

# Pre-Election Financial Outlook Report

## February 2024



**Pre-Election Financial Outlook Report - February 2024**

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# I. INTRODUCTION

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The *Charter of Budget Responsibility Act 2007* establishes the requirements for the preparation and release of a Pre-Election Financial Outlook Report (PEFO).

Part 5 of the Act requires the Secretary of the Department of Treasury and Finance to review and make an assessment as to whether the current estimates vary materially from the information presented in either the Revised Estimates Report or Budget Papers, whichever is the more recent.

In this regard, it is noted that the *2023-24 Revised Estimates Report (including December Quarterly Report)* (2023-24 RER), was published on 14 February 2024.

To assist in informing the decision of the Secretary, section 11 of the Act requires the Treasurer to disclose to the Secretary details of any Government decision, or any other circumstance, that was in existence before the commencement of the election costing period that:

- has, or could have material financial implications for the estimates for the current budget year and the following three financial years; and
- the Secretary could not reasonably be expected to know about.

This statement was received from the Treasurer, Hon Michael Ferguson MP, on 16 February 2024 and is included at Appendix B of this Report.

The Act requires that, if the current estimates do not vary materially, the Secretary must inform the Premier and publicly release a notice that no report will be issued. If the estimates are considered to vary materially, the Secretary must prepare a report within 10 business days of the commencement of the election costing period. This report is to be provided to the Premier and is to be publicly released.

The Secretary has considered the statement provided by the Treasurer and has reviewed the economic, revenue and expenditure estimates and forecasts presented in the 2023-24 RER, published on 14 February 2024, and has formed the view that the 2023-24 Budget and Forward Estimates have varied materially and a PEFO is required to be released, in accordance with Part 5 of the Act.

It is noted that, in accordance with section 9 of the Act, the purpose of this Report is to provide updated information on the estimates disclosed in the Budget Papers for the current Budget year and the following three financial years. Furthermore, the purpose of the Charter of Budget Responsibility, as detailed in the Act, is to provide a framework to improve fiscal policy outcomes by requiring (amongst other actions), the publication of a PEFO in specified circumstances.

This Report should be read in conjunction with the 2023-24 Budget Papers and the 2023-24 RER that are available on the Treasury website.

## 2. PEFO CONTEXT

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As noted in the introduction to this Report, the PEFO is prepared in accordance with the requirements of Part 5 of the Charter of Budget Responsibility Act. The purpose of this section is to provide information on matters that have been taken into consideration by the Secretary in making the decision to publish a PEFO and also to provide important context for the Report and the information presented therein. The key requirement is for the Secretary to make an assessment as to whether the current estimates vary materially from the information presented in the Revised Estimates Report.

### Definitional and Timing Issues

#### *Timing of development of the 2023-24 Revised Estimates Report*

As noted previously, the 2023-24 RER was published on 14 February 2024. The information and estimates presented in that Report were, by necessity, based on information that was available at varying points of time prior to the date of publication. For example, financial estimates were presented as at 31 December 2023 and, as such, assumptions and other considerations were based on information existing at, or prior to, that time. Economic forecasts and projections were based on available data as at 31 January 2024. Commentary in relation to Risks and Sensitivities largely reflected the timing of events and information available at that time, noting that in some instances issues have evolved rapidly.

Given the timing of the publication of the 2023-24 RER and the limited timeframe available for this Report's preparation, Treasury has not sought additional information from agencies or government businesses specifically in relation to the preparation of this Report.

The impact on key fiscal measures of specific new commitments made by any political party or candidate (in the context of the 2024 Election campaign) has also not been considered.

#### *Definition of Materiality*

A key matter for consideration in determining whether a PEFO is, or is not, required is the question of the materiality of any change that has occurred between the Revised Estimates Report and the estimates that would be prepared on the date on which the PEFO decision is made.

The term "materially" is not defined in the Act and is also not referenced in the *Acts Interpretation Act 1931*. The assessment of materiality is, therefore, entirely a matter for the consideration of the Secretary.

The terms "material" or "materiality" are, however, commonly used accounting terms which are defined, and have specific meaning, under the Australian Accounting Standards.

Australian Accounting Standard AASB 101 includes a definition of what is considered to be material. It states that:

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide information about a specific reporting entity."

While this definition has a particular accounting context, consideration of an accounting-related definition has been part of the assessment made by the Secretary in relation to previous PEFOs.

It is also important to note that related accounting documentation includes commentary to support the interpretation of this definition. In this regard the following points are also emphasised:

- there are no rules that can be applied consistently to determine materiality. What may be material in one circumstance may not be material in another;
- the concept of materiality recognises that some matters, either individually or in aggregate, are important;
- in making assessments on materiality, it is important to include only information that is necessary for users to understand the information being presented; and
- ultimately, the assessment of what is material is a matter for judgement.

#### *Definition of Estimates*

The Act also does not include a definition of “estimates”. In this regard, while the Budget Papers and Revised Estimates Report include specific economic forecasts and projections and fiscal estimates, these documents also include significant commentary that elaborates on, supports or clarifies the specific estimates. This commentary is, therefore, considered to form an integral part of the estimates presented in those documents.

## Broader Contextual and Sustainability Issues

#### *Fiscal Sustainability*

The PEFO forms part of the broader framework established as part of the Charter of Budget Responsibility Act to improve fiscal policy outcomes and to ensure that the State’s finances are managed in accordance with the principles of sound fiscal management. A key requirement of this is ensuring the long-term sustainability of the State’s finances for future generations of Tasmanians, as well as providing the State with the fiscal capacity to manage unforeseen events, such as the 2007-09 Global Financial Crisis and more recently, the COVID-19 pandemic. The potential impact on fiscal sustainability is, therefore, an important factor in assessing the materiality of issues and changes for inclusion in the PEFO.

Under the Charter of Budget Responsibility Act, Fiscal Sustainability Reports are required to be tabled in Parliament every five years and provide a long-term perspective on the State’s fiscal outlook under a range of scenarios.

