TASMANIA'S FINANCIAL WOES

PRESENTATION TO THE UNIVERSITY OF THE THIRD AGE (U3A) 'KALEIDOSCOPE' SERIES

OLD COMMERCE THEATRE, UNIVERSITY OF TASMANIA

8TH MAY 2025

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

The major components of the Tasmanian public sector

- The '**general government**' sector – departments and agencies which are funded primarily by taxes and grants (through the Public Account), rather than by revenue from the sale of goods or services
  - government departments (Health Department and public hospitals, Department of Education, Children & Young People and schools, Tasmania Police, Tasmanian Fire Service, Department of Treasury & Finance, Department of State Growth, Department of Premier & Cabinet, Inland Fisheries etc)
  - agencies such as Parliament, Office of the Governor, Tourism Tasmania, Tasmanian Museum & Art Gallery, Environment Protection Authority, Brand Tasmania, Integrity Commission etc)
- The '**public non-financial corporations**' sector – government owned-entities which are funded primarily by revenue from the sale of goods and services
  - eg Hydro Tasmania, TasNetworks, Aurora Energy, TT-Line, TasIrrigation, TasPorts, Macquarie Point Development Corporation, Sustainable Timber Tasmania, Homes Tasmania, Stadiums Tasmania
- The '**public financial corporations**' sector – government-owned entities which are funded primarily by revenue from selling financial services and/or investment income
  - Motor Accidents Insurance Board, Tasmanian Public Finance Corporation (TasCorp)

The measures of the Government's 'bottom line' (surplus or deficit)

- The '**net operating balance**' is the difference between 'operating' revenues and 'operating' expenses
  - 'operating revenues' includes all revenue from state taxation, fees and fines, interest income, dividends and other payments from government business enterprises, and grants from the Federal Government (whether for 'current' or 'capital' purposes, and including Tasmania's share of revenue from the GST)
  - 'operating expenses' includes wages and salaries of public sector employees, 'consumables' (such as electricity, water, paper, rent etc), grants to local governments and non-government organizations, superannuation payments to retired employees, interest on debt, and depreciation
  - this is the measure which State Treasurers are usually referring to when they talk about the Budget being in 'surplus' or 'deficit'
- The '**fiscal balance**' is the difference between 'operating expenses' and total expenditure
  - where 'total expenditure' includes both 'operating expenses' and 'net purchases of non-financial assets' (often referred to as 'infrastructure investment')
  - it's the accrual accounting measure of the Government's 'bottom line'
- The '**cash balance**' is the difference between cash in ('receipts') and cash out ('payments')
  - it's the measure most commonly used by the Federal Treasurer (and other commentators) when talking about the Federal Budget being in 'surplus' or 'deficit'
  - and it is largely what drives changes in **net debt**

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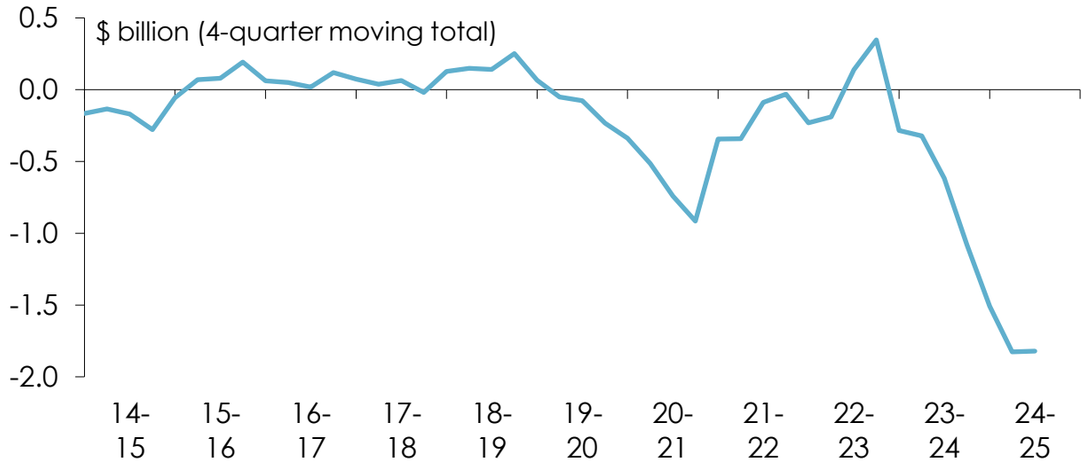
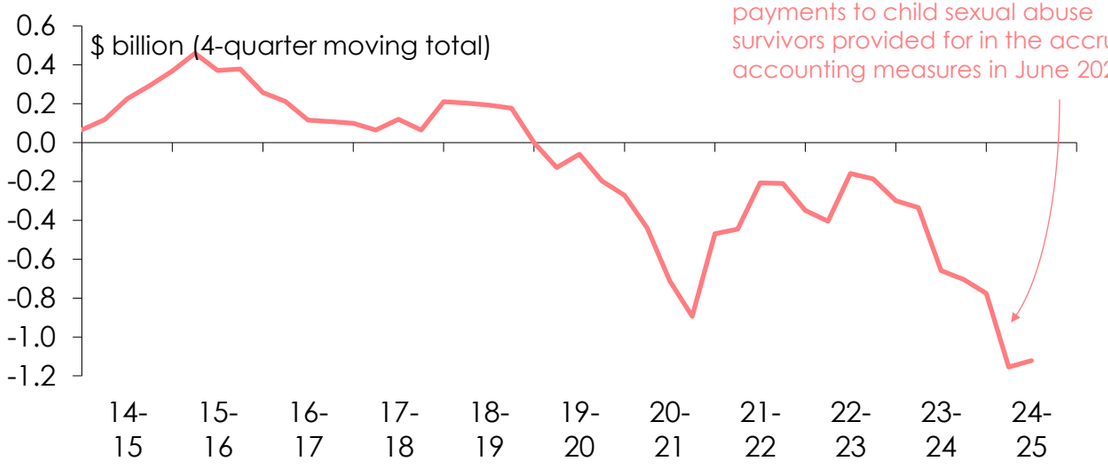
Tasmania's 'general government' financial position may have stopped getting worse – but it's a long way from getting better

'Net operating balance'

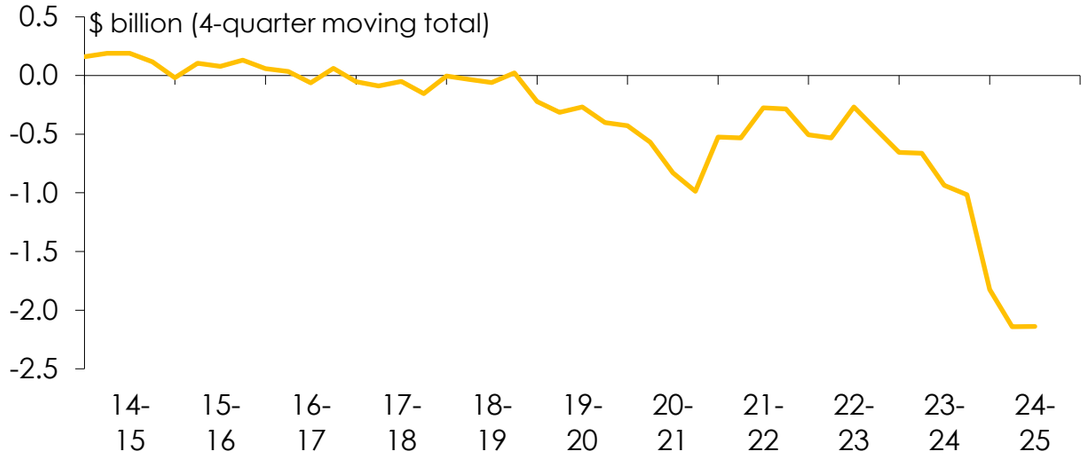


Cash balance

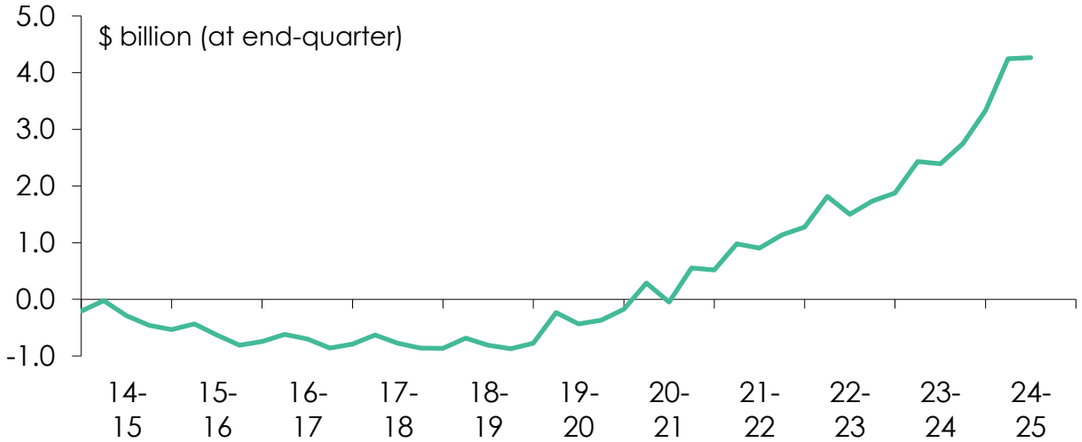


Note, cash balance *doesn't* include payments to child sexual abuse survivors provided for in the accrual accounting measures in June 2024.

Fiscal balance



Net debt



Source: Tasmanian Treasury, Financial Reports.

