The Tasmanian Government's 'interim' 2025-26 Budget: an analysis

The 'Interim' 2025-26 Budget presented today by Treasurer Eric Abetz presents a marginally less dire picture of Tasmania's public finances than the original 2025-26 Budget presented by his predecessor, Guy Barnett, on 29th May (which failed to pass the Parliament, ultimately triggering the early election held on 19th July).

The marginal improvements in the forward estimates of the various measures of the Government's 'bottom line', and of net debt, are entirely attributable to 'parameter variations', rather than to conscious 'policy decisions' by the Government – in particular, higher than previously forecast revenue from stamp duty, and lower than previously forecast expenses, particularly on 'general public services', but also on health and education.

The formidable task of 'budget repair' has been 'kicked down the road', to the 2026-27 Budget to be presented in May next year.

A marginal improvement in the outlook for deficits and debt

Today's 'interim' Budget projects a slightly faster improvement in the **'net operating balance'** – the measure of the 'bottom line' which all State Treasurers prefer to use – than what had been forecast in the original 2025-26 Budget. After deficits totalling $2.1 billion between 2025-26 and 2027-28 ($146 million less than envisaged in May), the Forward Estimates now project a net operating surplus of $6 million in 2028-29 (as against a $236 million deficit previously), which would be the first such surplus since 2018-19.

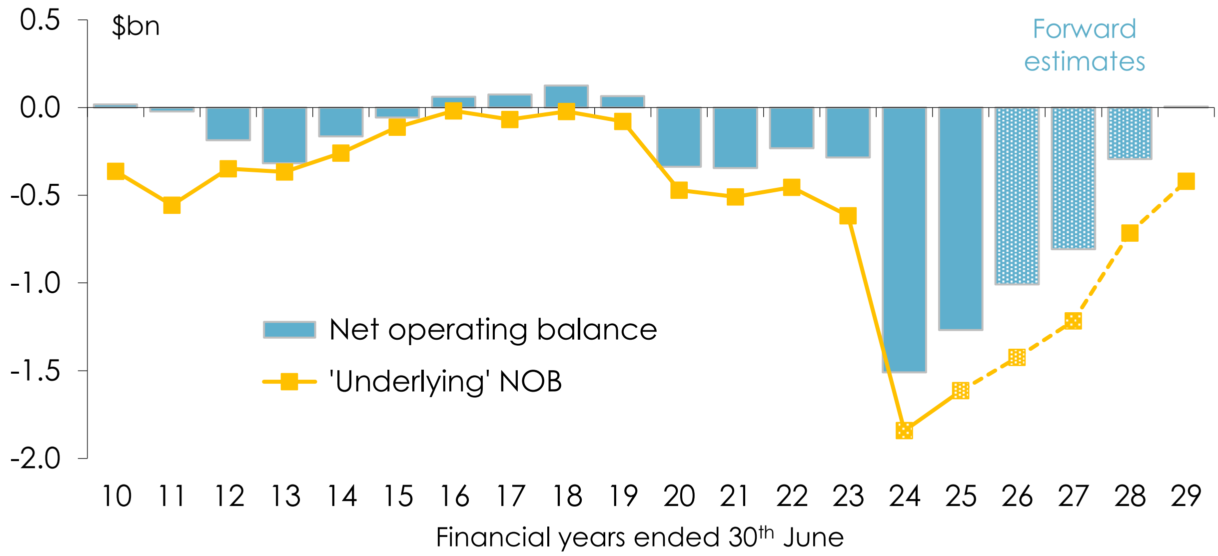
It's important to note, however, that despite its widespread use by all State and Territory governments, the 'net operating balance' is a very incomplete measure of the budget's "bottom line". In particular, it excludes **capital expenditures** (or 'net purchases of non-financial assets', as they're nowadays called in Budget Papers): but, perversely, it includes (as revenue) grants from the Federal Government for capital purposes (which help to fund these capital expenditures).

To its credit, the Tasmanian Government (uniquely among State and Territory governments) publishes a measure of the **'underlying' net operating balance** which excludes 'one-off' grants from the Federal Government for capital purposes. And that measure will be in deficit by a total of $3.8 billion over the four years to 2028-29 (including a deficit of $420 million in 2028-29 itself), compared with a total of $4.2 billion projected in the May Budget (see Chart 1 overleaf).

