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The Budget

The budget process is complete for another year, and other matters are now taking centre stage, like by-elections, GST and football (see later). However, a final word on the data presented in the Budget Papers is in order.

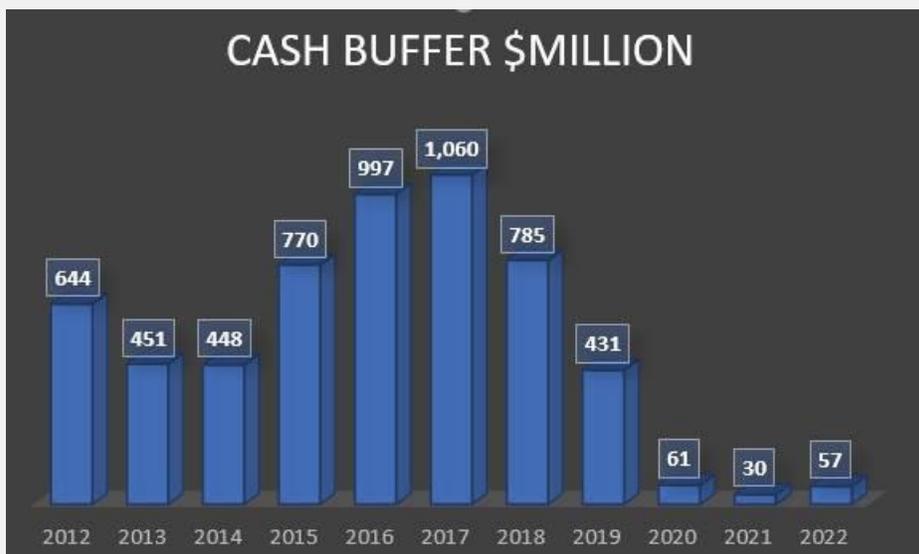
A question arises as to the true nature of the state's financial health. The Table of Assets (Table 4.2 in Budget Paper 1) provides the following future estimates (in \$'m) for cash and deposits. (A note in passing that estimates tend to be at best indicative)

2018	2019	2020	2021	2022
1130	939	823	845	876

Previous actuals (obtained from past papers) are:

2012	2013	2014	2015	2016	2017
1294	1351	1368	1345	1382	1370

These are gross figures and include overnight (end of year) borrowings. Remove the overnight borrowings (a hard figure to discover and called by some “the missing hay”) and a different picture emerges.



The graph shows the cash buffer at the end of the 10 years up to June 2022 and shows a far more significant rundown in reserves. As mentioned in a previous newsletter, this is not in itself a bad thing, but it does need to be acknowledged for what it is.

In future years, it would be appropriate for Treasury to present the true figure by showing the cash reserves as a sum of the two components (cash in hand, and overnight borrowings)

(Note: I am indebted to John Lawrence for providing certain advice and data)

The GST

Of course, the ink is not even dry, and the world has changed. Budget estimates are calculated on an "as is" basis. As they should be. With suggested changes to the GST now in play, the budget is already in need of some adjustment as far as future forecasts are concerned.

GST distributions to the states are calculated on a "capacity to pay" basis, as referenced against the state with the greatest capacity to pay. Originally the reference state was Victoria, in 2004 NSW became the benchmark state and in 2008 WA took over the helm due to the massive mining royalties it was receiving.

Tasmania has always been a beneficiary, and presently receives over \$1.80 for every dollar it raised - WA on the other hand was only receiving less than 30c. With the downturn in the WA mining sector, WA began to cry poor, and demanded a change in the formula to enable it to receive a greater return.

After much lobbying, the Government, concerned at the backlash emanating from WA, has suggested a change in the formula, and to quell any uprising from the other states, has suggested a top-up to the GST "pie".

As the Treasurer said, one might receive a smaller percentage, but it will be a smaller slice of a bigger pie, larger in quantum than what one would have otherwise received.

The government has also announced its intention to set a floor of 70c (moving in time to 75c), such that the WA situation would not recur, and that the formula would be based on the "capacity to pay" of the stronger of the two states Victoria and NSW.

In a sense it is removing WA from the strict adherence to the formula. An uplift in the mining sector would be very much to WA's benefit, as it would no longer be a benchmark state, and would keep over 70% of its revenues.

All state governments seem reasonably happy with the deal, so it should go through, and if it does, Tasmania will reportedly be \$112m better off. Now, there are some caveats to all of this. I raise six here, but I am sure there are more.

First, the top-up will need to be guaranteed, and not be subject to the whims of the government of the day. Reports suggest an annual top-up of \$600m commencing in 2021-22, plus a further \$250m commencing 2024-'25, each amount indexed. Depending on which newspaper you read, this can amount to \$5.2b over 6 years, or \$7b over 8 years, or \$8.7b over 10 years. It's the same deal.

Second, the money will have to come from somewhere. There is no magic pudding. Since the budget is not in surplus, and with the government cost cutting where it can, there is no guarantee that special purpose payments or other sensitive areas of expenditure would not be targeted.

Third, just as the Treasurer has said he can change to formula without the concurrence of the states, that means a future Treasurer will also have the power to amend the arrangement. The formula is not guaranteed, and neither is the "top-up". Circumstances may well change within this timeframe. World affairs, trade wars, political uncertainty can all play a part in encouraging a future Treasurer to so act.

Fourth, there may well be a temptation for the Federal government to get out of certain activities and hand those responsibilities back to the states. In other words, the top-up might come with conditions. Maybe not immediately, but slowly slowly. So, give with one hand, take with the other.

Fifth, what incentive if any will there be for recipient states to be more efficient in the provision of services? For example, through mainland eyes, does Tasmania really need four public hospitals and 29 Councils, and should it be compensated by the other states for doing so? Locking up resources in no-go zones would have a damaging effect on Tasmania's "capacity to pay", but also on Tasmania's ability to argue its case for maintenance of the formula.

And finally, benchmarking the relativities against NSW and/or Victoria rather than the state with the greatest capacity to pay is a discriminatory act against those states and a disincentive for them to progress, while others reap the benefits without regard to their own improvement.

Macquarie Point

The Treasurer has advised that we are moving from a remediation phase to an investment-ready phase. Which begs the question as to the detail of such "phases". What remediation has been completed, and is remediation now complete? After all, that was the Authority's original charter.

It seems the site will no longer be able to be used by Dark MOFO, as other uses are now under consideration. OK Surprise us!

The Development Authority held a public forum last week, with speakers speaking about memorials. Unfortunately, certain members of the public i.e. the media were denied entry, which was not a good look. But then, not much is.

Speaking a day after the event the CEO advised that "activation and development takes time", and that "the community is encouraged to walk in and feel that they can use the site" (but not apparently for Dark MOFO).

Six years on...so many "plans", and still no traction.

Football

Football has become political, with the AFL chief first threatening to disband the TSL, and then criticising the Tasmanian government for wanting to help resolve the matter. Given the investment in the game by the Tasmanian Government one would have thought a more temperate approach would have been more appropriate. It says a lot about the AFL's total disregard for the game in Tasmania. If the grass roots die, then the grass dies too. QED

Along comes the Opposition, offering to pay \$25m to help establish a Tasmanian AFL team. What were they thinking? This is such a bad decision. Not only does it let the AFL off the hook from doing what It should be doing, it sets a damaging precedent, at so many levels. It may be populist, and it may be being offered in the shadow of a by-election, but it is bad policy and it is bad politics.