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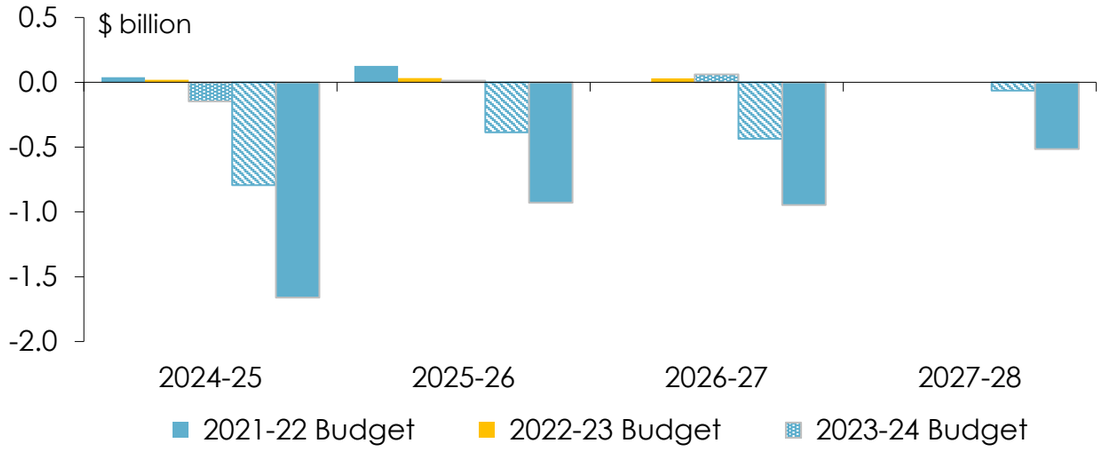
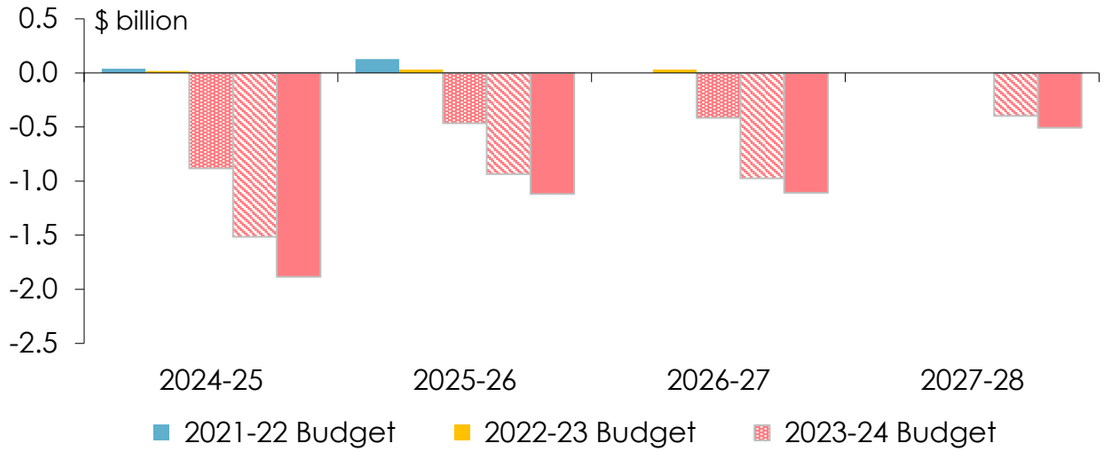
The 2024-25 'Revised Estimates Report' released in February saw forward estimates of 'general government' deficits and debt revised up yet again

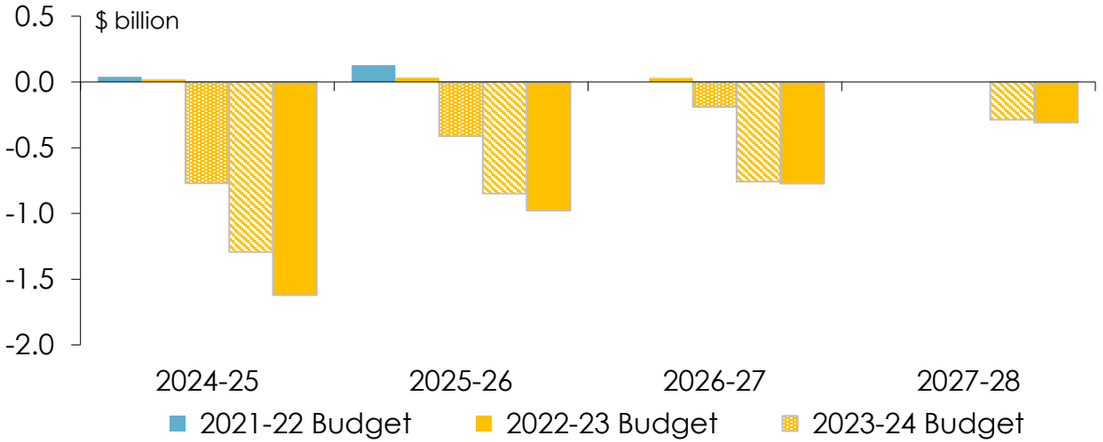
'Net operating balance'



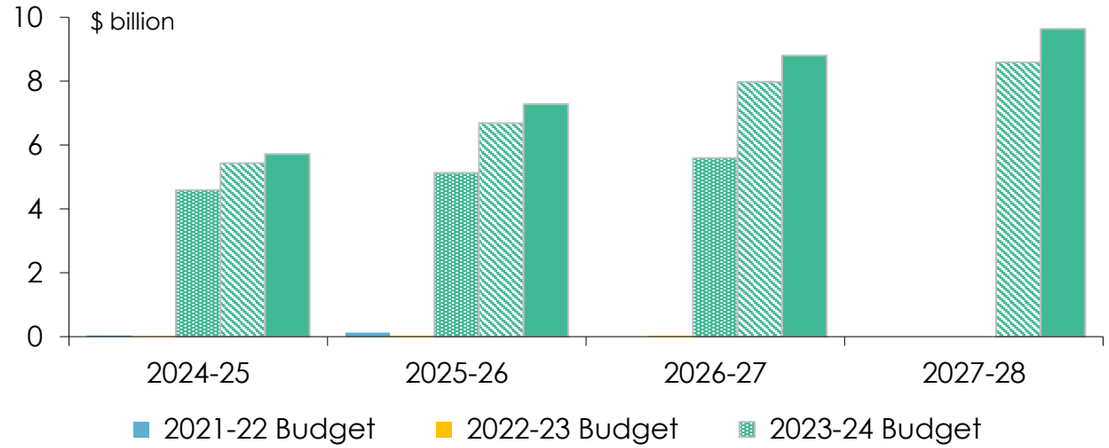
Cash balance



Fiscal balance



Net debt



Sources: Tasmanian Government, *2023-24 Budget Paper No. 1*, *2024-25 Budget Paper No. 1*, and *2024-25 Revised Estimates Report*.

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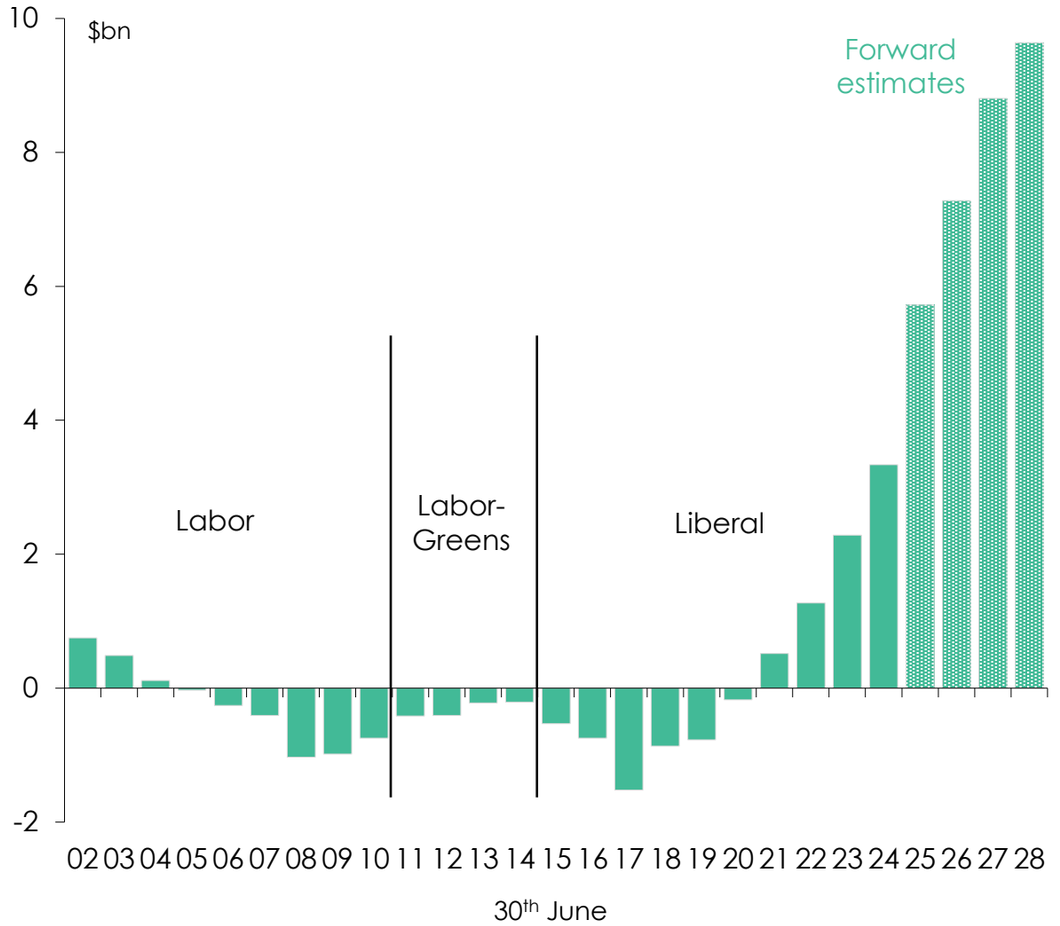
The deterioration in Tasmania's 'general government' financial position has occurred entirely on the present Government's 'watch'

'General government' sector cash balance

'General government' sector net debt



Sources: Tasmanian Treasury, *Treasurer's Annual Financial Report 2023-24* and previous issues; *Independent Review of Tasmania's State Finances*, August 2024; and Tasmanian Government, *2024-25 Revised Estimates Report*, February 2025

