2021 (No. 15)

PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS

REVIEW OF THE TASMANIAN GOVERNMENT FISCAL SUSTAINABILITY REPORT 2021

MEMBERS OF THE COMMITTEE

LEGISLATIVE COUNCIL	HOUSE OF ASSEMBLY
Hon Ruth Forrest MLC (Chair)	Ms Madeleine Ogilvie MP
Hon Meg Webb	Mr Nic Street MP (Deputy Chair)
Hon Josh Willie MLC	Ms Rebecca White MP

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Charter of the committee

The Public Accounts Committee (the Committee) is a Joint Standing Committee of the Tasmanian Parliament constituted under the *Public Accounts Committee Act 1970*.

The Committee comprises six Members of Parliament, three Members drawn from the Legislative Council and three Members from the House of Assembly.

Under section 6 of the *Public Accounts Committee Act 1970* the Committee:

- must inquire into, consider and report to the Parliament on any matter referred to the Committee by either House relating to the management, administration or use of public sector finances; or the accounts of any public authority or other organisation controlled by the State or in which the State has an interest; and
- may inquire into, consider and report to the Parliament on any matter arising in connection with public sector finances that the Committee considers appropriate; and any matter referred to the Committee by the Auditor-General.

Conduct of the review

On 28 July 2021, the Committee received a briefing in the form of a public hearing from the Secretary of the Department of Treasury and Finance (the Department) on the *Tasmanian Government Fiscal Sustainability Report 2021* (the Report). The Hansard transcript of the hearing is provided in Appendix 1 and Powerpoint slides of the Department's briefing is provided in Appendix 2.

On 28 July 2021, the Committee wrote to the Department with a number of questions taken on notice during the briefing. The Department's response to the questions on notice is provided in Appendix 3.

A number of further questions were sent to the Department on 5 August 2021. The Department's response is provided in Appendix 4.

OVERVIEW

On 28 June 2021, the Committee resolved to review the *Tasmanian Government Fiscal Sustainability Report 2021* as a follow-up to an inquiry it had conducted in 2020 into the *Tasmanian Government Fiscal Sustainability Report 2016*.

As part of the review, the Committee sought information from the Secretary of the Department of Treasury and Finance.

The Fiscal Sustainability Report noted a number of challenges in maintaining fiscal sustainability in Tasmania. These included a greater demand for, and higher cost of, providing services, particularly due to Tasmania having the oldest and most rapidly ageing population of any state or territory in Australia. The Report notes Tasmanians:

- have lower disposable incomes;
- are less likely to be in the labour force;
- are more likely to die from preventable causes; and
- have lower levels of productivity.

The Report further notes that Tasmania, compared with the national average:

- has a higher rate of youth unemployment;
- a higher rate of long-term unemployment;
- a higher proportion of people with a disability; and
- a higher proportion of households receiving welfare benefits. [1]

According to the Report, a key task for Tasmanian governments will be to identify and address any fiscal pressures at an early stage seeking to do so without the loss of business and consumer confidence and with limited disruption to government services, in order to ensure fiscal sustainability.[2]

The projection results in the Report indicate that, if managed appropriately with sufficient fiscal flexibility available, shocks or adjustments to the economy (such as has

[1] *Tasmanian Government Fiscal Sustainability Report 2021*, Department of Treasury and Finance p. 13
[2] Ibid

been experienced with the COVID-19 pandemic) can have significant impacts in the short-term, but are not the primary drivers of long-term outcomes.[3]

When discussing the long-term impact of the COVID-19 pandemic, Mr Tony Ferrall, Secretary of the Department, stated:

> *…when we looked at the impact of the pandemic - assuming the short-term impact of the pandemic didn't make long term changes to those trends and outcomes - the final point might be up or down slightly, but they didn't all of a sudden turn the long-term trends into a much more significant deficit or concern or, conversely, an improvement. The sort of conclusion you can draw from that in one sense is that, provided the state manages its budget carefully and appropriately, it has the capacity to manage what might be short term impacts such as a GFC or such as a pandemic.*
>
> *The challenge for the state in the long run is that we don't ever know when or how many of these challenges are going to occur. So it is important from a Treasury perspective to ensure that we have the fiscal capacity so that if necessary we can respond to those short-term challenges, otherwise you end up with scenarios where the community cannot get the services they need or we go into that unsustainable debt position.*[4]

Under all four scenarios modelled in the Report, net debt is projected to increase from between $16.0 billion to $29.8 billion in 2034-35. When questioned as to the most appropriate measure of fiscal sustainability at the public hearing, Mr Ferrall stated:

> *…there is no single, best measure. I think the point you're making, which I would accept, is if you see increasing levels of net debt then those changes ultimately, potentially could lead to an unsustainable position. But simply having a level of net debt, which is a stock, provided that you can support that level of debt and the costs of that debt with your revenues, the absolute point of having debt doesn't mean that you are unsustainable.*

[3] *Tasmanian Government Fiscal Sustainability Report 2021*, Department of Treasury and Finance, p.38
[4] Mr Tony Ferrall, Transcript of evidence, Wednesday 28 July 2021, p.11

So, Tasmania - we've got a $7 billion to $8 billion budget. There is no reason why in terms of our budget we can't support a level of debt, but if we are continually adding to that debt stock, which effectively means or implies that we're not meeting our capacity to service the debt, then you do start to move into that.[5]

The Report notes health expenditure is the largest expenditure category within the Budget and remains the single most significant driver of long-term fiscal challenges. Health expenditure is projected to grow at a significantly greater rate than projected revenue growth.[6]

The key drivers of the increase in health expenditure are:

- continuing medical advancements offering better, but more expensive, care for complex illnesses and the increasing availability of new procedures for previously untreated needs;
- changing patient expectations in relation to the quality and scope of healthcare available; and
- socio-economic and demographic factors.[7]

Mr Ferrall commented on the projected health related expenditure and the associated challenges:

One of the important conclusions of the report - which again is similar to what has occurred around the country with similar reports - is the significant impact of health expenditure costs on the long-term projections of the states and of the Commonwealth. You saw that recently in the most recent Commonwealth report, which has a similar set of conclusions. We've discussed before around this committee that managing health expenditure is effectively the largest challenge in trying to manage the budget on a sustainable basis in the long run.

…

[5] Mr Tony Ferrall, Transcript of evidence, Wednesday 28 July 2021, p.
[6] *Tasmanian Government Fiscal Sustainability Report 2021*, Department of Treasury and Finance, p.7
[7] Ibid, p.39

In part that is because of the growth in health - not totally - but in part due to the growth in health expenditure which has been growing, and is continuing to grow, at a higher rate than our growth in revenue in the long run. When you take a component of the budget such as health which is, let us just say, broadly 38 per cent to 40 per cent of the budget, and if that component of the expenditure is growing at a greater rate than your revenue then at some point those lines just have to diverge.[8]

The Report notes that relying on economic growth to correct long-term fiscal imbalances may be appropriate for the Australian Government (although its success relies on population growth, workforce participation, productivity and prices), it is less likely to be effective in Tasmania.[9]

The Report notes the potential challenge of maintaining fiscal sustainability and that no single solution, such as constraining health expenditure, is likely to be appropriate in addition to the implementation of a range of policy measures.

The importance of implementing policy options and measures early to ensure greater success in maintaining fiscal sustainability is noted in the Fiscal Sustainability Report:

Policy options, such as introducing expenditure or revenue measures, are also likely to have greater success if implemented early and focus on the underlying causes of these fiscal pressures. Delaying action until the task is much greater is likely to place an undue burden on the community and businesses.[10]

The Committee notes all four scenarios analysed in the Report show projected fiscal outcomes that are manageable in the short to medium term further noting the size of the corrective action required to maintain fiscal sustainability increases over the projected period to 2034-35.[11] Thus early and timely targeted action are required.

[8]Mr Tony Ferrall, Transcript of evidence, Wednesday 28 July 2021, pp.7-8
[9] *Tasmanian Government Fiscal Sustainability Report 2021*, Department of Treasury and Finance, p.40
[10] *Tasmanian Government Fiscal Sustainability Report 2021*, Department of Treasury and Finance, p.41
[11] Ibid, p. 7

At the public hearing, Mr Ferrall stated:

> *At some point in time in the future if the Government, or any government, doesn't take action to address an imbalance between revenues and expenditures, at some point in time in the future it would become unsustainable. The report makes it quite clear from a Treasury perspective, we're not sitting here now saying, 'You need to panic'. We're not sitting here with a fiscal crisis that there needs to be an immediate, major reaction. All we're flagging is if the scenarios we've developed occur in the medium to long-term, there will need to be some action.*[12]

The conclusions contained in the Report related to the key actions required to maintain fiscal sustainability are outlined below:

> *The analysis undertaken in this and previous Fiscal Sustainability Reports has 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 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*.[13]

The Committee intends that this Report be considered in its entirety as a Final Report of the Review. The Report should be read together with the Hansard transcripts and correspondence which can be accessed via the Committee webpage at: https://www.parliament.tas.gov.au/ctee/Joint/pacc.htm.

