There is no clear path back to a surplus – or at least, not one that can be used to start repaying debt

In the days since presenting the 2024-25 State Budget, Treasurer Michael Ferguson has spoken of the budget being on 'a path back to surplus' by the 2029-30 financial year.

But what is this 'surplus' of which he speaks?

The Treasurer is referring to what the Budget Papers call the ***'net operating balance'***. That's the difference between 'operating revenues' – revenue from state taxes and charges, Tasmania's share of revenues from the Federal Government's GST, and other grants from the Federal Government – and 'operating expenses', that is, spending on the delivery of services such as schools, hospitals and policing, public administration, grants to community organizations, superannuation payments to retired public servants, and interest on public debt.

Last week's Budget Papers forecast that the 'net operating deficit' will decline from $793 million in the current financial year to just $63 million in 2027-28, the last year of the 'forward estimates' presented in this year's Budget Papers. That forecast assumes that total revenues will rise by 5.6% between this year and 2027-28, while 'operating expenses' will fall by 2.4% .

That latter figure would represent the first time that 'operating expenses' have fallen over a three-year period for at least two decades, and compares with average growth over three-year intervals since 2001-02 of 19.1%,

But, assuming those forecasts turn out to be correct, and that 'operating' revenues and expenses continue on those trajectories for another two years, it's by no means impossible that the 'net operating balance' could be in surplus by 2029-30.

So, problem solved, right? And no need for those nasty tax increases that I recommended in my *Independent Review of Tasmania's State Finances*?

Er, no.

First, the 'net operating balance' includes several hundreds of millions of dollars each year of one-off Federal grants for 'capital purposes'. Under the accounting conventions used to compile Budget Papers, these grants are classified as 'operating revenues', even though the expenditure which they fund isn't classified as 'operating expenses'. The ***'underlying net operating balance'***, which excludes these grants, is forecast to be in deficit by $384 million by 2027-28. That's a long way from being in surplus by 2029-30.

Second, and more importantly, the 'net operating balance' excludes all of the Government's infrastructure and other capital spending, which is projected to average over $900 million per annum over the four years to 2027-28.

The ***'fiscal balance'***, the accrual-accounting measure of the budget's 'bottom line' which does include this spending, is forecast to still be in deficit by $288 million in 2027-28. Again, that's a long way from being in surplus by 2029-30.

Because it is an accrual-accounting measure, the 'fiscal balance' includes a number of revenue and expenditure items that don't involve the receipt or payment of cash.

For the years 2024-25 through 2027-28, it also doesn't include prospective payments to survivors of child sexual abuse in state institutions, because those payments were 'provided for', in an accrual-accounting sense, in the 2023-24 financial year, as detailed in the Preliminary Final Budget Outcomes report released on 12th August.

Changes in the Government's debt position are driven largely by the ***cash balance*** – which is, simply put, the difference between cash receipts and cash payments. This is the measure which is the primary focus of the Federal Budget. If cash payments exceed cash receipts, the Government is running a cash deficit, and it has to borrow to make up the difference. If cash receipts exceed cash payments, then the Government is running a cash surplus, and it can repay debt.

Last week's Budget Papers show – albeit not until you get to page 65 of Budget Paper No. 1, and without any accompanying commentary – that the Government expects to incur a cash deficit of $396 million in 2027-28. That's down from the $1.5 billion deficit forecast for the current financial year – but, again, it's a long way from heading towards a surplus in 2029-30.

To repeat, if the Government isn't running cash surpluses, it can't repay debt.

Third, the Federal Government's guarantee that Tasmania and the other 'eastern' states and territories will be no worse off as a result of the corruption of the system for distributing revenue from the GST in order to give Western Australia a bigger share than it should be getting, expires at the end of 2029-30.

That guarantee is estimated to cost the Federal Budget $53 billion over the eleven years to 2029-30 – a gift from Federal taxpayers to the government of Australia's richest state so that it can run bigger budget surpluses and, ultimately, provide its citizens with better public services whilst levying on them lower state taxes than the rest of Australia.

But since the Federal Budget is projected to have accumulated cash deficits totalling $167 billion between this financial year and 2029-30, there has to be a significant risk that the Federal Government won't extend the 'no worse off guarantee' beyond 2029-30 – in which case the cost of appeasing the greed of Western Australians will fall back onto the other states and territories. And Tasmania will wear a disproportionate share of that cost – in the form of reduced revenues from the GST – because we get a larger share of the revenue from the GST than our share of the population.

Finally, last week's Budget Papers show that Tasmania's government business enterprises will continue running cash deficits totalling more than $8.6 billion over the next four years, resulting in their net debt (which is guaranteed by the Government) rising from $7.8 billion as at 30th June this year to a forecast $16.6 billion by 2027-28.

In short, there is no clear path back to cash surpluses, without either raising additional revenues or significantly scaling back infrastructure spending – both of which the Government has explicitly rejected.

If the Government wasn't prepared to heed Treasury's repeated advice to take 'corrective actions' designed to put Tasmania's finances on a sustainable footing when (as we were repeatedly told) Tasmania was "out-performing the nation" and when it held a majority in Parliament, and it isn't prepared to heed Treasury's and my advice when it is no longer "out-performing the nation" and it doesn't have a majority in Parliament, when is it going to do it? Or is it just going to leave that task to some future Government?

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