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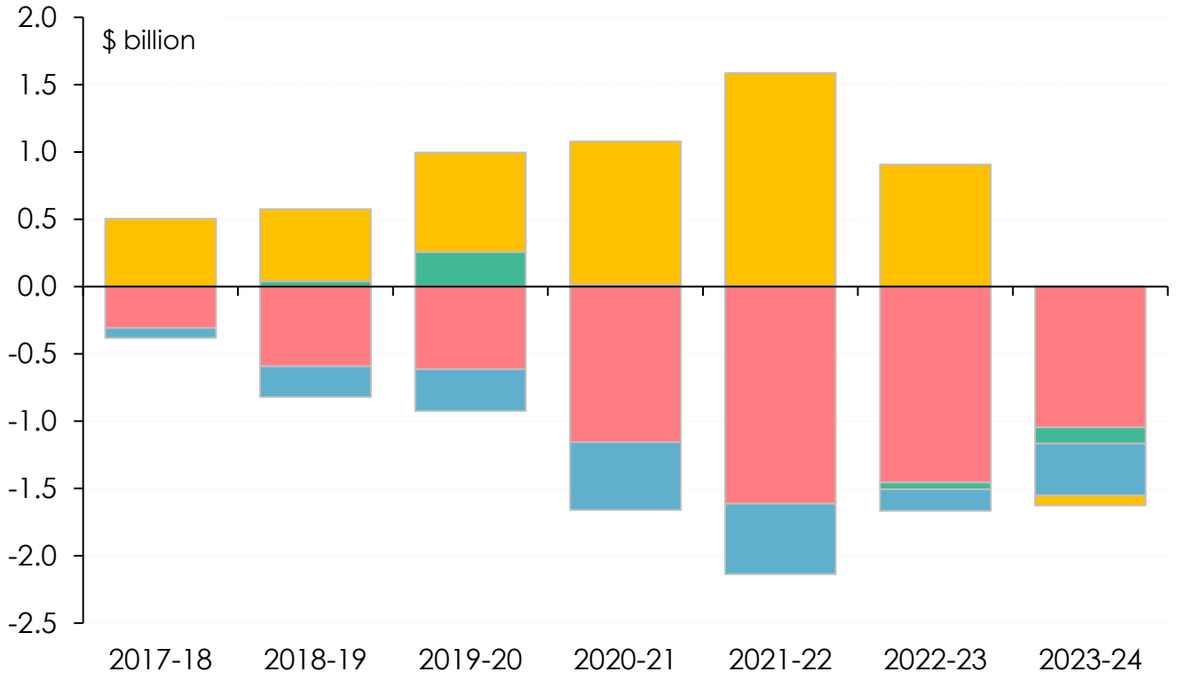
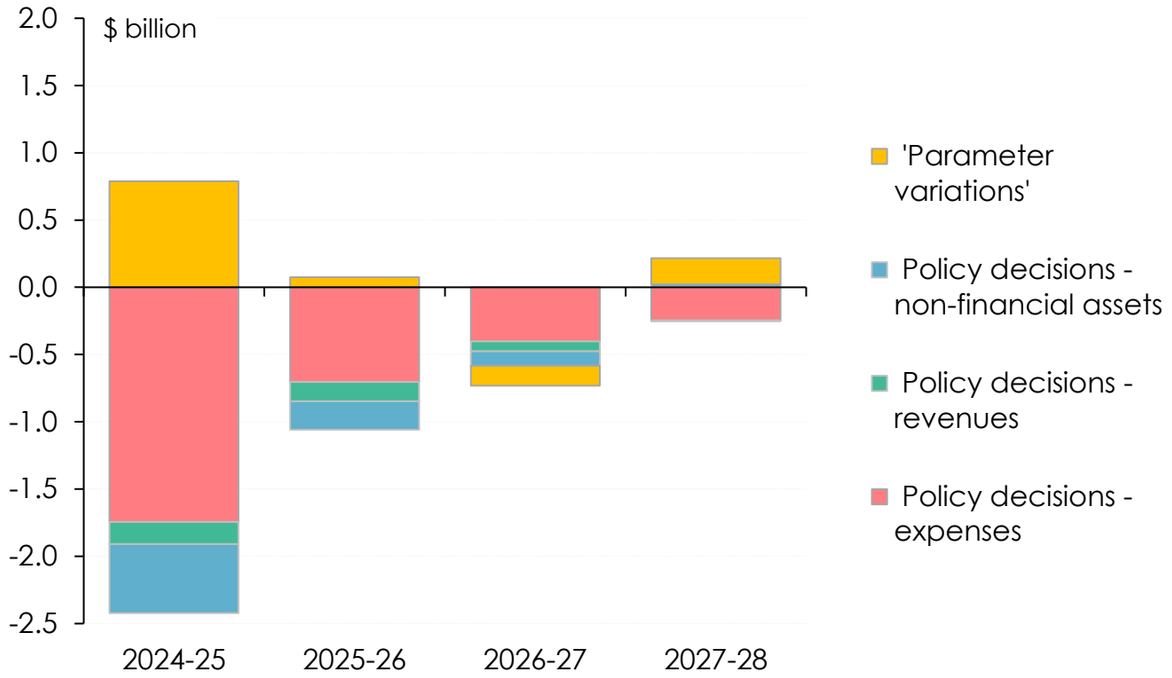
The deterioration in Tasmania's public sector finances is entirely the result of conscious decisions to increase spending and cut taxes

Sources of changes in outcomes for the fiscal balance from initial estimates, 2017-18 to 2023-24



'Policy decisions' (to increase spending or cut taxes) worsened fiscal deficits by at least $9.1 billion over the seven years to 2023-24 – more than offsetting the impact of favourable 'parameter variations' totalling $6.6 billion

Sources of changes in forward estimates of the fiscal balance from initial estimates, 2024-25 to 2027-28



'Policy decisions' worsened prospective fiscal deficits by at least $3.5 billion over the four years to 2027-28 – more than offsetting the impact of favourable 'parameter variations' totalling $1.1 billion

Note: 'Parameter variations' are changes in economic and other assumptions used in constructing forward estimates of expenses and revenues (including changes in GST revenues and other Commonwealth grants). 'Policy decisions' are conscious government decisions to increase or reduce operating expenses, 'purchases of non-financial assets' (ie, capital expenditures) and revenues. Totals for 2023-24 do not include the provision of an additional $571mn for compensation claims for survivors of child sexual abuse in state institutions. *Sources:* *Independent Review of Tasmania's State Finances*, August 2024; Tasmanian Government, *Budget Paper No. 1*, 2014-15 through 2024-25 and *2024-25 Revised Estimates Report*, February 2025.

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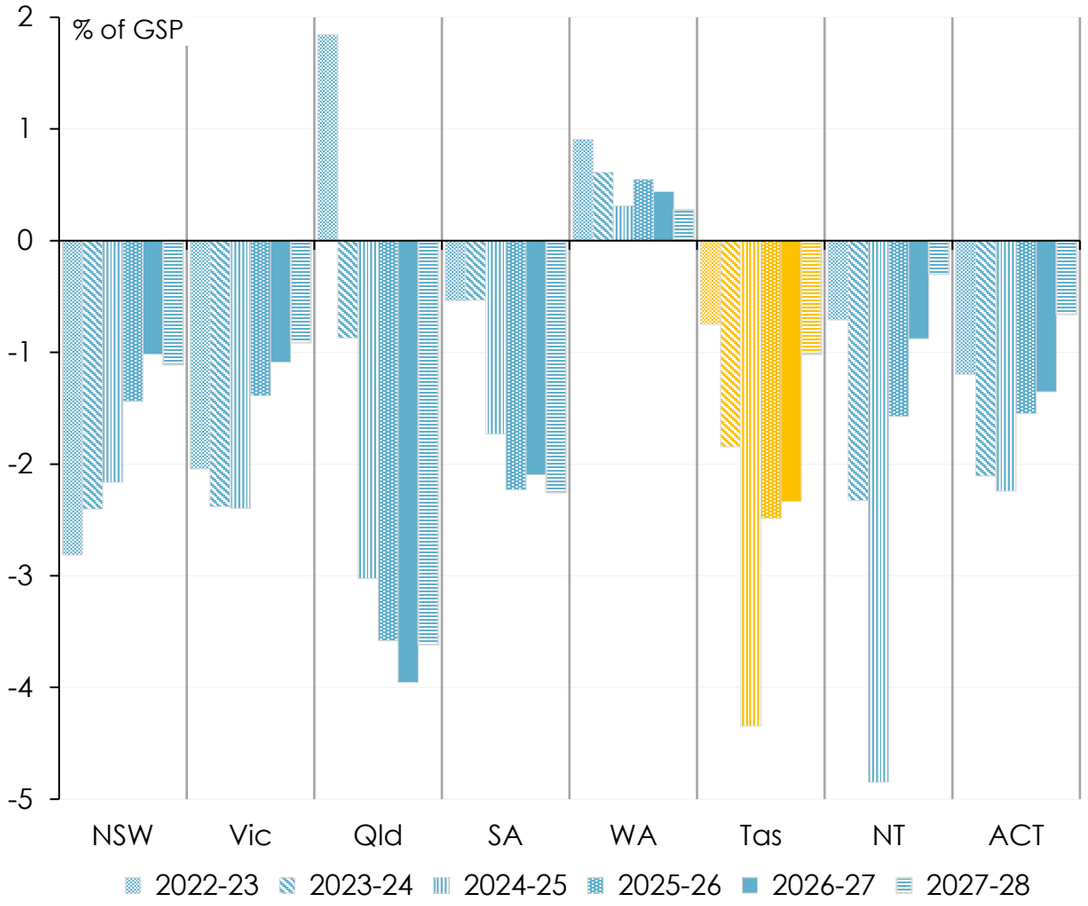
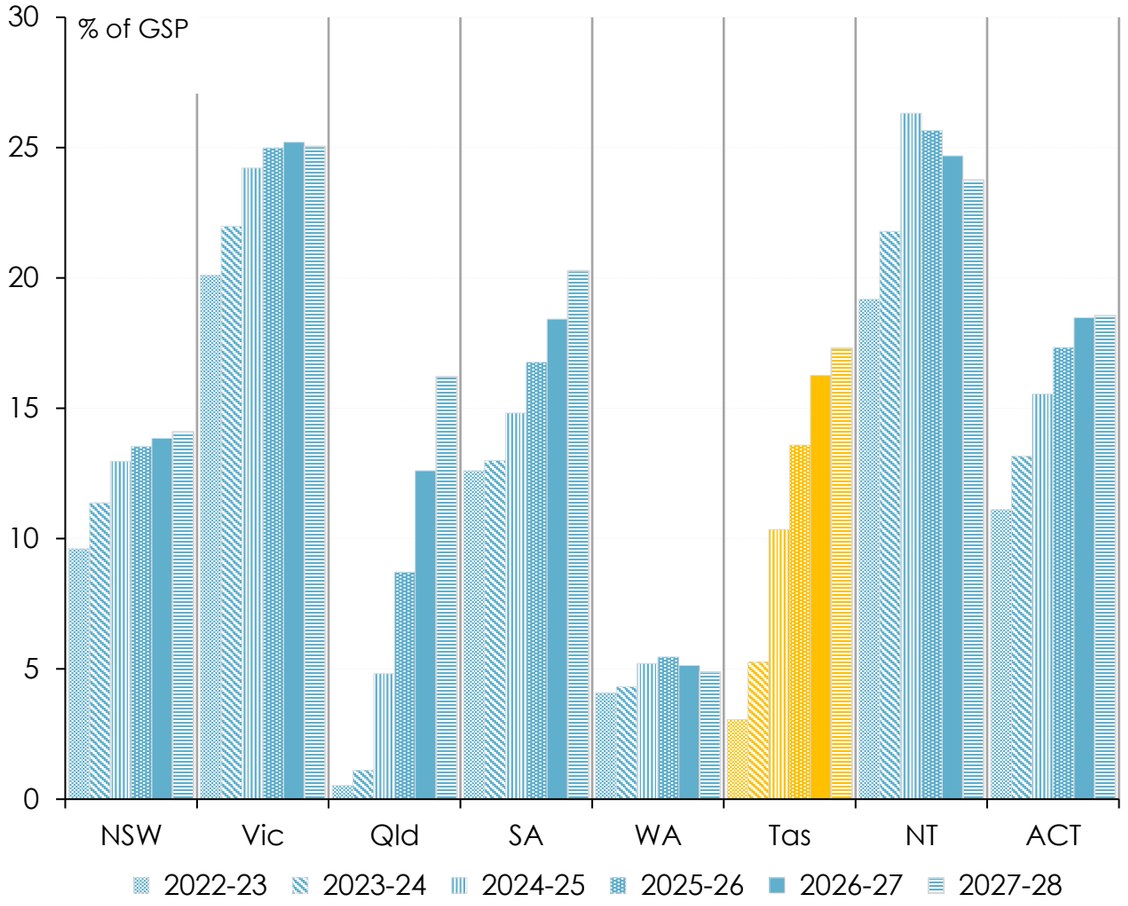
The State Government says Tasmania's deficits and debts aren't the worst in the nation – and in a narrow sense that's true