[12] Mr Tony Ferrall, Transcript of evidence, Wednesday 28 July 202, p.9
[13] *Tasmanian Government Fiscal Sustainability Report 2021*, Department of Treasury and Finance, p.8

The Committee thanks the Secretary of the Department of Treasury and Finance and Departmental staff who provided information to the Committee.

HON RUTH FORREST MLC

25 AUGUST 2021

THE LEGISLATIVE COUNCIL PUBLIC ACCOUNTS COMMITTTEE MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE ON WEDNESDAY, 28 JULY 2021

TASMANIAN GOVERNMENT FISCAL SUSTAINABILITY REPORT 2021

Mr TONY FERRALL, SECRETARY, **Ms FIONA CALVERT**, AND **Ms KERRY HUDSON**, DEPARTMENT OF TREASURY AND FINANCE, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Ms Forrest) - I invite you to make some opening comments, anything you want to say and we'll have questions to follow. Do you want members to interrupt with questions on specific points on the way through or would you rather finish your presentation and then go to questions?

Mr FERRALL - I have a presentation which I'm hoping will cover most of the issues the committee may want to cover. I'm quite happy to interact through the presentation rather than trying to take questions. I am happy to do it however the committee feels is best.

As I said, I have short presentation.

CHAIR - Okay, we might do the presentation first and then we can drill down into specific areas.

Mr FERRALL - First, I'd like to introduce Fiona Calvert who is a deputy secretary in Treasury, and Kerry Hudson who's a senior policy analyst as well.

CHAIR - I know Fiona probably knows everyone but this is Meg Webb, Nic Street, Ruth Forrest and Josh Willie. We have two members who are apologies today.

Mr FERRALL - I might hand out some slides. There should be an extra one. That should cover all. I will work through this fairly quickly. If you do want to ask questions through the presentation, I'm quite happy to take them.

CHAIR - Thank you.

Mr FERRALL - Today I can give you an overview, a little bit of the context for the report - the purpose, the methodology and the fiscal measures used as well as some high-level results from the projections and also provide some conclusions from the report.

Members would be aware that the first fiscal sustainability report was published in April 2016. This is the second report that has been published under the Charter of Budget Responsibility Act and there was a supplementary report that was published in October 2019, which was after the committee asked for some clarification on some of the matters that were raised in the first report. We did a supplementary report which clarified those matters and tidied up a couple of things.

The report is intended to provide a long-term perspective on Tasmania's fiscal outlook. The way we've done that is to outline some potential long-term fiscal imbalances which may arise under different scenarios. It's important to note that those scenarios are developed in the absence of any changes in policy or approach. There's an underlying assumption in all of those that there is no reaction from government to the trends that are starting to show.

The Australian Government released an intergenerational report on 28 June and the New South Wales Government released its intergenerational report on 7 June, both in 2021. Both of those reports are five-yearly reports, approximately. The report we've prepared is similar to reports published in other jurisdictions and around the world. It would be fair to say there are different methodologies that are used in preparing the reports.

We've taken the approach of using the traditional accounting measures. In part, that was because of the feedback we received from the committee when we did the previous report, which used a more economic approach to developing fiscal sustainability measures. The feedback from the committee, in part, was that it would be more helpful if we had a report that relied on and was consistent with the more traditional accounting measures that we'd used for the budget and for the audited statements. That's the approach we have taken.

Expenditure is categorised consistent with the ABS classification. That is the classification of functions of government, which enables the report to have comparisons across jurisdictions because all jurisdictions use those ABS classifications.

Data used for the projections is taken from historical tappers. It is taken from audited reports but also from the 2020-21 Budget. I'll make more comments about that in a moment. The more recent RER and the pre-election fiscal outlook released during the election could not be used for these projections as those reports don't present the detailed level of the COFOG-A format. That is, they don't go down to the level of the ABS classifications that we would need.

Similarly, the GST uplift from the 2021-22 Australian Government budget is not reflected and that was due to the timing. We did, though, undertake a higher-level assessment of the impact of the PEFO and that is covered later in the presentation.

Projections are developed over a 15-year time frame. The reasons for that are varied but, essentially, there's some knowledge of events over the 15-year period. If you did projections for a longer period, given the sort of methodology we use, all you would effectively do is see longer lines. It won't provide you with any more context or greater information. This is also consistent with the OECD's guidance on long-term reporting where long term is considered between 10 and 40 years.

It is important to note that the projections are not forecasts, so we have utilised the process of effectively extrapolating trends. As I said, there is no assumption in relation to a policy change or intervention through those periods.

In preparing the report, there is no judgment made by Treasury regarding whether any scenario is more or less likely to occur - they are just scenarios. There is a slight difference from the 2019 report in that the budget and forward Estimates data are used for the first four years of the projections. And the 2019 report, all projections commenced from the budget year so there is a slight shift in phasing between the 2019 report we did and this report.