The most recent Fiscal Sustainability Report (FSR) prepared by the Department of Treasury and Finance in June 2021 concluded that, under all the scenarios analysed by the Department, the results showed projected fiscal outcomes that were manageable in the short to medium term. However, the size of the corrective action required to maintain fiscal sustainability increased over the projection period.

The analysis undertaken in the 2021 FSR, and in previous FSRs, also established the importance of the following:

- early action to correct fiscal deterioration will mitigate the severity of the measures required to effectively maintain fiscal sustainability;
- given the composition of the State's revenue base, it is not possible to rely entirely on economic growth to maintain fiscal sustainability;
- any action to maintain fiscal sustainability must recognise and effectively address major drivers of a deterioration in the Budget position; and
- it is likely that effective action to maintain fiscal sustainability will require the successful implementation of a range of measures.

#### *Current Budget Position and RER Estimates*

In outlining the above high-level issues in relation to fiscal sustainability and the findings of FSRs prepared in accordance with the Charter of Budget Responsibility Act, it is important that fiscal sustainability be considered in the context of how the Government's financial position has changed since the most recent FSR was completed and the most recent estimates presented in the 2023-24 RER.

The Fiscal Balance reflects the combined impact of the Government's operating budget position (ie the Net Operating Balance, which includes expenditure on services such as health and education and revenue such as GST receipts and State taxation) and the Government's expenditure on infrastructure. At times of high infrastructure investment, it is particularly important that the capacity of the Budget to support infrastructure expenditure be carefully assessed. In 2019-20, the last full year of actual expenditure data prior to the 2021 FSR, the Fiscal Balance was a deficit of \$427 million. Since that time, a Fiscal Balance deficit in excess of \$500 million has been incurred in each year. The 2023-24 RER forecasts that these structural fiscal deficits will continue over the current Budget and Forward Estimates, peaking at an estimated \$1.1 billion in 2023-24 before being forecast to fall to \$454 million in 2026-27.

While the Fiscal Balance represents an outcome of revenue and expenditure in a particular Budget year, the Net Debt key fiscal measure is also important as it captures the cumulative impact of annual outcomes over time. As a consequence of annual Budget outcomes over the three years since 30 June 2020 (ie since the 2021 FSR), the Net Debt position of the General Government Sector has deteriorated from a Net Cash and Investment position (ie negative Net Debt) of \$176 million to \$1.9 billion (as at 30 June 2023). Significantly, the 2023-24 RER forecasts that this deterioration in Net Debt will rapidly increase over the following four-year period, with Net Debt forecast to increase to \$6.1 billion by 30 June 2027.

#### *Comparative Budget Position*

In addition to considering the State's financial position on a "standalone" basis, it is also useful to consider how the State's Budget and financial position compares to other Australian jurisdictions. In this regard, it is noted that due to significant financial, demographic, economic and other differences between Australian jurisdictions, such comparisons need to be considered with a level of caution.

Credit ratings issued by international credit rating agencies provide one basis for comparison. Tasmania currently holds the second highest credit rating available from Standard & Poor's (S&P) and the third highest credit rating from Moody's Investors Service (Moody's). When compared to other Australian states, Tasmania's S&P credit rating (AA+) is the same as New South Wales, Queensland and South Australia and one level above Victoria, while Moody's credit rating (Aa2) for Tasmania, is the same as Victoria and below all other states.



The General Government Sector Net Debt as a proportion of gross state product is a commonly used measure that also provides a useful jurisdictional comparison. Based on 2023-24 RER information, as at 30 June 2024, Tasmania compares favourably with other jurisdictions. Tasmania (8 per cent) has the third lowest level of GGS Net Debt to GSP of all states after Queensland and Western Australia. It is noted, however, that the Net Debt measure does not result in the consistent treatment of superannuation liabilities across jurisdictions. If superannuation liabilities are included in the calculation, as at 30 June 2024 (and using 2023-24 RER data), Tasmania's comparative position deteriorates to being the state with the second highest level of GGS Net Debt plus Superannuation Liability as a percentage of GSP (24.8 per cent), only slightly below Victoria (25.2 per cent).

An alternative approach to comparing Net Debt levels with GSP is to calculate a similar measure on a per capita basis. This measure results in a similar comparative position for Tasmania. On a Net Debt per capita basis, as at 30 June 2024, Tasmania (\$5 888) has the second lowest Net Debt per capita of all states behind Queensland (\$2 635). However, on a Net Debt plus superannuation per capita basis, Tasmania's position (\$18 305) deteriorates to be the second highest level of all states with only Victoria (\$21 927) higher.

#### *Ongoing Pressures*

Global, national and local events also continue to create challenges for fiscal sustainability.

While inflationary pressures are now easing in many countries around the world, including Australia, the cumulative impact of inflation and tightening monetary policy is constraining economic activity. It is expected that business and consumer confidence will continue to be affected by the higher interest rate environment and the residual impacts of inflationary pressures in the economy for some time.

Lower business and consumer confidence is impacting key revenue sources for the State. This is particularly important at the national level, as Tasmania's major source of revenue, the Goods and Services Tax, is highly sensitive to changes in national consumer spending patterns. GST revenue is also impacted by other factors, including the Commonwealth Grants Commission's annual relativity, which can be highly volatile from year to year, and is also influenced by outcomes in both Tasmania and other jurisdictions.

This is occurring in an environment where there are ongoing expenditure pressures across the delivery of a broad range of Government services. There are also historically high levels of public sector employment, with an increase in total General Government Sector FTEs of nine per cent between 30 June 2021 and 31 December 2023, together with increasing employee costs arising from recent wage agreement outcomes.

Increases in the cost of living also continue to be a concern for all levels of Government, with significant financial support having been provided to communities and businesses and the likelihood of calls for more support while inflationary pressures persist.

Cost pressures are particularly apparent in the building and construction sector where major infrastructure projects continue to experience ongoing market capacity constraints, the impact of relatively low unemployment and high levels of activity. This is placing pressure on construction prices and project delivery timelines, particularly in relation to buildings. While these issues have been in existence for some time, there is currently no expectation of a lessening of these impacts.

