

'TASMANIAN MONEY MATTERS'

PRESENTATION TO A UTAS 'ISLAND OF IDEAS' EVENT

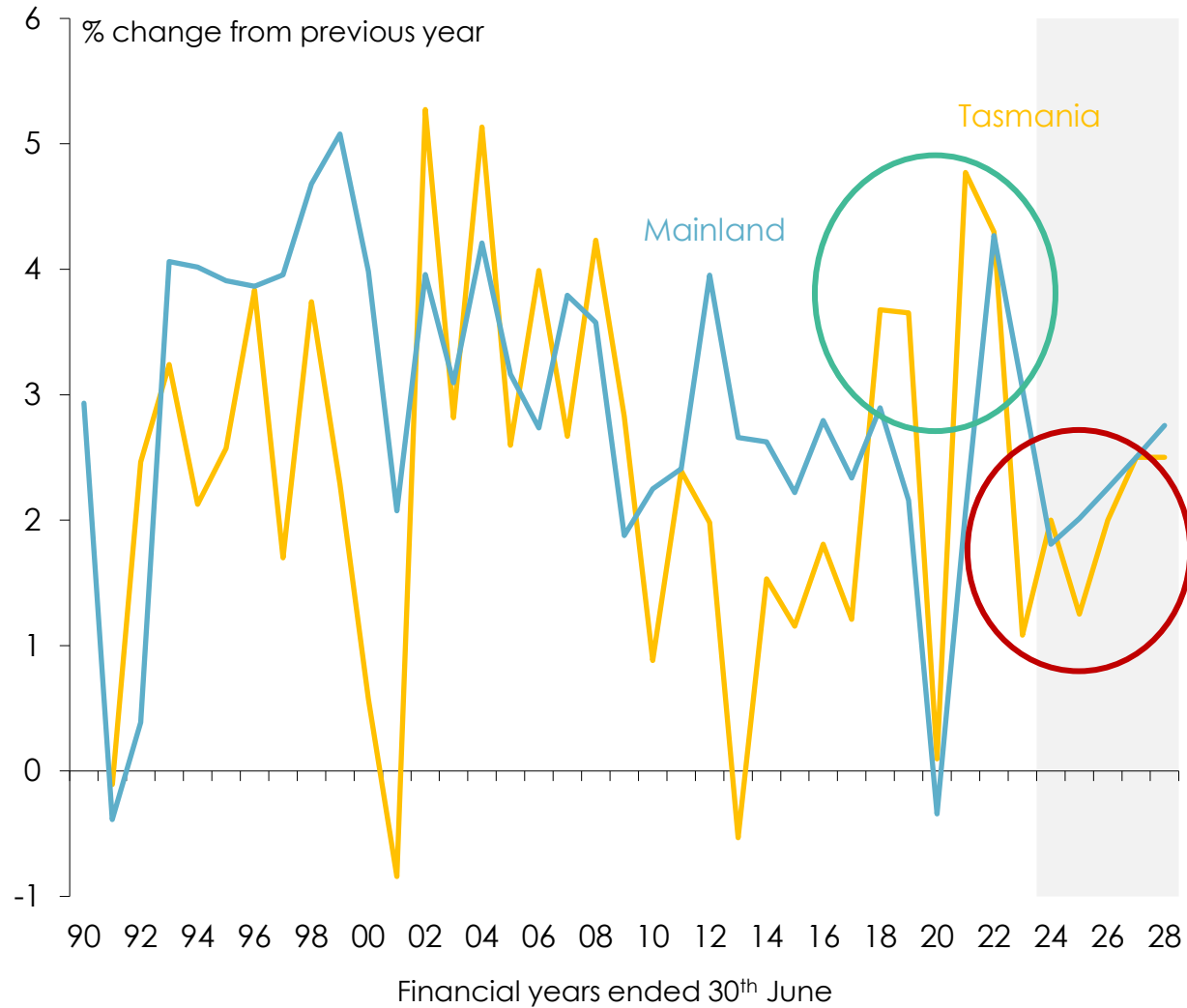
3RD OCTOBER 2024

SAUL ESLAKE

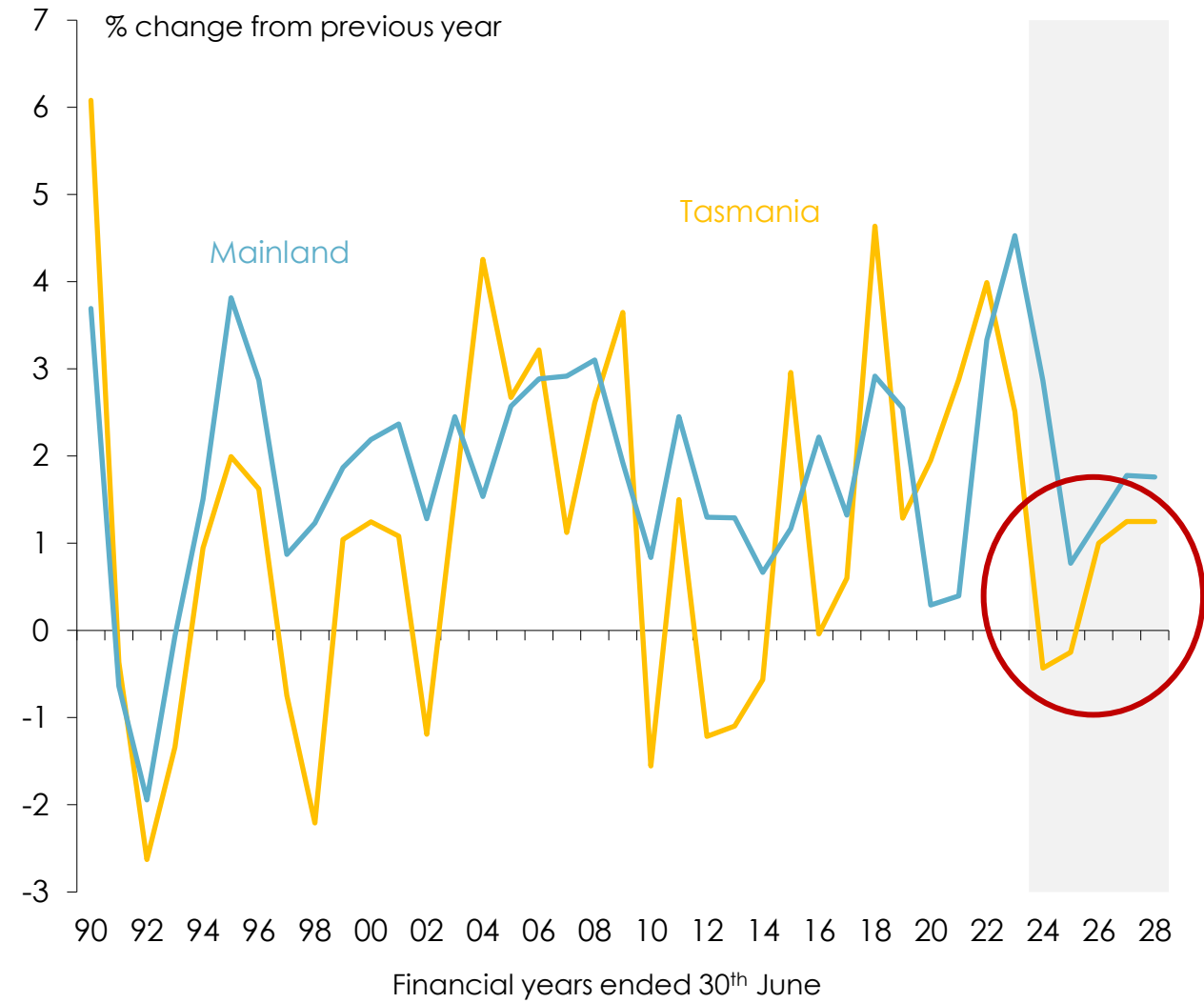
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

After out-performing the national economy between 2018 and 2022, Tasmania's economy is now once again falling behind

Annual growth in real gross state product



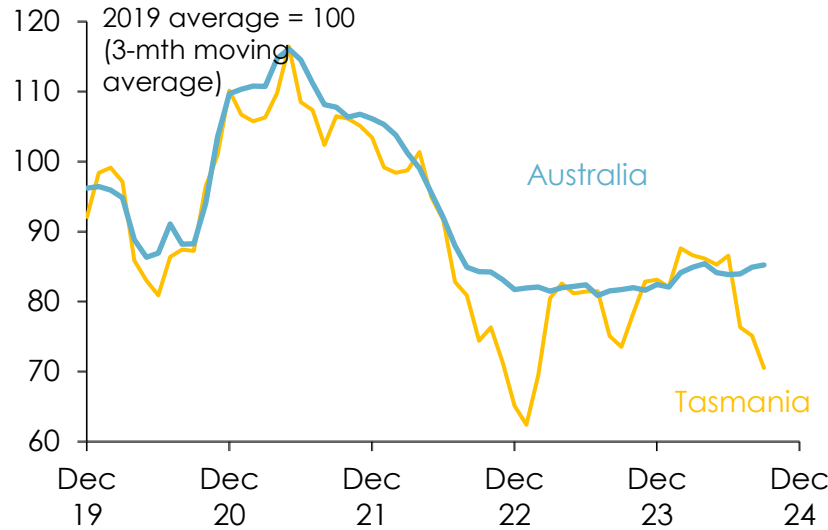
Annual growth in employment



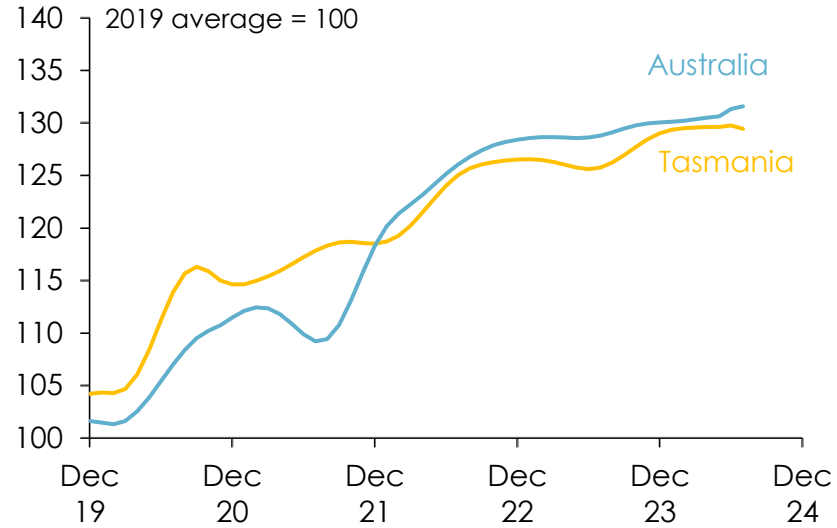
Note: Shaded areas denote Tasmanian and Commonwealth Treasury forecasts. Sources: ABS, [Australian National Accounts: State Accounts](#), 2022-23 and [Labour Force, Australia](#), August 2024; Tasmanian Government, [2024-25 Budget Paper No. 1](#), September 2024; Australian Government, [2024-25 Budget Paper No. 1](#), May 2024.

On a wide range of metrics, Tasmania is no longer 'leading the nation'

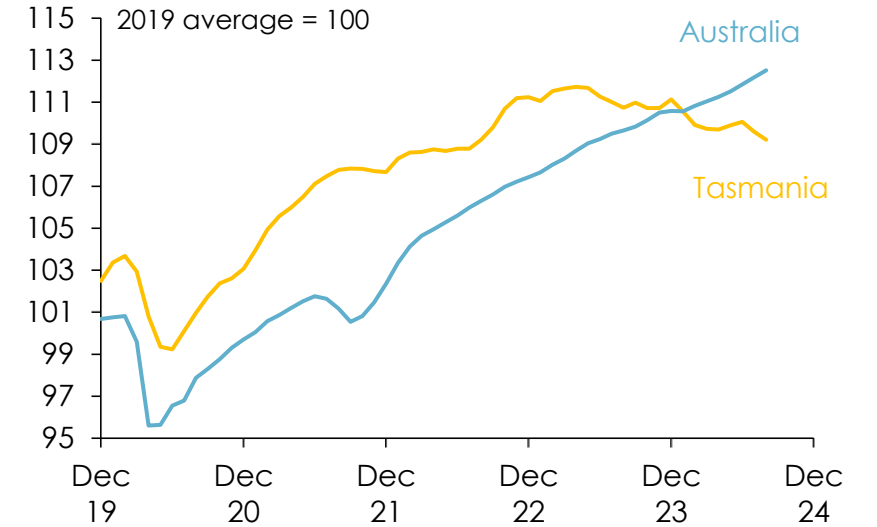
Consumer confidence



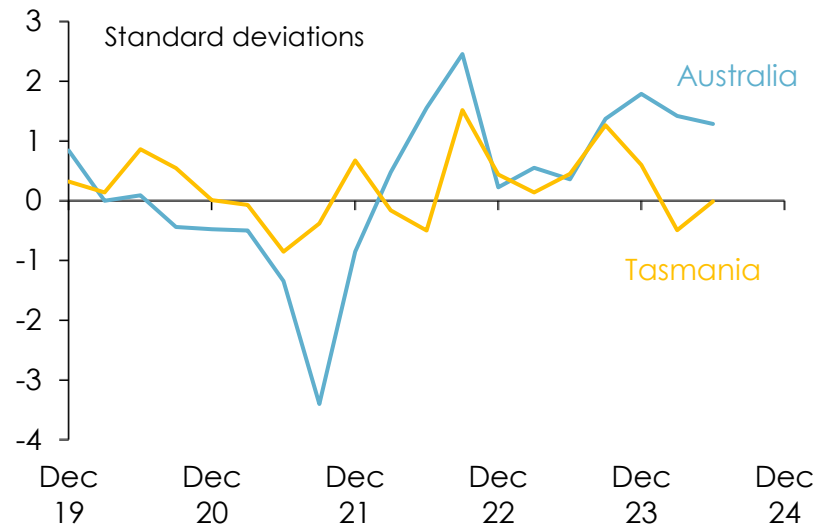
Retail sales



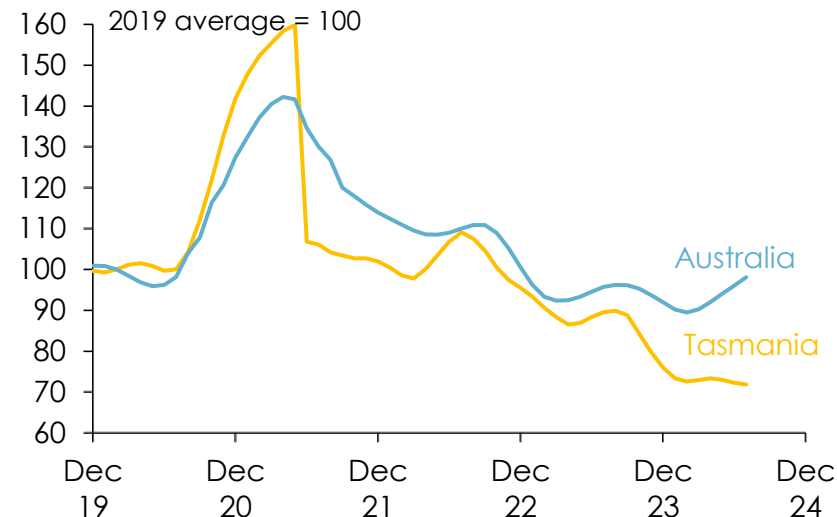
Employment



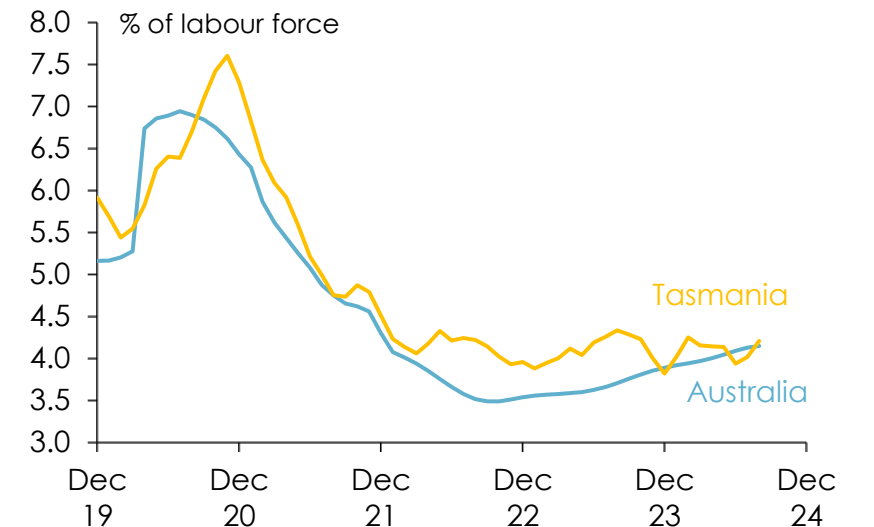
Business confidence



Residential building approvals



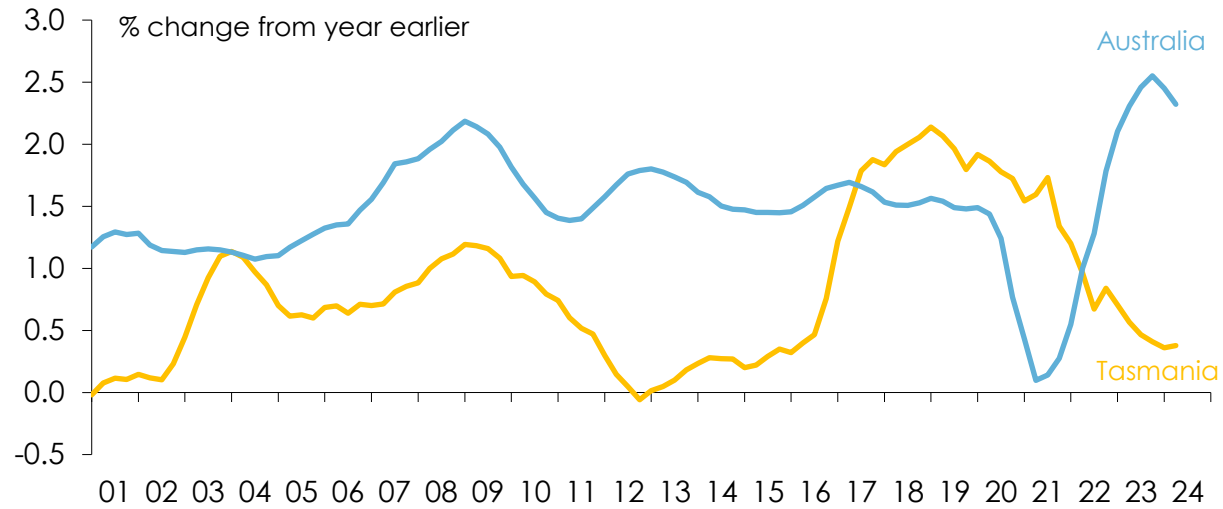
Unemployment



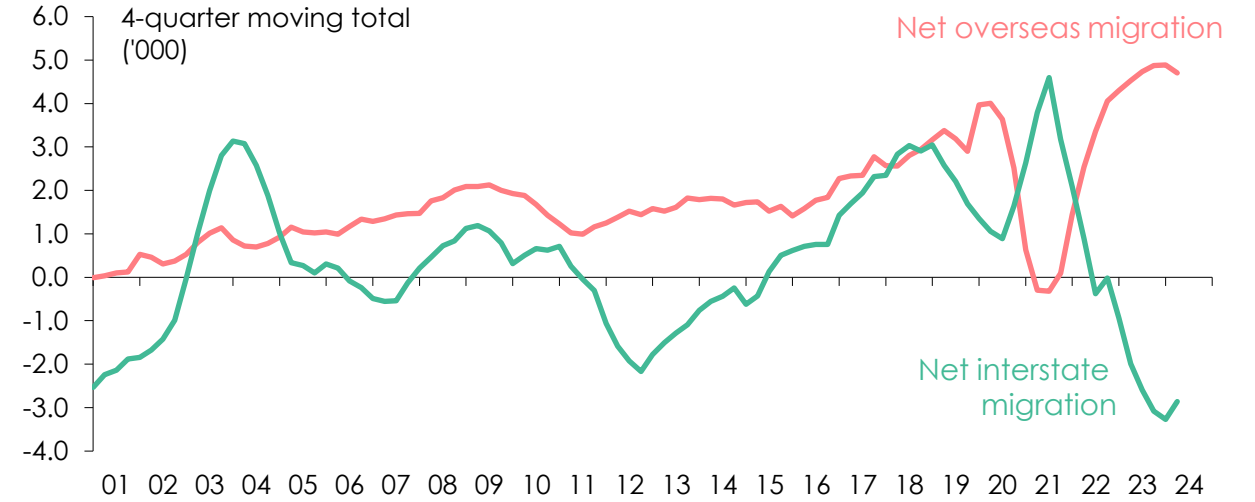
Note: all data except for consumer and business confidence are derived from trend estimates. Sources: National Australia Bank, [Quarterly Business Survey](#), June quarter 2024; Westpac-Melbourne Institute, [Westpac-MI Consumer Sentiment](#), September 2024; ABS, [Retail trade](#), July 2024; [Building Approvals](#), June 2024; and [Labour Force](#), August 2024.

