# Our next government needs to have credible plans to return the budget to a cash surplus and reduce debt

To put us back on a sustainable financial path parties have to be honest, writes **Saul Eslake**

Tasmania is about to have yet another state election – the third in four years. That's worrying – because Tasmanian elections have become very expensive.

Not because they're expensive to run: the last state election, in 2024, cost just over $5m, which represented just 0.05% of total Tasmanian Government 'operating expenses' in the 2023-24 financial year.

Rather, because elections have become very expensive to win.

In the Pre-Election Financial Outlook Report which was issued during last year's election, in accordance with the requirements of Part 5 of the Charter of Budget Responsibility Act 2007 campaign, the Secretary to the Department of Treasury and Finance, Gary Swain, pointedly noted that "the 2018 Election added approximately an initial $1.4bn to the existing Budget Estimates" (for the following four years), and that "the 2021 Election also added approximately an initial $1.4bn". He went on to observe that "it often the case that this expenditure ... has an ongoing Budget impact".

Despite those warnings, the Liberals made expenditure commitments totalling $1.7bn over the five years to 2026-27 – commitments which it has since met (with the exception of the one promise to raise additional revenue, a levy on short-stay accommodation providers). And Labor, if it had won the last election, had made spending commitments exceeding $2bn.

It's likely that the spending commitments made (and met) by the Liberals at the last three elections – allowing for continued spending beyond the end of four-year budget cycles – have added at least $9bn to the deficits which the Government has incurred since the 2017-18 financial year or will incur over the next four financial years. And that represents more than three-quarters of the $11.6bn increase in 'general government' net debt over that interval. The remainder is largely attributable to Covid-related spending measures.

Largely as a direct result of all this unfunded vote-buying at the last three elections, Tasmania's public finances are, by many metrics, the worst of any state or territory.

The 2025-26 State Budget presented last month shows that Tasmania's public sector – that is, including government business enterprises as well as the departments and agencies which constitute core 'general government' sector – will incur cash deficits equivalent to about 5½ per cent of Tasmania's gross state product over the four years to 2028-29.

That's worse than any other state or territory, including Victoria, for which the corresponding figure is about 1¾ per cent of gross state product.

The 2025-26 Budget also showed that the net financial liabilities of Tasmania's public sector (which includes the unfunded superannuation liability to current and future retired state employees) will exceed 60 per cent of Tasmania's gross state product by the end of the 2028-29 financial year. By a wide margin, that is again the worst of any state or territory, including Victoria, for which the corresponding figure is just over 35 per cent of gross state product. So at the very least it is to be hoped that politicians seeking office do not repeat the unfunded vote-buying sprees in which they've indulged at each of the last three elections. Or that if they do, that voters see it for what it is, and reject it.

But Tasmania's present predicament requires more than that.

It requires that those who would form our next government have credible plans to return the budget to a cash surplus. Not an 'operating' surplus, propped up by grants from the Federal Government for capital purposes, and excluding the infrastructure spending which has been a major contributor to the increase in government debt over the past decade: but a real, cash surplus, of the sort that Jim Chalmers has trumpeted in his first two years as Federal Treasurer. Because it is only by running cash surpluses that the Government can stop accumulating debt, let alone start to pay some of it down.

And there are, in broad terms, only four ways in which whoever forms government after next month's election can chart a credible pathway to a cash surplus. One is by raising additional revenue, by increasing existing taxes or introducing new ones. A second is by cutting 'operating' expenses – that is, spending on the delivery of services or the running of departments and agencies. A third is by cutting, or deferring, infrastructure investment. And the fourth is by selling assets – sometimes referred to as 'privatisation', although that's not the only way in which cash can be raised by disposing of assets. Or, of course, some combination of two or more of these.

Both major parties have ruled now completely ruled out the first and fourth of these options.

Both appear to be committed to maintaining a high level of infrastructure investment spending, including on the AFL stadium.

Which means that they either envisage making significant cuts in operating expenses – or are willing to tolerate on-going deficits, and escalating debt (and a rising share of revenues being absorbed by interest payments).

There may in fact be some scope to make targeted savings in 'operating' expenses. The Grants Commission's most recent assessment – arrived at as part of the process by which it makes its recommendations as to how the revenue from the GST should be carved up - is that Tasmania spent about 5 per cent (or about $410m) more in 2023-24 on delivering services and running departments and agencies than it 'needed' to in order to provide Tasmanians with the same standard of services, with the same efficiency, as the average of all states and territories. That's a marked turnaround from the four preceding years, when the Grants Commission's assessments suggested that Tasmania had been spending less than required to provide Tasmanians with the average level of services.

But the Grants Commission's assessments also suggest that the Tasmanian Government raised about 14 per cent - or $275m – less by way of state taxes, and almost 60 per cent - or $82m - less by way of mining royalties in 2023-24 if its state tax and royalty regimes had been the same as the average of all states and territories.

If Tasmania's political parties truly want to put Tasmania on a path back to a sustainable financial position, they are going to have to be honest with the Tasmanian people during this election campaign.

They will need to say to at least some businesses, and to the better-off members of the Tasmanian community, "you're going to have to pay a bit more tax".

They will have to say, "we are going to find ways of delivering the services you expect more efficiently than we have been doing".

They are going to have to say to the Tasmanian people, "we can't afford to build all the infrastructure that is currently on the books, as quickly as has previously been promised".

If they're not prepared to say that, then they're instead going to need to say, "we need to think more creatively about how we're going to finance the construction of that infrastructure".

If they are prepared to say these things, or something like them, then the election that none of us wanted could mark a turning point in this state's prospects.

But if they're not, then there will be even more difficult days ahead, for all of us.

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