Generous (for now) Canberra and increased borrowing help the Hodgman Government deliver a promise-keeping, confidence-boosting Budget

(Commentary on the 2018-19 Tasmanian State Budget published on the [ABC News]() *website and by the* [Hobart Mercury]() *on 15th June 2018)*

Tasmanian Treasurer Peter Gutwein's fifth Budget delivers on all of the Hodgman Government's election commitments and provides what should serve as a further boost to business confidence.

It contains $1.6bn of new spending, including a record level of infrastructure spending which the Government says will "provide certainty to Tasmanian business and industry to plan for the long term" and will "stimulate economic activity and jobs growth across the state".

This new spending is funded by a combination of the additional revenue spun off by more buoyant labour and property markets, and more profitable GBEs; significantly increased grants from the Commonwealth Government; and a willingness to borrow more, albeit while keeping core government 'net debt' in negative territory (that is, outstanding borrowings remain below holdings of cash and short-term deposits).

I get by with a little help from my friends

The biggest 'enabler' in this year's State Budget is an additional $564mn – by comparison with what was projected in the Mid-Year Review of last year's Budget published just before the beginning of the 'caretaker period' ahead of the March 14 election – in revenue from Canberra, over the three years 2018-19 to 2020-21 (the Mid-Year Review didn't include forward estimates for 2021-22).

Of this, $140mn comes from Tasmania's share of revenue from the GST (national collections of which were revised upwards in last month's Federal Budget); $194mn from increased grants for various recurrent spending purposes (mainly health, education and environment); and $231mn in 'one-off' funding for a variety of capital purposes (including the Bridgewater Bridge replacement, the Launceston 'City Deal', the 'Cradle Mountain Experience' and a slew of road and rail projects).

The Budget also benefits from the impact of a stronger local economy on some of Tasmania's own revenue sources.

State Treasury estimates that Tasmania's economy grew by 3½% in the financial year that's about to end, the best performance in a decade, and predicts that it will grow by a further 2¼% in the coming financial year, which would be the second-best performance since 2008-09. Faster employment growth has boosted payroll tax collections, while Tasmania's more buoyant property market is throwing off more stamp duty revenue than foreseen this time last year. Hydro Tasmania will also be paying $124mn more to the Government in tax equivalents and dividends over the next three years than previously expected, more than offsetting lower revenues from some of the State's other GBEs.

Net of the Government's promised tax cuts (such as the reduced rate of payroll tax for medium-sized businesses, a three-year payroll tax exemption for businesses relocating to regional Tasmania, 12-month stamp duty concessions for first home buyers and down-sizing pensioners, and temporary land tax exemptions for new long-term rental housing) – the cost of all of which is for some reason not disclosed in the Budget Papers – the Government's revenues have been boosted by $742mn over the three years to 2020-21 compared with what had been forecast just before the election (and probably by close to $1bn over the four years to 2021-22).

This has allowed the Government to boost its 'operating expenses' (recurrent spending) by $725mn over the four years to 2021-22 – of which $521mn is directly attributable to meeting election commitments – whilst still recording a 'net operating surplus' in each of the four years of the forward estimates period.

It's worth noting, however, that without the one-off Commonwealth funding for specific capital projects referred to earlier, the net 'underlying' operating balance will remain in deficit until 2021-22, contrary to what had been foreshadowed in February's Mid-Year Review.

In addition, the Budget provides for $878mn of additional infrastructure spending over the next four financial years. Some of this is funded by the one-off Commonwealth capital grants mentioned above. But the Government will also be borrowing $440mn over the next four years, and running down its holdings of cash and deposits by $253mn. As a result, its net debt position will deteriorate, from -$622mn as at the end of this month to -$15mn in June 2021 (compared with -$537mn forecast for that date in February) and -$52mn at June 2022.

That is, of course, still a strong position, especially by comparison with other States and Territories, none of which is projecting a negative net debt position for its core 'general government' sector over the next four years.

But neither does any of them have as large an unfunded superannuation liability as Tasmania does, relative to the size of our economy. This liability is now forecast to top $7bn in four years' time. This year, almost 4½% of the Government's cash revenues will be used to defray superannuation costs – money which other States are using to service borrowings incurred to fund productive infrastructure investments.

Will you still love me tomorrow?

The Budget Papers make only passing mention of the biggest risk to the otherwise generally sound overall condition of Tasmania's public finances – the possibility of major changes to the GST revenue sharing arrangements on which Tasmania is so dependent, flowing from the Productivity Commission's final report on those arrangements which is now under consideration by the Federal Government.

Not unreasonably, in the absence of any indication of how the Federal Government is likely to respond to whatever the Productivity Commission has recommended, the forecasts for Tasmania's share of GST revenues in this year's State Budget are premised on an assumption that the existing system remains in place. Other States and Territories have done the same. On that basis, Tasmania's GST revenue is forecast to rise from $2,48bn in 2018-19 to $2.76bn in 2021-22.

But if the Prime Minister's much vaunted 'guarantee' that Tasmania will 'not get a cent less' actually means (as a literal reading of it seems to imply) only that Tasmania will not get less than the $2.48mn it will receive in the coming financial year, in the years following that, then Tasmania would receive $500mn less over the three years 2019-20 through 2021-22 than the Budget assumes. All else being equal, that would put the Government back into a net operating deficit (on the Treasurer's preferred definition) in 2020-21 and 2021-22.

Four of the Hodgman Government's five budgets so far have been favoured by fortune. The Government has, to be fair, 'made' some of its own luck; and it has for the most part been prudent in managing the good fortune conferred on it by others. It has been able to deliver on its expansive suite of election commitments, whilst keeping the State's finances in a generally sound condition. It remains to be seen, however, whether it has done enough to shelter the state from the storms which could, conceivably, hit us in the next year or two.

And it’s also very much an unresolved question whether its reform agenda is bold enough truly to take Tasmanian living standards to a ‘higher level’, by comparison with the rest of Australia.