A major difference between Tasmania and the rest of Australia over the past two years has been population growth

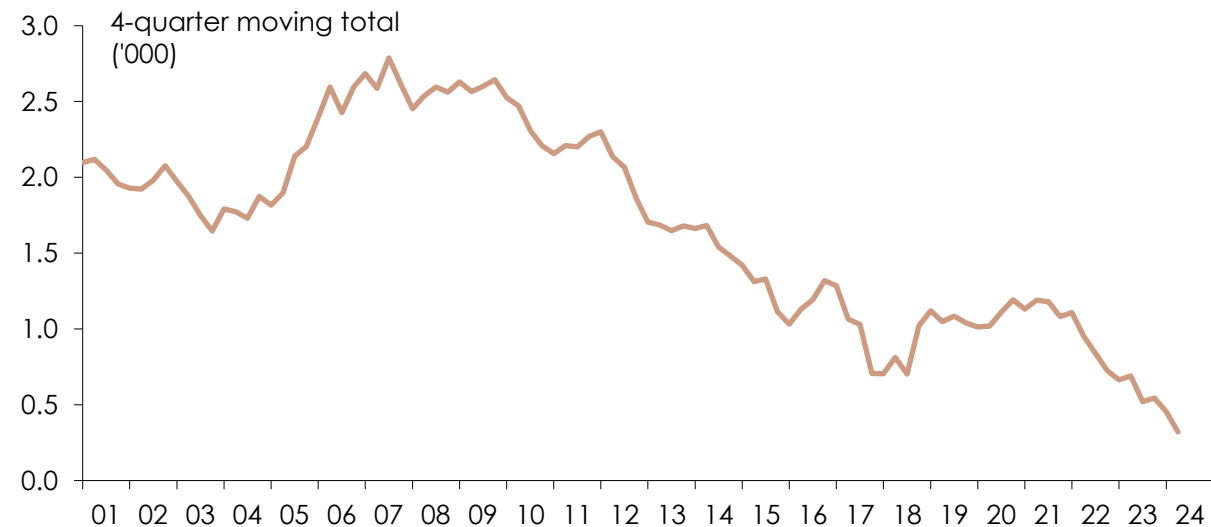
Population growth



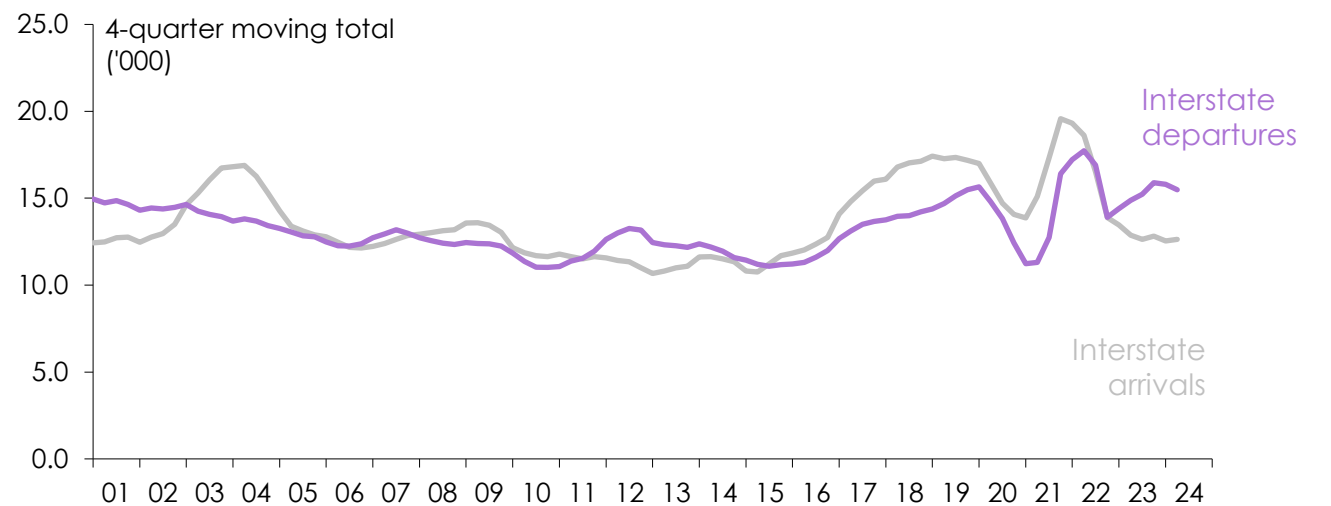
Net migration to Tasmania



Natural increase (births minus deaths)



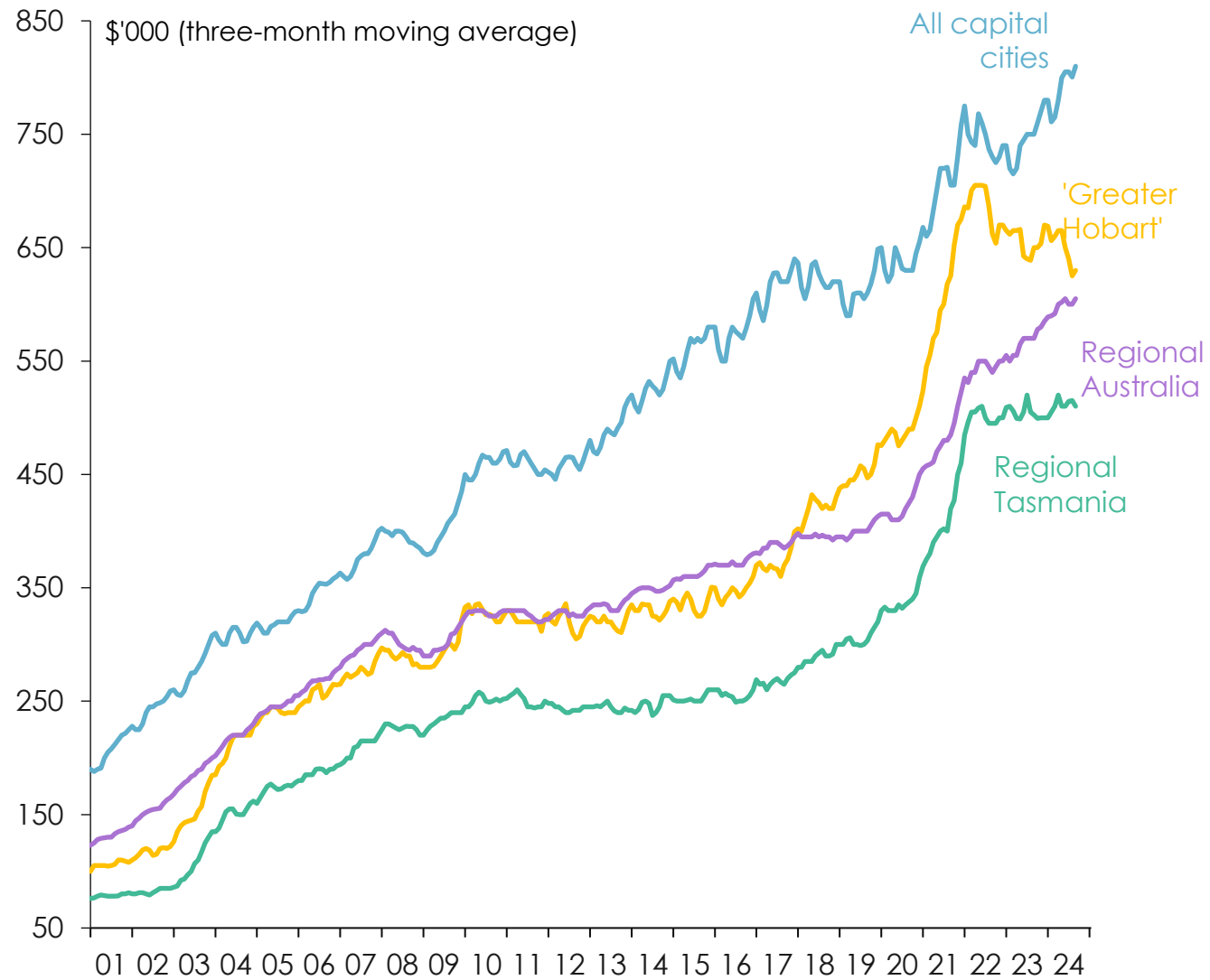
Interstate arrivals and departures



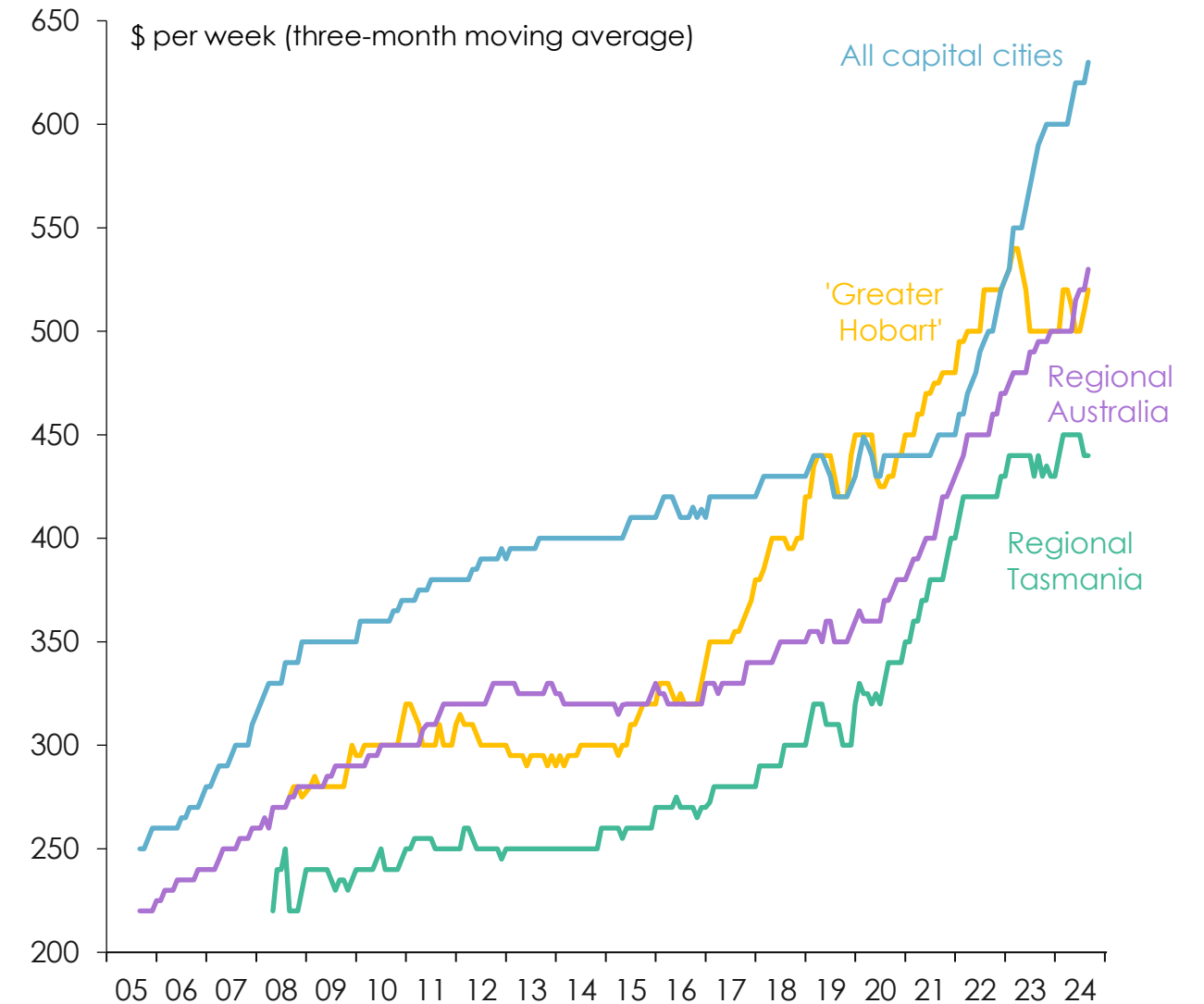
Sources: ABS, [National, state and territory population](#), March 2024.

Deteriorating housing affordability has been a major factor prompting the resumption of net exports of people to the mainland