The scale of the major infrastructure projects currently being undertaken by the Government is both individually (in some cases) and when combined, at a scale which is broadly acknowledged as being at a historic high.

An important part of the current Government's policy agenda, particularly in relation to energy policy, has involved the progression of major projects, including Project Marinus and Battery of the Nation. Given the magnitude, importance, and complexity of these projects, they have been subject to long-term planning and development processes. These projects, particularly Project Marinus, have now reached a point where there are significant developments, policy positions being established, agreements being negotiated and entered into, and commitments being required from the Government, on an ongoing and frequent basis.

While these projects may involve other entities including the Australian Government, other State governments and Tasmanian government businesses, the expected level of the financial contribution from the Government, or the level of future financial and economic risk for the Government or State, is expected to be significant and needs careful assessment relative to potential future benefits.

Other major non-energy infrastructure projects at critical points in their development and implementation include the Macquarie Point Urban Renewal Project, the Macquarie Point Wastewater Treatment Plant Relocation, major irrigation projects and the New Bridgewater Bridge.

In addition to major infrastructure projects, there are also significant new Government policy commitments that are of a scale that is uncommon for the State. In this regard, reference is specifically made to the Government's commitment to implement the recommendations of the *Commission of Inquiry into the Tasmanian Government's Responses to Child Sexual Abuse in Institutional Settings*. While the full cost of the implementation of the recommendations of the Commission of Inquiry is currently unknown, the cost is expected to be significant in the context of the current Budget and Forward Estimates and a better understanding of these estimates is being obtained on an ongoing basis. Costs associated with claims against the State by survivors of institutional child sexual abuse are also expected to be material in the current budget context.

#### *Key contextual issues*

The information provided in this section on contextual and sustainability issues is an important factor in determining the extent to which information presented in the 2023-24 RER has materially changed and is, therefore, required to be included in this Report.

As noted previously, the key requirement is for the Secretary to make an assessment as to whether the current estimates vary materially from the information presented in the 2023-24 RER. It is considered that the deterioration in the Budget position and Forward Estimates in recent years and over the current Budget and Forward Estimates, together with a range of other significant issues such as:

- consideration of the State's longer term fiscal sustainability;
- the softening economic circumstances facing the State arising from global, national and local circumstances;
- the significant value and complexity of a number of key risks to the Budget; and
- the rapidly changing nature or high level of uncertainty in relation to risks;

increase and broaden the consideration of the materiality of changes in relation to risks that have occurred since the 2023-24 RER was finalised. As such, they are also an important factor in the decision to prepare a PEFO.

# 3. ECONOMIC OUTLOOK

**Table 1: Economic Actuals, Forecasts and Projections**

	2022-23	2023-24	2023-24	2024-25	2024-25	2025-26 and 2026-27
		RER	Current	RER	Current	
	Actuals	Forecasts	Forecasts	Forecasts	Forecasts	Projections <sup>5</sup>
Gross state product (real, % change) <sup>1</sup>	1.1	1½	1½	2	2	2½
State final demand (real, % change) <sup>1</sup>	1.0	1½	1½	1½	1½	2¼
Employment (year-average, % change) <sup>2</sup>	2.4	¼	-¼	1¼	¾	1¼
Labour force participation rate (year-average, %) <sup>2</sup>	62.5	62¼	62	62¼	62	62
Unemployment rate (year-average, %) <sup>2</sup>	3.9	4	4¼	4¼	4¼	4¼
Consumer Price Index (year-average, % change) <sup>3</sup>	7.1	3¼	3¼	3¼	3¼	2½
Population (year-average, % change) <sup>4</sup>	0.6	0.5	0.5	0.8	0.8	0.7

Source: Actuals - ABS; Forecasts and projections - Treasury

Notes:

1. State final demand actual is an ABS estimate calculated using the September quarter 2023 National Accounts data, while gross state product actual is an ABS estimate using the 2022-23 State Accounts data.
2. Labour force actuals are ABS estimates calculated using the January 2024 data.
3. The Consumer Price Index actual is an ABS estimate calculated using the December quarter 2023 data.
4. Population actual is an ABS estimate calculated using the June quarter 2023 data.
5. The projections are based on the long-term average growth rate of the indicator, except for the unemployment rate and the participation rate, which reflect the expected rate of the indicator for 2024-25.

Based on the Australian Bureau of Statistics' estimates of monthly labour force for January 2024, which were published on 15 February 2024 (ie the day after the publication of the 2023-24 RER), the Tasmanian labour market has softened. In January 2024, the ABS estimates that the employment level was 285 000 persons in trend terms, a decrease of around 600 persons compared with the level of December 2023 and 3 100 persons lower than the previous year. The ABS also estimates that in January 2024, the Tasmanian participation rate was 61.8 per cent, 0.2 of a percentage point below the level in December 2023 and the unemployment rate was 4.2 per cent, both in trend terms.

These data show that the levelling off in the labour market that was observed in the last three months of 2023 has been reversed and a pattern has now emerged showing a decline in the employment level since mid-2023. The updated forecasts factor in this revised understanding.

Reflecting this change in the number of persons employed, in 2023-24, employment is now expected to decline by a ¼ of a percentage point, ½ of a percentage point below the forecast in the 2023-24 RER. Following on from this, in 2024-25, employment is also now expected to grow by ¾ of a percentage point, ½ of a percentage point below the forecast in the 2023-24 RER.

The participation rate is also now expected to be 62 per cent in 2023-24 and 2024-25, a  $\frac{1}{4}$  of a percentage point below the forecast for both years in the 2023-24 RER, while the unemployment rate is expected to be  $4\frac{1}{4}$  per cent for 2023-24, a  $\frac{1}{4}$  of a percentage point above the forecast in the 2023-24 RER. The forecast for the unemployment rate in 2024-25 is unchanged from the 2023-24 RER at  $4\frac{1}{4}$  per cent.

The forecasts for the remaining economic indicators are unchanged compared to the 2023-24 RER. Tasmania's gross state product is expected to grow by  $1\frac{1}{2}$  per cent in 2023-24 and two per cent in 2024-25. Tasmania's state final demand is expected to grow by  $1\frac{1}{2}$  per cent in year-average terms in both 2023-24 and 2024-25.

