## The 2024-25 Tasmanian Budget – an assessment

The 2024-25 Tasmanian State Budget puts off to another day the task of repairing the sorry state of affairs to which I pointed in my *Independent Review of Tasmania's State Finances* published last month.

The Government has provided an 'initial response' to that Review, as it said it would – albeit in the first chapter of *Budget Paper No. 2*, which traditionally includes the detailed budget allocations to departments and agencies, and isn't widely read outside Parliament and the public service, rather than in the principal Budget Paper, *Budget Paper No. 1*, which sets out the Government's fiscal strategy, provides commentary on the Tasmanian economy, and presents and discusses the main features of the Government's financial statements.

That response doesn't, at this stage, commit to implementing any of the Review's recommendations – although it foreshadows a "further response" to those recommendations "in due course".

It does explicitly reject the Review's  recommendations for raising additional revenues, "in light of the impact that national inflationary and global supply chain pressures have had on the cost of living and cost of doing business".

But nor has it committed to reducing spending, other than through what the Review specifically recommended against, namely, the pursuit of essentially arbitrary "efficiency dividends".

And it has recommitted to maintaining the largest public sector infrastructure spending program of any state or territory, relative to the size of the state's economy – despite the Review's suggestion that Tasmania can't afford to do so – in order to address "ageing, neglected or poor performing infrastructure" and to support "thousands of jobs and strong growth in the civil engineering and construction industries.

It does note that the Review made recommendations for "legislative and administrative reform" which "have the potential to make a positive impact on the economic public discourse as well as a positive impact on Tasmania's fiscal position". But it hasn't committed to implementing any of them.

In short, the Government has put off to another day commencing the task of restoring Tasmania's public finances to a sustainable position. Politics has again triumphed over economics – in keeping with the fate which befell the warnings provided by the Tasmanian Treasury in its three *Fiscal Sustainability Reviews* (in 2016, 2019 and 2021) and most recently in the *Pre-Election Financial Outlook* published in February this year.

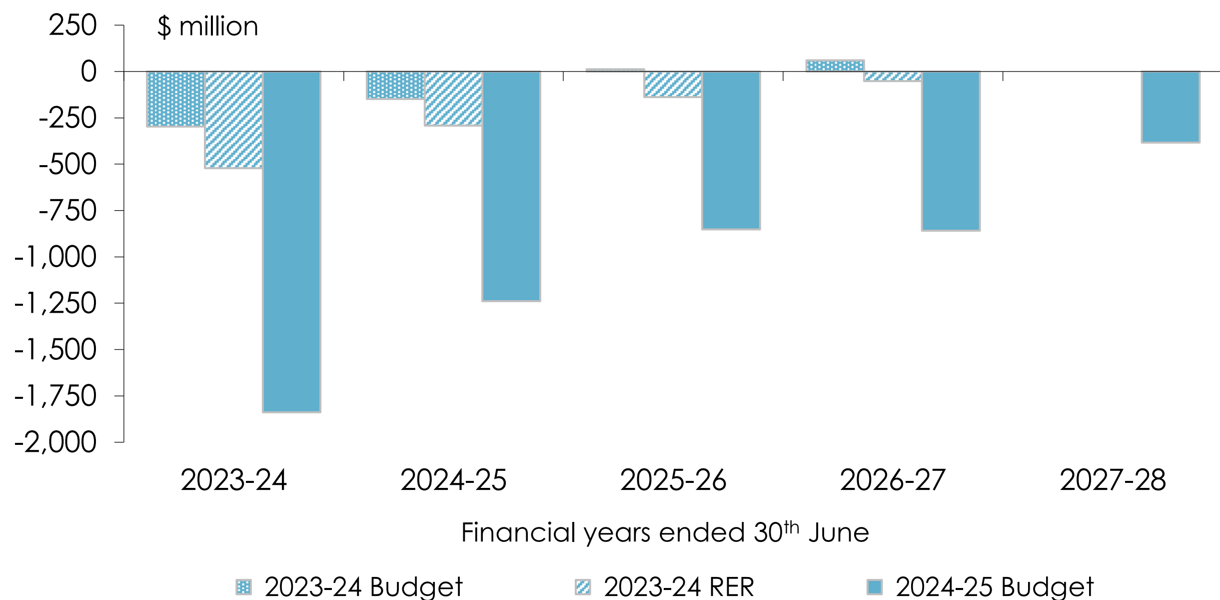
As a result, this year's Budget confirms that Tasmania's public finances are continuing to deteriorate – and that by some metrics, especially when Tasmania's outsized unfunded superannuation liability and its government business enterprises are included (as they should be), are now or will be the worst of any state or territory.