'General government' cash balances, Tasmania and other states and territories, 2022-23 to 2027-28



'General government' net debt, Tasmania and other states and territories, 2022-23 to 2027-28



Sources: State and territory government annual financial reports and 2024-25 mid-year budget reviews/updates; Corinna.

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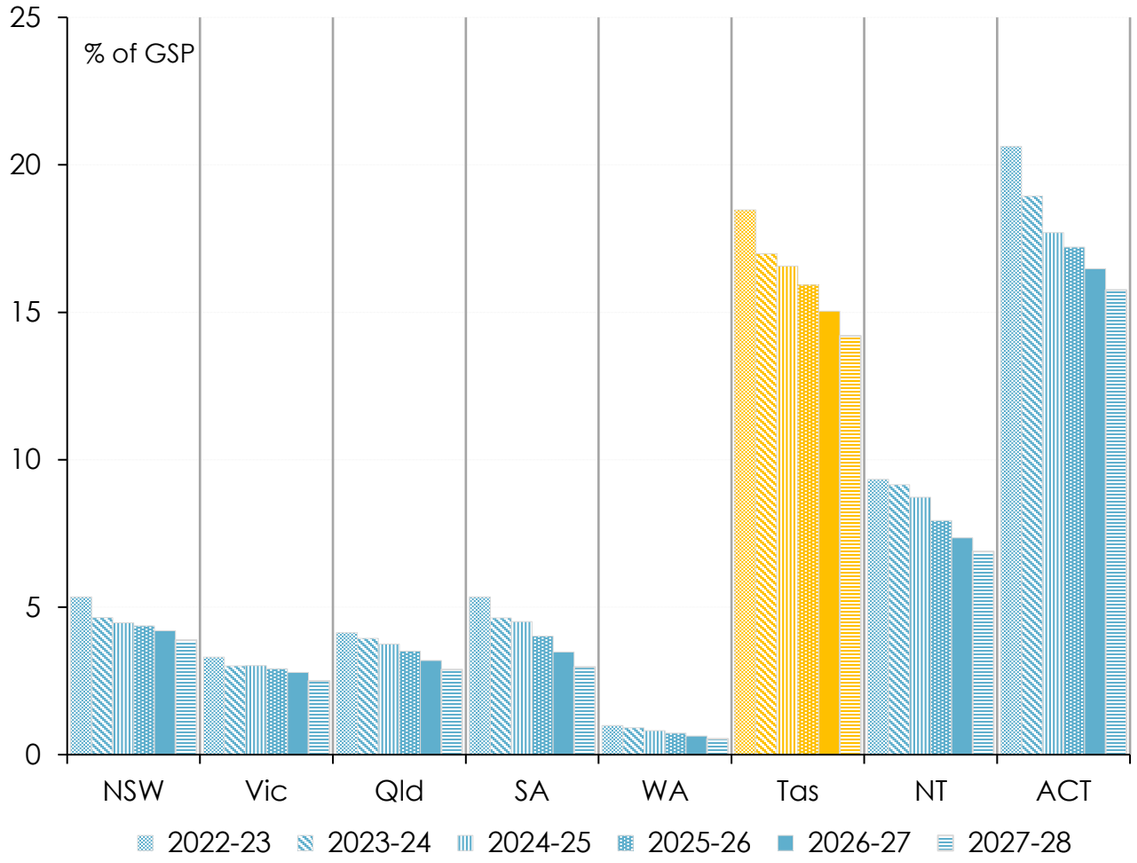
But that comparison ignores Tasmania's outsized unfunded public sector employee superannuation liabilities …

'General government' unfunded superannuation liabilities, 2022-23 to 2027-28



'General government' net financial liabilities, Tasmania and other states and territories, 2022-23 to 2027-28

Note: The ACT's superannuation liabilities aren't as large as they appear in government finance statistics, because its employee superannuation arrangements are managed via the Commonwealth Government's superannuation fund, which precludes the ACT from including capital gains on its superannuation investments in its GFS financial statements, as the states and the Northern Territory do. 'Net financial liabilities' includes the unfunded superannuation liability. *Sources:* State and territory government annual financial reports and 2024-25 mid-year budget reviews/updates; Corinna.

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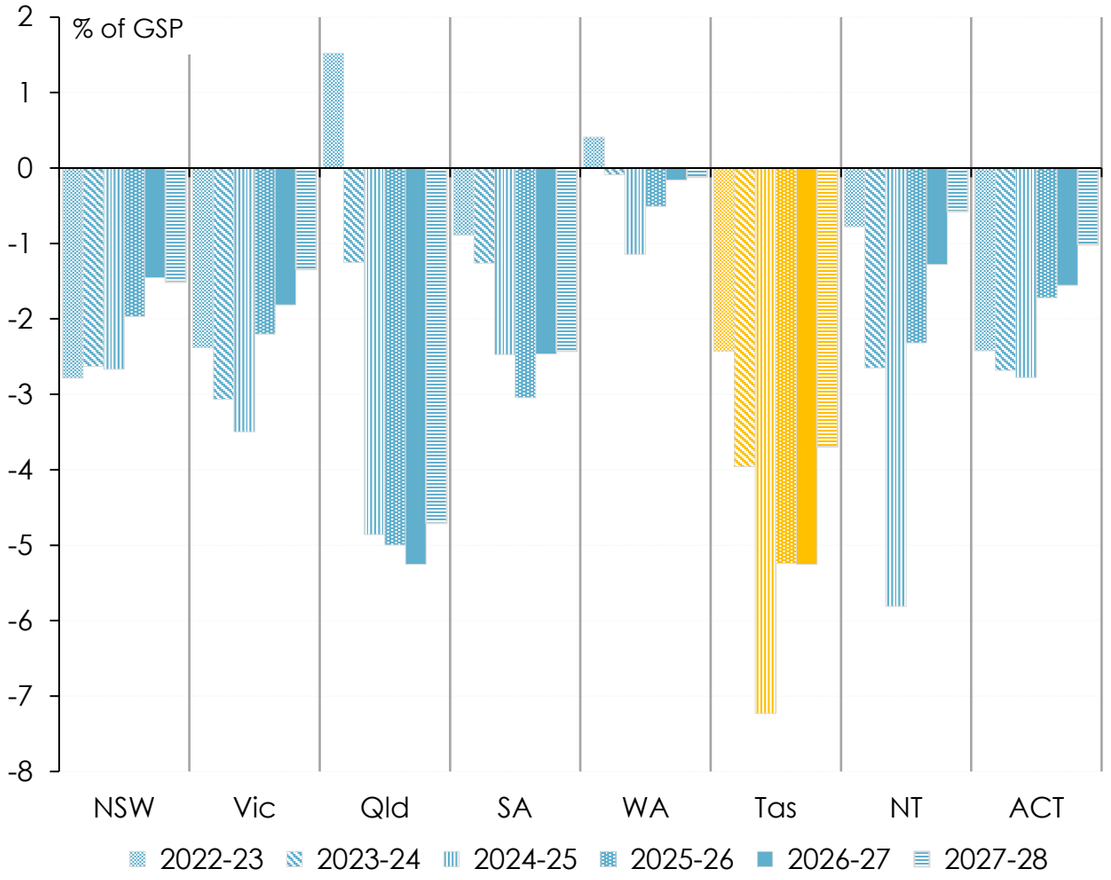
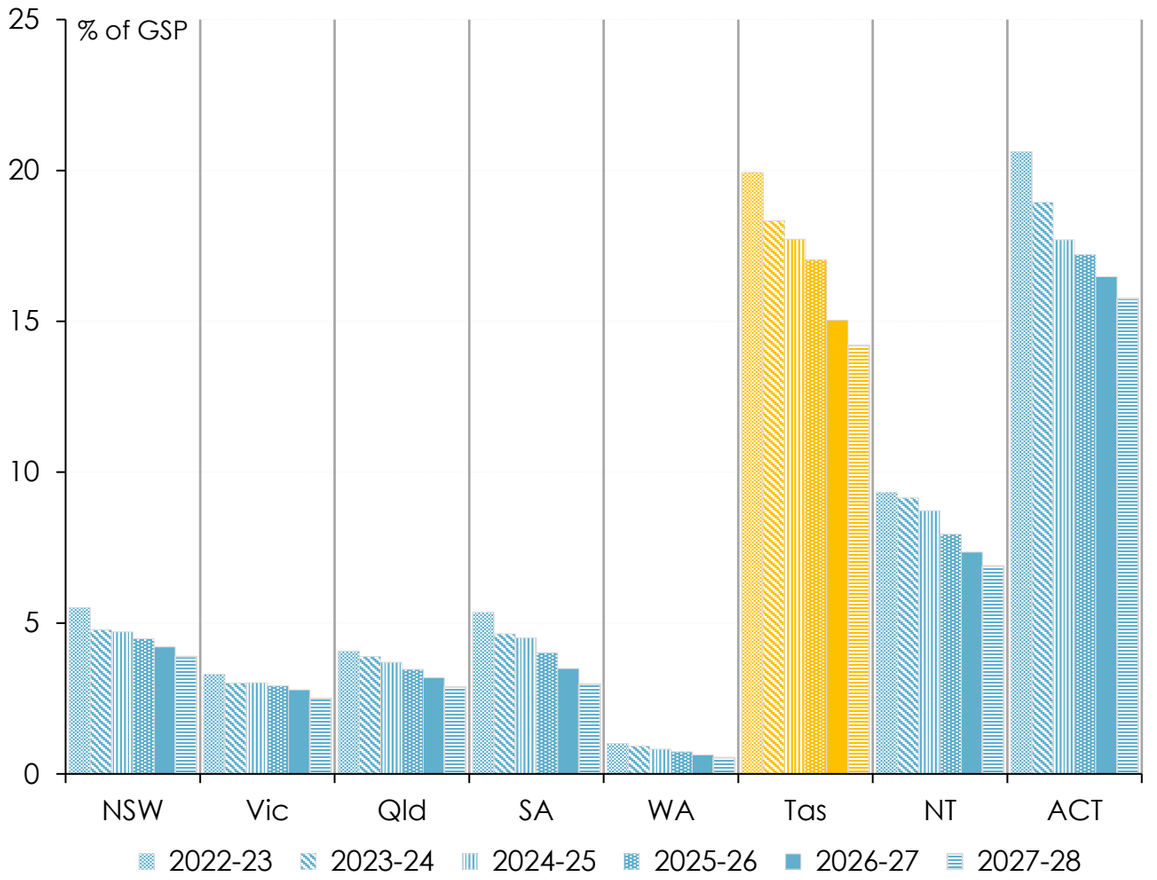
… and it also ignores GBEs – when these are also included Tasmania's financial position is clearly the worst of any state or territory