Hobart's CPI is forecast to grow at  $3\frac{1}{4}$  per cent in year-average terms in 2023-24 and a further  $3\frac{1}{4}$  per cent in 2024-25. Tasmania's population is forecast to grow by 0.5 per cent in 2023-24, in year-average terms. In 2024-25, year-average population growth in Tasmania is forecast to grow by 0.8 per cent.

# 4. GENERAL GOVERNMENT

## SECTOR KEY FISCAL MEASURES

In accordance with the provisions of the Charter of Budget Responsibility Act, the current key fiscal measures for the 2023-24 Budget year and the following three financial years have been reviewed. As a consequence of this review, it has been determined that, at the time of the preparation of this Report, there has been no material change in the key fiscal measures published in the 2023-24 RER on 14 February 2024. The following table, which is presented in the 2023-24 RER, summarises estimates for key fiscal measures and variations from the 2023-24 original Budget estimates.

**Table 2: 2023-24 Revised Estimates Report - General Government Sector Key Fiscal Measures**

	2023-24 Revised Budget	2024-25 Forward Estimate	2025-26 Forward Estimate	2026-27 Forward Estimate
	\$m	\$m	\$m	\$m
<b>Net Operating Balance</b>				
Budget 2023-24	(297.5)	(148.1)	12.7	61.2
Variations	(223.9)	(143.1)	(150.8)	(113.5)
<b>2023-24 Revised</b>	<b>(521.4)</b>	<b>(291.2)</b>	<b>(138.1)</b>	<b>(52.3)</b>
<b>Fiscal Balance</b>				
Budget 2023-24	(988.8)	(770.3)	(412.6)	(189.6)
Variations	(80.1)	(106.4)	(287.4)	(264.7)
<b>2023-24 Revised</b>	<b>(1 068.9)</b>	<b>(876.7)</b>	<b>(700.1)</b>	<b>(454.4)</b>
<b>Net Debt</b>				
Budget 2023-24	3 497.2	4 592.8	5 135.7	5 596.0
Variations	(111.2)	10.3	331.6	543.4
<b>2023-24 Revised</b>	<b>3 385.9</b>	<b>4 603.1</b>	<b>5 467.3</b>	<b>6 139.4</b>
<b>GFS Net Debt</b>				
Budget 2023-24	2 732.0	3 864.7	4 444.7	4 942.4
Variations	(142.6)	(22.7)	300.7	514.8
<b>2023-24 Revised</b>	<b>2 589.4</b>	<b>3 842.0</b>	<b>4 745.4</b>	<b>5 457.2</b>
<b>Infrastructure Expenditure</b>				
Budget 2023-24	1 234.8	1 204.5	993.4	839.2
Variations	(108.7)	(23.4)	180.4	192.2
<b>2023-24 Revised</b>	<b>1 126.1</b>	<b>1 181.1</b>	<b>1 173.8</b>	<b>1 031.4</b>

The more detailed General Government Sector Financial Statements included in the 2023-24 RER are presented in Appendix A for information.

A comprehensive review and update of Budget estimates will next be undertaken as part of the 2024-25 Budget development process. Financial outcomes for 2023-24 will be presented in the *2023-24 Treasurer's Annual Financial Report*.

# 5. CHANGES TO RISKS AND SENSITIVITIES

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This section provides information on risks and sensitivities that were presented in the 2023-24 RER, where it is considered that there has been a material change in the information provided at that time, or on new risks and sensitivities that were not included in the 2023-24 RER. Where it is considered that there has been no material change to the information presented on a particular risk or sensitivity in the 2023-24 RER, the information provided in that Report is not repeated in this section.

It should be noted that, notwithstanding an issue being considered to represent a material change from the 2023-24 RER, this does not imply that there is necessarily an improved capacity to accurately estimate the associated Budget impact or that future substantive decisions will not need to be made, in relation to the issue, by the Government.

## *2023-24 Agency Expenditure*

Since the 2023-24 RER, Treasury has become aware of potential changes to previous risks and agencies have identified additional 2023-24 funding risks. The cost and timing associated with these risks is currently uncertain, however, in total is expected to be material. These risks will require early consideration by the incoming Government to enable any approved additional funding to be provided through established Budget processes or Supplementary Appropriation prior to 30 June 2024.

## *Agency 2024-25 Budget Funding Submissions*

Since the 2023-24 RER financial estimates were finalised, agencies have submitted funding submissions as part of the 2024-25 Budget process. These funding submissions include requests for increased funding to support the provision of existing services and activities and requests for funding to implement new services and activities. These requests can relate to both operating and capital expenditure and are both fixed-term and ongoing in nature. While these requests for funding have not been subject to any Budget decision making or approval process at the present time, and cost and implementation timeframes are considered to be uncertain, the future acceptance of even some level of these requests would have a material negative impact on the estimates presented in the 2023-24 RER. It is noted that some agency 2024-25 Budget funding submission matters are separately discussed in this section.

## *Deliverability of Budget Efficiency Dividend*

The 2023-24 Budget and 2023-24 RER included \$300 million in Budget Efficiency Dividends commencing in 2024-25. Of this amount, \$50 million is reflected as a saving to be achieved in 2024-25.

The Government has endorsed the allocation of Budget Efficiency Dividends at an agency level and it was intended that the agency measures required to deliver this and subsequent savings would be finalised as part of the 2024-25 Budget process. Pending the finalisation of the specific agency measures to be implemented to achieve the allocated agency savings, this agency allocation was unable to be fully reflected in the Policy and Parameter Statement in the 2023-24 RER. This position had no impact on the key fiscal measures reported in the 2023-24 RER.

It is expected that the likely delay to the 2024-25 Budget process, as a result of the calling of the State Election, will delay the finalisation of these measures and reduce the likelihood of the required savings being achieved in 2024-25. It is also unclear whether a new Government will endorse the achievement of these savings. Failure to implement these savings will have a material negative impact over the Budget and Forward Estimates.