It didn't have to be that way – but it is.

### *The shape of the 2024-25 Budget*

The Tasmanian 'general government' sector (which comprises departments and agencies funded primarily by taxation revenue or Commonwealth grants) will incur net 'underlying' operating deficits (that is, excluding one-off grants from the Commonwealth for capital purposes) totalling $3.3 billion over the four years to 2027-28, coming after the $1.83 billion deficit in 2023-24 (which was inflated by a $647 million provision for compensation payments to survivors of abuse in state institutions). The 'underlying' operating deficits for the three years 2024-25 through 2026-27 are in total $1.2 billion more than projected in February's *Revised Estimates Report*, and $1.8 billion worse than projected in last year's Budget (Chart 1).

**Chart 1: Successive estimates of the 'underlying' net operating balance**




Consistent with the findings of the *Independent Review* regarding the deterioration in Tasmania's finances between 2017-18 and 2022-23, the deterioration in the forward estimates of the underlying 'net operating balance' since last year's Budget is *entirely* attributable to 'policy decisions' taken by the Government, which have added $1.7 billion to the prospective deficits over the three years to 2026-27 (or $1.9 billion over the four years to 2027-28), more than offsetting a $197 million improvement to the projections of the 'bottom line' arising from favourable 'parameter variations'.

Most of these policy decisions relate to the commitments made by the Government during this year's election campaign – continuing the trend noted by the Secretary to the Treasury in the *Pre-Election Financial Outlook* report released during the campaign. It is notable, however, that the one commitment which the Government did make during the campaign which would have entailed raising additional revenue – the proposed levy on short-stay accommodation, estimated to bring in $11 million a year – appears to have sunk without trace.

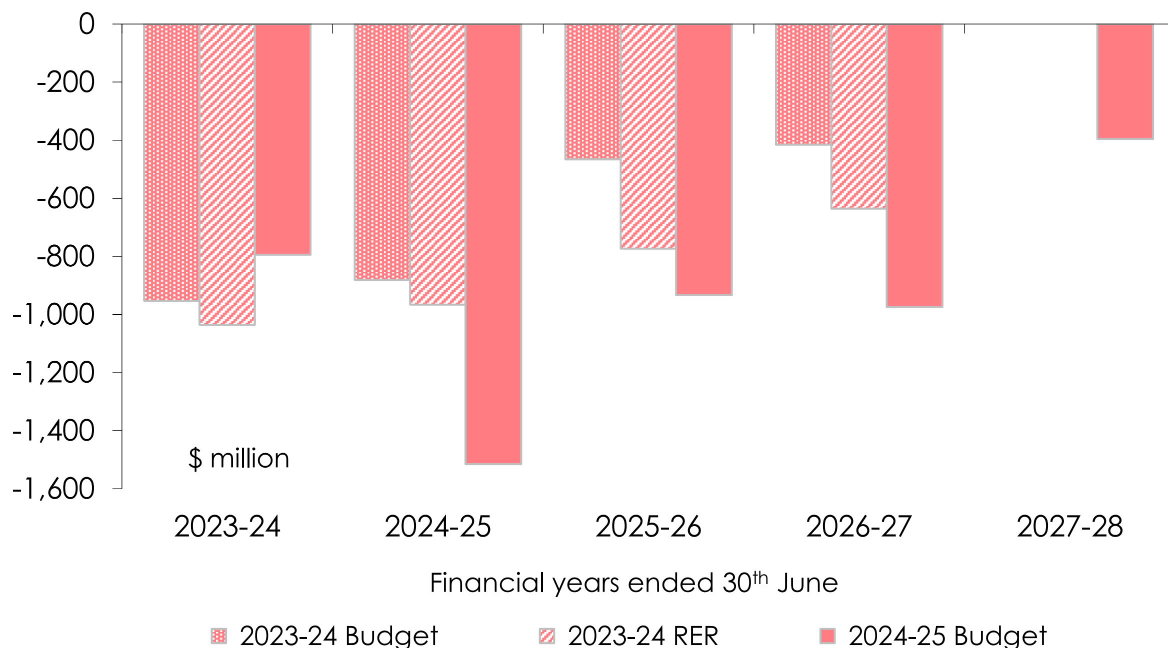
The only significant saving measure in the Budget is an additional $50 million per annum in 'efficiency dividends' over the three years to 2026-27, and a further $150 million from this source in 2027-28.