The small improvement in the forward estimates of the 'operating balance' compared with what had been projected in May are the result of upward revisions to forward estimates of **revenues** totalling $249 million over the four years to 2028-29, and downward revisions to forward estimates of **'operating expenses'** totalling $138 million over the same period.

The upward revisions to forecast revenues are largely due to a $237 million upward revision to the forward estimates of revenue from stamp duty on land transfers, and a $93 million upward revision to forecasts of grants from the Federal Government, partly offset by a $49 million downward revision to projections of payroll tax revenue.

Chart 1: 'General government' net operating balance



Note: The 'underlying' net operating balance excludes one-off grants from the Federal Government for capital purposes. *Sources:* Tasmanian Government, 2025-26 *Budget Paper No. 1*, *Treasurer's Annual Financial Report 2024-25* and previous issues.

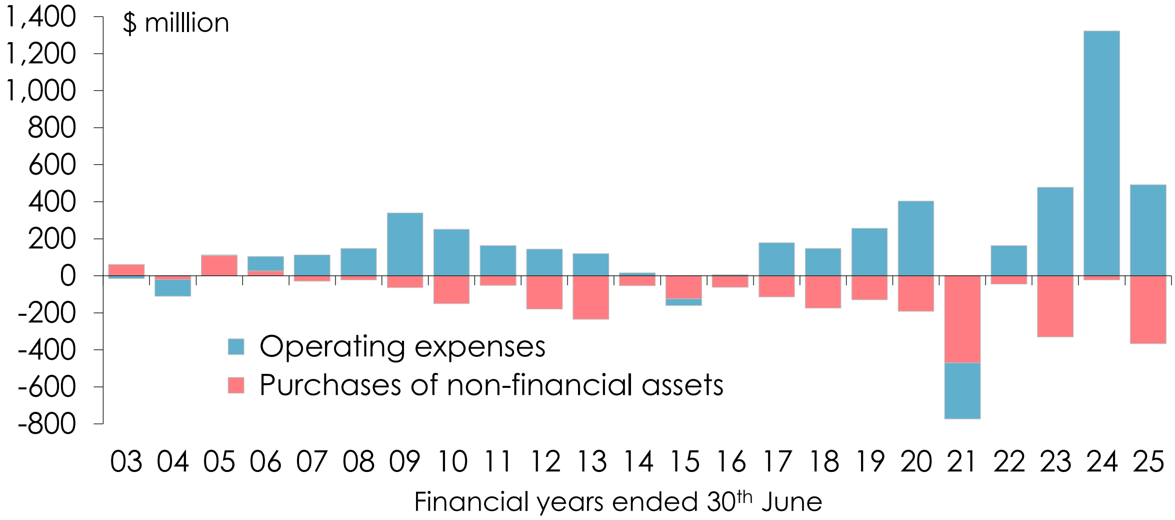
The downward revision to the forward estimates of 'operating expenses' over the four years to 2028-29 is largely due to spending on 'general public services' now forecast to be $318 million less than envisaged in the original 2025-26 Budget in May, along with much smaller downward revisions to spending on education and (perhaps surprisingly) health of $14 million and $22 million respectively, partly offset by increases in projected spending on other functions.

The important thing to note in this context is that <u>none</u> of the relatively small improvement in this measure of the Government's 'bottom line' is the result of conscious policy decisions taken since the July election. The Government is continuing with the 'efficiency dividends' introduced in the 2023-24 Budget, and has foreshadowed that these will be replaced with a 'Productivity and Efficiency Measure' commencing in 2027-28, guided by the recommendations of the Efficiency and Productivity Unit whose establishment was announced in the original 2025-26 Budget, and which will "conduct performance evaluation audits that examine the effectiveness of programs and initiatives".

History strongly suggests that the Forward Estimates of 'operating expenses' in today's 'interim' Budget will be exceeded – as they have been in all but two of the past 21 financial years, including by $492 million (5.1%) in 2024-25 (see Chart 2).

According to today's Budget Papers, total 'operating expenses' will decline by 2.2% over the three years to 2028-29 (equivalent to a 9.4% fall in real terms), with spending on health projected to rise at an average annual rate of just 1.4% over the three years to 2028-29, down from an average of 8.5% per annum over the ten years to 2024-25, and spending on education by 1.7% per annum over the three years to 2028-29 compared with an average of 5.6% per annum over the decade to 2024-25. That's likely to require some significant 'policy decisions' in the 2026-27 Budget.