#### *Election Commitments*

During an election campaign, significant policy commitments are made by all parties. The subsequent implementation of these policy commitments by the new Government can materially impact future Government revenue and expenditure. For example, the risk to the State's revenue base has increased over time through the lowering of taxation rates, increasing tax free thresholds and other measures that restrict taxation bases for some revenue lines. Commitments that hypothecate State revenue sources to support expenditure measures or limit government business returns are also increasingly restricting budget flexibility.

In relation to expenditure commitments, these are often implemented on an incremental basis rather than through a reallocation of resources from a previous policy priority to a new policy priority. It is estimated that the 2018 Election added approximately an initial \$1.4 billion to the existing Budget Estimates (over the Budget and Forward Estimates, including both operating and capital expenditure) and the 2021 Election also added approximately an initial \$1.4 billion. While it can also be intended that some election commitments represent fixed-term costs, it is often the case that this expenditure is subsequently changed to being permanent in nature and, thereby, has an ongoing Budget impact.

#### *House of Assembly Expansion*

As noted in the 2023-24 RER, costs associated with the expansion of the House of Assembly were not included, as cost estimates had not been finalised and would, therefore, be included in the 2024-25 Budget. In light of an election for the House of Assembly now being held on 23 March 2024, some costs will now be incurred in 2023-24 with full-year, rather than part-year, costs now being incurred in 2024-25. Estimates based on this revised timing are yet to be finalised and will require consideration during 2023-24 end-of-year Budget processes and the 2024-25 Budget.

#### *National School Reform Agreement*

The 2023-24 RER noted that the National School Reform Agreement would be subject to negotiation with the Australian Government over the coming year.

Since the 2023-24 RER was finalised, the Western Australia Government has signed a Statement of Intent with the Australian Government that makes commitments in relation to key aspects of a future agreement, including potential funding obligations, which may compromise other jurisdictions' negotiating positions.

Based on preliminary modelling by the Department for Education, Children and Young People, an equivalent arrangement for Tasmania could result in an increased funding commitment by Tasmania of an estimated \$200 million over the term of the Agreement (2024-25 to 2029-30).

#### *National Disability Insurance Scheme*

The 2023-24 RER noted that National Cabinet had agreed a number of changes to the NDIS.

It is considered that these changes represent a fundamental shift in how people with disability will access services and will require states to establish significant additional supports (outside of the NDIS), largely within the education and health settings. This will shift significant cost to Tasmania, with costs funded 50/50 with the Australian Government. There are ongoing discussions with other jurisdictions that reinforce these views. Re-establishing the services will be particularly challenging in Tasmania given market dynamics.



### *Commission of Inquiry Response*

The 2023-24 RER noted that the full cost of implementing the Government's response to the *Commission of Inquiry into the Tasmanian Government's Responses to Child Sexual Abuse in Institutional Settings* was currently being quantified and would be considered further during the development of the 2024-25 Budget. The 2023-24 RER included a funding allocation of \$240 million over three years.

Since the 2023-24 RER estimates were finalised, agency 2024-25 Budget submissions have been received. These submissions include funding requests that are significantly in excess of the funding currently allocated. While these funding requests will be subject to substantive review as part of the 2024-25 Budget process (including implementation timeframes), based on these submissions, it is expected that the implementation of measures to address the Report's recommendations will have a material cost to the Budget and Forward Estimates over and above the funding currently allocated.

### *Claims against the State by Survivors of Institutional Child Sexual Abuse and Ashley Class Action*

The 2023-24 RER highlighted the uncertainty in relation to the level of future costs to the Budget in relation to these matters and the timing of these costs. It was also noted that the issue would be further considered during the 2024-25 Budget development process. Funding of \$98 million was reflected in the 2023-24 RER over the Budget and Forward Estimates.

2024-25 agency Budget submissions have now been received and these have included updated information on this issue. While these funding requests will be subject to substantive review as part of the 2024-25 Budget process, based on these requests, it is expected that addressing this issue will have a material cost to the Budget over and above the funding currently allocated.

### *Macquarie Point Urban Renewal Project*

The 2023-24 RER includes \$410 million in funding, over the Budget and Forward Estimates, to support this Project. This funding was included in the 2023-24 RER as Purchases of Non-Financial Asset (capital expenditure) undertaken by the General Government Sector (through the Department of State Growth). This approach assumes that the asset will be developed and owned by the General Government Sector. In this regard, it is noted that the Planning Commission has been advised by the Premier that the Macquarie Point Development Corporation will be responsible for progressing the Project and that Stadiums Tasmania will be the future owner and operator of the facility. Both the MPDC and Stadiums Tasmania are Public Non-Financial Corporation Sector entities.

Any change in the current assumptions in relation to asset ownership, development responsibility or funding arrangements, that necessitate a change in the nature of funding to a grant payment or equity contribution, will materially impact key fiscal measures such as the General Government Sector Net Operating Balance and the Fiscal Balance.

### *UTAS Stadium*

Funding of \$130 million was included for this Project, in the 2023-24 RER, in the form of an equity contribution to Stadiums Tasmania through Finance-General. It is understood that options for progressing this project are currently being considered.

Any change in the current assumptions in relation to asset ownership, development responsibility or funding arrangements, that necessitates a change in the nature of funding to a grant payment or capital contribution, will materially impact key fiscal measures such as the General Government Sector Net Operating Balance and the Fiscal Balance.

#### *Stadiums Infrastructure*

Stadiums Tasmania has submitted a 2024-25 Budget submission requesting an additional \$44 million over the Forward Estimates, including \$18.6 million in capital costs. It is noted that an additional \$22 million is also requested by State Growth for the proposed Northern Suburbs Multi-Sport Facility to be located in Southern Tasmania.

These costs will require consideration as part of the 2024-25 Budget development process.

#### *Marinus Link Project*

A decision to participate in progressing this Project will have significant implications for the Tasmanian community and material cost implications for the Government. These matters will be subject to consideration as part of the Whole-of-State Business Case for Project Marinus.