Total non-financial public sector cash deficit



Total non-financial public sector net financial liabilities



Note: The 'non-financial public sector' includes government business enterprises (such as Hydro Tasmania and TasNetworks, but not public financial corporations such as the MAIB. 'Net financial liabilities' include unfunded superannuation liabilities. Note the ACT's superannuation liabilities aren't as large as they appear in government finance statistics, because its employee superannuation arrangements are managed via the Commonwealth Government's superannuation fund, which precludes the ACT from including capital gains on its superannuation investments in its GFS financial statements, as the states and the Northern Territory do. *Sources:* State and territory government annual financial reports and 2024-25 mid-year budget reviews/updates; Corinna.

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The Government has too many fiscal strategy targets – and it isn't meeting many of them

Fiscal strategy target	Status	
Maintain current credit rating of AA+/ Aa2	Downgrade likely in next six months	☒
Keep government gross debt per capita < $20,000	Will be breached in 2025-26 and beyond	☒
Keep net debt below 10% of gross state product	Will be 14.2% of GDP by June	☒
Keep interest + defined benefit super payments below 6% of revenue	Will be 6.8% of revenue in 2024-25	☒
Fiscal balance in balance over rolling four-year period	Will average $920mn pa over next four years	☒
'Own source' revenue to exceed 37% of total revenue	Stuck at just over 30%	☒
GBEs to have a positive impact on 'general government' financial position	Almost -$120 million in 2024-25	☒
Infrastructure investment to be larger than depreciation	Will be met over four years	☑
Government FTE employees per 100,000 population < in June 2022	Slightly over as at Dec 2024 but may be met	?
Efficiency, productivity and financial transparency to be improved	How would you know?	?

Sources: Tasmanian Government, *2024-25 Revised Estimates Report; Corinna.*

The Government's response to the Independent Review of State Finances was clearly prepared in haste (despite having six months to do it!)

10 February 2025

Guy Barnett, Treasurer

The Tasmanian Government has released its response to the Independent Review of the State's Finances.

Treasurer, Guy Barnett, said the Government is committed to strengthening the fiscal position of the State.

"The Independent Review was wide-ranging and informative, and the Tasmanian Government thanks Mr Eslake for his significant contribution," the Treasurer said

"It is the Government's view in many ways the recommendations in the Independent Review are consistent with the Government's Fiscal Strategy.

"The Government's response is structured into four sections which address the key themes of the recommendations of the Independent Review – namely, Fiscal Strategy and Targets, Budget Matters, New Taxes, Agency Resourcing and Reporting

"We will continue our commitment to Tasmanian businesses and households of no new or increased taxes.

"It is clear that Tasmania is not immune to the challenges associated with increased demand on health and hospitals and this is having a material impact on Tasmania's fiscal position, but we recognise that these impacts are not unique to Tasmania.

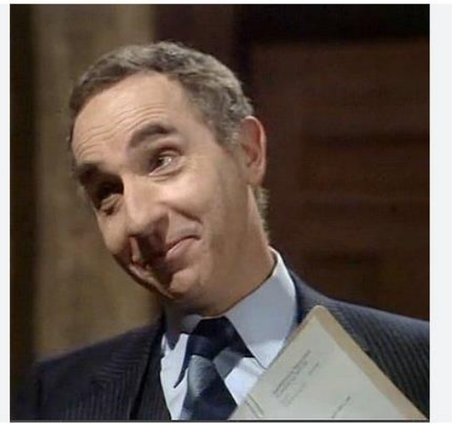
"We are continuing to deliver our 2030 Strong Plan for Tasmania's Future and will deliver a Net Operating Surplus by 2029-30."

More Media Releases from Guy Barnett

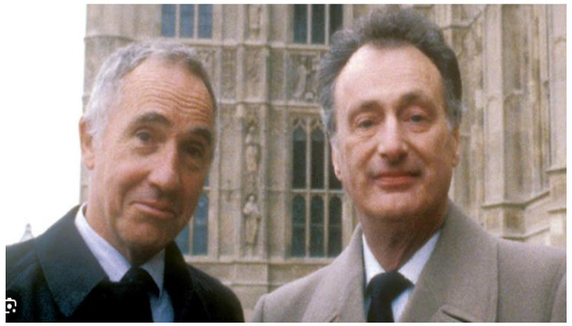
https://drive.google.com/file/d/1F-p9pi_RN7pTkgmDj4HxkntE6e1nKtzC/view?usp=drive_link

This is not where you typically find government documents!

Some of the Government's response read like it was written by Sir Humphrey Appleby's ghost



In the Government's view, an amendment to the *Charter of Budget Responsibility Act 2007* is not considered necessary as it is considered that removing existing requirements of the Act would erode the utility and value of the legislation.



Against the background of the frequency and the contents of Treasury's publications in light of especially the need to update data and changing metrics from time to time, the utility of additional information in Budget Paper No. 1 is unclear. Further consideration would be required to determine whether additional information will be useful to include in the Tasmanian Economy chapter of the Budget, noting that the data are at a point in time, and will become outdated quicky.

The Government considers that its Fiscal Strategy, together with the pre-existing legislative framework in which the Government's responsibilities in relation to the State's finances are prescribed, sufficiently provide the Government with the flexibility, control and responsiveness required to adequately manage the State Finances – including in the context of providing the Government of the day with the appropriate policy settings and legislative mechanisms to respond to emerging issues.

For these reasons, the Government does not consider it necessary to propose legislative amendments to the *Charter of Budget Responsibility Act 2007* or introduce and prescribe additional economic targets as part of its broader Fiscal Strategy at this time.

In the Government's view, the measures recommended in the Review significantly overlap with the existing Fiscal Strategy and the Government considers that there is limited or marginal utility in expanding the scope of the measures in the Budget Papers to include a further range of measures.

So what was the Government's response to the Independent Review?

- The Government claims that "in many ways, the recommendations in the Independent Review are consistent with the Government's Fiscal Strategy" …
  - no, they're not
- … and that "its Fiscal Strategy, together with the pre-existing legislative framework … sufficiently provide the Government with the flexibility, control and responsiveness to adequately manage the State Finances"
  - no, it doesn't
  - if the 'pre-existing legislative framework' was 'sufficient', we wouldn't be in the mess we're now in
  - the most recent Revised Estimates Report acknowledges that 5 of the Government's 12 'fiscal strategy targets' aren't being (and won't be) met, and at least two others probably won't be either – yet the Government has made no attempt to show how they will be met
- The Government comprehensively rejected the Review's recommendations for raising additional revenue
  - which wasn't really surprising given their pre-election commitments
- The Government has also in effect rejected the Review's recommendations against crude mechanisms for cutting spending (such as 'efficiency dividends' and 'vacancy control')
  - they've also in effect rejected the Review's recommendations to reduce or reprofile its infrastructure spending program
- Much more surprisingly, the Government rejected (or ignored) all of the Review's recommendations regarding Treasury resourcing, the content of Budget Papers, the timing of financial reports, the insertion of fiscal strategy targets into the *Charter of Budget Responsibility Act* and the tightening of some of the requirements for the publication of parties' fiscal strategies during election campaigns
  - these were all pretty innocuous recommendations carrying little or no 'political risk'

The Review's recommendations on budget and financial reporting processes, fiscal strategy targets and statements were pretty innocuous

- **Treasury's role should be strengthened, the resources available to it enhanced, and greater use made by the Government of its capabilities and advice**
  - including greater use of staff secondments between Treasury and its federal and interstate counterparts
  - and greater collaboration with the Tasmanian School of Business and Economics at UTas
- **The annual Budget Papers should include**
  - more comprehensive and detailed analysis of recent developments in and the outlook for the Tasmanian economy
  - ten-year projections of key fiscal aggregates
  - more long-term historical fiscal data
  - tables and data underpinning charts in excel spreadsheet form
  - a more detailed and quantified Statement of Risks
- **The mid-year Revised Estimates Report should be brought forward from December to February**
  - in line with every other jurisdiction
- **The Preliminary Outcomes Report can be discontinued (no other jurisdiction has one)**
- **The *Charter of Budget Responsibility Act 2007* should be amended**
  - to require political parties to indicate how their expenditure and revenue commitments will be funded, or to state explicitly that they won't be funded, and to issue their fiscal strategy statements at least nine days before polling day
- **A Tasmanian Parliamentary Budget Office should be established**
  - to provide independent advice on budgetary and fiscal issues, including costings of policy options, to MPs
- **The Parliamentary Public Accounts Committee should investigate and report on how to enhance the independence of the Audit Office to bring it into line with 'best practice' in other jurisdictions**