Chart 2: Budget forecasts of general government 'operating' expenses and 'purchases of non-financial assets' and outcomes

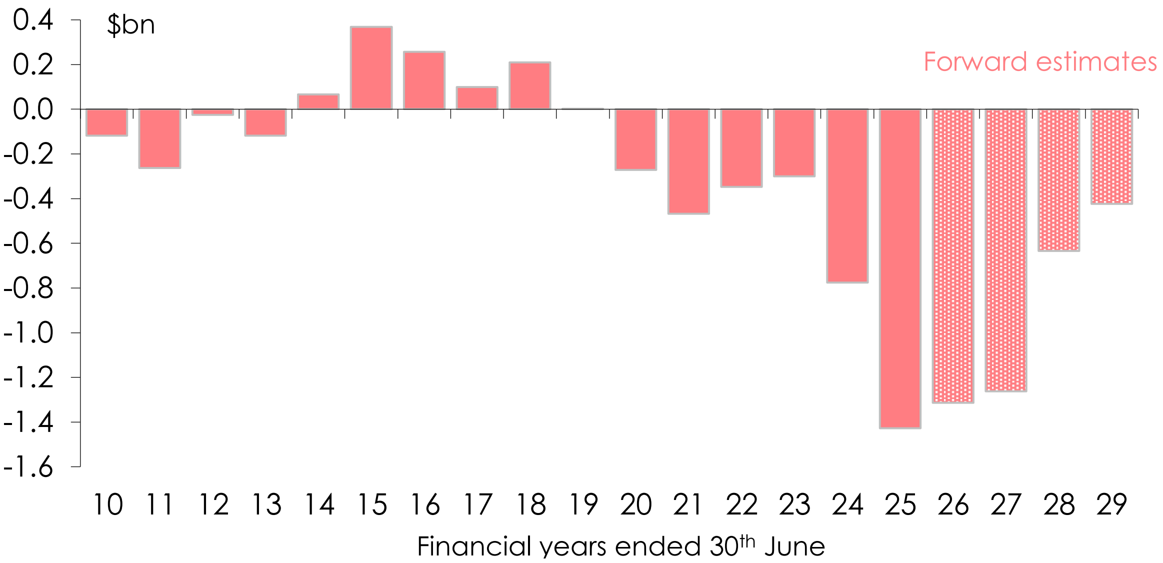


Sources: Tasmanian Government, *Treasurer's Annual Financial Report 2024-25* and previous issues.

Nor were there any significant changes to the Government's ambitious capital expenditure program. Today's 'interim' Budget projects '**purchases of non-financial assets'** totalling $3.4 billion over the four years to 2028-29, $103 million more than forecast in the original 2025-26 Budget in May. As illustrated in Chart 2 above, history suggests that actual capital spending will fall short of these forward estimates, as they have done in every year since 2006-07, including by $366 million in 2024-25.

A better measure of the Government's 'bottom line' is provided by the **cash balance** (which includes capital expenditures). The Forward estimates in today's 'interim' Budget imply cash deficits totalling $3.6 billion over the four years to 2028-29, an improvement of just $269 million over what had been forecast in the original 2025-26 Budget in May (see Chart 3).