In parallel to the work being undertaken on the Whole-of-State Business Case, significant action is being progressed by the Government, Tasmanian Networks Pty Ltd and Marinus Link Pty Ltd to facilitate the work required to make a Final Investment Decision in relation to the Project and, in the event of a positive decision, the development of the Project. This work was at an important stage at the time of the finalisation of the 2023-24 RER with issues developing rapidly. Work on the Project will continue to be undertaken by agencies and government businesses during the course of the election period. The following points are noted:

- following the finalisation of 2023-24 RER information, TasNetworks Shareholding Ministers wrote to the Chair of TasNetworks advising that, following the transfer of MLPL to the new tripartite ownership of the Tasmanian, Victorian and Australian Governments, the Tasmanian Government would “make TasNetworks whole” in relation to the level of the State’s equity recognised in the tripartite-owned entity. The Shareholding Ministers also advised that this funding would be provided by way of an equity contribution to be made in early 2024-25. The level of the equity contribution required is uncertain, however, is currently expected to be in the order of \$80 - \$110 million. There is currently no funding allocated in the Budget and Forward Estimates for this purpose;
- a Shareholders Agreement between the three governments to facilitate the establishment and future operation of the new tripartite-owned MLPL was subject to active negotiation but was not finalised prior to commencement of the election period. The finalisation of this legally binding Agreement by the Tasmanian Government, at some future time, will impose risks and obligations on the Government that are currently uncertain but may be material; and
- to the extent that the election period results in a delay in the completion of arrangements in relation to the establishment of the tripartite-owned MLPL, this may result in increased costs and risks being faced by TasNetworks and the potential for an increase in the committed equity contribution discussed above.

### *Tasmanian Irrigation*

The 2023-24 RER noted that Tranche 3 irrigation scheme funding arrangements were subject to ongoing discussions with the Australian Government with material additional Australian and State funding required to support its implementation. In this regard, it is noted that the Government has provided a funding request to the Australian Government in relation to the Greater South East Irrigation Scheme and provided TasIrrigation with conditional approval for the project. Conditions include funding being provided as part of the 2024-25 State Budget and funding being provided by the Australian Government. The State Government's equity funding requirement is currently estimated to be \$75 million.

### *Macquarie Point Wastewater Treatment Plant Relocation*

The 2023-24 RER noted that the final budget for the project was yet to be provided to the Government by the Tasmanian Water and Sewerage Corporation Pty Ltd but that, given the inflationary impacts on infrastructure projects since the initial cost estimates were prepared, it was expected that final project costs would exceed original estimates. Under the terms of the agreement between TasWater and the Government, the Government is required to contribute 71.4 per cent of the increased cost. It is expected that the final budget for the project will be considered by TasWater in March 2024.

### *Homes Tasmania Additional Borrowings*

Homes Tasmania has provided a 2024-25 Budget submission that forecasts materially higher borrowing levels than reflected in the 2023-24 RER. While this matter will be subject to substantive review as part of the 2024-25 Budget process, addressing the issue will have a material cost to the Budget and Forward Estimates over and above the funding currently allocated.

# APPENDIX A

## GENERAL GOVERNMENT SECTOR

### FINANCIAL STATEMENTS

**Table A1: General Government Income Statement (as presented in the 2023-24 RER)**

	2023-24	2023-24	2024-25	2025-26	2026-27
	Budget	Revised Budget	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m
<b>Revenue from transactions</b>					
Grants	5 619.0	5 534.6	5 697.8	5 656.3	5 844.5
Taxation	1 684.5	1 747.9	1 804.0	1 891.6	1 981.4
Sales of goods and services	418.7	422.5	435.6	441.8	448.3
Fines and regulatory fees	126.4	123.0	131.5	132.9	122.8
Interest income	74.6	78.0	71.2	69.4	70.6
Dividend, tax and rate equivalent income	302.8	384.7	380.2	353.3	265.8
Other revenue	196.4	202.1	196.9	193.5	201.6
	<b>8 422.2</b>	<b>8 492.8</b>	<b>8 717.3</b>	<b>8 738.7</b>	<b>8 934.9</b>
<b>Less Expenses from transactions</b>					
Employee expenses	3 710.5	3 742.7	3 874.1	3 930.0	4 033.4
Superannuation	439.6	440.4	461.4	482.5	491.6
Depreciation	448.1	470.6	491.9	517.0	537.7
Supplies and consumables	1 650.0	1 711.8	1 692.3	1 677.8	1 710.4
Nominal superannuation interest expense	289.2	310.1	313.8	314.3	313.5
Borrowing costs	144.9	146.6	204.2	258.4	302.3
Grant and subsidy expenses	1 991.8	2 143.9	1 977.1	1 758.6	1 727.0
Other expenses	45.7	48.0	(6.2)	(61.8)	(128.7)
	<b>8 719.7</b>	<b>9 014.2</b>	<b>9 008.5</b>	<b>8 876.8</b>	<b>8 987.2</b>
<b>Equals NET OPERATING BALANCE</b>	<b>(297.5)</b>	<b>(521.4)</b>	<b>(291.2)</b>	<b>(138.1)</b>	<b>(52.3)</b>
<b>Plus Other economic flows - included in Operating Result</b>					
Gain/(loss) on sale of non-financial assets	20.6	20.6	14.8	9.2	16.8
Other gains/(losses)	(41.8)	(91.8)	(13.6)	(15.4)	(8.1)
	<b>(21.2)</b>	<b>(71.1)</b>	<b>1.2</b>	<b>(6.3)</b>	<b>8.7</b>
<b>Equals Operating Result</b>	<b>(318.7)</b>	<b>(592.5)</b>	<b>(290.0)</b>	<b>(144.3)</b>	<b>(43.6)</b>