The Government has instead decided to explore whether asset sales can be used to reduce debt

- A key question to be answered in coming to a conclusion as to whether asset sales are sensible is whether the interest savings resulting from paying down debt exceed the revenue foregone from selling the assets
- By way of illustration (and only for that purpose) the 2024-25 Budget Papers show that the Government's equity in the three electricity GBEs is estimated to be worth $3.75bn at 30 June 2025
  - so if the Government could sell all three GBEs for that amount, it would save $199mn a year in interest (using the Budget assumption of an interest rate on new debt of 5.3%)
- But the Budget Papers also show that the Government expects to receive $203 mn in 2024-25, rising to $252 mn in 2027-28, by way of tax equivalent and dividend payments from these GBEs
- So on purely financial grounds the sale of these three GBEs (as a group) wouldn't make sense
- Of course there are other considerations involved as well (even if the financial arithmetic did 'stack up')

Tasmanian Government revenue from electricity GBEs

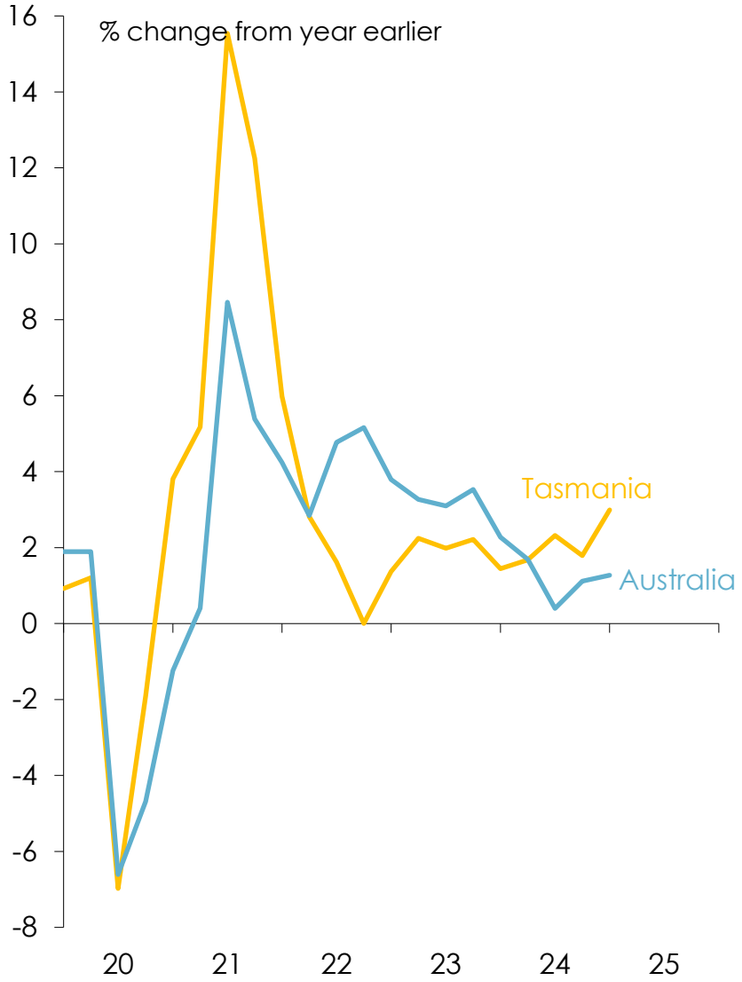
$ million	2024-25	2025-26	2026-27	2027-28
Company tax equivalents -				
Hydro Tas	39.2	48.0	47.5	48.6
TasNetworks	40.8	47.0	51.4	48.3
Aurora	1.3	2.3	2.6	2.8
Rate equivalents -				
Hydro Tas	5.9	6.0	6.2	6.3
Dividends -				
Hydro Tas	114.7	82.2	100.8	99.7
TasNetworks		14.4	28.3	40.4
Aurora	1.4	22.7	4.9	5.6
Total	203.3	222.6	241.7	251.7

Source: Tasmanian Government, *2024-25 Budget Paper No. 1 - The Budget*, 12th September 2024, page 113.

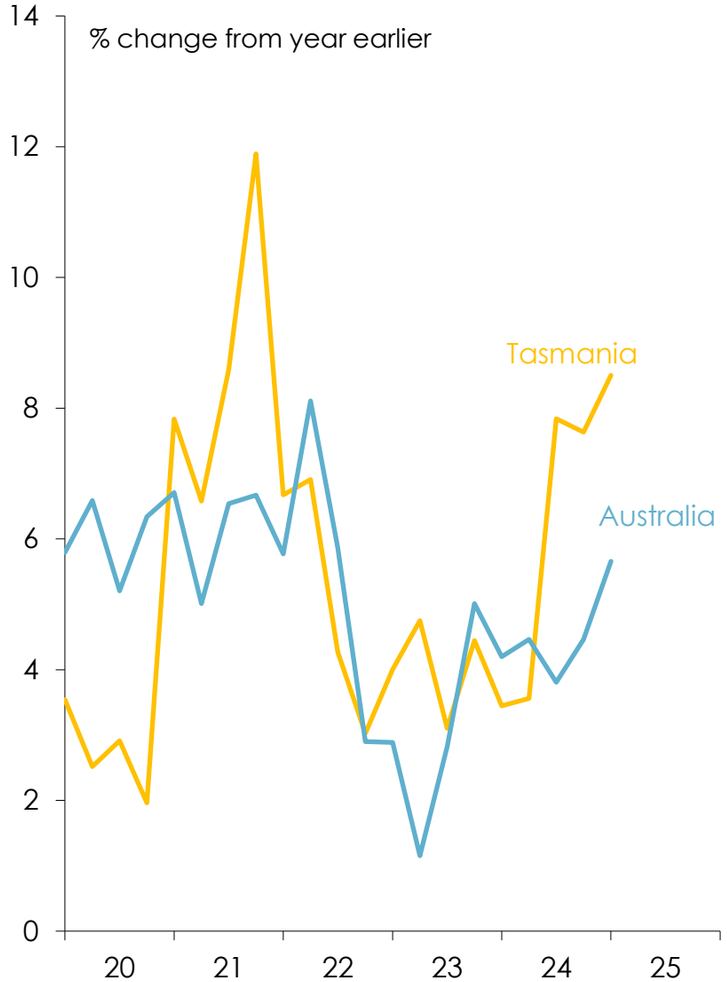
Note: this illustration is intentionally hypothetical, since the Government has explicitly excluded Hydro Tasmania from its consideration of potential asset sales

Tasmania is only 'outperforming the nation' (as the Government claims) because of debt-funded public spending

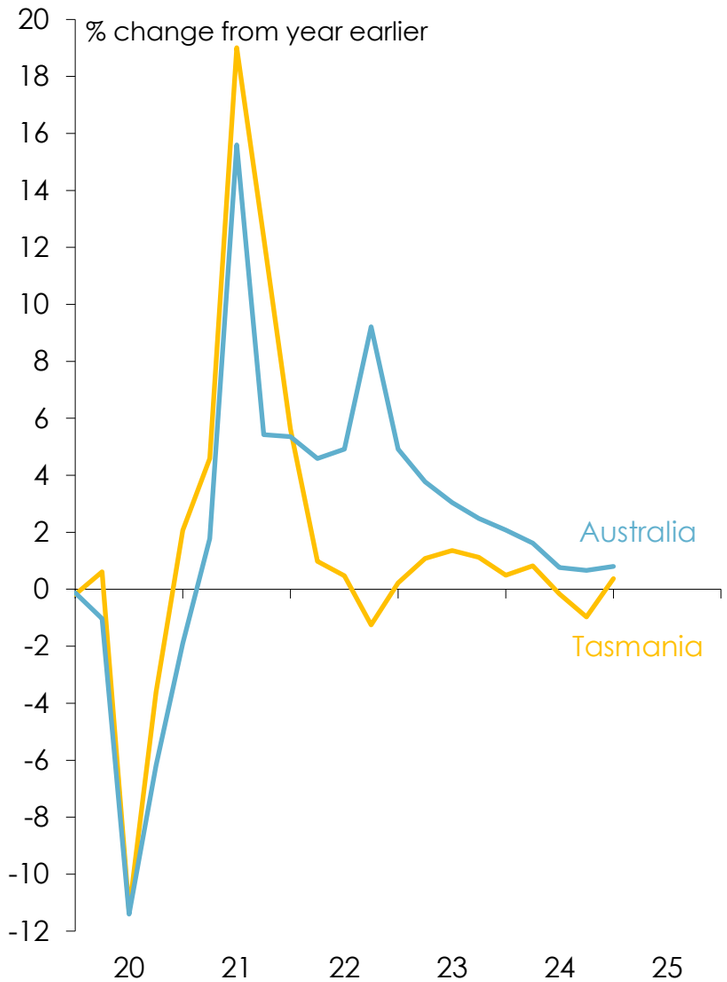
'State final demand'



Public sector final demand



Private sector final demand



Note: 'Final demand' is the sum of consumption and investment expenditure (it excludes inter-state and international trade, and changes in inventories).
Sources: ABS, *Australian National Accounts: National Income, Expenditure and Product*, December quarter 2024.