Chart 3: 'General government' cash balance



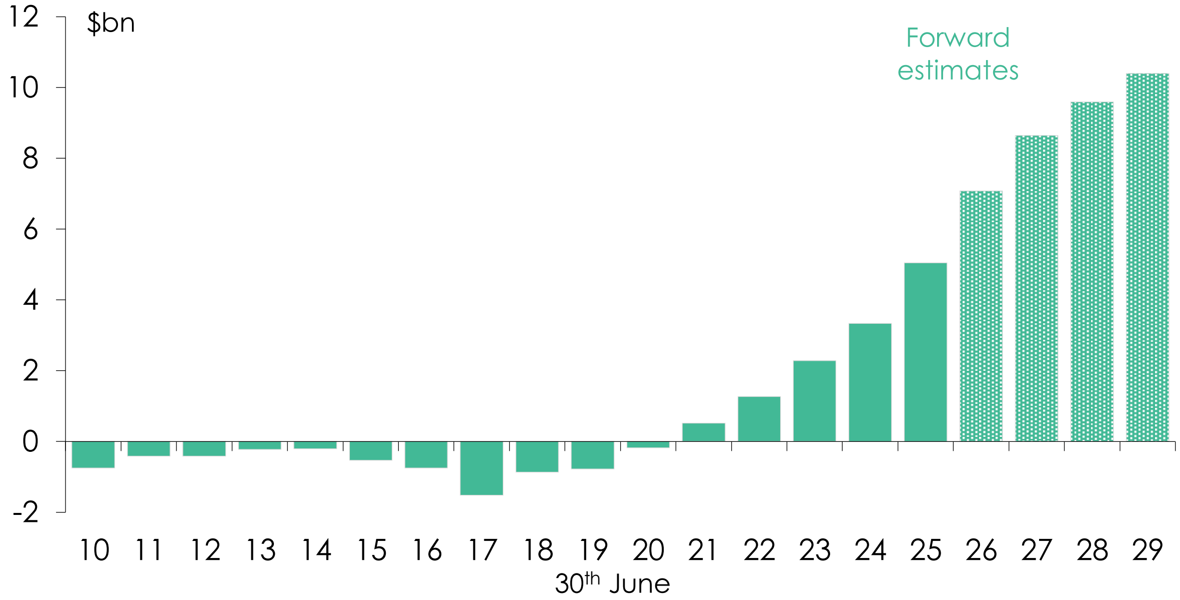
Sources: Tasmanian Government, 2025-26 *Budget Paper No. 1*, *Treasurer's Annual Financial Report 2024-25* and previous issues.

It is the cash balance which (largely) drives changes in **net debt**. And it is simply not possible to prevent net debt from rising – let alone begin to pay it down – unless and until the Government starts running cash surpluses.

Reflecting the very small improvement in the Forward Estimates of the cash deficit, and the fact that net debt as at 30th June ended up being $215 million lower than forecast in the May Budget, today's 'interim' Budget projects that net debt will rise by $5.4 billion, to $10.4 billion, over the four years to end-June 2029, $386 million less than foreshadowed in May.

However it is still a very large number (Chart 3): and the interest on it is projected to increase from $248 million (2.4% of total operating expenses) in 2024-25 to $618 million (6.0% of total operating expenses) in 2028-29.

Chart 4: 'General government' net debt



Sources: Tasmanian Government, 2025-26 *Budget Paper No. 1*, *Treasurer's Annual Financial Report 2024-25* and previous issues.

The 'general government' sector isn't the whole story

All of the foregoing figures are for what the Budget Papers call the 'general government' sector – which consists of government departments and agencies which are funded, primarily, through the Public Account (that is, revenue from state taxation, fees and charges, grants from the Federal Government and dividends from government business enterprises). They exclude the transactions of government financial and non-financial corporations – which represent a larger share of Tasmania's economy than they do of the economies of most other states and territories.

To get a proper picture of the financial performance and position of the Tasmanian public sector as a whole, it's therefore important also to look at the figures for (in particular) **public non-financial corporations** (which includes, among others, Hydro Tasmania, TasNetworks, Aurora Energy, TT-Line and the Macquarie Point Development Corporation), and the **non-financial public sector** as a whole.

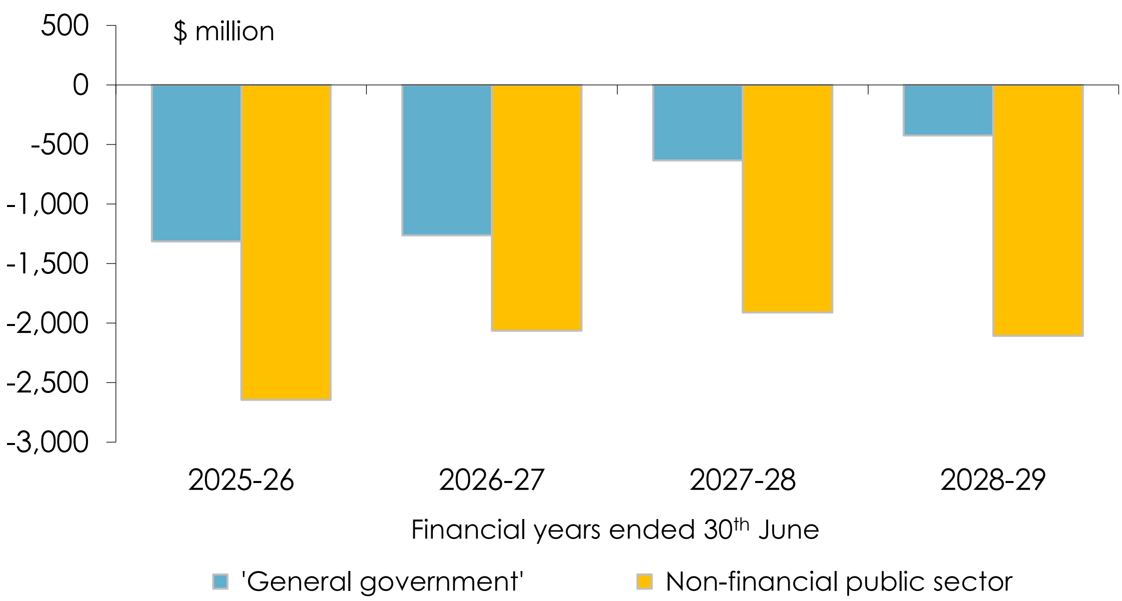
Tasmania's GBEs are spending a lot more on capital works than the 'general government' sector. In 2024-25 their 'net purchases of non-financial assets' totalled $1.25 billion, almost exactly twice as much as the 'general government' sector. The original May 2025-26 Budget forecast that 'net purchases of non-financial assets' by GBEs would sum to $8.8 billion over the four years to 2028-29.