**Table A1: General Government Income Statement (as presented in the 2023-24 RER)  
(continued)**

	2023-24	2023-24	2024-25	2025-26	2026-27
	Budget	Revised Budget	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m
<b>Plus Other economic flows - other movements in Equity</b>					
Revaluations of non-financial assets	274.1	274.1	274.1	274.1	274.1
Revaluation of equity investment in PNFC and PFC sectors	280.5	151.6	(162.4)	17.4	250.0
Movements in superannuation liability	....	291.8	....	....	....
	<b>554.6</b>	<b>717.5</b>	<b>111.7</b>	<b>291.5</b>	<b>524.1</b>
<b>Equals Comprehensive Result</b>	<b>236.0</b>	<b>125.0</b>	<b>(178.3)</b>	<b>147.1</b>	<b>480.5</b>
<b>KEY FISCAL AGGREGATES</b>					
<b>NET OPERATING BALANCE</b>	<b>(297.5)</b>	<b>(521.4)</b>	<b>(291.2)</b>	<b>(138.1)</b>	<b>(52.3)</b>
<b>Less Net acquisition of non-financial assets</b>					
Purchases of non-financial assets	1 178.2	1 056.9	1 110.3	1 106.3	974.6
Less Sales of non-financial assets	38.8	38.8	32.9	27.3	34.9
Less Depreciation	448.1	470.6	491.9	517.0	537.7
	<b>691.3</b>	<b>547.6</b>	<b>585.5</b>	<b>562.0</b>	<b>402.1</b>
<b>Equals FISCAL BALANCE</b>	<b>(988.8)</b>	<b>(1 068.9)</b>	<b>(876.7)</b>	<b>(700.1)</b>	<b>(454.4)</b>

**Table A2: General Government Balance Sheet as at 30 June (as presented in the 2023-24 RER)**

	2024	2024	2025	2026	2027
	Budget	Revised Budget	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>					
<b>Financial assets</b>					
Cash and deposits	937.6	1 043.6	936.8	932.6	920.2
Investments	885.3	791.1	748.9	748.9	752.8
Equity investments in PNFC and PFC sectors	11 013.6	10 406.5	10 513.7	10 647.0	10 955.3
Other equity investments	189.9	191.0	191.1	191.1	191.1
Receivables	381.7	389.1	386.9	385.2	383.4
Contract assets	....	2.6	2.6	2.6	2.6
Other financial assets	640.1	806.4	791.1	793.5	802.9
	<b>14 048.4</b>	<b>13 630.3</b>	<b>13 571.0</b>	<b>13 701.0</b>	<b>14 008.2</b>
<b>Non-financial assets</b>					
Land and buildings	7 022.7	8 478.0	8 765.4	9 011.1	9 135.4
Infrastructure	7 591.4	7 823.4	8 435.3	9 082.7	9 672.3
Plant and equipment	388.2	374.0	386.1	391.1	407.6
Heritage and cultural assets	505.4	495.2	507.5	519.8	532.1
Investment property	3.9	4.1	4.1	4.1	4.1
Intangibles	201.6	123.2	177.3	217.0	267.3
Assets held for Sale	10.9	11.9	13.4	11.7	11.3
Lease - right-of-use-assets	687.8	733.3	664.7	592.2	522.5
Other non-financial assets	99.6	86.5	85.3	84.5	84.0
	<b>16 511.6</b>	<b>18 129.5</b>	<b>19 038.9</b>	<b>19 914.1</b>	<b>20 636.6</b>
<b>Total Assets</b>	<b>30 560.0</b>	<b>31 759.8</b>	<b>32 609.9</b>	<b>33 615.1</b>	<b>34 644.8</b>
<b>Liabilities</b>					
Borrowings	4 555.0	4 424.1	5 527.7	6 427.0	7 130.1
Lease liabilities	765.1	796.5	761.1	721.9	682.2
Superannuation	7 759.3	7 141.2	7 146.6	7 139.2	7 114.6
Employee entitlements	898.8	957.7	979.2	999.4	942.3
Payables	178.0	254.7	258.5	258.9	260.2
Contract liabilities	....	383.6	307.4	286.5	247.1
Other liabilities	961.0	770.7	776.4	782.1	787.7
<b>Total Liabilities</b>	<b>15 117.2</b>	<b>14 728.6</b>	<b>15 756.9</b>	<b>16 614.9</b>	<b>17 164.2</b>
<b>Net Assets</b>	<b>15 442.7</b>	<b>17 031.3</b>	<b>16 853.0</b>	<b>17 000.2</b>	<b>17 480.6</b>

**Table A2: General Government Balance Sheet as at 30 June (as presented in the 2023-24 RER)  
(continued)**

	2024	2024	2025	2026	2027
	Budget	Revised Budget	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m
<b>Equity</b>					
Accumulated funds	7 831.8	8 219.4	7 929.4	7 785.0	7 741.4
Asset revaluation reserve	6 374.4	8 210.5	8 484.6	8 758.7	9 032.8
Other revaluation reserves	1 236.6	601.5	439.1	456.4	706.4
<b>Total Equity</b>	<b>15 442.7</b>	<b>17 031.3</b>	<b>16 853.0</b>	<b>17 000.2</b>	<b>17 480.6</b>
<b>KEY FISCAL AGGREGATES</b>					
<b>NET WORTH</b>	<b>15 442.7</b>	<b>17 031.3</b>	<b>16 853.0</b>	<b>17 000.2</b>	<b>17 480.6</b>
<b>NET FINANCIAL WORTH</b>	<b>(1 068.8)</b>	<b>(1 098.2)</b>	<b>(2 185.9)</b>	<b>(2 913.9)</b>	<b>(3 155.9)</b>
<b>NET FINANCIAL LIABILITIES</b>	<b>12 082.5</b>	<b>11 504.7</b>	<b>12 699.6</b>	<b>13 560.9</b>	<b>14 111.3</b>
<b>NET DEBT</b>	<b>3 497.2</b>	<b>3 385.9</b>	<b>4 603.1</b>	<b>5 467.3</b>	<b>6 139.4</b>
<b>GFS NET DEBT</b>	<b>2 732.0</b>	<b>2 589.4</b>	<b>3 842.0</b>	<b>4 745.4</b>	<b>5 457.2</b>