There's a number of adjustments that are made through the projections and they take account of a number of known events. For example, we include the health expenditure step change in 2024-25. That is effectively to reflect the opening of new hospital beds at the Royal

Hobart Hospital and the LGH. We also reflect the northern prison so there is an expenditure step change included in that, which is applied from 2026-27 to 2032-33.

We also include Bridgewater bridge expenditure. We follow the allocation of the 2020-21 budget forward Estimates, and we also included the end of the GST guarantee period. In all scenarios, a step change of $57 million is modelled after 2026-27 to coincide with the end of the GST guarantee period. We have also included an allowance for the end of the Mersey Community Hospital funding agreement. That effectively includes funding from 2027-28.

There are some important exclusions that we haven't modelled. They include things such as Marinus and Battery of the Nation. Really, it is not possible to identify the magnitude or timing of the potential impacts on the state at this stage. Quite clearly, the impacts of those significant projects could be positive or negative, but we haven't attempted to include anything on those.

We also removed the TT-Line vessel replacement due to the uncertainties in timing in relation to that. It makes little or no difference to the general government sector in terms of the impact of TT-Line on that, given that the vessels are funded through debt which is largely reserviced by TT-Line. The only other extent that impacts on the general government sector is the TT-Line vessel replacement fund, which is relatively minor in the projections.

CHAIR - Doesn't it sit with TABCORP anyway, which is not a general government sector?

Mr FERRALL - The TT-Line fund does sit with TABCORP but it is still in the general government sector. It's held by TABCORP but it sits in the general government sector so it's managed or held.

I'm on page 9. As I indicated earlier, we've used the same four scenarios as we used in the 2019 report. I won't go through those individual scenarios. I'm assuming members have read enough to understand how we develop those scenarios.

The pandemic has obviously had a significant impact on the economy at the state, national and international level. There was a range of measures implemented by both the Tasmanian and Australian Governments to mitigate the social and economic impacts. The costs of support provided by the Tasmanian Government have contributed to a deterioration in the net operating fiscal balance and net debt. At this stage, I guess Tasmania is in the early stages of recovery and the deterioration of the key budget measures is certainly not as significant as it was anticipated when we went into the early stages of the pandemic.

Mr WILLIE - With the current situation on the mainland and the Commonwealth source of revenue, it could change.

Mr FERRALL - It's an unknown. I guess the budget reports and other reports that Treasury has put out pretty well always put in that sort of caveat that you make assumptions around how things are travelling with the pandemic but they can rapidly change.

CHAIR - It's only a heartbeat away.

Mr FERRALL - In terms of this modelling, the ongoing uncertainty of the impact of COVID-19 can't be modelled. It's too hard to make assumptions around what may or may not happen.

Mr STREET - Tony, are we going to be adversely affected in the GST cut up by the fact that our economy's going so well compared to Sydney, Victoria and New South Wales at the minute?

Mr FERRALL - It's an unknown question because it's a question of how we are travelling relative to others and there's a whole range of other factors. It's not just simplistically how Sydney or Melbourne, or the two larger states may be travelling. There's a whole range of other factors including population share and other things which start to impact on those things. It's not really possible to make a judgment as to whether we will be better or worse off.

Mr WILLIE - There's a lag effect too, isn't there?

Mr FERRALL - There is a lag effect as well.

The projection results on page 11 are consistent with the outcomes we saw in the 2019 report. Looking under the historical trend scenario where we have average growth in revenue of 3.5 per cent and expenditure at 4.1 per cent, you can see the green line in terms of the potential impact on the net operating balance as we go forward; similarly, with the forward Estimates scenario and the high expenditure and the low revenue scenario.

I won't go through each of the projection results because the fiscal balance shows a similar set of trends. As we go forward I am happy to answer questions in detail around those. Over the period of the projections, we see potentially increasing debt levels under the forward Estimates historic trend, the low revenue and the high expenditure scenario.

It's important to note, I think, that we have developed these scenarios on the basis of identifying scenarios where fiscal sustainability is at risk or impacted as opposed to developing a total set of scenarios. We could have identified a scenario which would be, say, a high revenue scenario with a low expenditure scenario, which would then give an alternative set of lines, effectively, but we took the approach that the report is designed to identify those scenarios where there may be risks to sustainability as opposed to scenarios where there wouldn't be any risk to sustainability.

CHAIR - Prepare for the worst and hope for the best.

Mr FERRALL - Possibly. We also modelled to a degree the interest rate sensitivity. The long-term view of the projections means that there's considerable uncertainty as to what level of interest rates might be applicable in 15 years' time. So, under each scenario it is assumed that there will be some change in interest rates over the period and those changes range from approximately a 1.4 per cent interest rate cost through the budget and forward Estimates to about 3.5 per cent in 2034-35.