In today's 'interim' Budget, that's been scaled back by $1.25 billion, to $7.5 billion (although that's still 132% more than the 'general government's proposed spend over the same period). Their projected cash deficits have accordingly been revised down to a total of $5.1 billion over the four years to 2028-29, from $6.4 billion in the May Budget, and their net debt is now projected to climb to $8.7 billion by the end of the 2028-29 financial year (from $4.7 billion this past 30th June), rather than $9.8 billion as forecast in May.

After netting out transactions between the 'general government' and public non-financial corporations sectors (such as dividend payments, loans and equity injections), the **non-financial public sector as a whole** is now expected to incur cash deficits totalling $8.7 billion over the four years to 2028-29 (a downward revision of $1.56 billion from the May Budget forecast), while its net debt is forecast to rise to $19.1 billion by 30th June 2029, compared with the May forecast of $19.9 billion.

While that sounds like an improvement, it's worth noting that – in contrast to the forward estimates for the 'general government' sector noted above, the forward estimates for the non-financial public sector as a whole do not show any improvement in the cash deficit over the next four years (see Chart 5 below), and hence do not presage any slowing in the rate at which total Tasmanian public sector net debt will continue to accumulate.

Chart 5: 'General government' and non-financial public sector cash deficits



Sources: Tasmanian Government, 2025-26 *Budget Paper No. 1*, *Treasurer's Annual Financial Report 2024-25* and previous issues.

Today's Interim Budget re-affirms (although that's obviously not its intention) that, properly measured Tasmania's financial position is worse than that of any other state or territory.

As shown in Chart 6 below, Tasmania's projected non-financial public sector cash deficits will be larger, as a percentage of gross state product, than those of any other state or territory; while Chart 7 shows that Tasmania's non-financial public sector net financial liabilities (which, as noted above, includes the unfunded public sector superannuation liability, which for Tasmania is by a large margin relatively larger than in any other jurisdiction) represent a bigger proportion of Tasmania's gross state product than those of any other state or territory.