Median dwelling sale prices



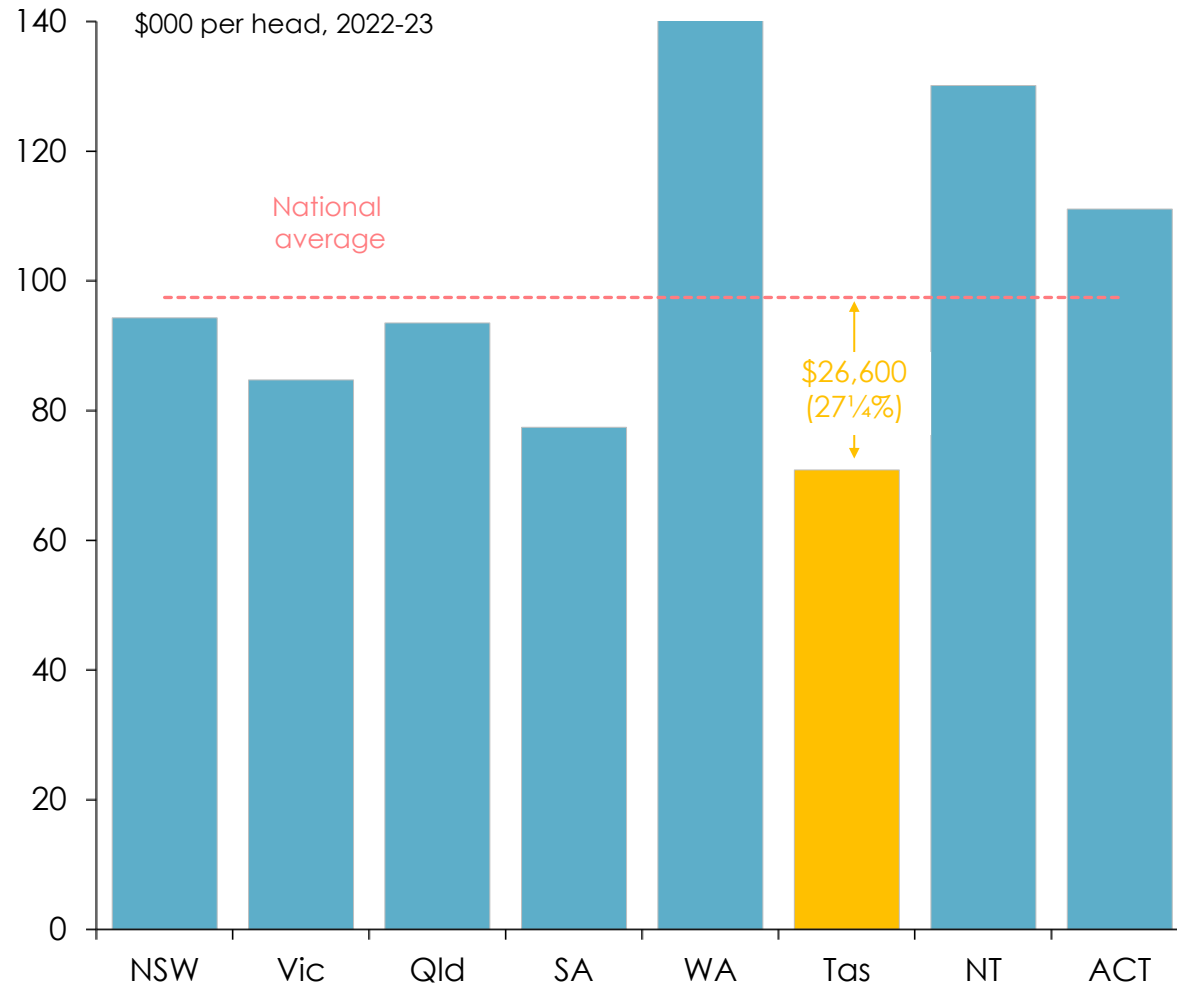
Median dwelling rents



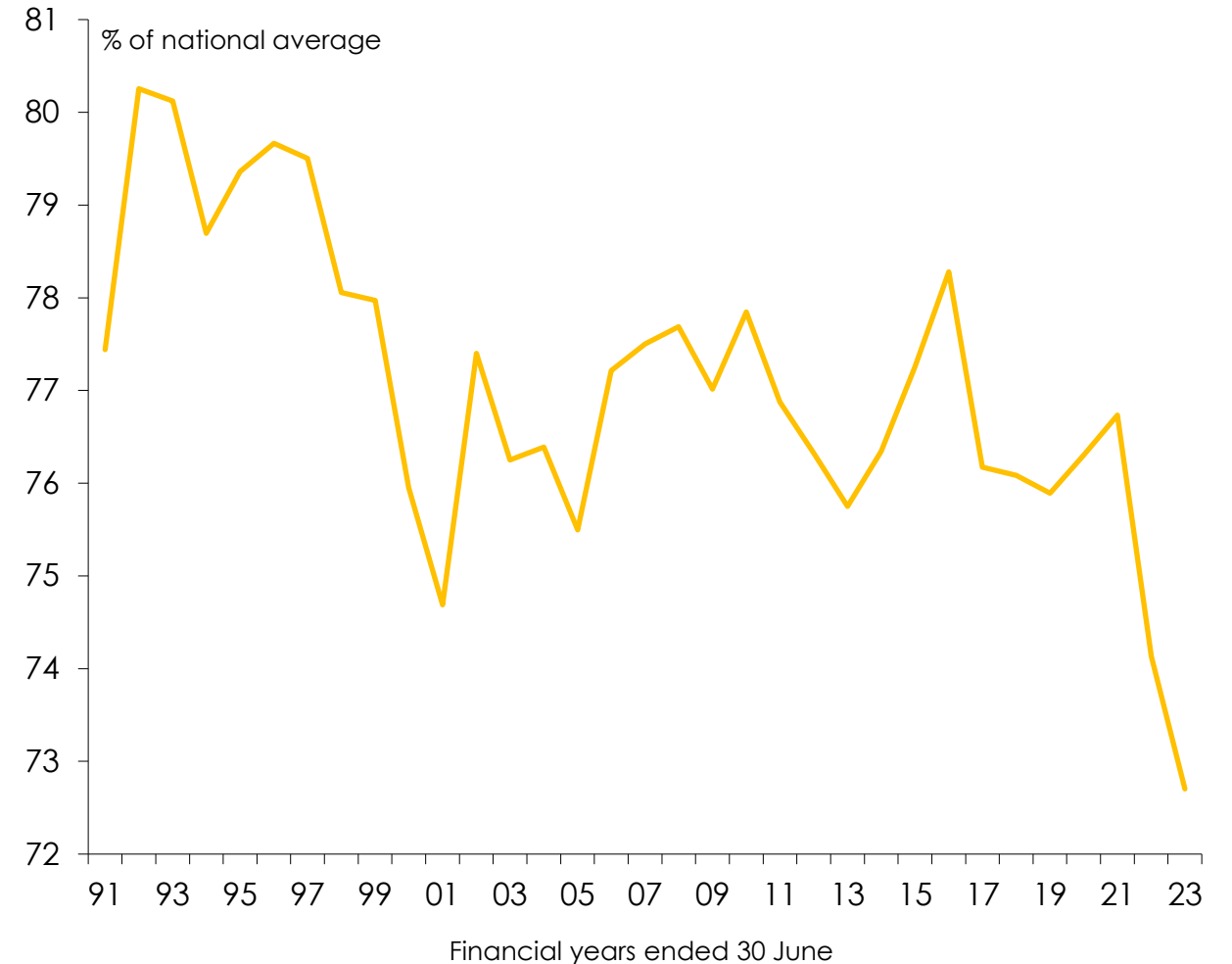
Source: CoreLogic, [RP Data Daily Home Value Index: Monthly Values](#), August 2024.

Tasmania remains Australia's poorest state, measured by per capita gross product – and in 2022-23 by the biggest margin in 32 years

Gross state product per head of population, states and territories, 2022-23



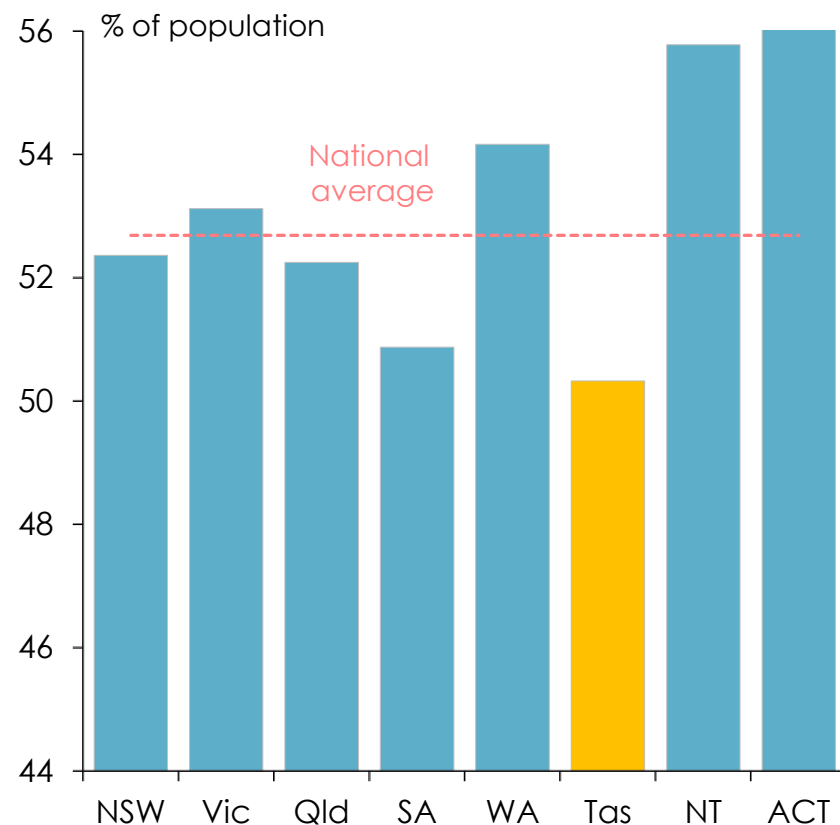
Tasmania's per capita gross state product as a proportion of the national average



Source: ABS, [Australian National Accounts: State Accounts](#), 2022-23.

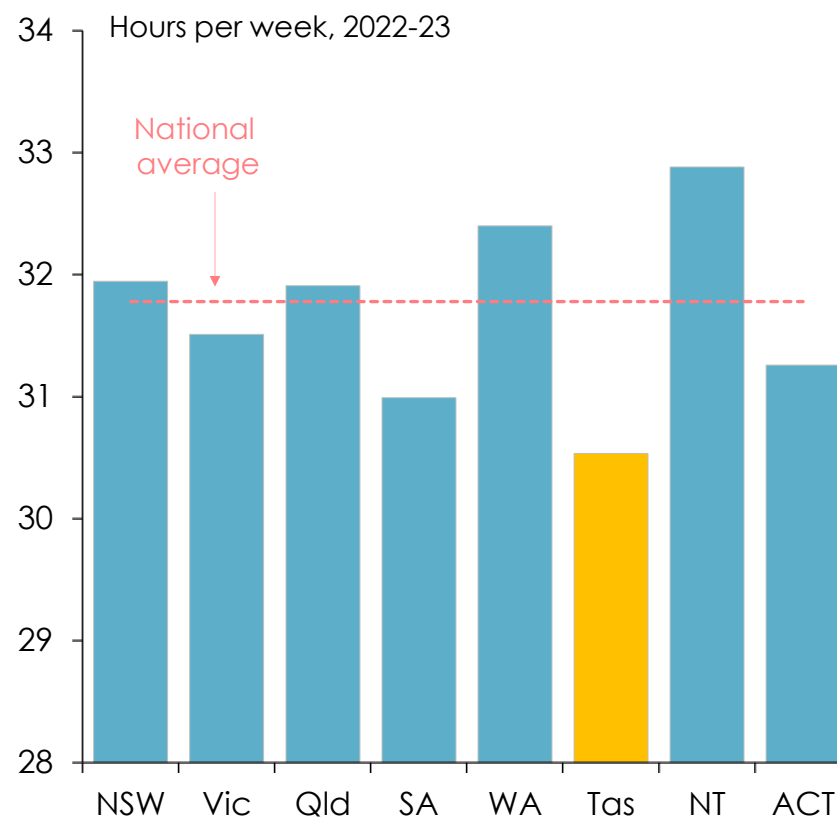
We're the poorest state in the nation because fewer of us have jobs, we work fewer hours, and for each hour that we work we produce less

People with jobs as a proportion of the population, 2022-23



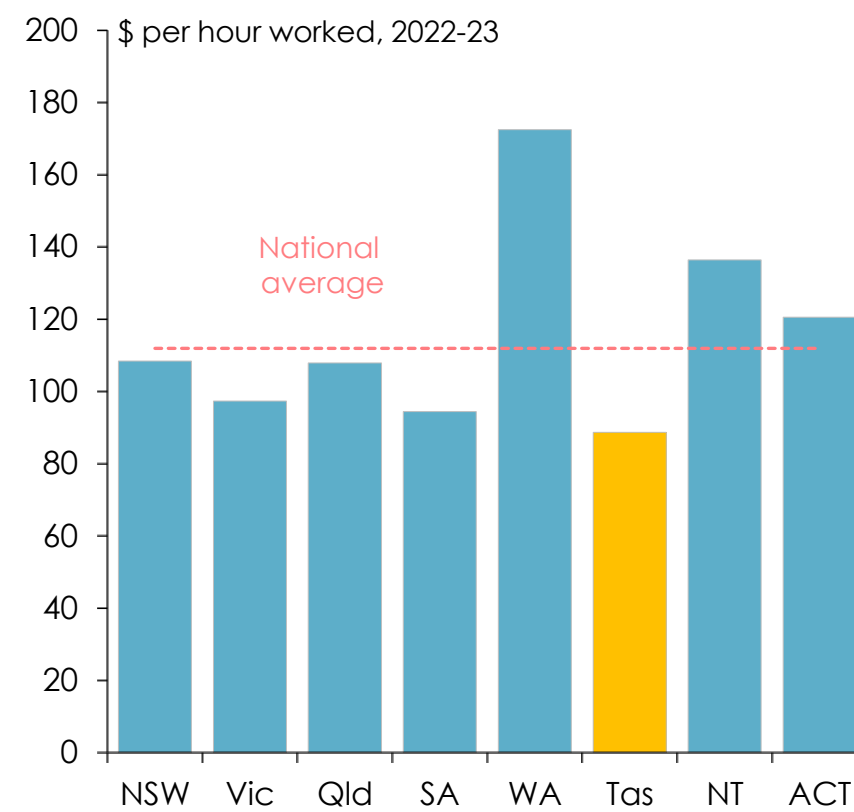
Only 50.3% of Tasmanians work – 2.4 pc pts less than the corresponding proportion of mainlanders

Average hours worked by people with jobs, 2022-23



Tasmanians work 1¼ fewer hours per week than mainlanders – equivalent to an additional 7 days off a year

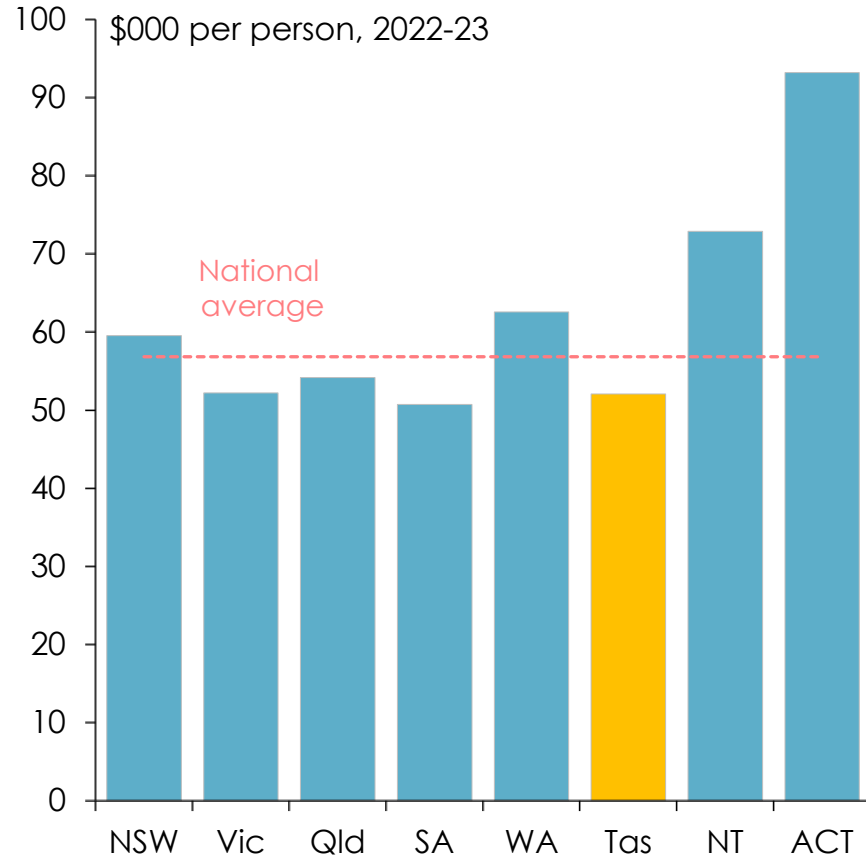
Output per hour worked by people with jobs, 2022-23



Tasmanian labour productivity is \$21.60 (20¾%) less than the mainland average

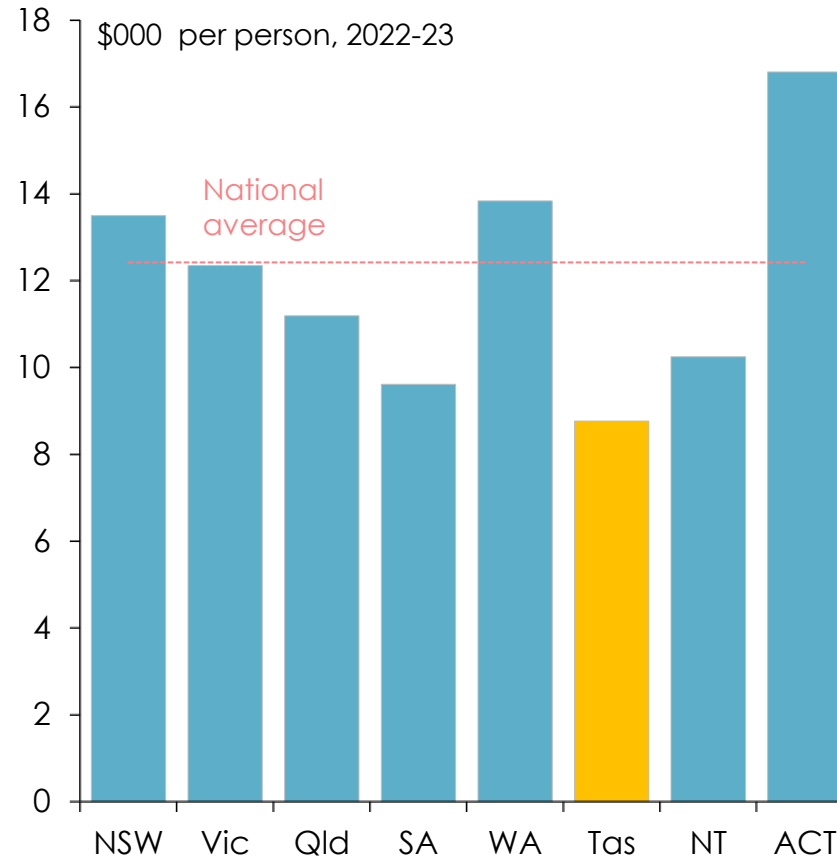
The national tax and social security systems shield Tasmanian household incomes from the effects of Tasmania's poor economic performance

Household disposable income per head, 2022-23



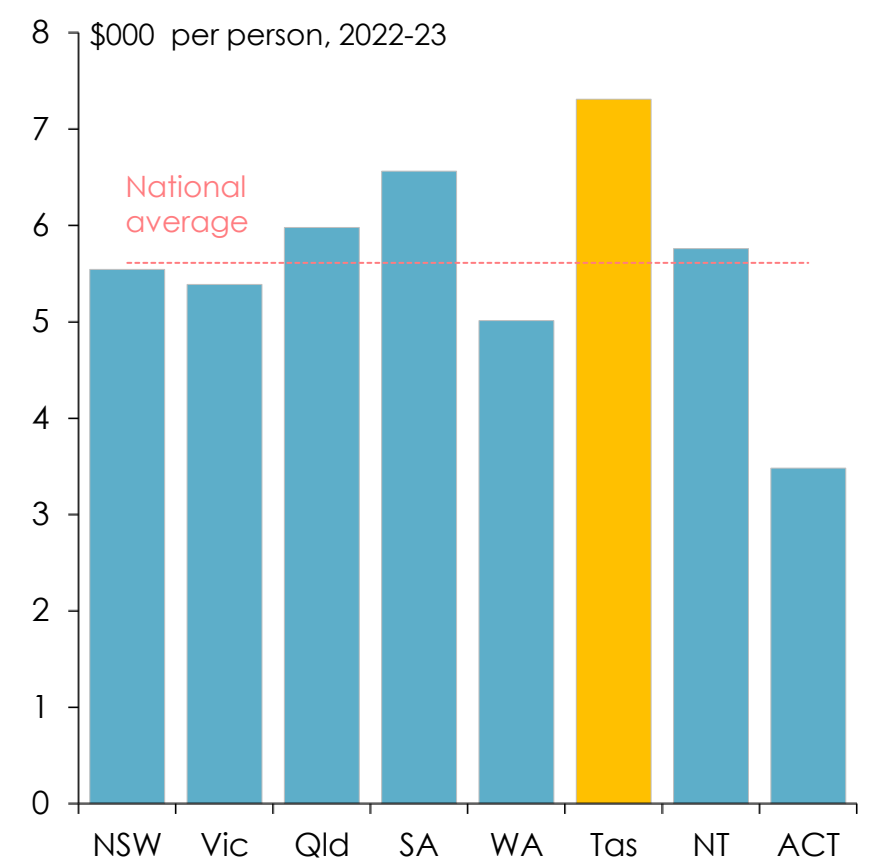
Tasmanian per capita household disposable income is 'only' 8½% below the national average (cf. per capita GSP 27¼% below average)

Personal income tax payments per head, 2022-23



Tasmanians pay \$3,654 per head (21½%) less in personal income tax than the national average

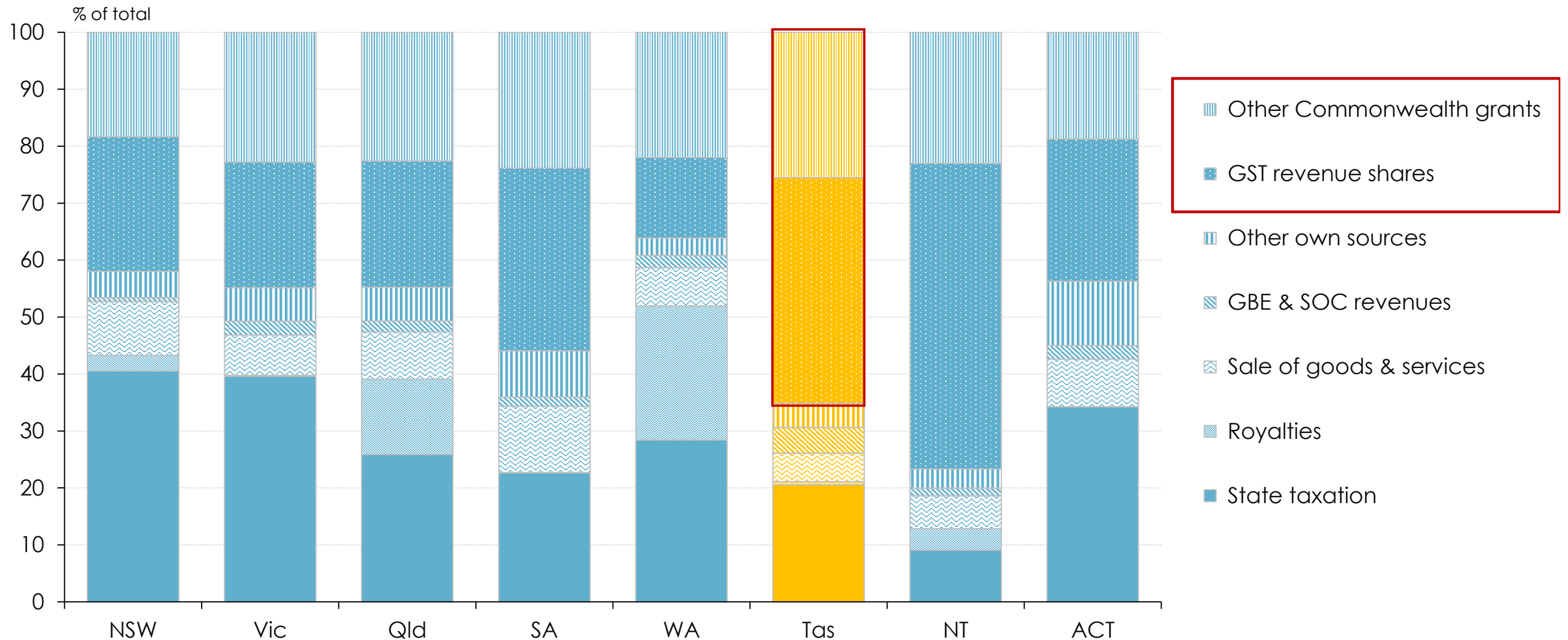
Social security benefit payments per head, 2022-23



Tasmanians receive \$1,318 per head (20¾%) more in benefits than the national average

And the distribution of GST revenue shields the Tasmanian Government from some of the consequences of our poor economic performance

'General government' revenue by source, States and Territories, 2023-24



Sources: State and Territory Government Budget Papers. Note that the Western Australian Government gave most of its public sector non-financial corporations a 'dividend holiday' for the 2023-24 financial year.

