

Question and Answer Sheet for the Tasmanian Government Fiscal Sustainability Report 2016

What is the Tasmanian Government Fiscal Sustainability Report 2016?

The Tasmanian Government Fiscal Sustainability Report assesses the sustainability of the Tasmanian Government's finances by examining a range of possible outcomes under different scenarios.

This approach is designed to identify factors that may have a significant influence on the State's future financial position, and to examine the extent to which the State's finances may alter under different economic and fiscal conditions.

Why has the report been prepared?

The *Charter of Budget Responsibility Act 2007* was amended in 2015 to require the preparation of a public report every five years on the long-term sustainability of the Tasmanian Government's finances. The Act requires the report to have "specific regard to the policies of the Government and the financial impact of anticipated changes to the demographics of Tasmania".

This report is the first of this nature and is required to be tabled in both Houses of the Tasmanian Parliament by 30 June 2016.

Who prepares the report?

The Charter of Budget Responsibility Act requires the report to be prepared by the Department of Treasury and Finance. The report is therefore a Treasury report.

What role did the Government have in the preparation of the report?

The Government had no role in the preparation of the report. This is to ensure the independence of the report and enables it to reflect the key issues that exist at the time of its preparation.

Do other jurisdictions prepare these type of reports?

Similar reports have been prepared by the Australian, New South Wales, New Zealand and United Kingdom governments.

Why was the 15 year timeframe chosen?

The period examined in the report is 15 years, namely from 2014-15 to 2029-30. This provides a sufficient time period for the scenarios. The results become less meaningful over a longer time horizon as there can be major changes to the State's population growth, technology, economic performance and fiscal arrangements, including intergovernmental financial arrangements.

What is the primary balance?

The key measure of fiscal sustainability used in the report is the primary balance, which is the difference between the State Government's revenue and expenditure (both recurrent and net capital) but not including interest earnings and borrowing costs. The measure therefore reveals the level of fiscal pressure in each year

without the effects of potentially large net interest costs, or net interest earnings, that could arise as a result of large budget deficits or surpluses in earlier years.

While the primary balance is not an established accounting term under Australian Accounting Standards, it is the measure often used by other jurisdictions that have prepared similar reports.

What level of Government spending and revenue is included in the report?

The report covers the General Government Sector of the Tasmanian Government. This includes the spending of all government agencies and the revenue the State Government receives from the Australian Government, from taxation and from the returns from the State's government businesses. The report also covers net debt at the General Government Sector level.

The report therefore does not cover the entire State Sector, which would include all government businesses, such as Hydro Tasmania, Metro Tasmania, the Motor Accidents Insurance Board and statutory authorities.

The report also does not cover the local government sector in Tasmania.

Why were four projection scenarios chosen?

The report presents four scenarios to examine the level of fiscal pressure the State may face under different economic and fiscal conditions. The scenarios are not presented as extreme cases but have been selected to provide a guide to the range of possible outcomes for the State's finances.

The scenarios selected have therefore been designed to explore a range of potential outcomes.

Does the report contain forecasts for the State's finances?

No. The report has prepared projections from scenarios that have different assumptions. No scenario is presented as a base case or of more likely probability of occurrence than any other scenario. Rather, the scenarios have been designed to provide a range of outcomes, in terms of emerging budget pressures.

These projections are all based on no future changes in policy, including taxation policy, expenditure policies and in the intergovernmental financial arrangements. In practice, it is highly unlikely that future governments would allow deficits or surpluses to build up over an extended period.

Therefore the projections in the report are not predictions of future outcomes.

What are the main findings in the report?

The results reveal that under scenarios that reflect, to a large extent, past trends in State Government revenue and expenditure, future governments would face increasing fiscal pressure in the decades ahead. This is largely due to the past growth in expenditure by the State Government on health services.

The report also found that the State's capacity to respond to fiscal pressure by materially increasing its revenue is limited. In part, this is because of the high share of revenue it receives from the Australian Government. In this respect, Tasmanian governments are potentially more exposed to fiscal pressures outside their control than most other Australian jurisdictions. A further constraint is the limited capacity of the State Government

to increase its own source revenue without negatively impacting on its tax competitiveness compared to other jurisdictions.

The report also found that ensuring the State's finances remain sustainable therefore requires future Tasmanian governments to keep in check the forces that can result in strong expenditure growth. These forces are compounded by the effect of borrowing costs, therefore early intervention is always desirable. The report noted that Tasmanian governments cannot exclude the possibility of falling revenue, and also expenditure shocks such as in cases of natural disasters and will need strategies to manage expenditure to prevent the accumulation of fiscal deficits and increasing debt obligations.

The report also noted that, in practice, jurisdictions in Australia, including Tasmania, have not usually allowed deficits to accumulate over time and for their finances to become unsustainable. Measures are taken to return their finances to a fiscal balance.

The report concluded that when jurisdictions do face major fiscal pressures, their key objectives are to return the finances to a sustainable position without loss of confidence on the part of businesses and consumers that can lead to very weak economic performance, and without major disruption to government services and large scale public sector redundancies.

The scenarios examined make it clear that the earlier these fiscal pressures are addressed, the greater the prospects that these objectives can be achieved.

What are the report's findings in relation to the State Government's defined benefit superannuation expenses?

The report concluded that the State Government's obligations relating to its defined benefit superannuation schemes contribute to fiscal pressure but the costs are expected to be manageable. The report found that defined benefit superannuation expenses, including lump sum payments and pensions to former members of the State's defined benefit schemes, currently account for around five per cent of total General Government revenue. Under the four scenarios examined, this share is projected to increase moderately over the next decade and then peak at around six per cent, after which it then declines.

What are the report's findings in relation to Tasmania's ageing population?

The report noted that the pressures of an ageing population will continue to contribute to greater demand for health services and social security and welfare services. However, the additional costs were found to be relatively minor relative to the other cost pressures Tasmanian governments can expect to face. For example, demographic change-related costs are estimated to have accounted for around one tenth of the increases in health expenditure over the past decade.

Does the report contain policy recommendations?

No. There are no recommendations in the report. It is an information paper that contains a range of results and findings, but which is designed to provide information to readers to assist them in developing their own views as to how future State Governments in Tasmania may address the fiscal challenges they face.