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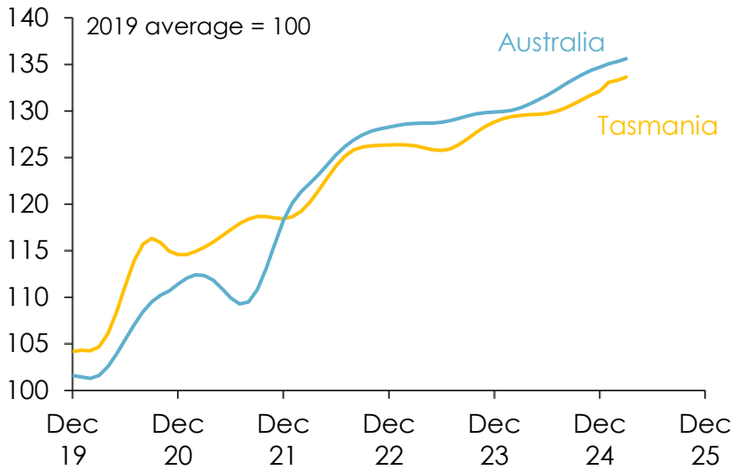
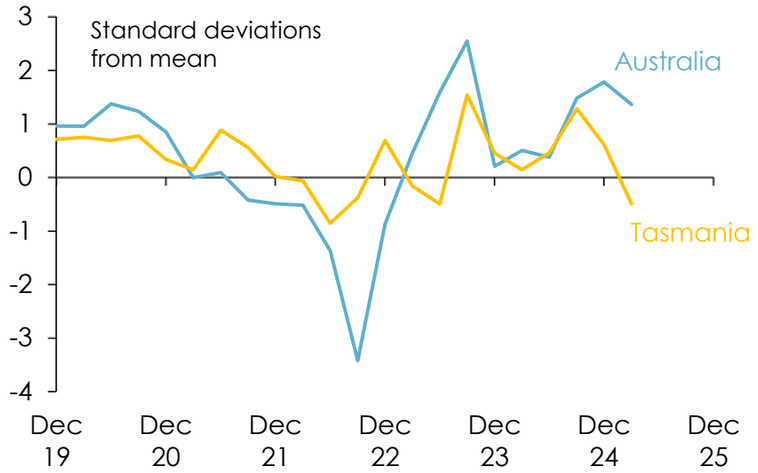
INDEPENDENT ECONOMICS

On most indicators, Tasmania is under-performing national averages

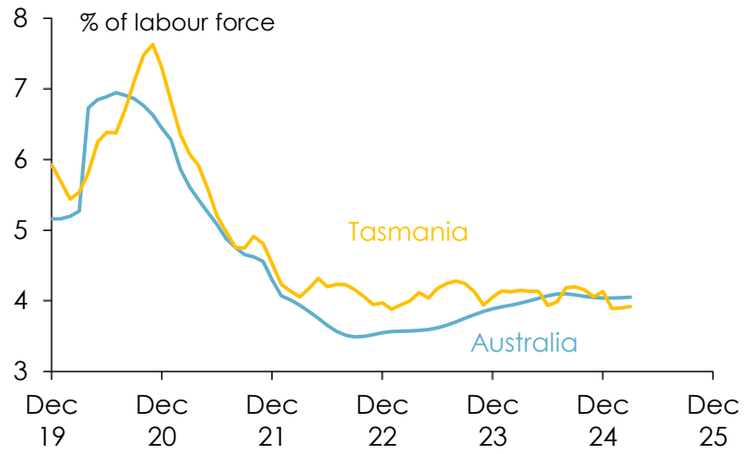
Retail sales



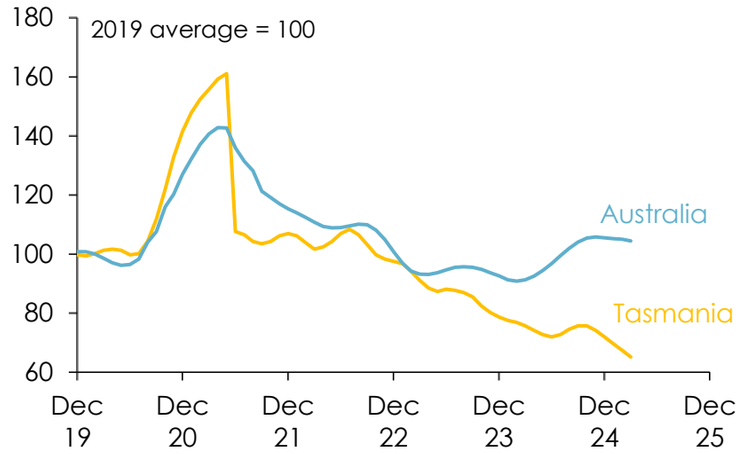
Business confidence



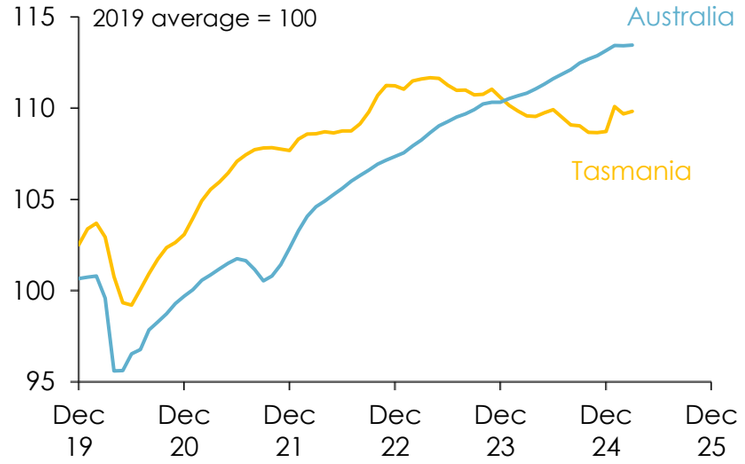
Unemployment



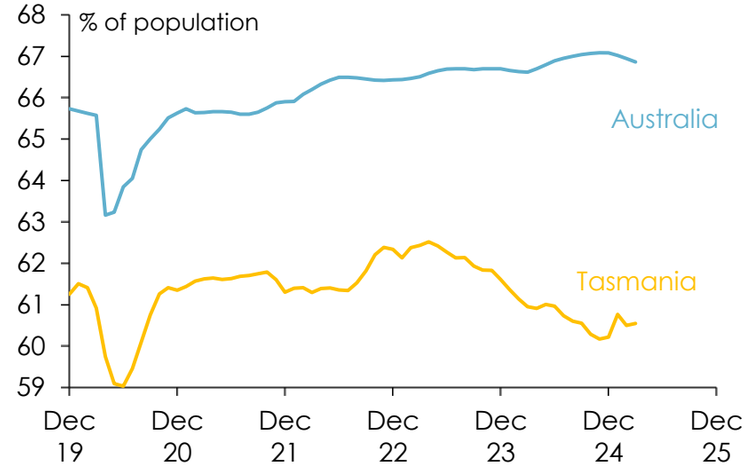
Residential building approvals



Employment



Labour force participation rates



Note: all data except for business confidence are derived from trend estimates. *Sources:* ABS, *Retail Trade* and *Building Approvals*, March 2025; National Australia Bank, *Quarterly Business Survey*, December quarter 2024; and ABS, *Labour Force*, March 2025.

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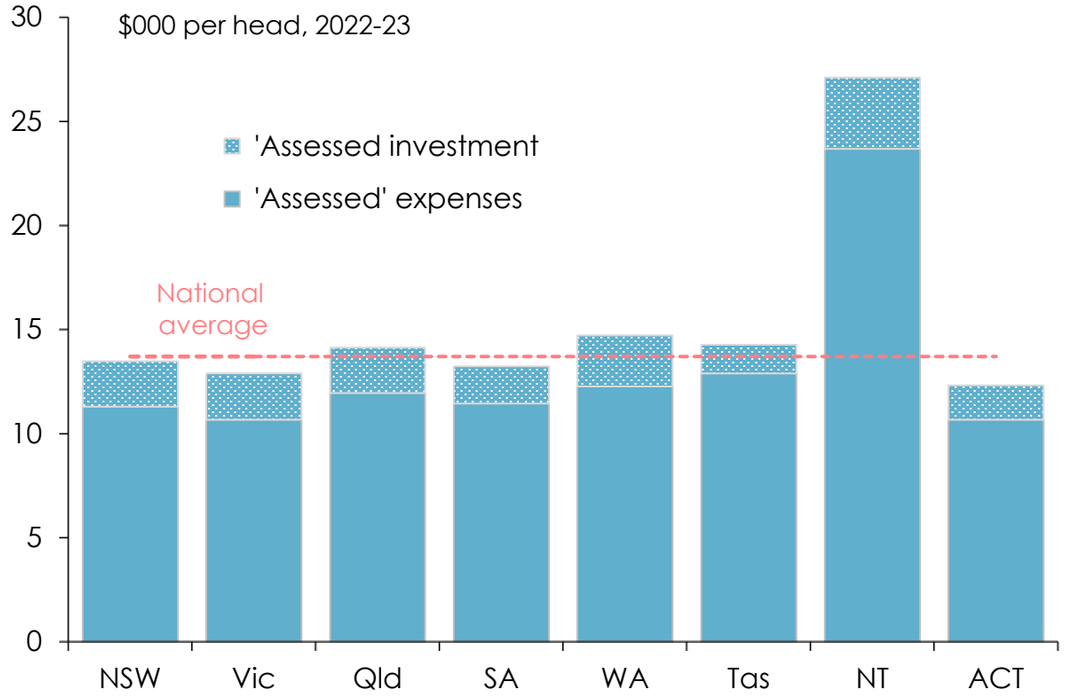
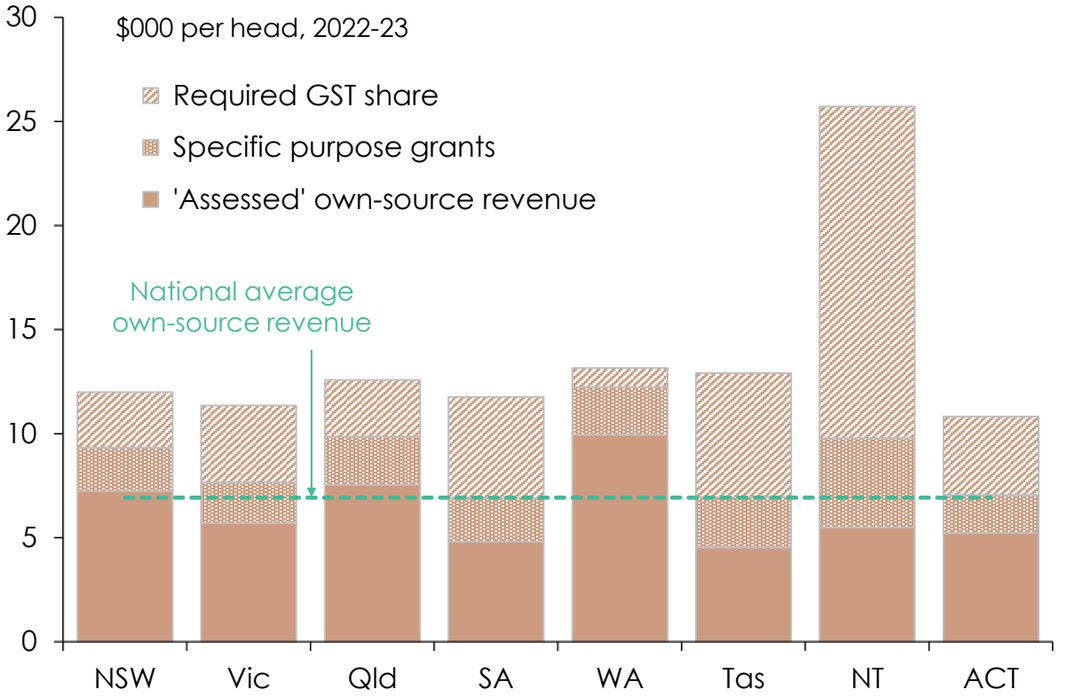
Every year the Grants Commission assesses how much each state needs to spend, and can raise in taxes, by being 'average'

