Good management + good luck = strong position

(Analysis of the 2017-18 Tasmanian State Budget published on ABC Online *on Friday 27th May and in the* *Hobart Mercury* *on Saturday 28th May).*

A combination of good management and good luck has enabled the 2017-18 Budget to put the Hodgman Liberal Government in a strong position ahead of the next State election – whenever it is held.

This revenue side of this year's Budget has benefited from windfall gains averaging more than $350mn per annum over the four years to 2020-21 – including:

- an extra $100mn per annum from the GST,
- an additional $110mn per annum from other Commonwealth grants (mainly for infrastructure and schools),
- the very generous deal by which the Mersey Hospital was returned to Tasmania (generating an additional $80mn per annum by way of returns on the $730mn cash payment which accompanies the transfer),
- an additional $40mn per annum by way of increased returns from GBEs (in particular, from TasPorts and Hydro Tasmania), and
- about $40mn per annum more from state taxation revenue (chiefly stamp duty and land tax).

Importantly, these revenue windfalls are not founded on flaky forecasts. The Budget's assumptions about the Tasmanian economy – economic growth of 2½% in 2017-18, easing back to 2% per annum after that, employment growth of 1¼% in the coming financial year, and 1% per annum thereafter – are by no means unreasonably optimistic. And the Budget is more conservative in its assumptions about Tasmania's share of the GST revenue than those contained in the recent Federal Budget.

Even so, these upward revisions to forecasts of all of the Government's major sources of revenue have allowed it to increase recurrent spending by more than $320mn per annum over and above what was envisaged in last year's Budget – including as the result of 187 new policy decisions costing (in total) an average of $195mn per annum – while still leaving the 'underlying' net operating balance an average of almost $50mn per annum better off than anticipated a year ago.

This improved 'operating' position, together with a willingness to borrow a bit more than planned a year ago, has allowed the Government to make 44 new infrastructure spending commitments totalling almost $260mn over the four years to 2020-21, taking the total level of infrastructure spending during this period to over $2bn. This includes a 'general provision' of $335mn for infrastructure projects 'yet to be announced' – a 'honey pot' which will no doubt be drawn on ahead of the forthcoming election.

The additional borrowing for infrastructure is more than offset by the $730mn cash payment the Government will receive from Canberra before the end of the current financial year (as part of the Mersey Hospital deal) – so that Tasmania will remain the only jurisdiction (federal or state) where the 'general government' sector is a net creditor (that is, has more cash in the bank than it has debt outstanding).

Even when the net debt of government business enterprises – expected to remain fairly steady at around $2.5bn over the next four years – is added in, Tasmania's overall public sector net debt is smaller, relative to the size of the State's economy, than anywhere else in Australia.

That would be sufficient to warrant Tasmania having a AAA credit rating – if it weren't for the nearly $7bn unfunded superannuation liability, which (scaled against the size of Tasmania's economy) is by far the largest of any State or Territory.

The Government can legitimately claim to have 'made' some of the good fortune from which this Budget benefits. In particular, the upwards revisions to forecasts of State taxation revenue (which are in marked contrast to the repeated downward revisions to revenue forecasts which have undermined successive Federal Treasurers' promises of a return to surplus) largely reflect the improved performance of Tasmania's economy, something for which the Government can take a share of the credit.

The Government is also reaping the benefits of having kept a tight rein on spending in its first three budgets – so that, even with the additional initiatives funded in this year's Budget, by 2019-20 total government spending will represent a smaller share of Tasmania's economy than at any time since before the onset of the global financial crisis.

Moreover, the new spending in the Budget is, for the most part, well-targeted towards meeting pressing needs – as in the State's hospitals, or the care of vulnerable children – or creating jobs, and supporting key drivers of economic growth, including tourism and agriculture.

If there is a disappointment in this Budget it is that, having consolidated the improvement in Tasmania's financial position over the past three years, it makes no attempt to lay out a far-reaching program of fundamental reforms, of the sort required to make meaningful inroads into the large gap between Tasmania's economic performance and that of the rest of Australia, a gap which foreseeable demographic trends will otherwise tend to widen over time. Whoever is elected to government in Tasmania at the next election, whenever it is held, needs to have a strong and wide-ranging reform mandate if these challenges are to be successfully addressed.