As the *Independent Review* noted, 'efficiency dividends' are a poor substitute for conscious decisions as to which programs or services should be funded and which shouldn't, and often result in greater *inefficiency* rather than increased productivity. They also often result in a disproportionate burden of spending cuts and job losses being borne by policy advisory and analytical functions in the name of preserving 'front line' jobs and services.

The Budget also provides for what it calls a 'record' infrastructure investment program totalling $5.1 billion over the four years to 2027-28, although in fact 'policy decisions' have reduced the total spend over this period fractionally, by $61 million (and history suggests that the actual spending will fall short of the forward estimates).

Given that the 'operating balance' is in deficit, this infrastructure program will be funded entirely by borrowing, resulting in cash deficits totalling $3.8 billion over the four years to 2027-28. The cash deficits for the three years to 2026-27 are now estimated to be $1.0 billion larger than projected in the *Revised Estimates Report* published in February, and $1.7 billion larger than forecast in last year's Budget (Chart 2).

**Chart 2: Successive estimates of the 'general government' cash balance**

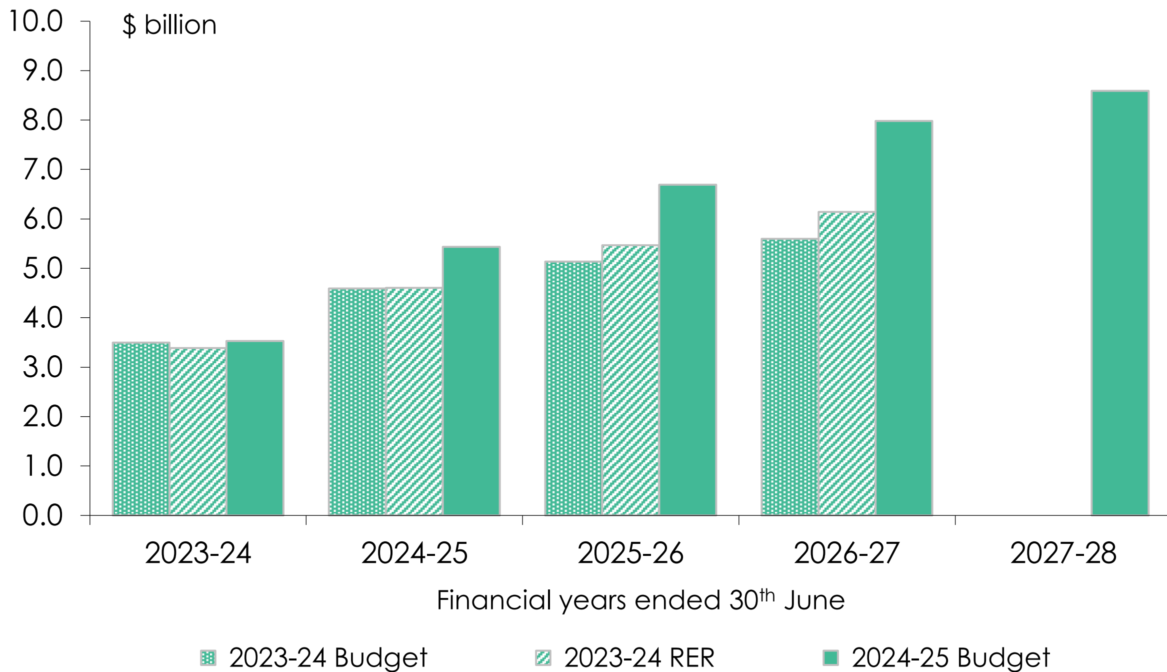



These larger-than-previously-forecast cash deficits will result in net debt rising by more than previously predicted, from $3.5 billion as at 30th June 2024, to $7.9 billion as at 30th June 2027 ($1.8 billion more than forecast in February, and $2.4 billion more than forecast in last year's Budget), and to $8.6 billion by 30th June 2028 (Chart 3).