Grants Commission assessment of states' & territories' expenditure needs



The Grants Commission assesses how much each state & territory needs to spend (per head) in order to provide the same standard of services as the average of all states & territories, taking account of difference in need for services and costs of providing them

Grants Commission assessment of states' and territories' revenue-raising capacity and needs



The Grants Commission assesses how much revenue each state & territory would raise (per head) if its taxes were the same as the average of all states & territories, and then determines how much GST revenue (per head) it would need to 'equalize' them

Source: Commonwealth Grants Commission, *2024 Update - Assessed budget*, April 2024.

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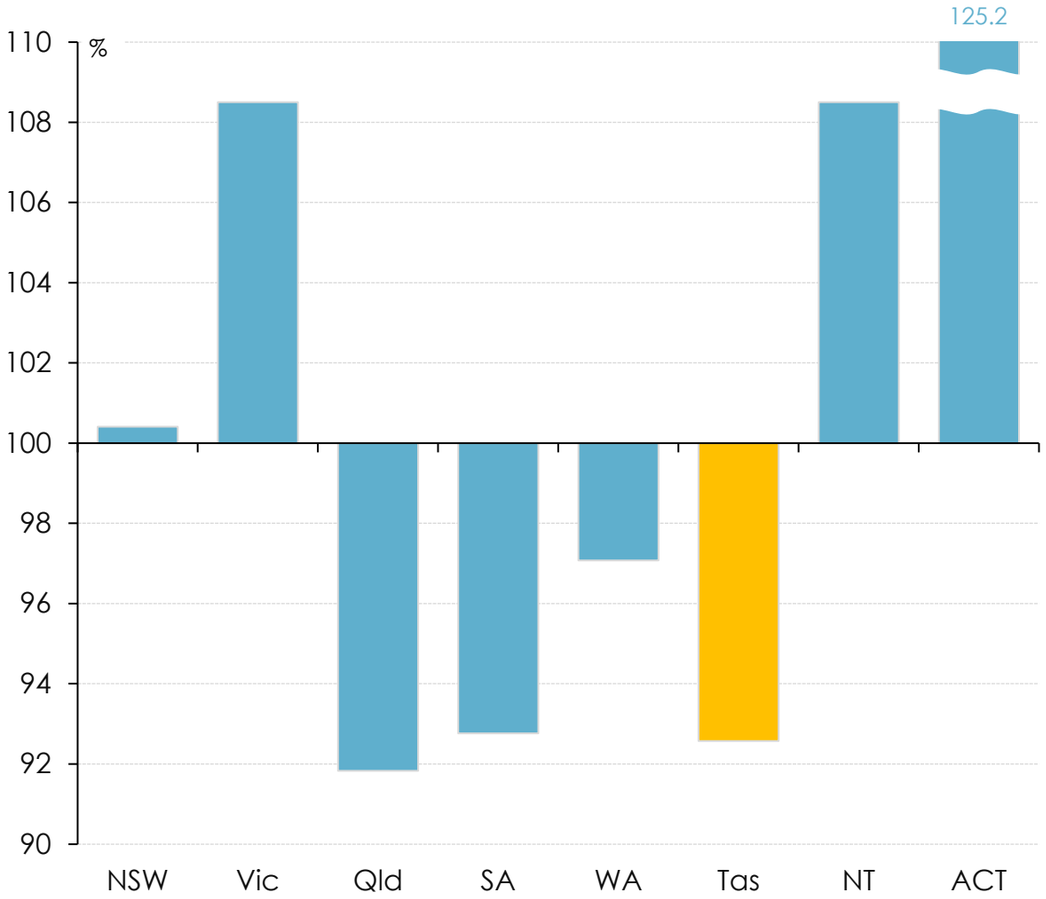
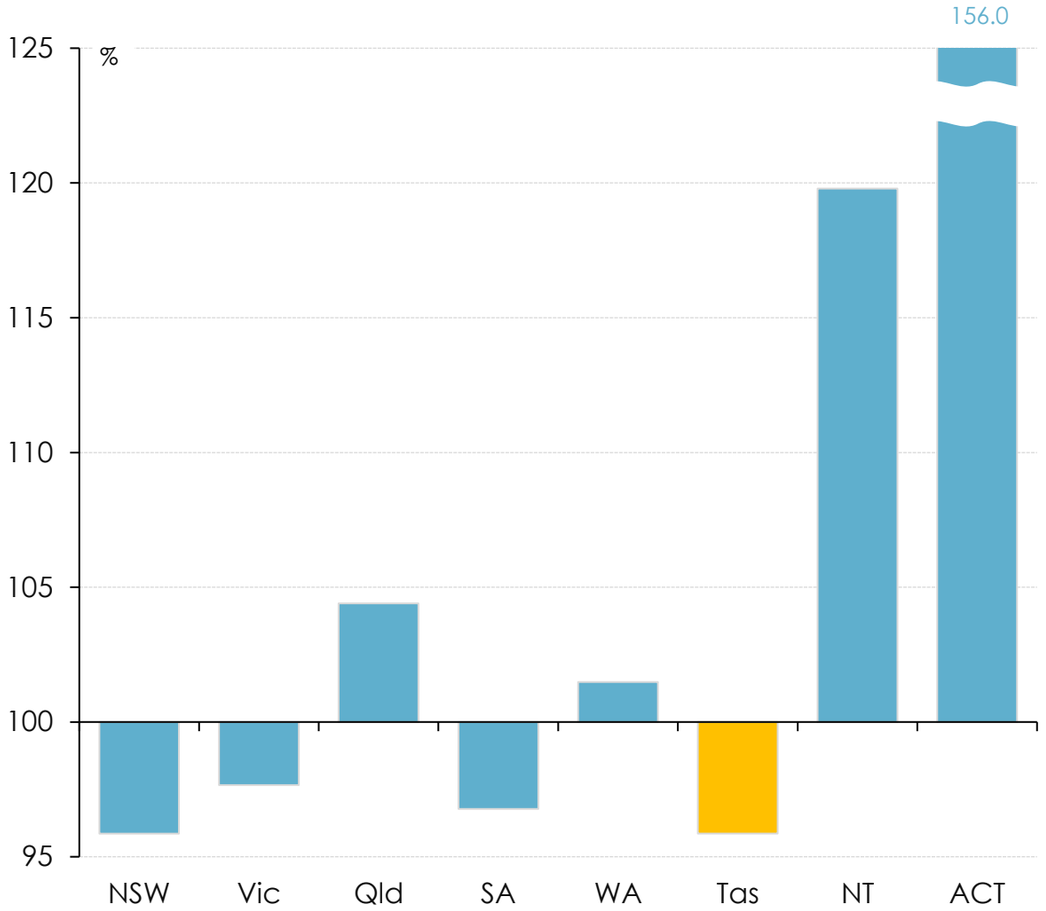
The Grants Commission reckons that Tasmania has been spending less than it 'needs to', and raising less revenue than it 'could', by being 'average'

Average 'level of service provision' ratios, 2019-20 to 2022-23



Average 'revenue-raising effort' ratios, 2019-20 to 2022-23



Note: The 'level of service provision' ratio is the ratio of total actual operating expenses by each state and territory to the Grants Commission's assessment of what it would need to spend in order to deliver the same level of services with the same 'efficiency' as the average of all states and territories. Similarly, the 'revenue-raising effort' ratio is the ratio of total taxation revenue actually raised by each state and territory to the Grants Commission's assessment of what it could raise if its tax regime were the same as the average of all states and territories. Note that the ACT Government also has local government expenditure responsibilities and revenue-raising powers.
Sources: Commonwealth Grants Commission, *2024 Update of GST relativities*, April 2024; *Independent Review of Tasmania's State Finances*, August 2024.

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Solving Tasmania's financial problems isn't going to be easy – someone, sometime is going to have to decide who gets hurt, and how much

- Tasmania's public finances are in the mess they are in because, since 2017-18, this Government has consciously chosen to increase spending (especially at each of the 2018, 2021 and 2024 elections) without giving a moment's consideration as to how that spending should or would be paid for
- I'm not especially critical of the vast bulk of that spending
  - although a good deal of it (including in health, education and infrastructure) could have been, and should be, spent more efficiently and effectively
- Crude methods of cutting expenditure – such as 'efficiency dividends' and 'vacancy control' – will inevitably result in greater *in*efficiencies and poorer standards of service
  - just as they do in the private sector
- Unless carefully thought through, sweeping cuts in spending programs will impose the highest costs on the most vulnerable individuals and households
  - of whom Tasmania has proportionately more than any other state or territory
- Whereas by contrast, carefully thought through increases in state taxes will have little or no impact on the most vulnerable individuals and households, and although potentially have adverse consequences for some businesses and wealthier individuals are 'manageable'
  - most state taxes are paid by businesses – which means that they are deductible against federal company or (for unincorporate businesses) personal income tax, and hence that at least 30% of any tax increases are in effect paid for by the Federal Government (in the form of lower company or personal income tax collections)
  - and other tax increases (eg motor vehicle registration fees, stamp duty on motor vehicles, and land tax) can be structured to avoid imposing greater burdens on low- and middle-income households

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Important information

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