**Table A3: General Government Cash Flow Statement (as presented in the 2023-24 RER)**

	2023-24	2023-24	2024-25	2025-26	2026-27
	Budget	Revised Budget	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m
<b>Cash flows from operating activities</b>					
<b>Cash received from operating activities</b>					
Grants received	5 665.8	5 530.6	5 621.6	5 635.4	5 805.0
Taxation	1 682.8	1 740.4	1 796.8	1 887.2	1 975.5
Sales of goods and services	416.7	420.5	433.4	439.1	445.8
Fines and regulatory fees	126.3	123.0	131.5	132.8	122.7
Interest received	70.6	77.7	70.9	69.1	70.5
Dividend, tax and rate equivalents	314.7	413.7	403.6	353.4	271.2
Other receipts	446.7	452.5	447.9	444.5	453.7
	<b>8 723.7</b>	<b>8 758.3</b>	<b>8 905.7</b>	<b>8 961.7</b>	<b>9 144.5</b>
<b>Cash payments for operating activities</b>					
Employee entitlements	(3 689.0)	(3 721.2)	(3 851.8)	(3 909.0)	(4 080.9)
Superannuation	(712.1)	(717.4)	(768.0)	(802.4)	(836.9)
Supplies and consumables	(1 659.6)	(1 721.4)	(1 701.4)	(1 687.3)	(1 720.0)
Borrowing costs	(143.4)	(127.9)	(204.2)	(259.6)	(302.5)
Grants and subsidies paid	(1 991.7)	(2 143.9)	(1 977.0)	(1 758.6)	(1 726.9)
Other payments	(296.8)	(299.1)	(246.1)	(191.9)	(125.7)
	<b>(8 492.5)</b>	<b>(8 730.9)</b>	<b>(8 748.5)</b>	<b>(8 608.7)</b>	<b>(8 793.0)</b>
<b>Net cash flows from operating activities</b>	<b>231.1</b>	<b>27.4</b>	<b>157.2</b>	<b>353.0</b>	<b>351.5</b>
<b>Cash flows from investing activities</b>					
<b>Net cash flows from non-financial assets</b>					
Purchases of non-financial assets	(1 219.3)	(1 097.6)	(1 152.4)	(1 149.7)	(1 019.0)
Sales of non-financial assets	35.0	35.0	29.1	23.5	31.1
	<b>(1 184.3)</b>	<b>(1 062.7)</b>	<b>(1 123.2)</b>	<b>(1 126.2)</b>	<b>(987.9)</b>
<b>Net cash flows from financial assets (policy purposes)</b>					
Equity injections	(256.7)	(283.7)	(269.5)	(116.0)	(58.3)
Net advances paid	(33.0)	(33.6)	42.2	....	(3.8)
	<b>(289.7)</b>	<b>(317.3)</b>	<b>(227.4)</b>	<b>(116.0)</b>	<b>(62.2)</b>



**Table A3: General Government Cash Flow Statement (as presented in the 2023-24 RER)  
(continued)**

	2023-24	2023-24	2024-25	2025-26	2026-27
	Budget	Revised Budget	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m
<b>Net cash flows from financial assets (liquidity management purposes)</b>					
Net (purchase)/sale of investments	0.5	0.5	3.0	3.3	....
	<b>0.5</b>	<b>0.5</b>	<b>3.0</b>	<b>3.3</b>	<b>....</b>
<b>Net cash flows from investing activities</b>	<b>(1 473.5)</b>	<b>(1 379.5)</b>	<b>(1 347.6)</b>	<b>(1 238.8)</b>	<b>(1 050.1)</b>
<b>Cash flows from financing activities</b>					
Net borrowing	1 247.1	1 416.5	1 083.6	881.7	686.2
<b>Net cash flows from financing activities</b>	<b>1 247.1</b>	<b>1 416.5</b>	<b>1 083.6</b>	<b>881.7</b>	<b>686.2</b>
<b>Net increase/(decrease) in cash held</b>	<b>4.7</b>	<b>64.4</b>	<b>(106.8)</b>	<b>(4.2)</b>	<b>(12.5)</b>
<b>Cash at the beginning of the year</b>	<b>932.9</b>	<b>979.2</b>	<b>1 043.6</b>	<b>936.8</b>	<b>932.6</b>
<b>Cash at the end of the year</b>	<b>937.6</b>	<b>1 043.6</b>	<b>936.8</b>	<b>932.6</b>	<b>920.2</b>
<b>KEY FISCAL AGGREGATES</b>					
Net cash flows from operating activities	231.1	27.4	157.2	353.0	351.5
Plus Net cash flows from non-financial assets	(1 184.3)	(1 062.7)	(1 123.2)	(1 126.2)	(987.9)
<b>Equals CASH SURPLUS/(DEFICIT)</b>	<b>(953.2)</b>	<b>(1 035.3)</b>	<b>(966.0)</b>	<b>(773.2)</b>	<b>(636.4)</b>

# APPENDIX B

## STATEMENT BY THE TREASURER

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Deputy Premier  
Treasurer  
Minister for Infrastructure and Transport  
Minister for Planning

Level 10, Executive Building, 15 Murray Street, Hobart  
Public Buildings, 53 St John Street, Launceston  
GPO Box 123, Hobart TAS 7001  
Phone: (03) 6165 7701; Email: [Michael.Ferguson@dpac.tas.gov.au](mailto:Michael.Ferguson@dpac.tas.gov.au)



16 February 2024

Mr Gary Swain  
Secretary  
Department of Treasury and Finance  
By email: [electioncostings@treasury.tas.gov.au](mailto:electioncostings@treasury.tas.gov.au)

### Pre-election Financial Outlook Report – Treasurer's disclosure

In accordance with Section 11(1) of the Charter of Budget Responsibility Act 2007, I, Michael Ferguson MP, Treasurer, confirm that I am not aware of any Government decisions or any other circumstances in existence before the issue of the writs for the House of Assembly election on 14 February 2024 that has, or could have, material financial implications for the estimates detailed in the 2023-24 Budget Papers.

I am not aware of any other Government decisions or circumstances that require my disclosure in accordance with Section 11(1) of the *Charter of Budget Responsibility Act 2007*.

A handwritten signature in blue ink, appearing to read "Michael Ferguson".

Michael Ferguson MP  
Deputy Premier  
Treasurer