This would represent over 17% of Tasmania's likely gross state product in 2027-28, exceeding the previous peak of 15.6% in 1994-95.

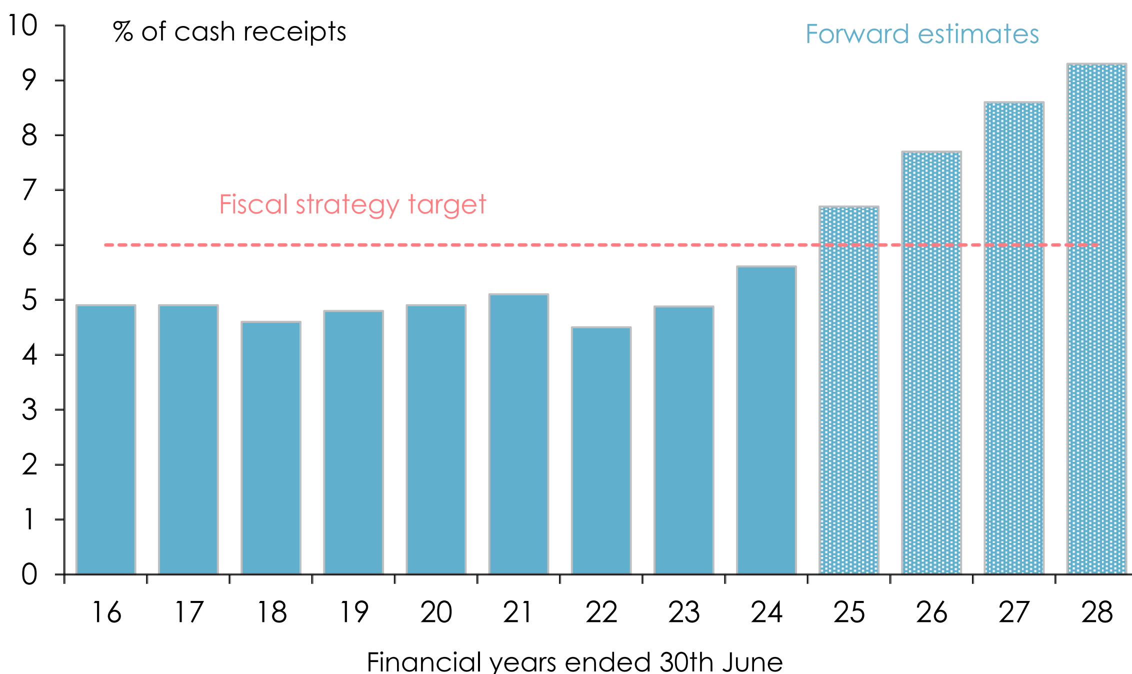
Including the Government's unfunded superannuation liability, net financial liabilities are projected to increase from $12.5 billion as at 30th June 2024 to $17.4 billion by 30th June 2028.

**Chart 3: 'General government' net debt**




Interest on the Government's debt will rise from $179 million in 2023-24 to $383 million in 2026-27 ($61 million more than forecast in February) and to $441 million in 2027-28. Together with the cost of making pension payments to the remaining members of the now-closed defined benefit superannuation schemes, interest payments will absorb 9.3% of total cash revenues by 2027-28, up from 5.6% in 2023-24, and well above the Government's fiscal strategy target of 6% (Chart 4).