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, 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)

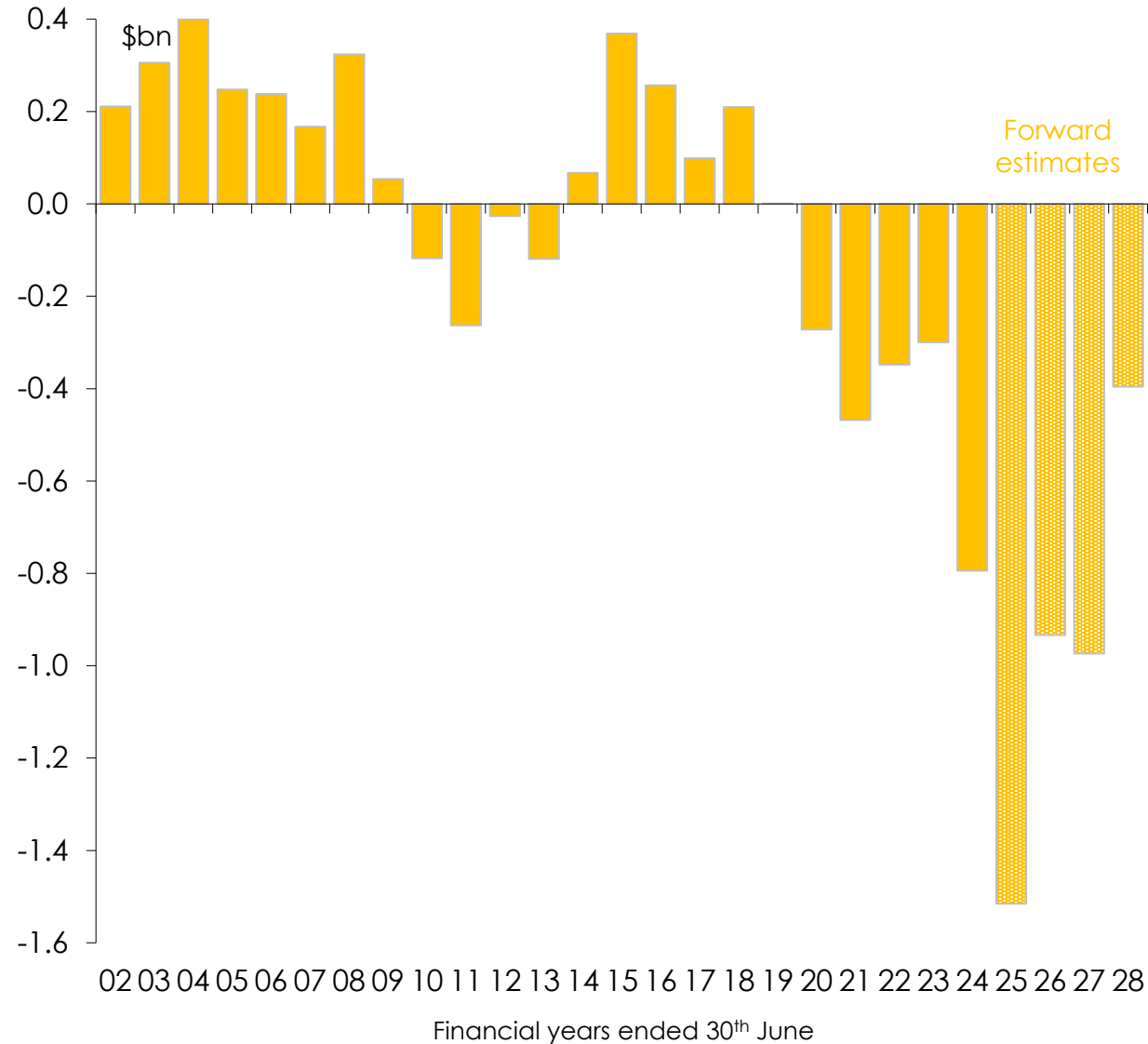
- ❑ The **'net operating balance'** is the difference between 'operating' revenues and 'operating' expenses
 - 'operating revenues' includes all revenue from state taxation, fees and fines, interest income, dividends and other payments from government business enterprises, and grants from the Federal 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'

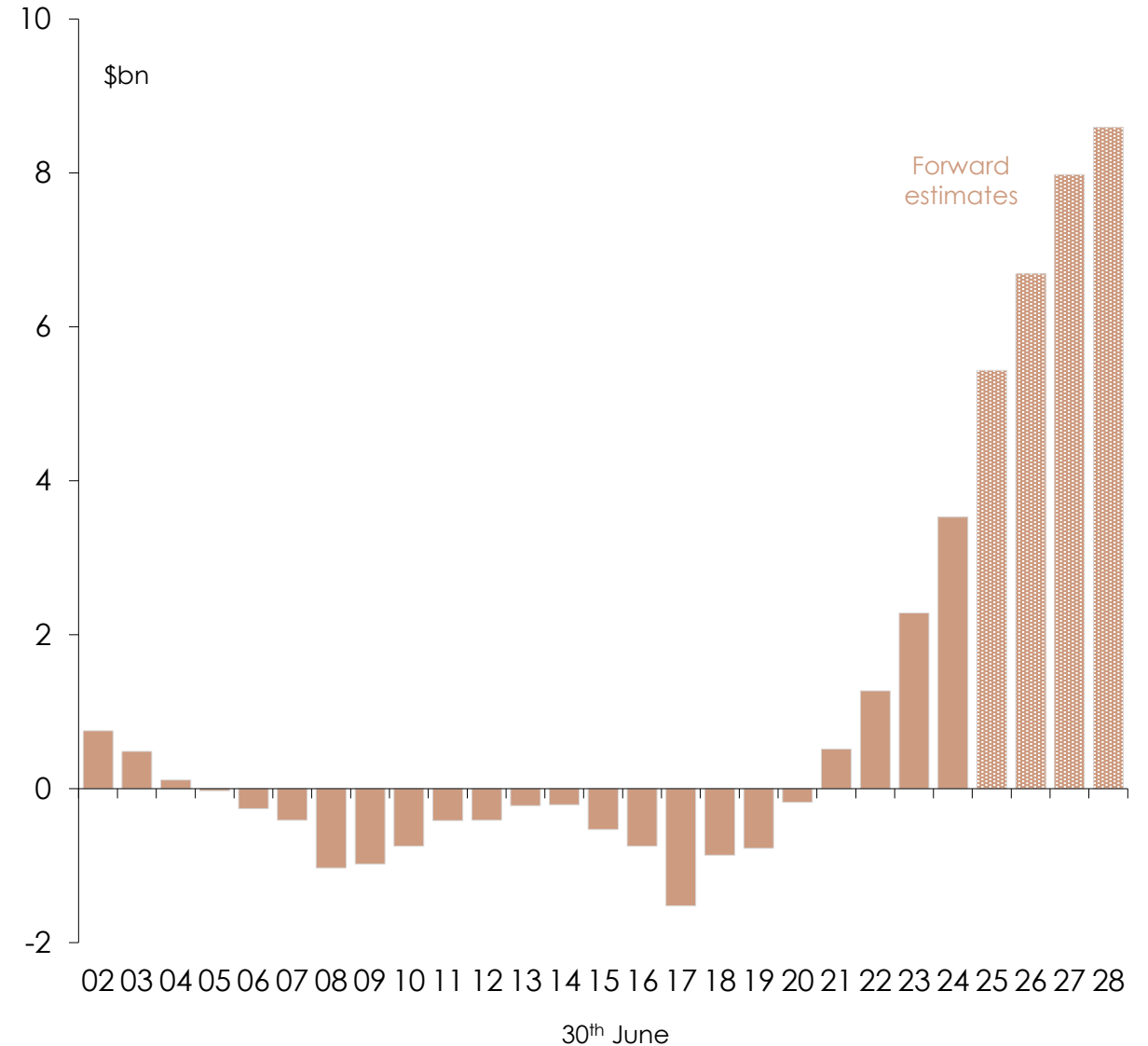
- ❑ The **'cash balance'** is the difference between cash in ('receipts') and cash out ('payments')
 - it's the measure most commonly used by the Federal Treasurer (and other commentators) when talking about the Federal Budget being in 'surplus' or 'deficit'
 - and it is largely what drives changes in **net debt**

Tasmania's 'general government' finances have deteriorated sharply since 2018 – ie, before, during and after the Covid-19 pandemic

'General government' sector cash balance



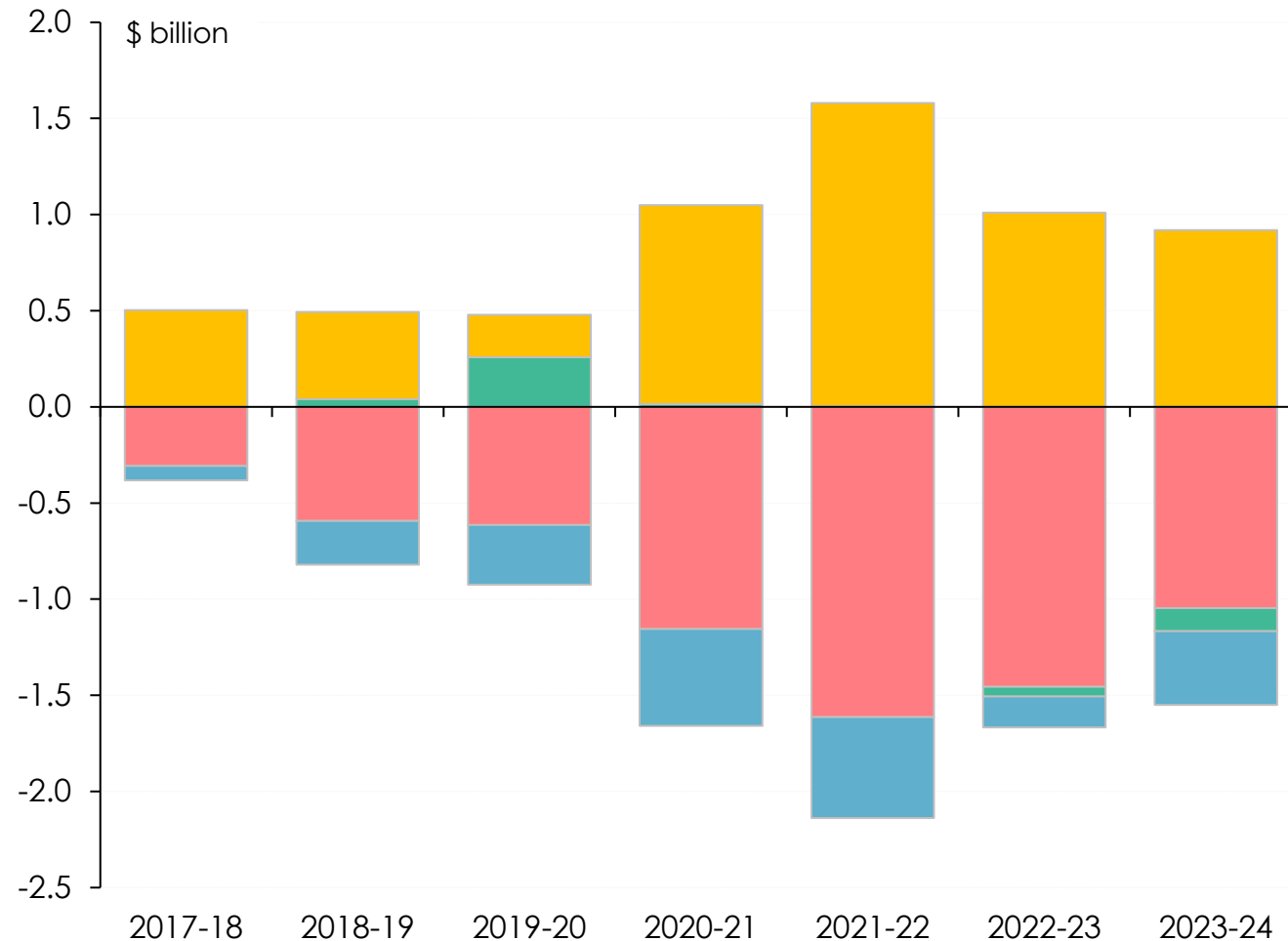
'General government' sector net debt



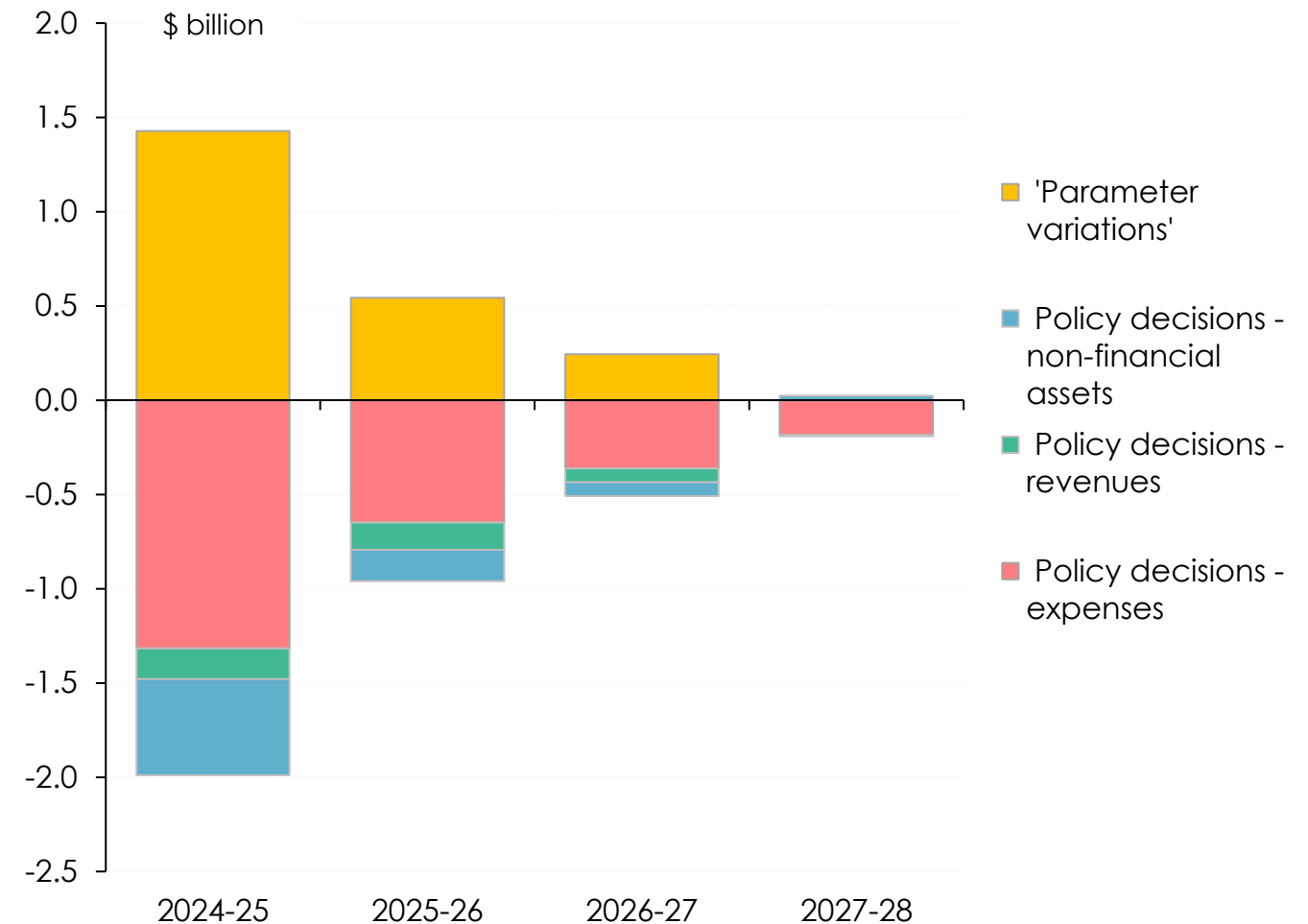
Sources: Tasmanian Treasury, [Treasurer's Annual Financial Report 2022-23](#) and previous issues; [Independent Review of Tasmania's State Finances](#), August 2024; and Tasmanian Government, [2024-25 Budget Paper No. 1](#), September 2024.