We also did model a 2-percentage point increase in the interest rate across these scenarios. Again, that showed the obvious that if you have a 2-percentage point uplift in the interest costs you are going to find that the scenarios where you're in debt are going to be worse.

Net debt is also impacted as you go through those interest rate scenarios because when you look at the out-years you're in a situation where effectively you are borrowing to meet the interest costs so, effectively, you increase the stock of debt as well as you increase those interest rates.

CHAIR - Just on that, Tony, the historic trends, how far back are we looking? Interest rates have had an interesting journey in the more recent history. What is your historic trend here that you're basing it on?

Mr WILLIE - You would have a global financial crisis in there too.

CHAIR - Yes, that's right. How far back are you looking?

Mr FERRALL - I will see if Fiona can find the actual point but I will give a high-level explanation. Under those scenarios we've adopted differing time periods. It's not a single historic trend time period that we've adopted. The model is built up effectively from a base-level line by line. We have differing periods for some of those particular expenditure and revenue lines to cater for things like abnormal or unusual impacts, such as the global financial crisis (GFC). Quite obviously, if you just do a simple average you can end up with quite skewed results because of those outliers, so we've picked different points in time. I'm not sure whether Kerry has the time period for interest.

Ms HUDSON - The cost of debt applied was the same for all four scenarios. It didn't vary under the scenarios and, as Tony said, it started at 1.4 per cent over the budget and forward Estimates. Then we looked at forward-looking indicators in financial markets that indicate what the likely cost of debt will be over the next five and 10 years to come up with a set of interest rates that we applied to all the scenarios. That gradually increased to 3.5 per cent by the end of the projection period.

CHAIR - You started basically with the interest rates where they are?

Mr FERRALL - We started with our current debt cost because we didn't have a debt stock historically. If you look at other jurisdictions, if you did a comparison between Tasmania and Victoria, as an example, our current debt costs are much lower than Victoria because they had an historic debt cost at a higher rate as a starting point. So, when they look at their average it's higher than ours is but we're starting with historically very low rates and in terms of how we actually borrow we're borrowing generally for long periods of time as well. That is why in the modelling for this 15-year period you can see the debt cost staying at quite a low level over that period.

Mr WILLIE - The net debt trend started before the pandemic. When did we go into net debt?

Mr FERRALL - I'd have to go back and check. I don't believe we went into debt. We had budgeted to go into debt in the 2019-20 year but I don't think in actuals we went into debt.

CHAIR - If you look at the chart on page 13, I suggest that from 2014 there was a low level of net debt.

Mr FERRALL - I'll need to check that, but I don't think we did go into -

CHAIR - That's positive, sorry, because it was below the line.

Mr FERRALL - Yes.

CHAIR - Was it in 2019?

Mr FERRALL - We had budgeted in 2019-20. I'll have to check the outcome, but I think it was only a relatively small debt that we'd budgeted to go into.

CHAIR - That was pre-COVID. That answers your question, Josh?

Mr WILLIE - Yes.

Mr FERRALL - On page 16, we did the higher-level analysis of updated data. We effectively updated some of the data for the release of the RER and PEFO. That indicated there had been a material improvement in the state's finances from what we'd projected in the 2021 Budget. At that time, it was very negative in terms of sentiment around the pandemic. Then post that, the outcomes across the country certainly weren't as bad as people believed they would be.

The higher-level analysis basically shows that all three fiscal indicators improve over the projections, compared with the projections based on 2020-21 Budget. That updated scenario also didn't include the impact of the increase in the GST revenue, which was in the 2021-22 Australian Government Budget.

When you unpack that, what it does show is that compared to some of those scenarios that we developed in this report, there is a higher or better starting base than we'd developed in those scenarios. It does have an impact on the absolute levels. What it also shows is that the trends still continue, or are similar, so they might finish at a higher point in terms of effectively a lower net operating deficit, but you're still showing those same trends.

Mr WILLIE - It doesn't take into account the election commitments, and things like that, either, does it?

Mr FERRALL - No, it didn't take that into account. Again, that was a question of timing. Aa range of expenditure revenue matters have changed since we did this report, which would change those lines.

One of the important conclusions of the report - which again is similar to what has occurred around the country with similar reports - is the significant impact of health expenditure costs on the long-term projections of the states and of the Commonwealth. You saw that recently in the most recent Commonwealth report, which has a similar set of conclusions. We've discussed before around this committee that managing health expenditure is effectively the largest challenge in trying to manage the budget on a sustainable basis in the long run.

