

Date: 28 May 2017

The State Budget**A question****The State Budget**

I am not normally a fan of the instant response approach, because like most things, the devil is in the detail. Whether it be an idea, a business proposition, or a budget, the concept is always presented in an as attractive a light as possible. Usually, things do not turn out as expected, in most cases, worse, and rarely, better. A works program coming in on time and on budget is a rare event indeed. Always there are variations. And then there are the things that should be exposed, but are concealed.

I would like to think the State Budget, brought down by the Treasurer last Thursday could be different, and in fact, with a few caveats, the state budget would appear to tick all the boxes. As such, it has my support.

It is thematically a very centrist budget, because it places an equal emphasis on the social side of the equation – health, education and community services, as much as it does the purely economic. I would argue that the government, through this budget, is very much moving to the centre of the political spectrum and seeking to capture the centre stage for the upcoming election. And that is good politics, as well as good policy.

So, the caveats are not so much about priorities or what has been left out of the budget, but in some of the assumptions underlying it, on the effectiveness of some of the programs announced in it, and its essentially short-term outlook.

Assumptions

The budget is being touted as being “back in the black”. The table below shows an expected surplus of \$75m this financial year, and ongoing surpluses of around \$50m, which equates to around 1% of total revenue, which in turn suggests not much wriggle room or room for error.

(in \$'m)	2016-17 Budget	Est.	Est.	Est.	
	2017-18	2019-20	2010-21	2021-22	
GENERAL GOVERNMENT					
Revenue	5 573.7	5 874.0	5 863.0	5 984.8	6 048.7
Expenses	5 496.3	5 819.8	5 812.3	5 933.6	6 003.4
Net Operating Surplus	77.3	54.3	50.7	51.3	45.3

The phrase “Over the forward estimates” is intended to cover policy settings over the next 4 years, and a number of assumptions have been made to enable this to occur. An entire section of the budget – 9 pages in all - is devoted to risks associated with these assumptions.

I will not go into a forensic analysis of these risks, suffice it to say that GST payments could change, property taxes could change, and Commonwealth payments to the state could change. There are other forecast elements that are also open to query, which relate to the ongoing health of the Tasmanian economy, such as population growth, employment levels and GSP (a measure of the state's economic activity).

So, two things to consider. First, the budget assumes a steady state of affairs over that period, including the continuing economic wellbeing of the state, no natural disasters, and the maintenance of existing policy settings eg. the re-election of the government. These factors are 'variables', and can change.

Second, the figures are open to manipulation, or fudging. The table below is taken from Budget Paper No1, and shows the anticipated change in revenue over the next 4 years. What strikes me immediately is the line "Dividends" which is essentially the take from the government's own GBE's, such as Hydro, TasNetworks, TLine etc.

As we have seen in the past, these figures can change to suit the circumstance, and the lift in the dividend for the coming year, only to fall back the year after, suggests some "manipulation" to make the figures look good. A \$50m surplus can be created and just as easily removed by manipulations in this one line item.

(in \$'m)	2016-17 Budget Est. Est. Est				
	2017-18	2019-20	2010-21	2021-22	
Revenue from Transactions					
Grants	3 634.6	3 682.9	3 673.5	3 735.4	3 748.3
Taxation	1 055.6	1 128.5	1 147.4	1 173.0	1 198.9
Sales of Goods/Services	352.9	408.0	417.0	424.8	428.7
Fines and Regulatory Fees	96.5	98.9	99.3	100.3	101.6
Interest Income	16.5	19.6	17.6	16.0	17.2
Dividends etc	263.8	358.4	338.2	370.1	390.4
Other Revenue	153.8	177.7	170.1	165.2	163.5
TOTAL	5 573.7	5 874.0	5 863.0	5 984.8	6 048.7

And contained within "Other Revenue" is the fact that mining royalties will double next year, to over \$40m. I suspect a rather heroic assumption.