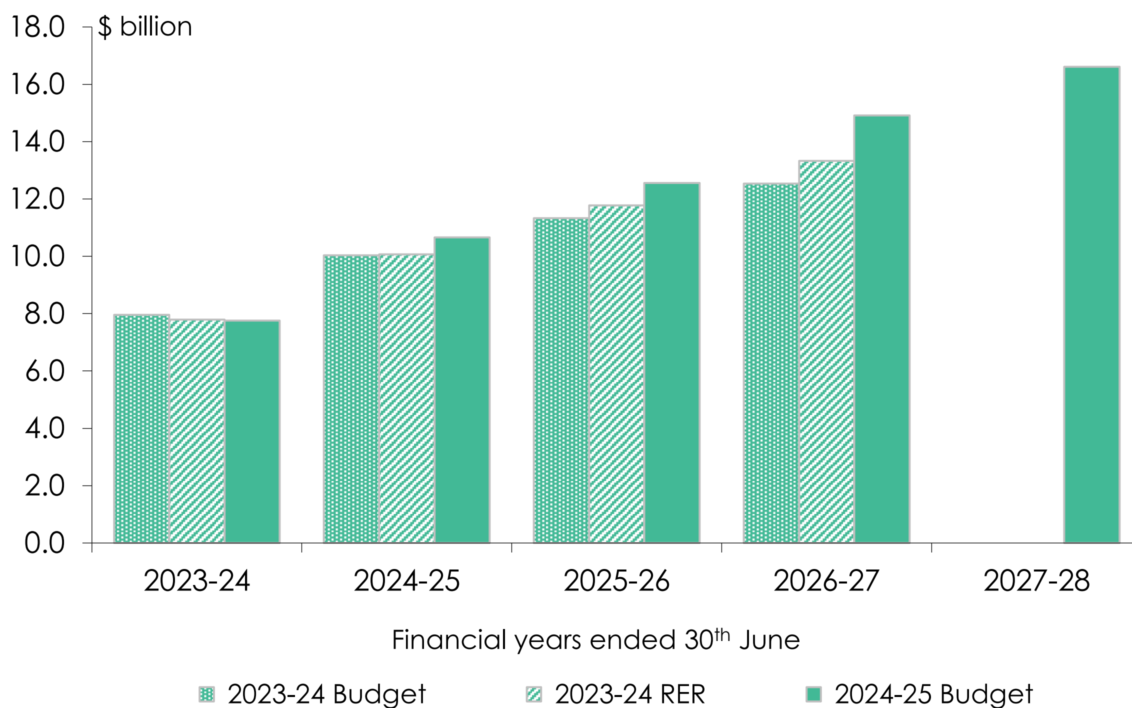
**Chart 4: Interest and defined benefit superannuation payments as a pc of revenue**



The Budget Papers also reveal a further deterioration in the financial condition of Tasmania's public non-financial corporations (government business enterprises sector), which is projected to incur cash deficits totalling $5.9 billion over the four years to 2027-28 – largely as a result of its significant capital expenditure programs.

As a result, the non-financial public sector as a whole is forecast to incur cash deficits totalling $8.6 billion over the four years to 2027-28, pushing its total net debt up to $16.6 billion by the end of that financial year, more than double the $7.8 billion as at 30th June 2024 (Chart 5).

**Chart 5: Total non-financial public sector net debt**




### *Tasmania compared with other jurisdictions*

With Tasmania the last of the states and territories to present its 2024-25 Budget, it's now clear that, by at least some metrics, Tasmania's public finances are on track to be the worst of any state or territory.

Despite the significant increase in Tasmania's 'general government' sector net debt foreshadowed in today's Budget Papers, it will still be less, as a proportion of gross state product, than the corresponding figures projected for Victoria, South Australia and the two territories (Chart 6).

But when government business enterprises – which represent a larger share of Tasmania's economy than of any other jurisdiction except (on some measures) Queensland and Western Australia – are included, Tasmania's total non-financial public sector cash deficits will be larger as a proportion of gross state product than in any other jurisdiction, including Victoria and the Northern Territory (Chart 7).