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



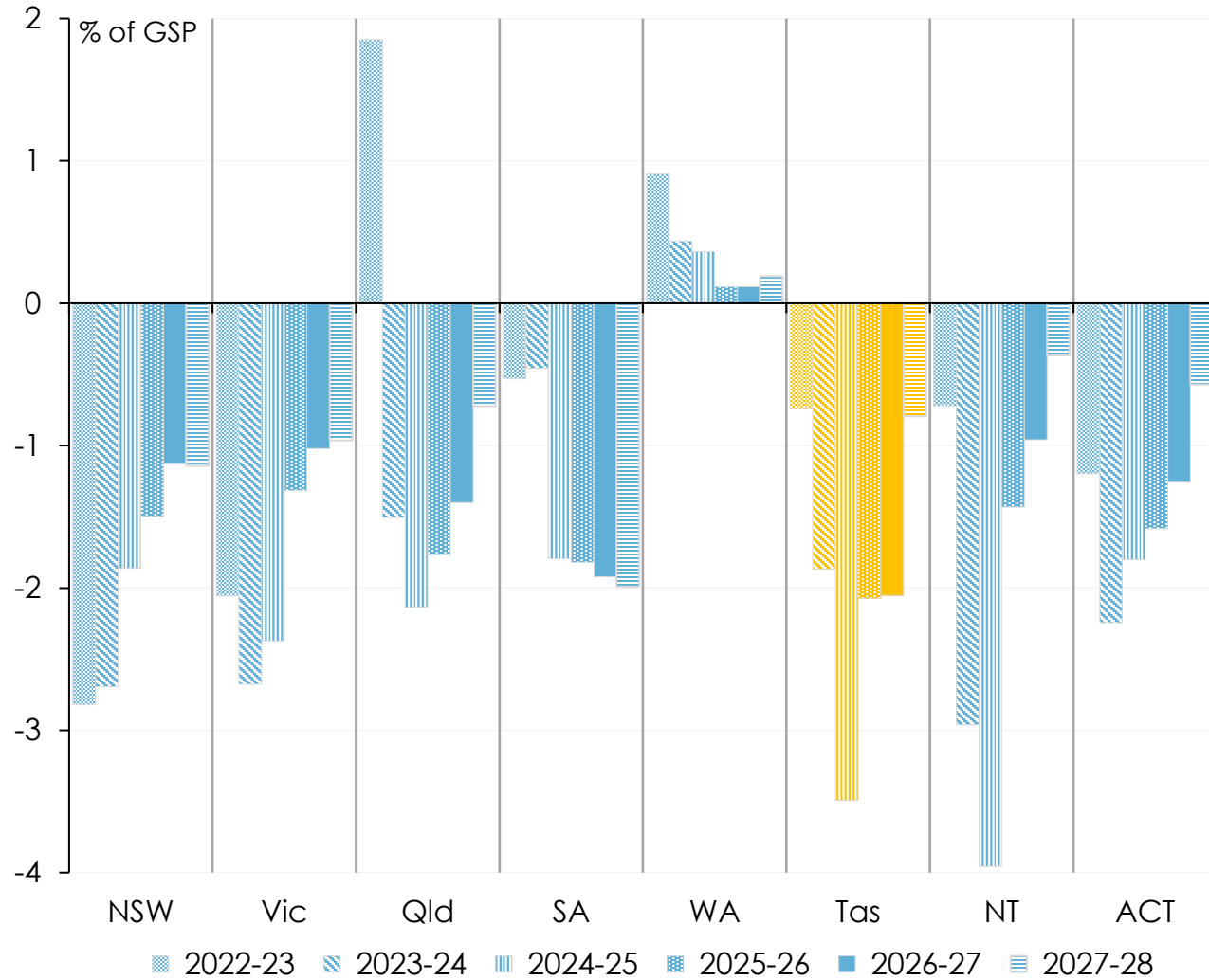
Sources of changes in forward estimates of the fiscal balance from initial estimates, 2024-25 to 2027-28



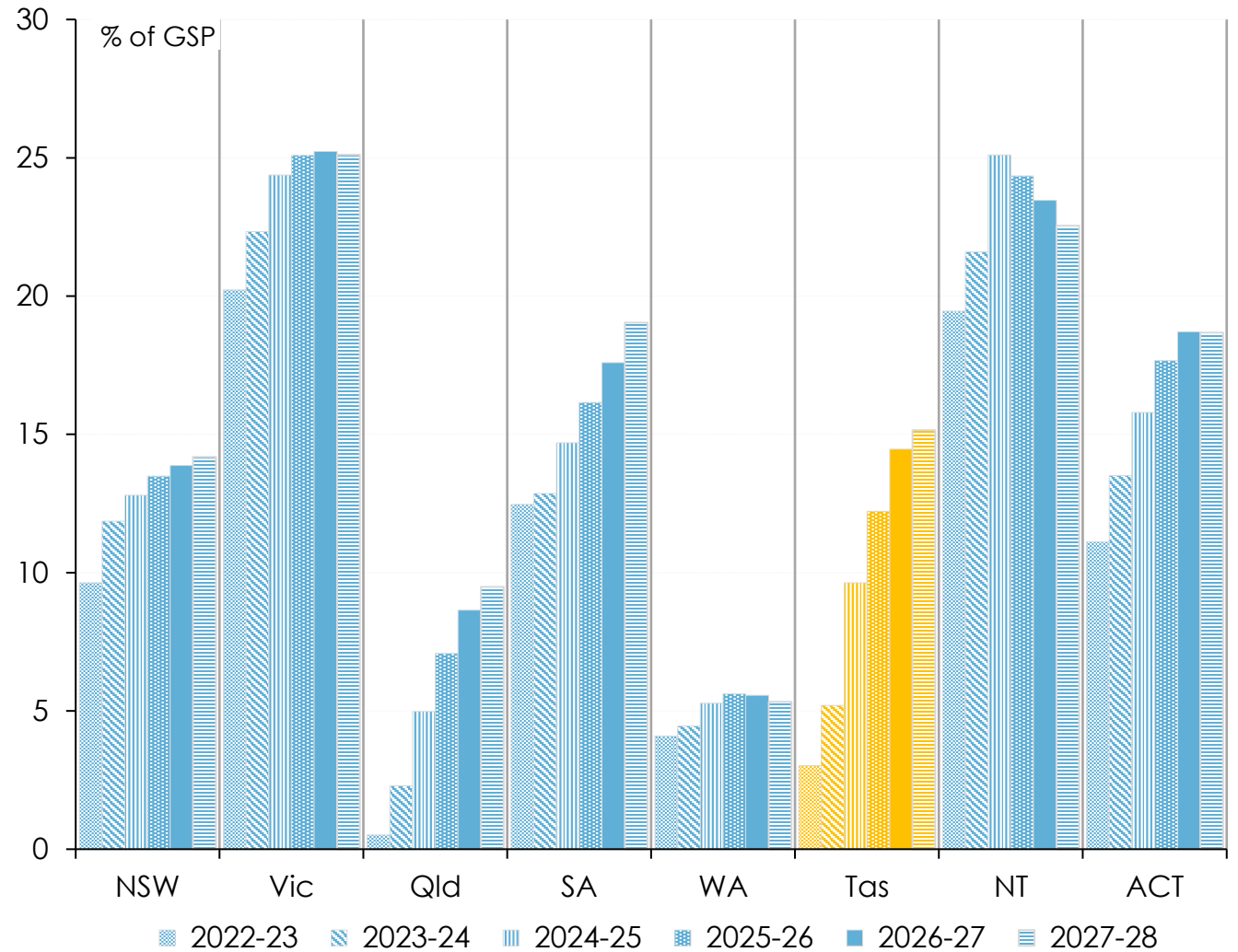
Note: 'Parameter variations' are changes in economic and other assumptions used in constructing forward estimates of expenses and revenues (including changes in GST revenues and other Commonwealth grants). 'Policy decisions' are conscious government decisions to increase or reduce operating expenses, '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, [2024-25 Budget Paper No. 1](#).

Tasmania's general government sector cash balance and net debt positions aren't the worst in Australia, but they're no longer the best, either

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



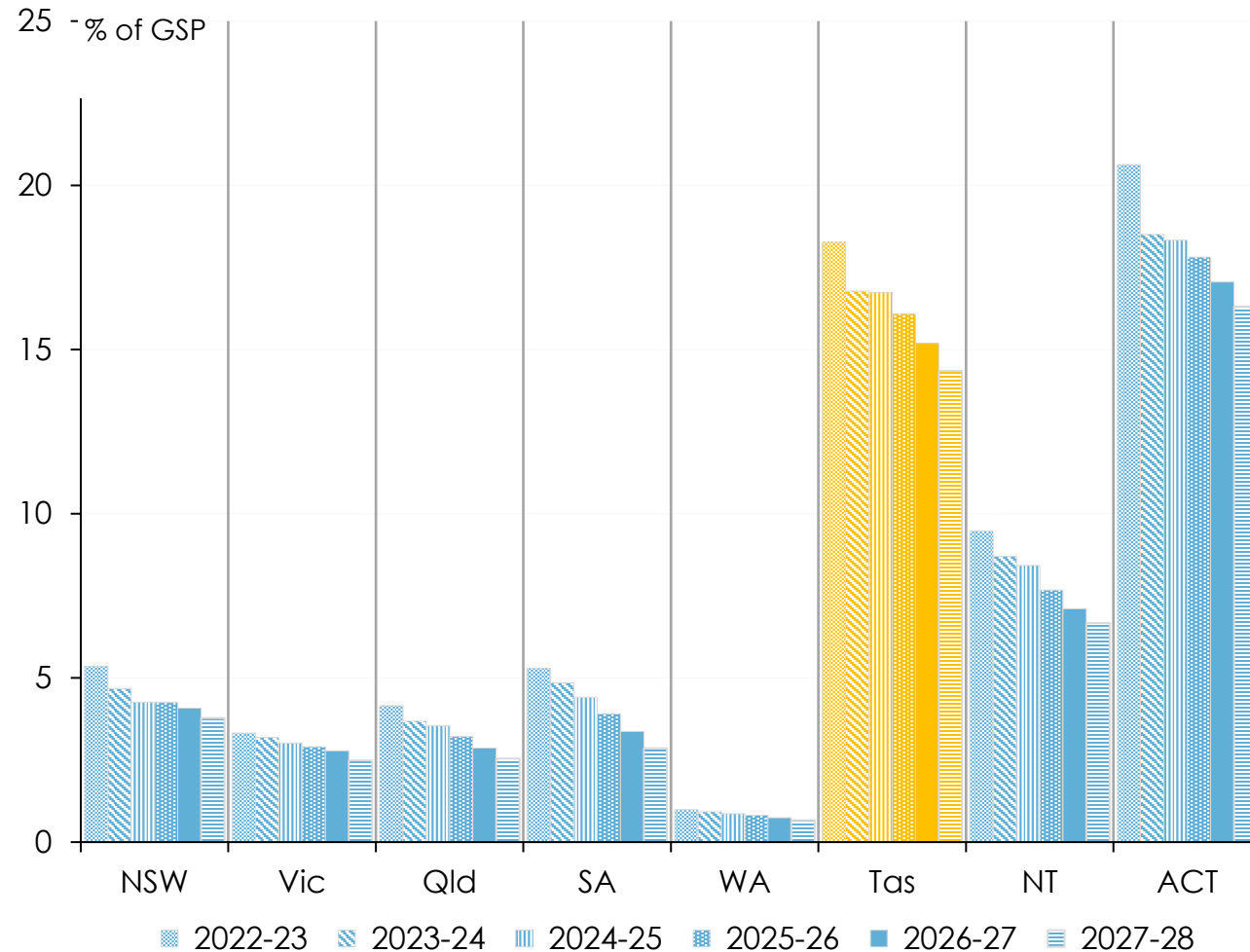
'General government' net debt, Tasmania and other states and territories, 2022-23 to 2027-28



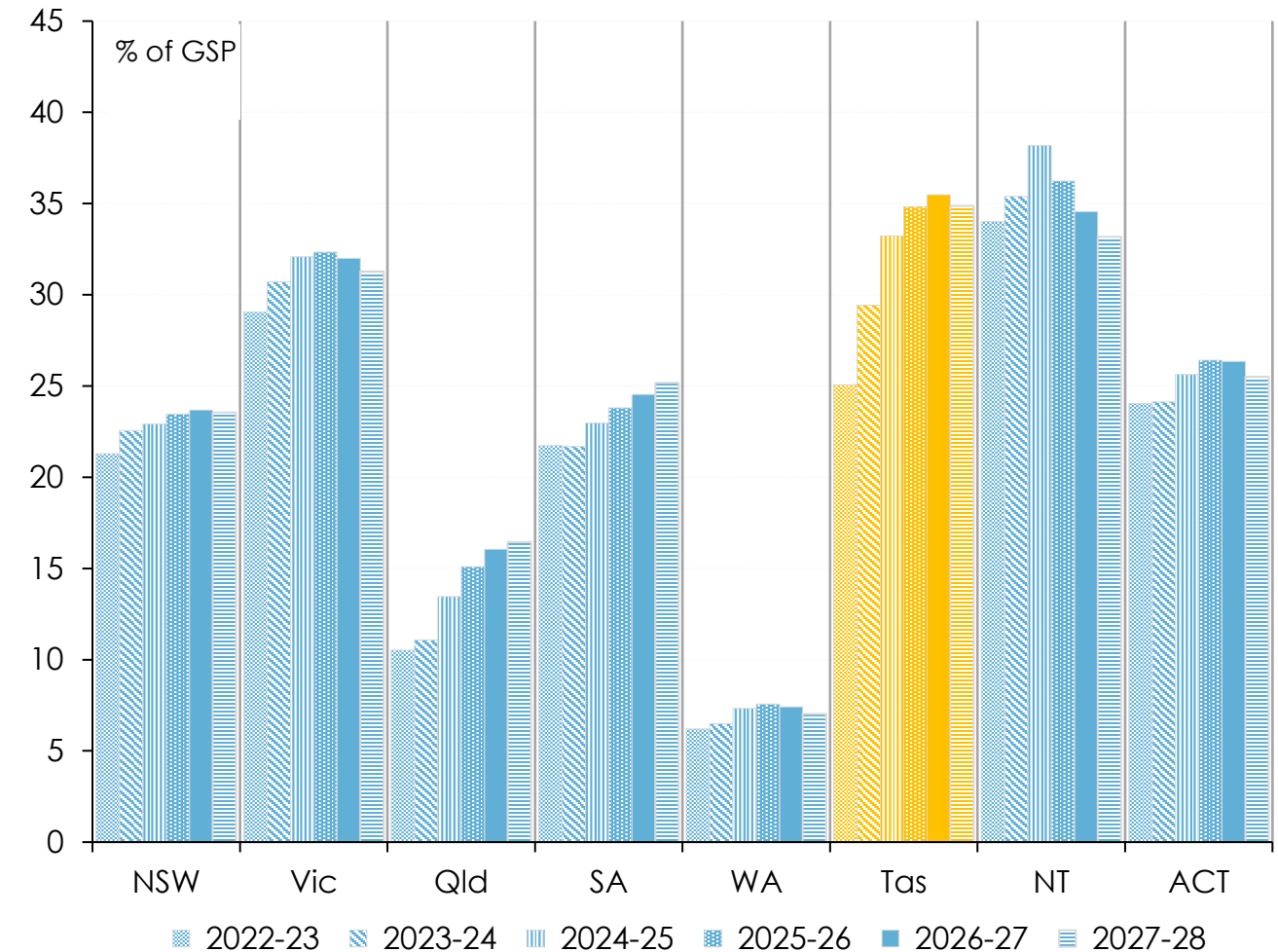
Sources: Tasmanian Government, [2024-25 Budget Paper No. 1](#); other state and territory 2024-25 Budget Papers; [Independent Review of Tasmania's State Finances](#), August 2024

Including Tasmania's outsized unfunded superannuation liability, 'general government' net financial liabilities are exceeded only by the NT

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



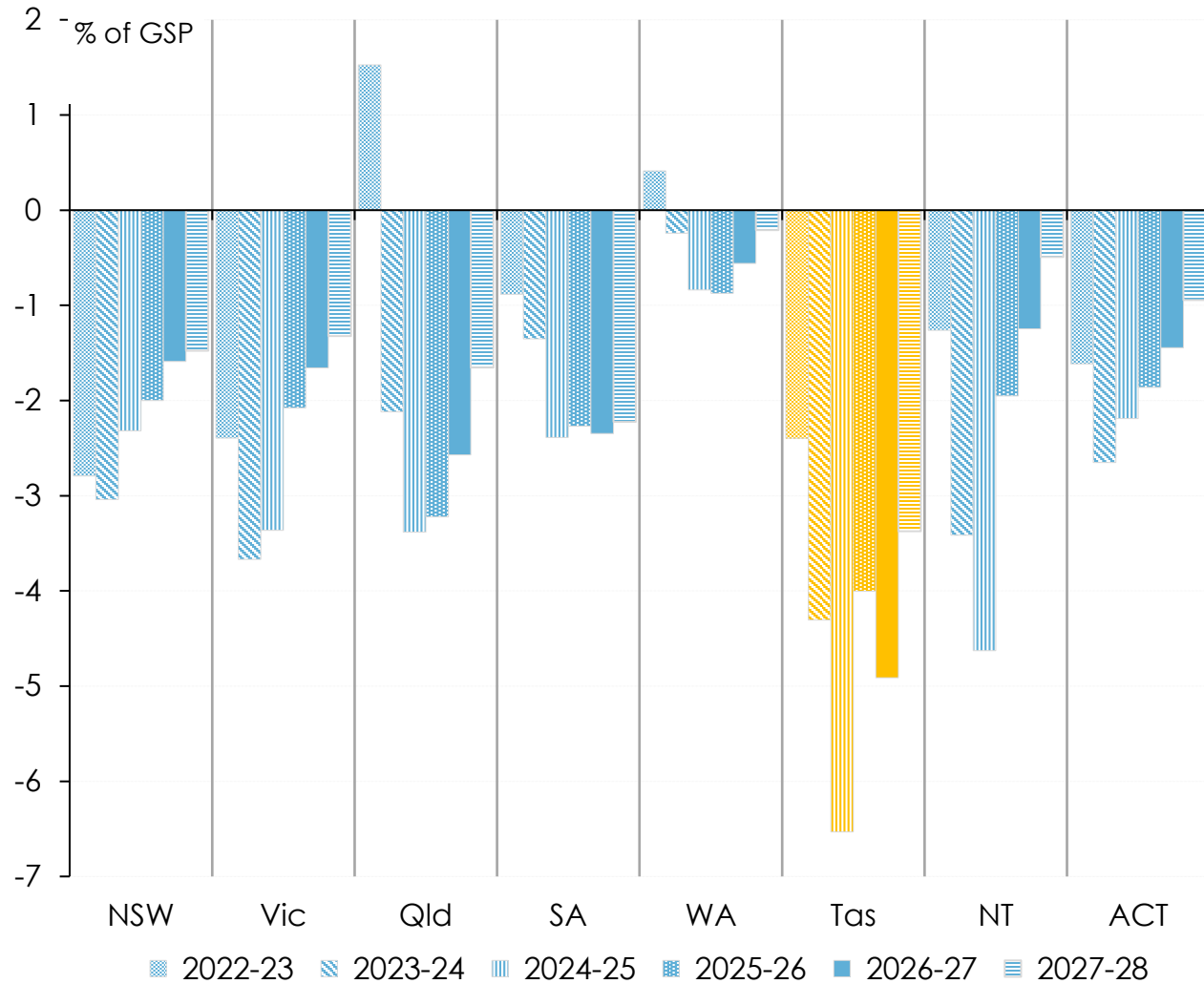
'General government' net financial liabilities, Tasmania and other states and territories, 2022-23 to 2027-28