The government believes that it has been in its own interest to promote a budget that is "back in the black". It suggests sound economic management. But was it politically wise to do so, considering all the manipulations made to make it so? Personally, I don't think so. Already the unions are stating that, given the surplus, the 2% wage rise anticipated in the estimates is not acceptable. A 1% movement in the wage budget is equivalent to around \$25m, so the surplus is already looking quite "fragile."

Program Effectiveness

The three big messages coming through this document are health funding, the promotion of jobs and affordable housing.

On health, it is obvious the government had to do something. Health is a mess. However, simply throwing money at a problem can in fact exacerbate the problem. As well as providing more resources at the service level end, government should ensure that the management systems and processes behind the scenes are appropriate, efficient and effective. Much time and many dollars are being wasted through archaic management systems.

Payroll tax has been amended to enable employers to take on young people, which is all well and good, except that employers will need to have a need for such employment in the first place. Many smaller businesses, those with less than 20 people, are not subject to payroll tax anyway, so no matter how attractive an employment package might be, it will only engage more people if the demand is there to do so. Job creation is more about demand (a "pull" factor), than it is supply (a "push" factor).

Furthermore, the changing nature of work is a real issue, and the rate of change is massive. It is interesting to note that the rise of Uber and AirBNB have occurred

within the present term of this government, and many businesses in existence now would not have even been contemplated as short as 10 years ago.

Which makes the current jobs environment very fluid. It is in fact far more important to provide continuing training and retraining, to ensure a relevant and adaptable and therefore an employable workforce, as it is to provide some form of subsidy to employers, which in fact should be about infrastructure.

Training is a key component. It is a matter of considerable concern that industry, particularly the tourism industry, is coming out and stating that it is not linked in to the TAFE "product". Their belief is that TAFE should "focus greater efforts on industry engagement, contemporary industry knowledge, relationships and responsiveness". This is a very serious commentary.

The government says it is supporting TAFE and providing it with more funds - again, throwing money at a problem to do more of the same. When the same is not working, it is simply throwing good money after bad.

In my last newsletter I advised that the issue of housing affordability is driven by supply and demand. Increasing demand through subsidies for home buyers, without increasing supply, will only make housing less affordable. It requires a more sophisticated approach to fix it.

Government is continually asked to provide more services. Yet the demand for more services is only matched by the equally strong desire not to pay for it. The time is fast approaching when extra taxation will be required - already the federal government has dipped its toe in the water with its bank tax and its attempt to increase the medicare levy. Without proper funding, services will always be under strain. All the more reason to ensure that the management systems are appropriate for the times.

Finally, although the government has hailed this budget as an infrastructure budget, I remain to be convinced that it is in fact that. Nothing seems to have changed from the data provided in the last newsletter. Providing funds to resolve the Hobart traffic snarls without providing infrastructure is a case in point, as is the continuing call for funds to fix the Bridgewater bridge, or the absence of any flood mitigation measures.

Given these constraints and doubts, I remain of the view that the budget is a responsible and people-orientated document. And should be supported.

A question for you to consider

When does the right to protest become a basis for the "right" to disrupt?

I don't like forestry, therefore it is OK to disrupt forest activity.

I don't want dams or mines, therefore it is OK to stand in the way of the bulldozers.

I don't agree with holding pagan-like rituals, therefore it is OK to disrupt them.

I don't like certain artistic expression, therefore it is OK to ban it.

I don't like war, therefore it is OK to disrupt the economy of the country.

It is not an easy question to answer, and it is one that all proponents of and leaders in a liberal democracy have to grapple with. I suspect we all have our "line in the sand" when it comes to issues such as those above. However, protesting has now become an art form, and consensus is becoming a much harder prize to win. Media like conflict, and promote it in order to "get the story" And that has its own problems, such as how to provide effective leadership.

This newsletter is supported by **Tasman Management Services.**

Further information is provided at www.julianamos.com.au.