**Chart 6: General government sector net debt, states and territories**

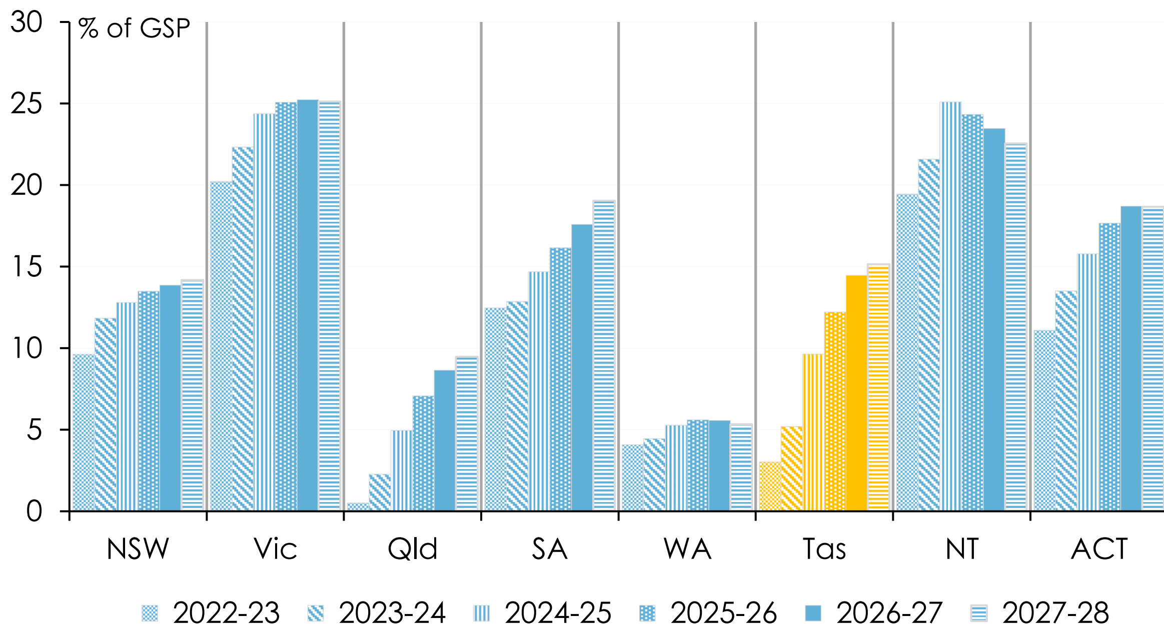
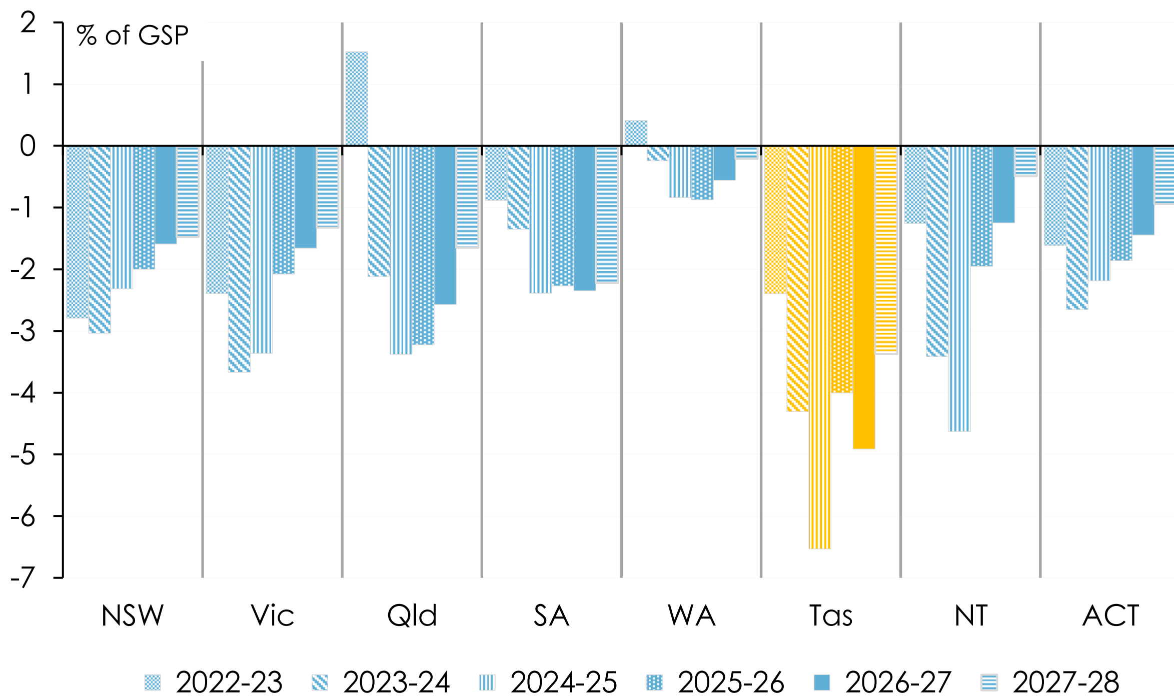