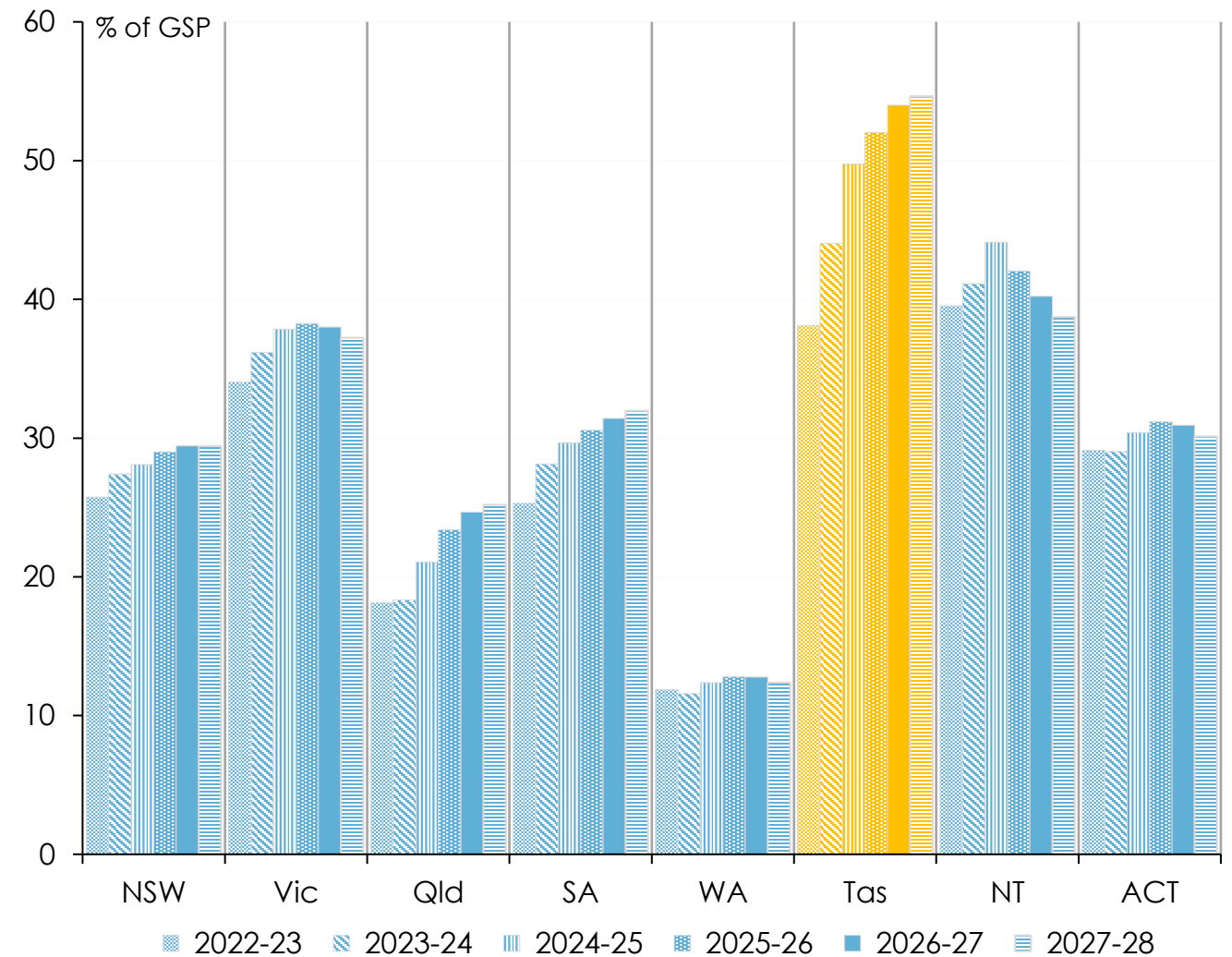
Note: The ACT's superannuation liabilities aren't as large as they appear in government finance statistics, because its employee superannuation arrangements are managed via the Commonwealth Government's superannuation fund, which precludes the ACT from including capital gains on its superannuation investments in its GFS financial statements, as the states and the Northern Territory do. 'Net financial liabilities' includes the unfunded superannuation liability. Sources: Tasmanian Treasury, [2024-25 Budget Paper No. 1](#); other state and territory 2024-25 Budget Papers; [Independent Review of Tasmania's State Finances](#), August 2024.

When government-owned businesses are included, Tasmania's fiscal position looks worse than even Victoria's and the Northern Territory's

Total non-financial public sector cash balances, 2022-23 to 2027-28



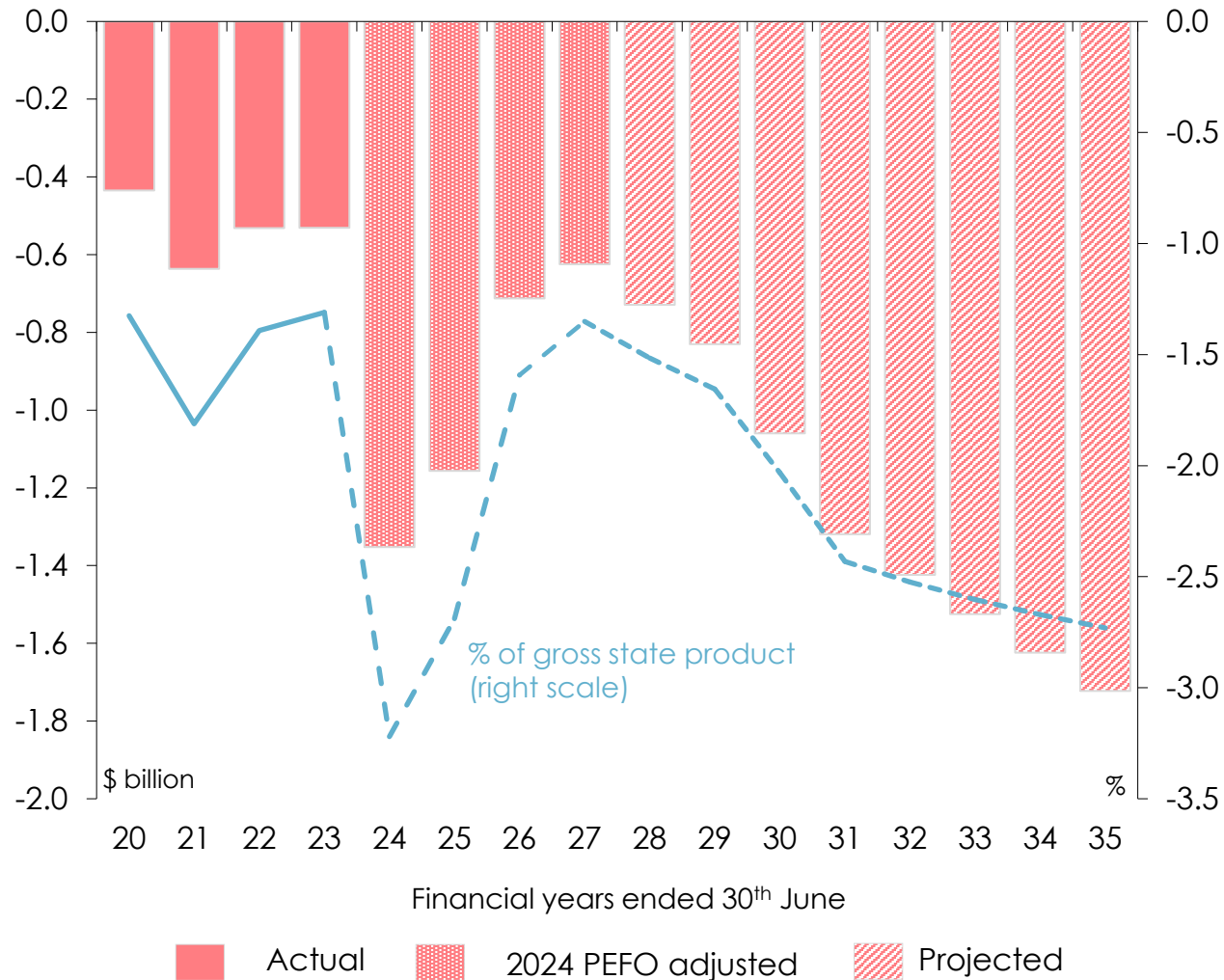
Total non-financial public sector net financial liabilities, 2022-23 to 2027-28



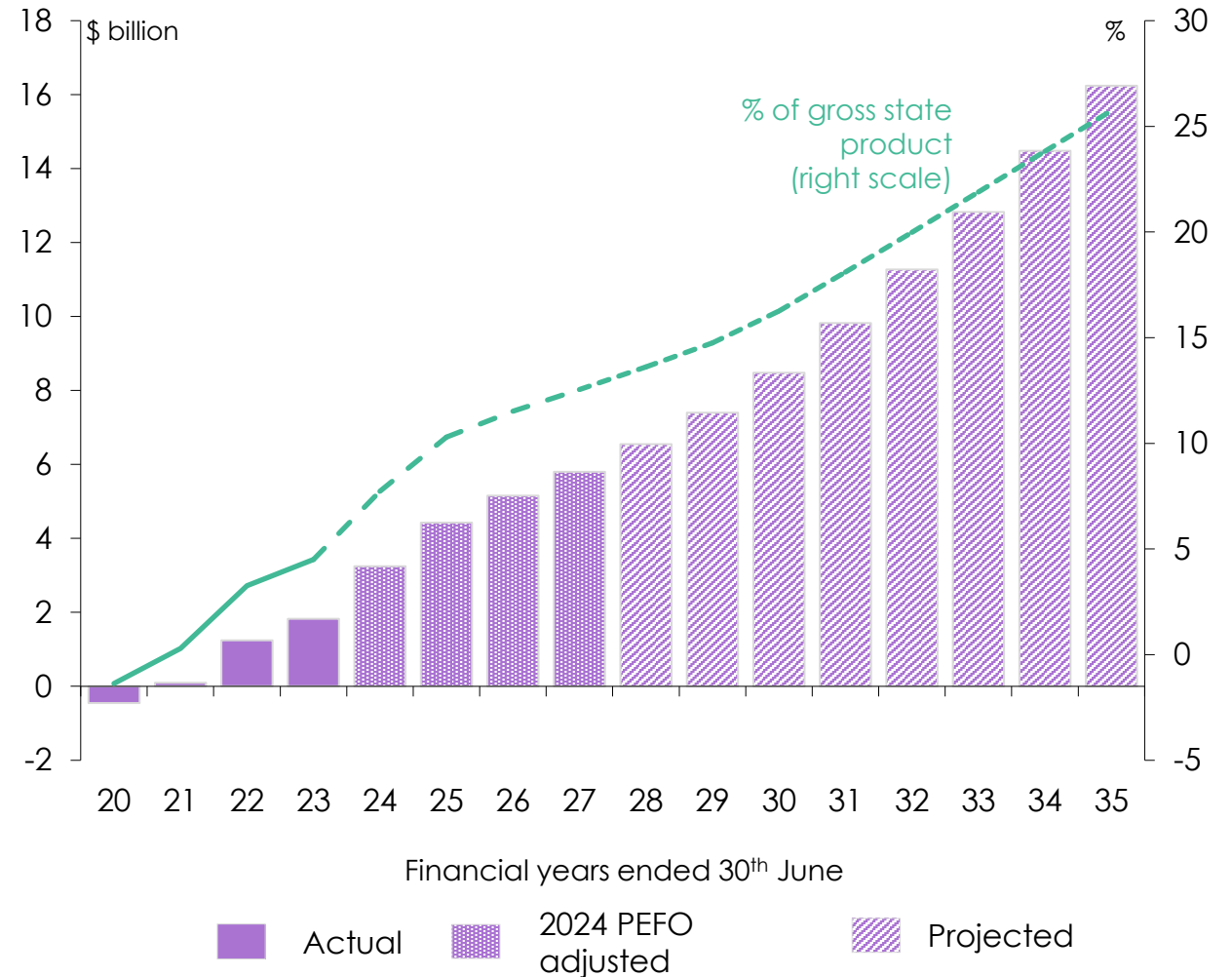
Sources: Tasmanian Treasury, [2024-25 Budget Paper No. 1](#); other state and territory 2024-25 Budget Papers; [Independent Review of Tasmania's State Finances](#), August 2024.

And Tasmania's public sector finances will get a lot worse over the next ten years if nothing is done

Cash balance



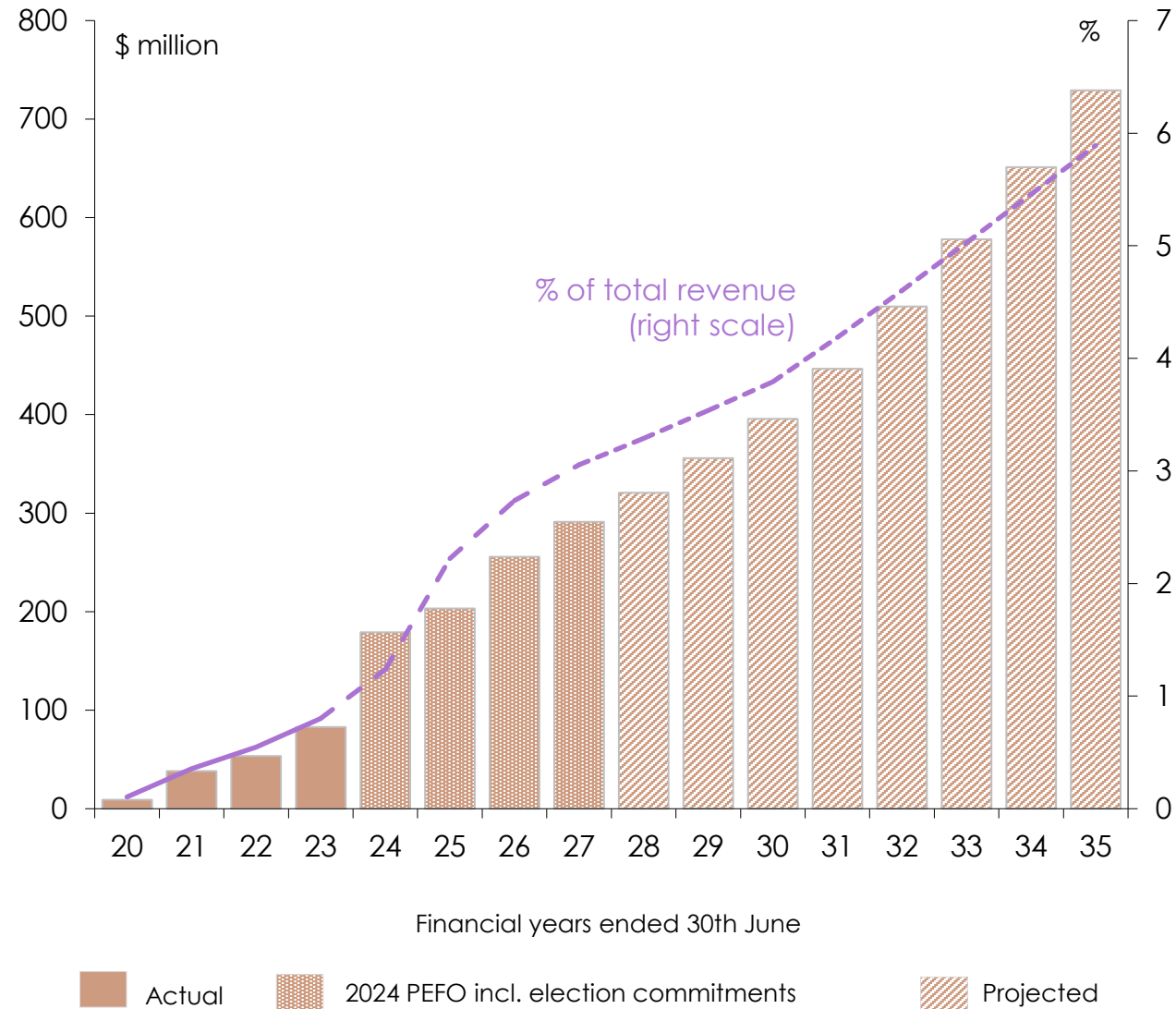
Net debt



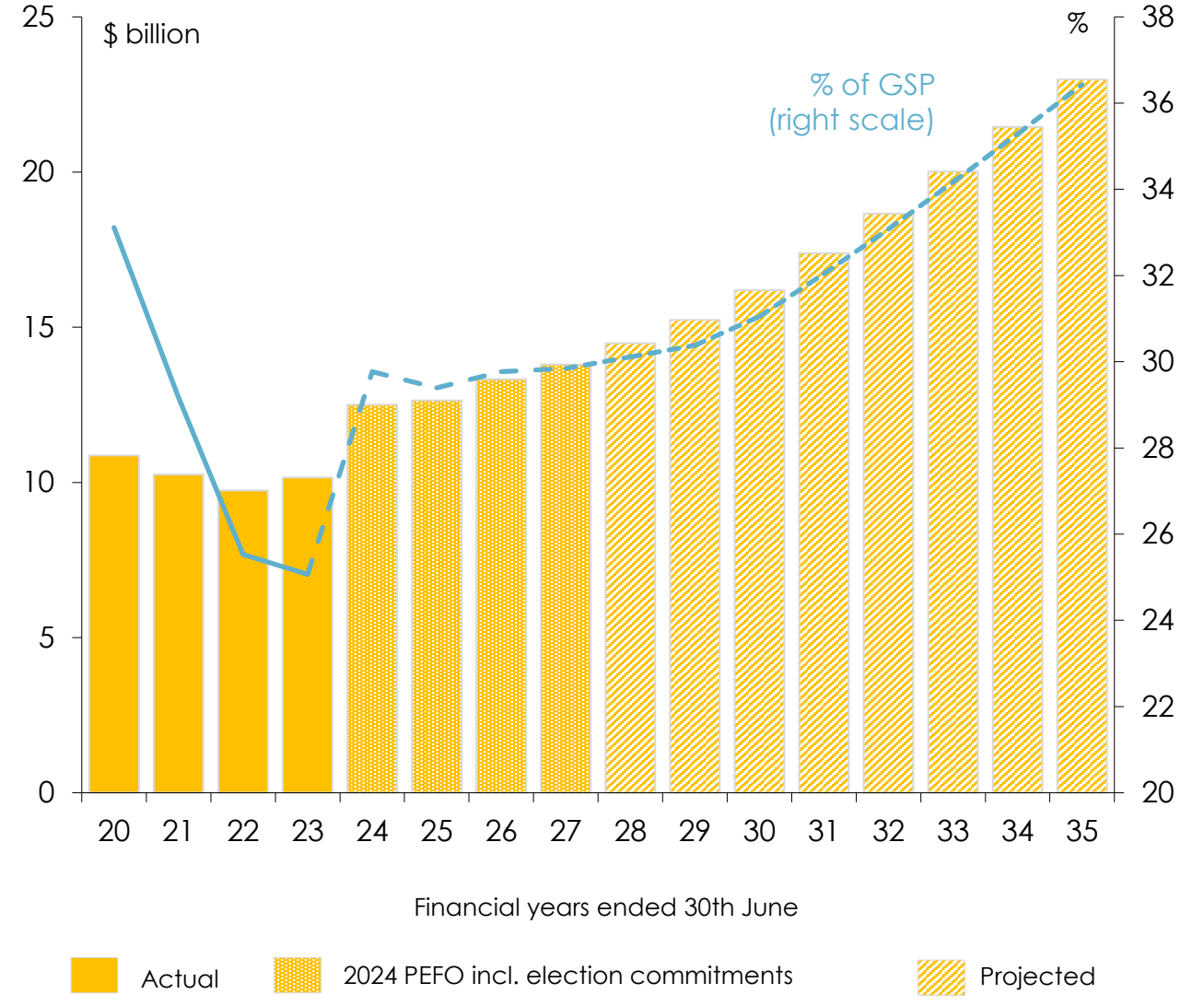
Note: figures shown are for the general government sector. Data shown in these charts do not incorporate the results for 2023-24 reported in the [Preliminary Outcomes Report 2023-24](#). Source: [Independent Review of Tasmania's State Finances](#), August 2024.

