.00
2007-08 Budget	1.00	2.00	3.00
2008-09 Budget	1.00	1.50	2.50
2009-10 Budget(a)	0.50	1.00	2.00

(a) This reflects the conservative bias allowance percentages in the 2009-10 Budget following the review undertaken in September 2008.

(c) The 2003-04 Budget (Budget Paper No.1 Page 2-6), which was released by then Treasurer Peter Costello, includes the following footnote "The forward estimates include an allowance for the established tendency for spending on existing government policy (particularly demand driven programmes) to be higher than estimated in the forward years. This allowance, known as the conservative bias allowance, is progressively reduced so that the budget year conservative bias is zero. The conservative bias allowance is a technique to provide more reliable forward estimates. It is not a policy reserve or 'rainy day' fund."