Chart 6: State and territory non-financial public sector cash balances

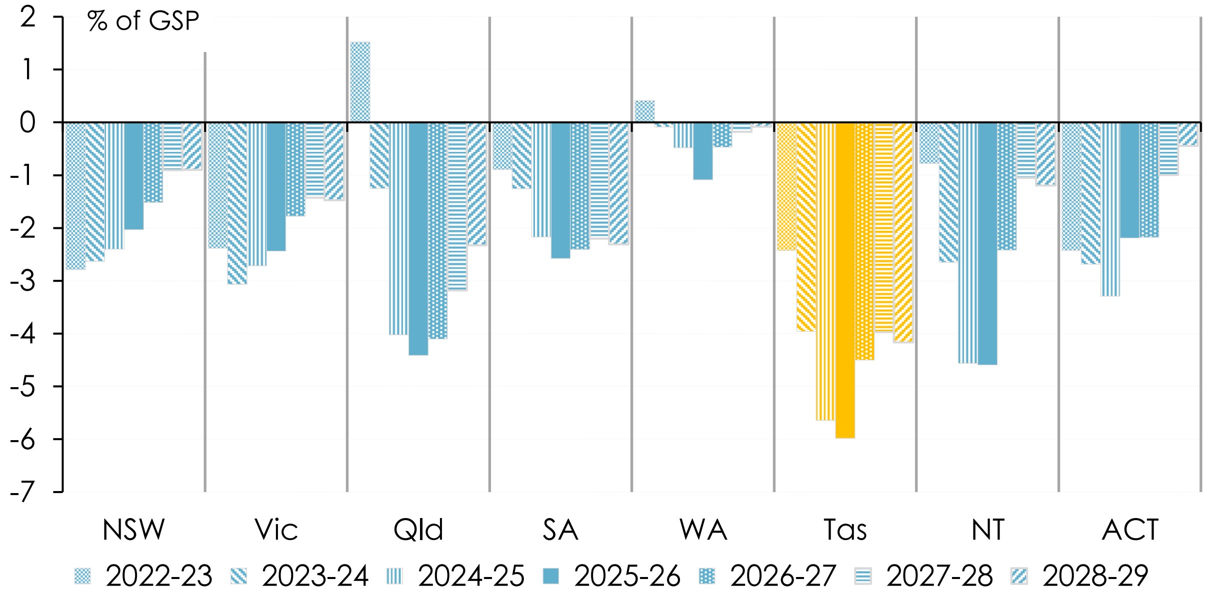
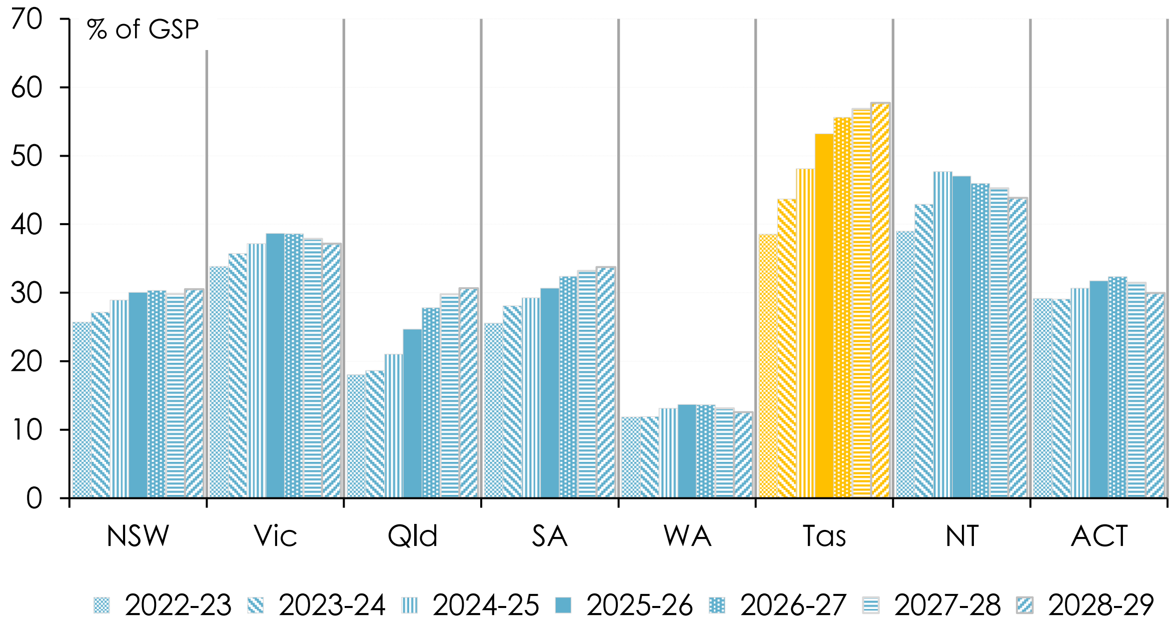


Chart 7: State and territory non-financial public sector net financial liabilities



Sources: State and territory 2025-26 Budget Papers and annual financial reports for 2024-25 and previous years.

An optimistic view of Tasmania's economy

Today's 'Interim' Budget Papers contain a much-expanded discussion of the recent performance of and outlook for the Tasmanian economy, in line with one of the recommendations of the *Independent Review of Tasmania's State Finances* which I undertook last year (and which the Budget Papers were generous enough to acknowledge).