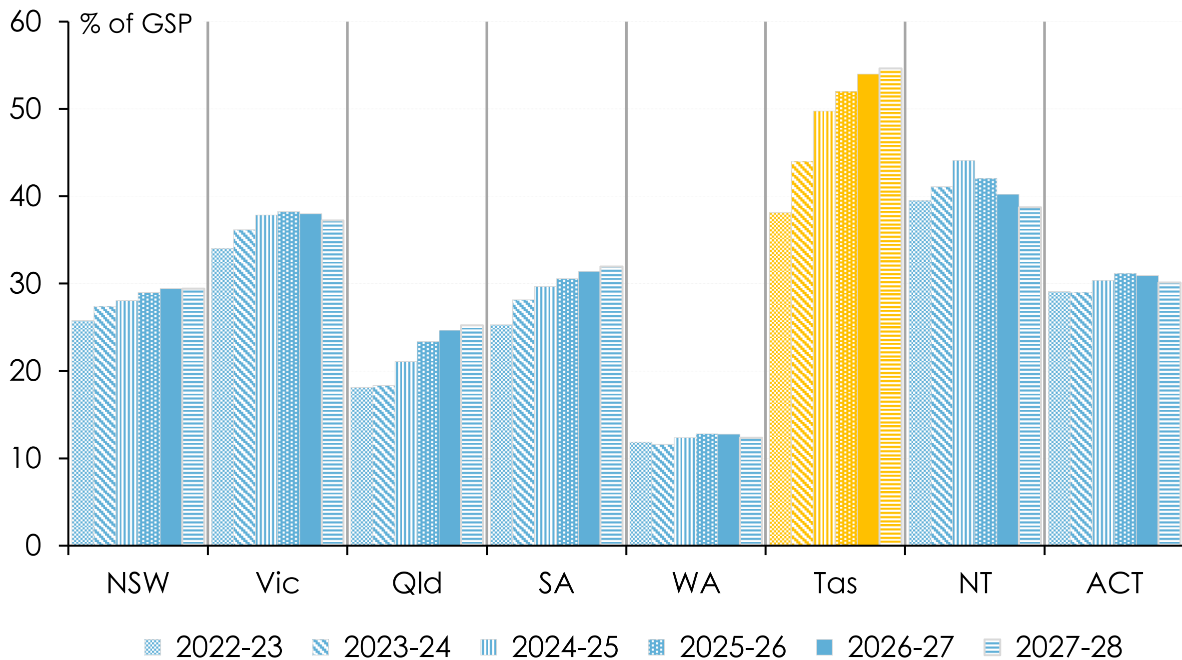

**Chart 7: Total non-financial public sector cash deficits, states and territories**




And when Tasmania's unfunded superannuation liabilities – which are proportionately much larger than those of any other state or territory – are included, as they should be, then Tasmania's total non-financial public sector net financial liabilities are the largest of any jurisdiction (Chart 8).

These comparisons raise the risk that, in the absence of any commitment to corrective action, Tasmania's credit rating – by one agency on par with Victoria's and a notch above the Northern Territory's, and by the other one notch above Victoria's and on par with NSW and Queensland – may be downgraded.

**Chart 8: Total non-financial public sector net financial liabilities, states and territories**




### *The Tasmanian economy*

The Budget Papers present a more sombre outlook for Tasmania's economy than the one presented in February's *Pre-Election Financial Outlook*.

Treasury expects Tasmania's economy to grow by 1¼% in 2024-25, a downward revision of ¾ pc point from February (although the estimate for 2023-24 has been revised up from 1½% to 2%). It expects growth to return to 2% in 2025-26, but that's a downward revision of ½ pc point from February's forecast.

It also revised down its forecast for year-average growth in employment in 2024-25 by a full percentage point to -¼%, from ¾% in February, and for 2025-26 by ¼ pc point, from 1¼% to 1%, as a result of which unemployment is expected to be slightly higher in 2025-26 at 4½% on average, compared with 4¼% previously.