Tasmania's public sector finances will get a lot worse over the next ten years if nothing is done

Interest payments



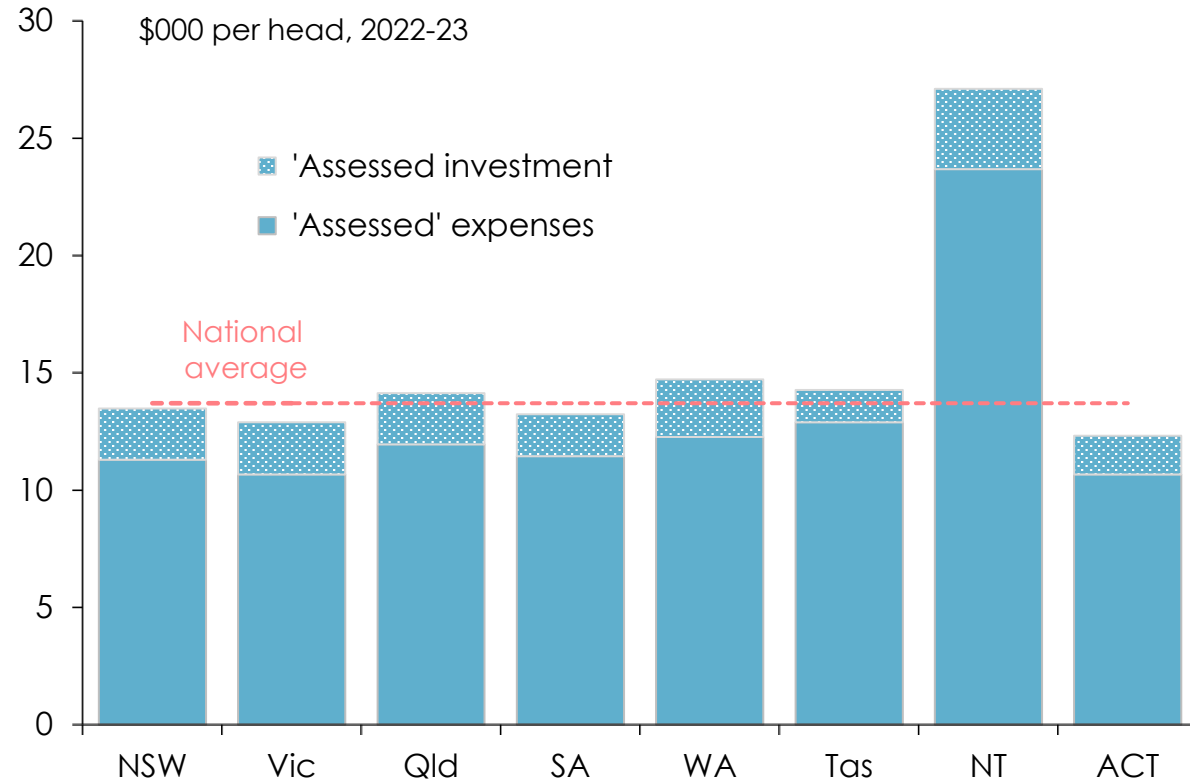
Net financial liabilities



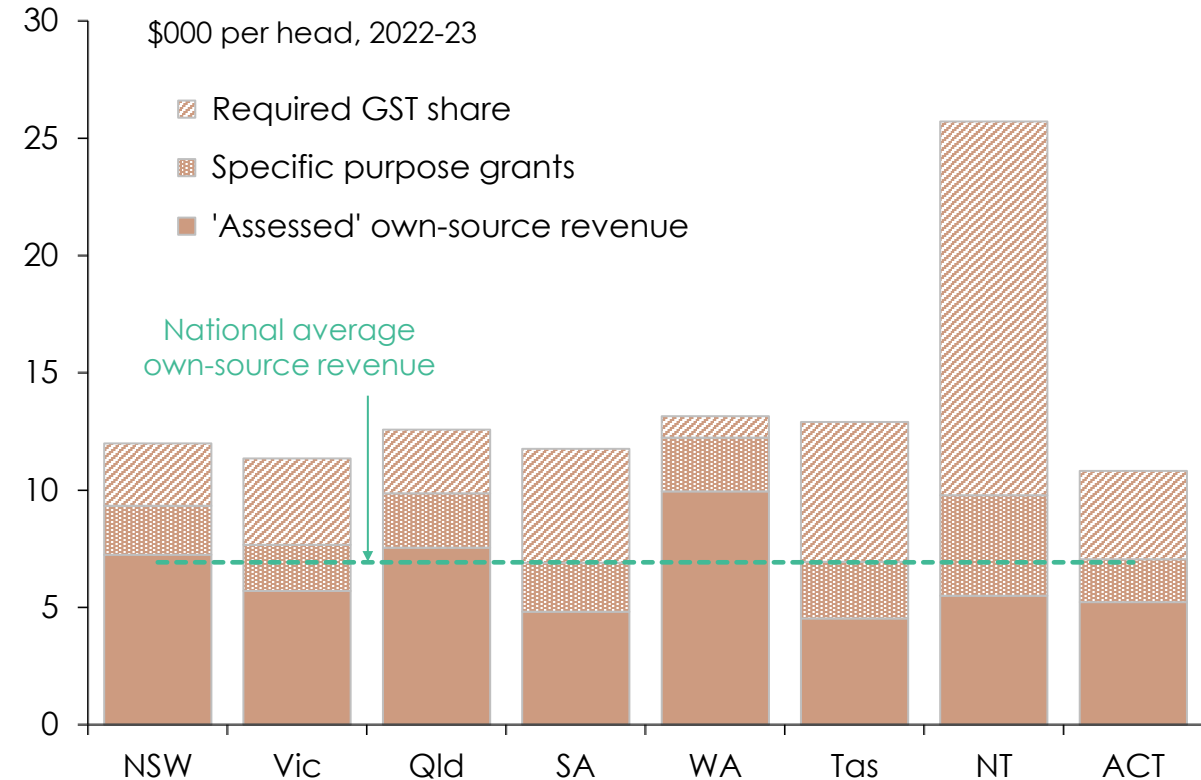
Note: figures shown are for the general government sector. Data shown in these charts do not incorporate the results for 2023-24 reported in the [Preliminary Outcomes Report 2023-24](#). Source: [Independent Review of Tasmania's State Finances](#), August 2024.

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



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



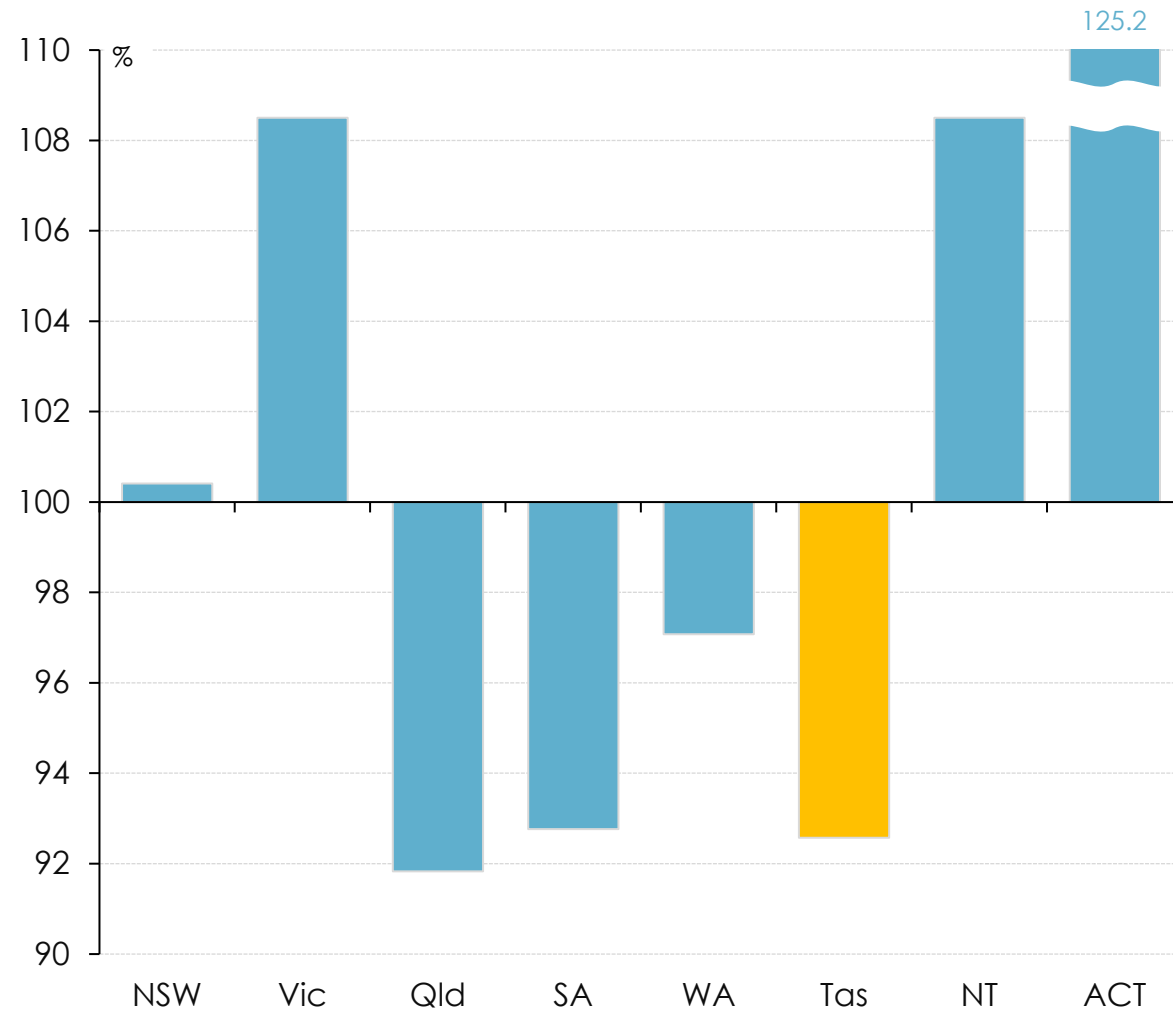
The Grants Commission assesses how much each state & territory needs to spend (per head) in order to provide the same standard of services as the average of all states & territories, taking account of difference in need for services and costs of providing them

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

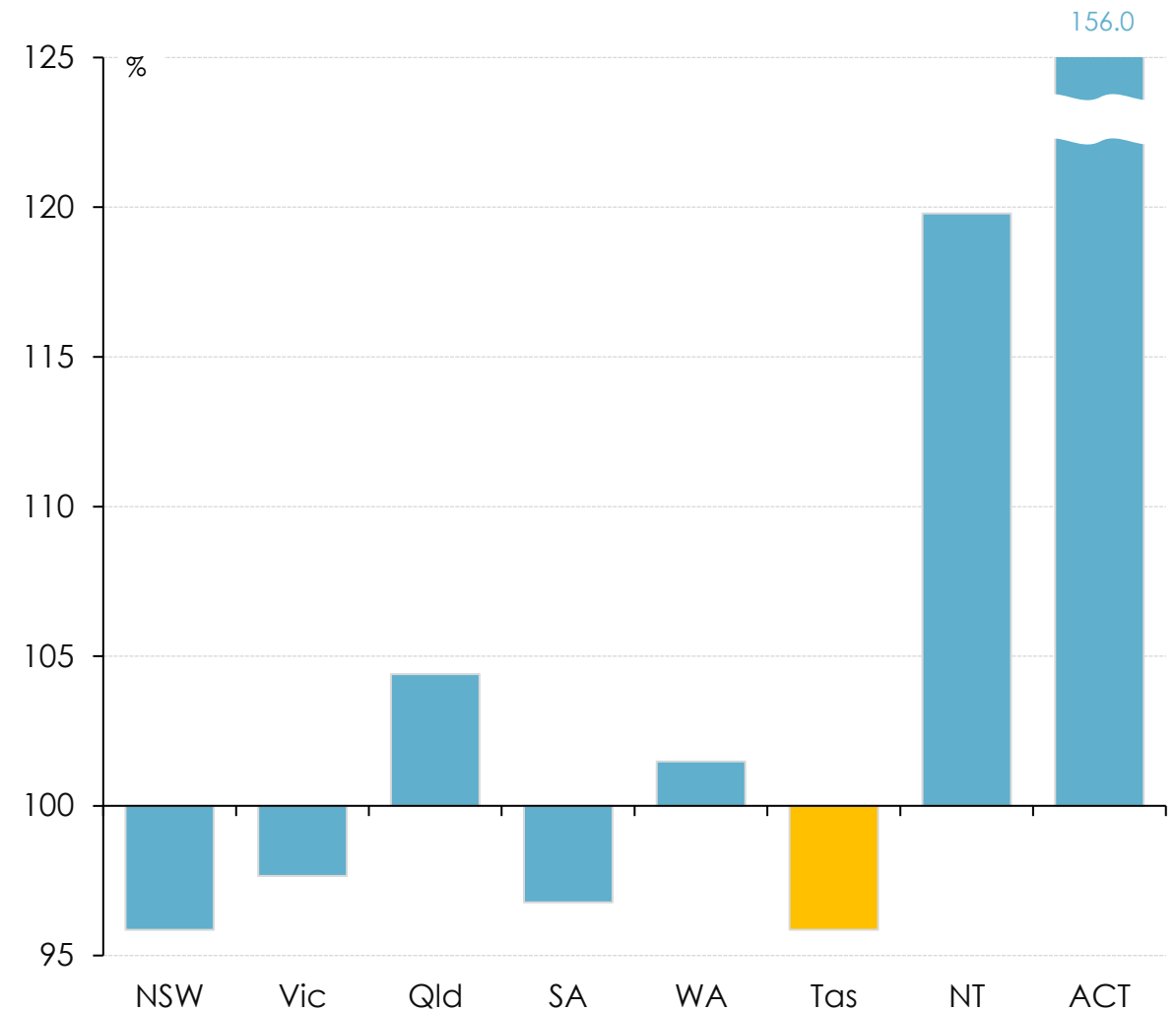
Source: Commonwealth Grants Commission, [2024 Update - Assessed budget](#), April 2024.

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

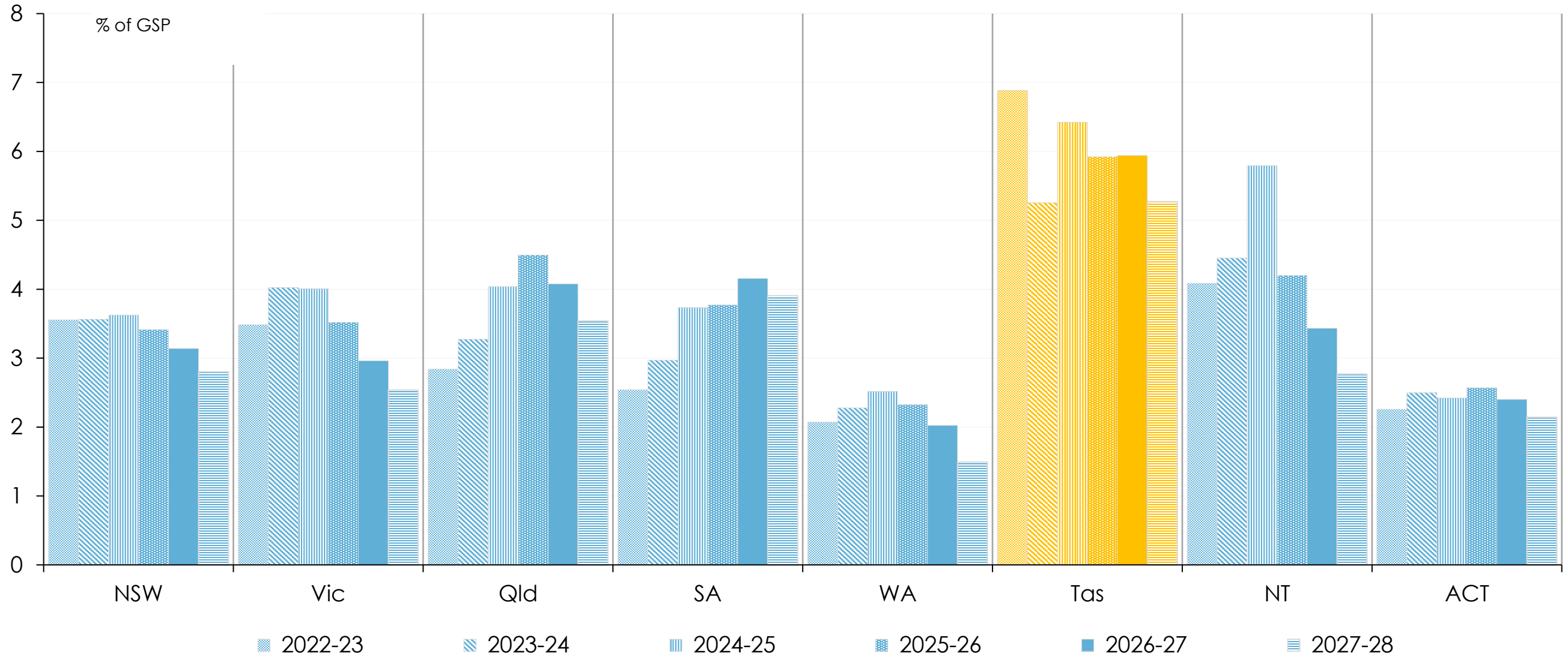


Note: The 'level of service provision' ratio is the ratio of total actual operating expenses by each state and territory to the Grants Commission's assessment of what it would need to spend in order to deliver the same level of services with the same 'efficiency' as the average of all states and territories. 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.