CHAIR - I understand why you used last year's Budget as your starting point. It was pretty gloomy at the time. It could still get gloomier. I don't have a crystal ball, and I think I'm quite grateful about that at times. But if you looked at long-term trends, it wouldn't look as good as this in many respects, would it? It's where your starting point is. It is more positive than what was expected.

Mr FERRALL - The starting point makes a significant difference, or a potentially significant difference, to the long-term trends. Conversely to that, when we looked at the impact of the pandemic - assuming the short-term impact of the pandemic didn't make long-term changes to those trends and outcomes - the final point might be up or down slightly, but they didn't all of a sudden turn the long-term trends into a much more significant deficit or concern or, conversely, an improvement. The sort of conclusion you can draw from that in one sense is that, provided the state manages its budget carefully and appropriately, it has the capacity to manage what might be short term impacts such as a GFC or such as a pandemic.

The challenge for the state in the long run is that we don't ever know when or how many of these challenges are going to occur. So it is important from a Treasury perspective to ensure that we have the fiscal capacity so that if necessary we can respond to those short-term challenges, otherwise you end up with scenarios where the community cannot get the services they need or we go into that unsustainable debt position.

Mr WILLIE - With the comments around the pandemic, isn't it a factor that the historical trends and the trends are a deterioration over time? And that was already set in the budget and the fiscal sustainability before the pandemic, so that is why you are not seeing a huge alteration over time?

Mr FERRALL - In part that is because of the growth in health - not totally - but in part due to the growth in health expenditure which has been growing, and is continuing to grow, at a higher rate than our growth in revenue in the long run. When you take a component of the budget such as health which is, let us just say, broadly 38 per cent to 40 per cent of the budget, and if that component of the expenditure is growing at a greater rate than your revenue then at some point those lines just have to diverge.

CHAIR - That was the same challenge in 2016 and 2019 when you redid the report.

Mr FERRALL - Yes. I could jump to the conclusion and open up for questions from members. Clearly, the report shows that without some form of intervention then projections do indicate these increases in fiscal pressure over time. The COVID-19 did increase net debt over the debt over the budget and forward Estimates but it is not the main driver of the outcome shown in this report. Borrowing costs are quite manageable, particularly because of the low interest rates that are now applying to our borrowing costs. As I mentioned earlier, health continues to be the most significant driver of the fiscal outcomes; not the only driver, but the most significant.

This is consistent with other jurisdictions and all jurisdictions are facing the same sorts of pressures. The obvious one from a Treasury point of view, early correction is a lot easier than later correction, but it is always a challenge to make the decisions that are required to make those corrections.

Mr WILLIE - In the report it talks about short and medium term. What is that in years, just for some context?

Mr FERRALL - We didn't say here is the line and that is short and medium term. If you look at the projections under all scenarios in what we would call the short term, let's just say broadly in the next five to seven years, the outcomes are manageable or likely to be manageable. It is as you get further out, if those trends continued, that it becomes much more difficult to manage those issues.

CHAIR - Tony, last time we were down to do the inquiry into the fiscal sustainability report of 2016, you made a note in that report, and again in the subsequent one and in Evans 2[?] as the corrective actions, easy and more effective, and plan it early, that is exactly what you said back then. This may be a question that you may want to deflect to the Treasurer, who is not here at the moment, have you seen any sign of policies and positions that will actually address some of these challenges? We can keep saying this every five years, and it will probably just get more urgent or more difficult and the task will be larger. When does it become too big?

Mr FERRALL - I can probably answer that question by commenting more on what's happened in the past. The reality of all Tasmanian governments - and it hasn't mattered what persuasion - is they have all taken reasonable and appropriate action in the past when these trends started to emerge. So, governments take continuous decisions as opposed to taking: 'next year we're going to all of a sudden start to take action', so governments do that. I think it would be fair to say that the current Government is equally cognisant of previous governments of the long-term potential outcomes for Tasmania. The government looks at revenues, and they look at expenditures, and they manage within those sorts of parameters. That's occurred with all the governments that I've worked with over the years.

I think the answer to your question is: yes, the current Government and previous governments do make those adjustments over time.

Mr WILLIE - On that, the Treasurer's response to this has been that economic growth means that the budget is sustainable. That's not actually correct, is it?

Mr FERRALL - I wouldn't say it's not correct.

Mr WILLIE - In terms of the Commonwealth source revenue and that share of the budget, it's not down to Tasmanian economic growth figures.

CHAIR - Economic growth in Tasmania won't save the day.

Mr WILLIE - Yes.