That said, this discussion seeks to put what I think is an unduly optimistic gloss on the recent performance of and outlook for the Tasmanian economy (after allowing for the impact of the way in which, and time at which, TT-Line's acquisition of the two replacement *Spirits* are measured in the ABS's estimates of gross state product and its components).

In particular, the Budget Papers (and the Treasurer's Budget Speech) put great store by the fact that Tasmania now has the lowest unemployment rate of any state (at 3.8% in trend terms in September). That actually isn't a reflection of strong growth in Tasmania's economy, or employment, but rather of the fact that (despite some improvement over the past six months) a much smaller proportion of Tasmania's population is in work or actively looking for it (61.4% as of September) than in the rest of Australia (67.0%).

Growth in Tasmania's economy has been more dependent on public spending in recent years than that of any other state or territory, something which can't continue if the Government is going to get serious (as it says it will) about 'budget repair' in next year's Budget. That being so, it seems unlikely that Tasmania's economy will grow by 2¼% in 2026-27, as the Budget Papers forecast, or that it will return to the long-run average growth rate of 2½% per annum in 2027-28 and 2028-29, as they assume – or that the unemployment rate will remain at 4% over the entire four-year period (down from 4¼% in 2025-26 and 4½% in the following three years forecast in May).

A missed opportunity to make a start on 'budget repair'

In summary, today's 'Interim' Budget has passed up the opportunity to make a start on the budget repair task at which successive previous Treasurers have baulked since the end of the Covid-19 pandemic. The Treasurer puts this down to a "significantly compressed timeframe due to the timing of the 2025 State election".

I'm not convinced by that. It's not as if the Government hasn't had plenty of advice – from the Treasury, and from me (among others) as to the seriousness of Tasmania's financial position (which, to be fair, I think Treasurer Abetz grasps more seriously than his predecessors), or as to what can and should be done about it. It's not as if the 2025 election resulted in a change of Government, which might have been a more plausible excuse for delaying budget repair measures.

Nonetheless, Federal Treasurer Jim Chalmers was able to present a fully articulated budget five months after assuming office in 2022; Peter Costello made a strong start to the task of budget repair five months after the Howard Government won office in March 1996; and Alan Stockdale needed less than three months to begin the task of cleaning up Victoria's finances after the Kennett Government was elected in October 1992.

Mr Abetz' task is probably made more challenging by the fact that, unlike Peter Costello or Alan Stockdale (or for that matter Tasmania's own Michael Field in 1989-90), he can't lay the blame for undertaking politically difficult 'budget repair' measures on his political opponents: because the fiscal mess which now confronts him is entirely the doing of his predecessors, in particular former Treasurer and Premier Peter Gutwein, and some of his current Ministerial colleagues.

Today's Budget Papers show that of the Government's 11 'Fiscal Strategy' targets (that's way too many, by the way), only two are being met – and they are the least demanding of those targets, namely that 'general government' infrastructure investment spending should be greater than provisions for depreciation (which is not a target that assists with any budget repair task) and that all infrastructure projects in excess of $50 million should have a positive net present value and/or a positive benefit-cost ratio (which you would think was a basic requirement of prudent financial management even if Tasmania were rolling in cash, like Western Australia).

Today Mr Abetz foreshadowed that the Government would task Treasury with presenting the next five-year *Fiscal Sustainability Report*, ordinarily due by June next year, in February, so that it can inform the task of framing the 2026-27 Budget. While that sounds like a sensible move, it can hardly be expected that Treasury will say anything it didn't say in the *Pre-Election Financial Outlook*, including (it bears repeating):

- the "structural problem" in the State Budget "will not be resolved through future economic growth" and that "explicit policy choices are required";
- "a combination of revenue and expenditure measures will be required";
- "no single class of intervention is likely to be sufficient to move Tasmania to a sustainable fiscal trajectory".

If the Government had actually made a start on "a combination of revenue and expenditure measures" in today's Interim Budget, there would have been a better chance that the fruits of doing so (in terms of a more credible and sustainable trajectory for the key budget numbers presented in today's Budget Papers) would become apparent before the next election (whenever that might be).

In particular, whilst acknowledging that raising taxes is an especially difficult choice for a Liberal Government, there would have been more time to explain the need for such choices to the electorate, and perhaps a greater opportunity to foreshadow some tax relief at the next election by getting Tasmania's finances on a more sustainable footing before then.

Those opportunities, and others, have been foregone.