Sources: Commonwealth Grants Commission, [2024 Update of GST relativities](#), April 2024; [Independent Review of Tasmania's State Finances](#), August 2024.

Tasmania can't afford to run the nation's largest infrastructure spending program (relative to the size of our economy)

Total state non-financial public sector 'purchases of non-financial assets', 2023-24 to 2027-28



Note: 'Total state non-financial public sector' includes GBEs.

Sources: State and territory 2024-25 Budget Papers; [Independent Review of Tasmania's State Finances](#), August 2024.

What should be the objectives of a strategy to return Tasmania's finances to a sustainable position?

- ❑ **Returning to an 'underlying' net operating surplus within four years**
 - that is, revenues (excluding one-off grants from the Commonwealth for capital purposes) which are greater than operating expenses – in all circumstances other than in response to major economic downturns or major natural disasters
- ❑ **Achieving and maintaining an overall fiscal surplus over a five-to-ten-year period**
 - that is, fully funding both operating and capital expenditures from revenues, until the objectives for net debt and net financial liabilities have been attained
- ❑ **Reducing the ratios of net financial liabilities to gross state product to less than the average for all states and territories**
 - which in practice would imply ratios for the general government and total non-financial public sector of around 20% and 25%, respectively
- ❑ **Reducing the ratios of net debt to gross state product to substantially less than the average for all states and territories (reflecting the difficulty of reducing Tasmania's unfunded superannuation liabilities quickly)**
 - which in practice would imply ratios for the general government and total non-financial public sector of around 8% and 12%, respectively
- ❑ **Reducing the of general government interest and defined benefit superannuation payments to less than 7% of general government total receipts within five years, and maintaining it below that level thereafter**
- ❑ **Increasing the ratio of 'own-source' to total general government receipts to the long-term historical average of 37% over the next five-ten years, with a longer-term aim of lifting it further to 40%**

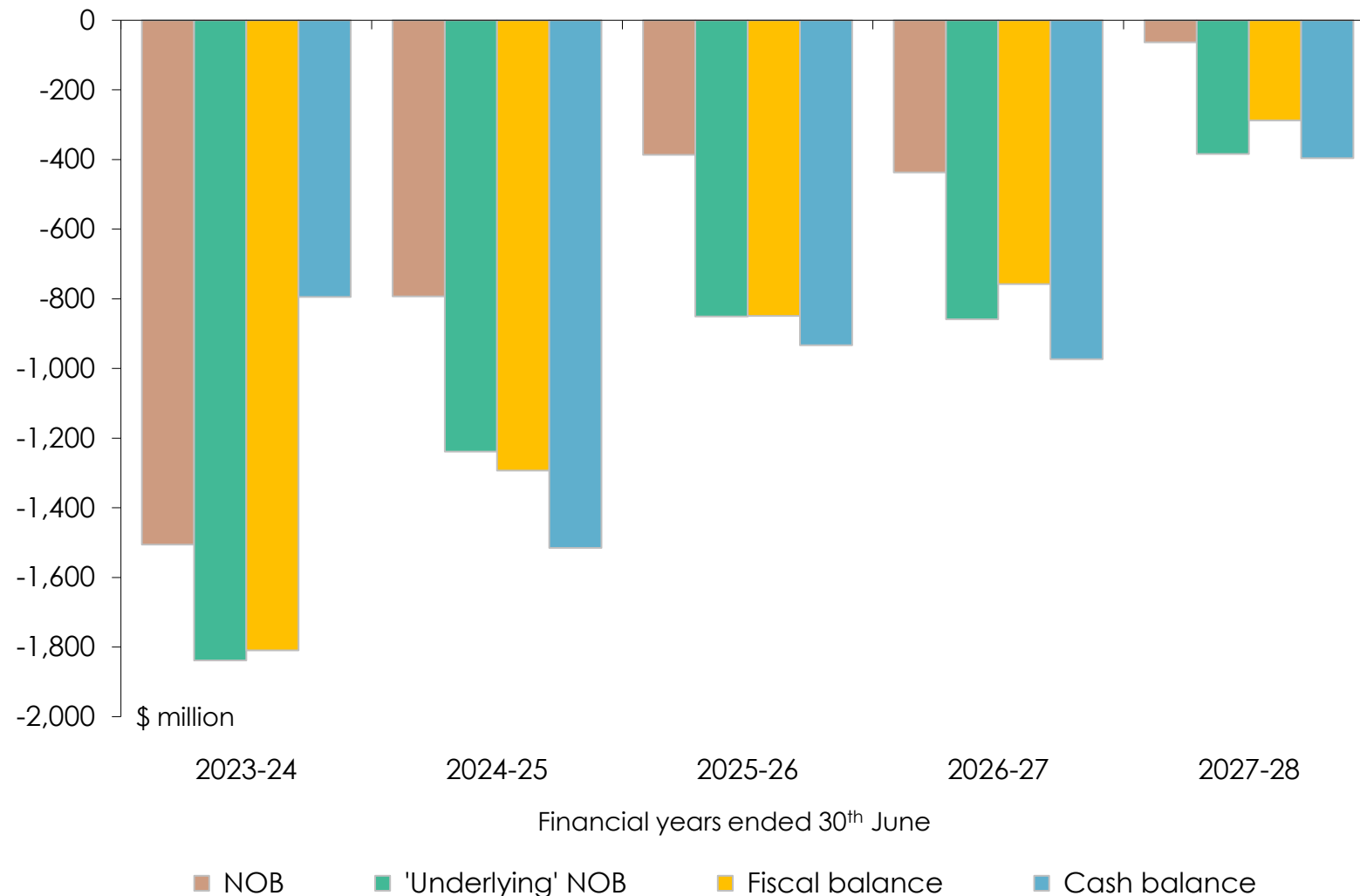
Ideally, these objectives should be supported by all political parties (while allowing for differences as to how to achieve them) and entrenched in legislation (eg by amending the *Charter of Budget Responsibility Act 2007*)

How can these fiscal strategy objectives best be achieved?

- ❑ **There's not a lot of scope on the 'operating' (or recurrent) expenditure side**
 - on-going review of the continuing justification for, and efficiency and effectiveness of, existing spending programs
 - look for ways of moving remaining defined benefit superannuation members to SGC arrangements
 - 'efficiency dividends' and 'vacancy control' are a very poor way of achieving expenditure savings
 - big spending cuts will have a larger adverse impact (dollar-for-dollar) on economic activity and on the most vulnerable Tasmanians than equivalent revenue measures
- ❑ **Most of the 'heavy lifting' will have to be on the revenue side**
 - at least some of the impact of any increases in state taxes will be absorbed by reductions in company tax payments or reductions in household saving (hence less impact on economic activity)
- ❑ **Revenue-raising options**
 - reduce the tax-free threshold for payroll tax (which is the highest of any state, and which has done nothing to create jobs)
 - over the longer-term, replace stamp duties with a broadly based land tax (including owner-occupied homes)
 - in the near term, consider imposing a surcharge on council rates as a *de facto* extension of land tax
 - extend the stamp duty and land tax surcharges imposed on foreign investors to mainland investors in established residential real estate
 - increase motor vehicle registration fees and motor vehicle duty for more expensive motor vehicles
 - increase mineral royalties
- ❑ **Defer or reduce planned infrastructure spending and reform infrastructure budgeting processes**
 - first determine how much Tasmania can afford to spend on capex over 10 years and in each year of those ten
 - then select projects based on ranking of projects according to economic & social cost-benefit ratios

This month's State Budget doesn't show a path back to cash surplus (from which debt can be repaid) by 2029-30

Forward estimates of different concepts of the Budget's 'bottom line'



- ❑ When the Government talks about the budget being on 'a path back to surplus in 2029-30', it's referring to the **'net operating balance'**
 - that's the difference between 'operating revenues' and 'operating expenses'
 - 'operating revenues' includes over \$400mn per annum (on average) of one-off Federal grants for capital purposes
 - excluding these, the 'underlying' net operating balance' will still be in deficit by \$384mn in 2027-28
- ❑ The 'operating balance' excludes infrastructure spending and other capex
 - the **fiscal balance**, which includes capex, will still be in deficit by \$288 mn in 2027-28
- ❑ It's the **cash balance** which drives net debt
 - and the cash balance will still be in deficit by \$396mn in 2027-28
 - which is a long way from being 'on a path back to surplus' by 2027-28

The Government's path back to a net operating surplus (by 2029-30) assumes an unprecedented degree of expenditure restraint

Four-year rolling average growth rates of 'operating' revenues and expenses

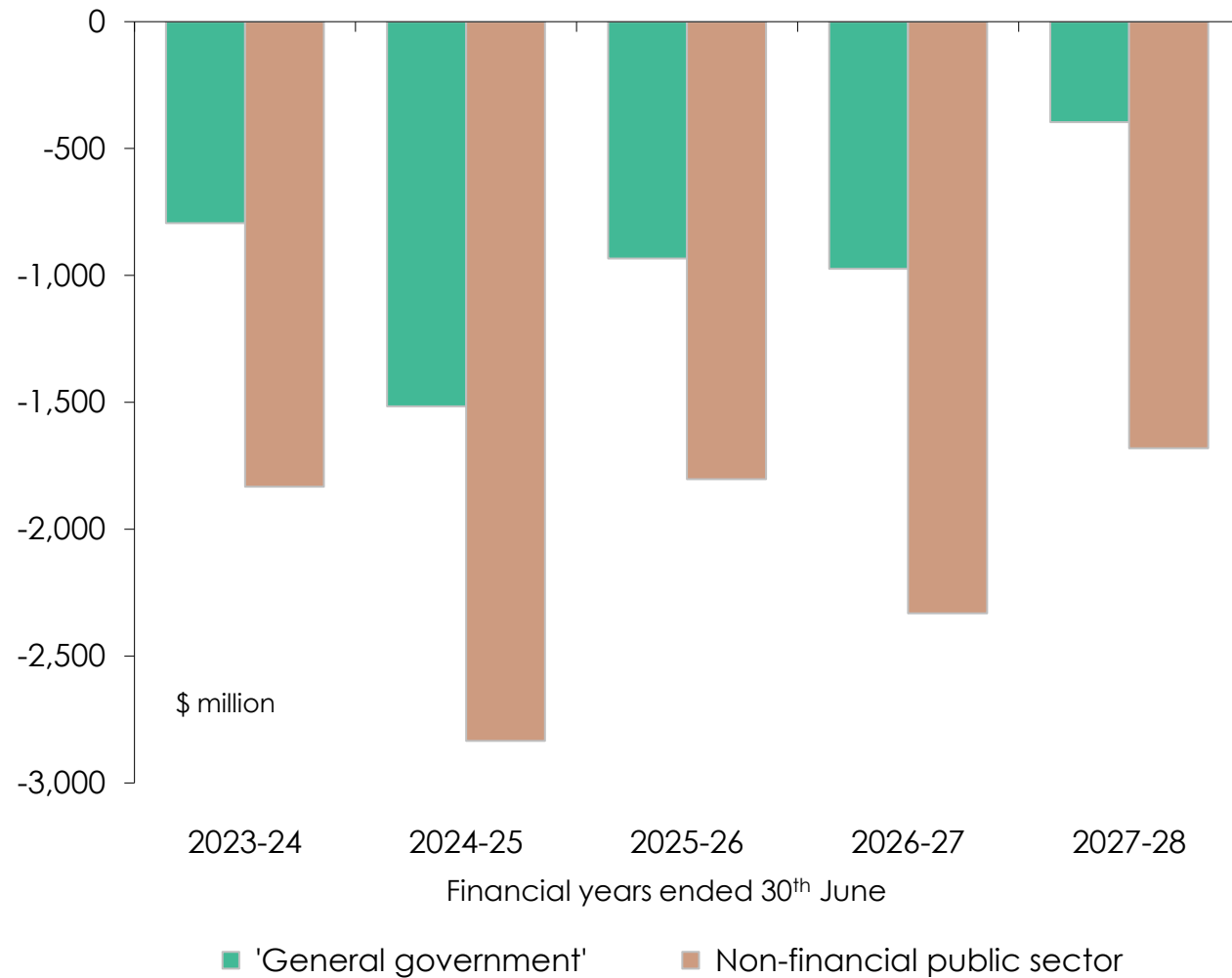


- ❑ The Budget forecasts that the 'net operating deficit' will decline from \$1.5bn in 2023-24 to just \$63mn in 2027-28
- ❑ This forecast assumes that 'operating expenses' will be \$233mn (2.4%) lower in 2027-28 than in 2024-25
 - despite Hobart consumer prices being forecast to rise by 8.2% between 2024-25 and 2027-28
 - and despite interest payments being forecast to rise by \$218mn over that period, and superannuation expense by \$44mn
- ❑ In other words, 'operating expenses' excluding interest and superannuation are forecast to decline by \$494mn (5.5%) between 2024-25 and 2027-28
 - of which \$300mn is supposed to come from so-called 'efficiency dividends'
- ❑ Expenditure restraint of this order of magnitude would be without precedent in living memory

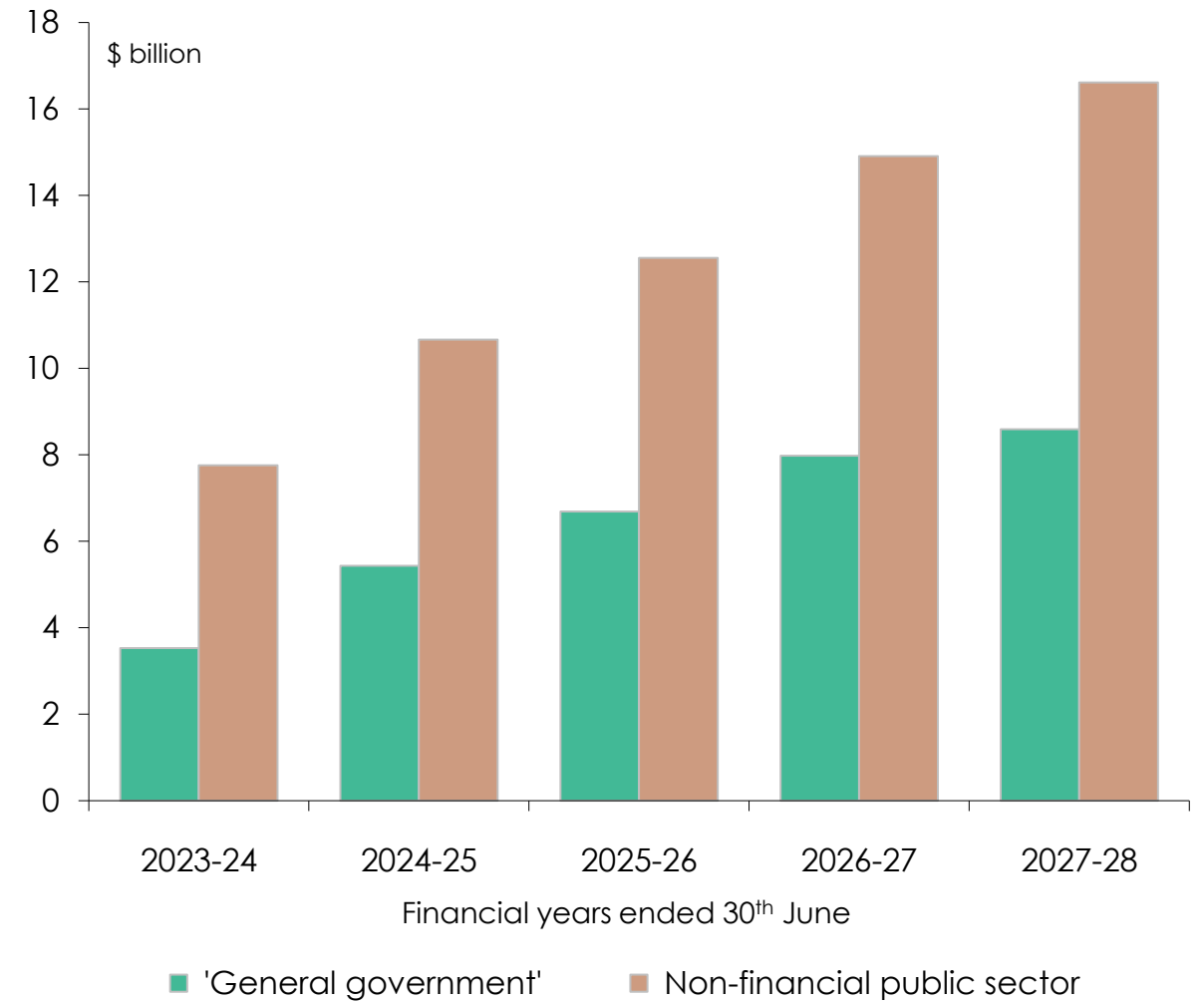
Note: Expenses estimates for 2023-24 (and hence percentage changes including the 2023-24 year) exclude the \$571 million additional provision for compensation payments to survivors of child sexual abuse in state institutions. Sources Tasmanian Government, [2024-25 Budget Paper No. 1](#).

When the GBEs are included, the non-financial public sector as a whole is a long way from running cash surpluses and being able to repay debt

Cash balances – Tasmanian ‘general government’ and total non-financial public sector



Net debt – Tasmanian ‘general government’ and total non-financial public sector



Sources: Tasmanian Government, [2024-25 Budget Paper No. 1](#).

This is the third time Tasmania has found itself in this position in 35 years – how can we prevent it from happening again?

- ❑ **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**

But the Government (and for that matter the Opposition) obviously know better

- ❑ **The Government has ‘damned the Independent Review of State Finances with faint praise’**
 - which is probably better than being called “a dry right-wing economist’ and ‘a very left wing neo-Marxist” in the same breath, but no more an indication of making any difference
- ❑ **Both the Government and the Opposition were quick to rule out raising additional revenue in order to ‘fix’ the budget**
 - and last week’s Budget continued the Government’s infrastructure splurge (although they usually end up spending a lot less on infrastructure than they say they’re going to)
- ❑ **That’s disappointing – but not surprising**
 - there is no ‘politically easy’ way to restore Tasmania’s finances to a sustainable position
 - it will require the expenditure of ‘political capital’ – something which the major parties were unwilling to spend when they had it, and which is now in very short supply
- ❑ **The Government wasn’t prepared to consider how to pay for all this additional spending when Tasmania’s economy was doing well, and when it had a majority in Parliament – and it’s not prepared to consider how to pay for it when Tasmania’s economy isn’t doing well, and now that it doesn’t have a majority in Parliament**
 - so when will it bite that bullet? or will it be left to some future government?
 - and if so, under what circumstances?

Important information

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