Mr FERRALL - There is a reality that Tasmania receives a significant amount of GST and Commonwealth revenue. That is our major source of funding. Our own source revenues are a lower percentage of our revenue than those from Commonwealth funding ultimately, so there is a reality that we are tied very heavily to the performance of the rest of the country. Even in a scenario where Tasmania was performing very well, if the rest of the country is not performing well, the GST pool would be smaller. That's a reality.

Mr STREET - Is every state's main source of revenue the GST?

Mr FERRALL - No.

Mr WILLIE - Some pay more than they get back.

CHAIR - We don't need to talk about Western Australia.

Ms WEBB - Some have state source revenue that exceeds what they receive in GST.

Mr WILLIE - If I can jump in again, Chair?

CHAIR - Yes.

Mr WILLIE - The report talks about corrective action and it's easier in the short term. What are some of the corrective action measures that could be taken? Obviously, the report mentions health expenditure but what other measures are there available to the arms of government to -

Mr FERRALL - In the report, it would be fair to say I have dodged giving gratuitous advice to government about what specific corrective actions may be.

At the highest level there are only two sides to the equation: revenue and expenditure. So there is a range of things that governments can do in terms of growing revenue or curtailing expenditure, but they're really policy choices for the government of the day. I don't think it's for me to provide, as I said, a particular view on what those policy choices could be.

CHAIR - Going back to your point originally, Josh, in the Executive Summary, page 8, it says: 'Given the composition of the state's revenue base' which we know is limited and not growing at the rate that our expenditure is, 'it is not possible to rely entirely on economic growth to maintain fiscal sustainability'. That is a statement of fact. The question that flows from that, which is what you were alluding to, Josh, is: if the Government doesn't take some action in one or both of those areas like revenue or expenditure, we will end up in a position of fiscal unsustainability.

Mr FERRALL - At some point in time in the future if the Government, or any government, doesn't take action to address an imbalance between revenues and expenditures, at some point in time in the future it would become unsustainable. The report makes it quite clear from a Treasury perspective, we're not sitting here now saying, 'You need to panic'. We're not sitting here with a fiscal crisis that there needs to be an immediate, major reaction. All we're flagging is if the scenarios we've developed occur in the medium to long-term, there will need to be some action.

CHAIR - Even business as usual because the business as usual, which is the forward Estimates of the historic trends, both indicate a deterioration.

Mr FERRALL - Yes, they indicate some challenges - agree.

Ms WEBB - In terms of rather than looking ahead and, as you say, offering gratuitous advice about corrective action from here, looking back since 2016 through to now, could you point to what would have been the corrective action that had the most significance in assisting with a more positive trajectory forward?

Mr FERRALL - That's a difficult question. The state is in probably a very unusual but very fortunate position at the moment. We have very strong own-source revenues compared to historically, and we have a very high projected growth in the GST pool from the Commonwealth which, again, is higher than has been seen historically. We're also at a point where we have a very high relativity compared to our longer term or our historic relativity.

On our revenue front, we are doing very well. Our own source revenues are very strong, Commonwealth revenues are very strong and, in a relative sense, we're achieving a higher relative share. We have a very solid revenue base at the moment.

Ms WEBB - I am saying you're not pointing to any corrective action in the last five years that would have contributed. I presume you're talking about stamp duties being high because we're selling a lot of houses, and GST and the Commonwealth stuff has been higher. It's not things that have been generated by a government policy.

Mr FERRALL - I won't enter the politic fray on this. It really depends on what you mean by 'action by government'. Quite clearly, some of the tax changes that have been made by the Government, particularly in terms of reducing and changing taxes, have led to changes in transactions that have occurred and have contributed potentially to some of those high revenues. I can't sit here and say, 'Well, that was the particular decision Government made over the last five years and I've given them a tick or a cross for that'.

Mr WILLIE - In the context of the overall Budget, the state government making changes around taxes is minimal really.

Mr STREET - If you want to turn this into a political argument -

Mr WILLIE - I'm not.

Ms WEBB - What I've just heard you say is that there were policy decisions made that might have contributed to the situation in which we, for example, gain more revenue through the sale of houses through the taxation collected there.

Mr FERRALL - I can answer it another way. We probably have the highest business and consumer confidence that we've had in Tasmania for probably forever. If you look at all the public reports, Tasmania is in a very good place compared to every other jurisdiction. I don't think you can say that all of that just happens by serendipity. The Government has taken a range of decisions.

CHAIR - You could claim that shutting the borders and pulling up the drawbridge was a really positive thing in terms of our economic recovery.

Mr FERRALL - There's myriad decisions that Government has taken. You don't have high consumer and business confidence unless there is confidence in the economy and confidence in the government. People don't believe that there's a huge set of risks that the government is going to take decisions which are going to be detrimental to their business or personal decisions. All of those things do contribute to those positive outcomes.