Treasury attributes the softer economic outlook for Tasmania to "the continued impacts from inflation, including the associated policy actions taken to curb inflation" (ie, higher interest rates), and "expected global economic conditions".

Treasury acknowledges the slowdown in the growth rate of Tasmania's population (in contrast to the experience elsewhere in Australia), and the resumption of net interstate emigration for the first time in over a decade, but fails to draw any links between this and the slowdown in Tasmania's economy – as my Review sought to do.

Similarly Treasury notes the "increasing cost to buy and rent a home" in Tasmania (as elsewhere), but doesn't draw any connection between that and the resumption of net migration to the mainland, as the Review did.

And while Treasury identifies a number of risks to the outlook for the Tasmanian economy – including, appropriately, "that Tasmania's population growth could stagnate, or decline, in the short-to-medium term, possibly driven by continued negative net interstate migration", which could in turn "lead to reduced economic activity in the State and exacerbate challenges around workforce shortages and an ageing population", it doesn't mention the possibility that rising concerns over the sustainability of Tasmania's fiscal position could increase the likelihood of sustained population outflows, as occurred throughout much of the 1990s and in the early 2010s.

### *A note on revenues*

The *Independent Review of Tasmania's State Finances* noted that Tasmania was, according to Grants Commission's assessments, spending about 7½% less than required to provide Tasmanians with a level of services equivalent to the average of all states and territories at the average level of efficiency. For that reason (among others), the Review recommended against seeking to 'solve' Tasmania's fiscal problems primarily through reductions in operating expenses (although it did suggest winding back the infrastructure spending program, primarily through more rigorous assessments of the costs and benefits of projects).

For the same reason, I'm not critical of the individual spending decisions contained in this Budget – noting that some of them, including in particular those required to implement the recommendations of the Commission of Inquiry into Responses to Child Sexual Abuse in Institutional Settings were unavoidable.

Instead, noting that according to Grants Commission assessments Tasmania had been raising about 4% less from state taxes than it would if its tax rates and bases were equivalent to the average of all states and territories, the Review recommended that most of the 'heavy lifting' of 'budget repair' should be done from the revenue side of the Budget. In particular, it recommended broadening the base of payroll tax and land tax (using the latter to abolish stamp duties).

In that context, it's worth noting that in this year's Budget Papers the Treasury estimates that the tax-free threshold for payroll tax – the highest of any state except South Australia – will deprive the Government of $239 million in revenue in 2024-25, while the exemption of principal places of residence from land tax will cost $233 million in revenue foregone.

Removing those exemptions would go a long way to 'solving' Tasmania's budgetary problems – as well as improving the efficiency and equity of Tasmania's tax system. And part of the impact of both measures would be absorbed by the Federal Government (in the case of reducing or removing the payroll tax threshold, in the form of lower company tax payments) or by household saving (in the case of broadening the base of land tax).

Sadly, both major parties have ruled out these and other revenue options.

### *Conclusion*

The Government has consciously chosen not to begin the task of restoring Tasmania's finances to a sustainable condition in the 2024-25 Budget.

As the *Independent Review* noted, the deterioration in Tasmania's public finances since the mid-2010s has been entirely attributable to Government decisions to increase spending, without any consideration being given as to how that spending should be paid for. That approach has continued in the 2024-25 Budget.

That prompts the question, if the Government wasn't prepared to think about how to pay for the increased spending which it judges (as it is entitled to) the Tasmanian people need when Tasmania's economy was, as it repeatedly asserted, 'outperforming the nation' and when it had a majority in the House of Assembly, and it isn't prepared to think about how to pay for that spending when Tasmania's economy is no longer 'out-performing the nation' and when it no longer has a Parliamentary majority – when is it going to do it?

Or is it leaving the answer to that question – and others raised in the *Independent Review* – to another time? Or to another Government?

*Saul Eslake*
12th September 2024

Endnote: I am grateful to the Tasmanian Treasurer, Hon. Michael Ferguson MP, for making a copy of the Budget Papers available to me under embargo, which has allowed me to complete this assessment today.