CHAIR - No. I might just come back to one regarding net debt, and regarding the use of net debt as a measure. You know the figure each year reflects what's owing, and the movement over the year is the most comprehensive measure of the deficits each year, including all outlays. So, you could argue, as I have in the past a bit, that net debt is a better measure of a more comprehensive and a more appropriate measure of fiscal sustainability. Do you want to comment - we use all the other measures but they're all looking essentially the same, the trajectories are the same?

Mr FERRALL - I'd probably have to say no, net debt isn't - there is no single, best measure. I think the point you're making, which I would accept, is if you see increasing levels of net debt then those changes ultimately, potentially could lead to an unsustainable position. But simply having a level of net debt, which is a stock, provided that you can support that level of debt and the costs of that debt with your revenues, the absolute point of having debt doesn't mean that you are unsustainable.

So, Tasmania - we've got a $7 billion to $8 billion budget. There is no reason why in terms of our budget we can't support a level of debt, but if we are continually adding to that debt stock, which effectively means or implies that we're not meeting our capacity to service the debt, then you do start to move into that. But just having debt itself is not a negative.

CHAIR - I agree with you that debt is not a frightening monster if you can deal with it. I asked you this on our last time that we looked at this and you said at the time it's only when you're in a position that you can't meet the debt servicing and meet your other recurrent costs that debt would become, or potentially become, unsustainable. So, given that this report shows debt servicing costs requiring more debt each year, are we reaching or getting to that point where it is unsustainable, the level of net debt?

Mr FERRALL - Well, under the scenarios that are identified, as you go out across the out-years, in those 15-year scenarios, if we were in those scenarios they would become unsustainable. That's sort of the point of the report. It's identifying circumstances where, in the next 15 years, there may be scenarios where the debt could become unsustainable -

CHAIR - You don't feel that we're there now?

Mr WILLIE - Does Treasury use a threshold, like a percentage of the GSP, or -

Mr FERRALL - We don't, and in part we're not like the Commonwealth and having a sort of national position in terms of a debt cap, or similar. Our revenue sources are entirely different from the Commonwealth and for the reasons we outlined earlier, or discussed earlier, around support from the Commonwealth though GST, the state GSP is not as relevant to our own revenue capacity.

CHAIR - Going back to the level of net debt, on page 19 of your presentation you've got the 'high level analysis,' and even in the forward Estimates, the alternative forward Estimates, it's still in years ahead. I know this is assuming no corrective action, I accept that.

Mr FERRALL - Yes.

CHAIR - That if you get to those sorts of levels would that be of concern? Would that be getting into the realms of fiscally unsustainable?

Mr FERRALL - I think it would depend on how our revenues grow over the period and also what the cost of that debt stock might be, which again is why we included some sensitivity in our analysis around interest rates. So, if you were figuratively saying under that alternative forward estimate scenario and let's just say you've got about $10 billion, $11 billion-worth of debt under that scenario, if our debt costs were still sitting at one and a quarter per cent -

CHAIR - One and half per cent, yes.

Mr FERRALL - Then I'd say depending on our revenues it's probably quite sustainable. But if our debt costs, at that point, were 9 per cent then it would be entirely a different challenge.

CHAIR - Just last time -

Mr STREET - Sorry, just on that. Nobody over the last 15 years would have predicted where interest rates have been and come to in that time either, would they, Tony?

Mr FERRALL - No. I think for pretty well, not everyone around this table, but for most of us around the table, we've probably seen the highest interest rates in history and probably seen the lowest interest rates in history.

Mr WILLIE - I was a child.

Mr FERRALL - You were a child.

CHAIR - I don't know that you were born, Josh.

Mr WILLIE. - I wasn't quite as young as you but I was still a child.

CHAIR - Just on that, Tony, last time when we discussed this report you provided net debt figures for each year under the four scenarios and then a table of the increases in net debt each year for each scenario. Are you able to provide that information again? You've got some explanation and description of but not the actual figures.

Mr FERRALL - Yes, we should be able to provide those. So, you just want a breakdown across the years?

CHAIR - Yes, of the increases in net debt for each year, for each of the four scenarios.

Mr FERRALL - Yes, we can provide that.

CHAIR - We'll write to you and confirm that. Josh, are you right?

Mr WILLIE - No, I'm happy for Tony to keep going.

CHAIR - Looking at the expenditure breakup on page 58 in the report -

Mr FERRALL - It's table 5.2?

CHAIR - Yes. So, if this covers operating expenses as per the net operating balance in that it enables a reader to see relative changes - for example, the growth in health and it's sort of laid out there; and the fall in normal super interest and a rise in the general public services, which include interest and debt servicing costs - I believe it might be a bit more useful for a reader to see the actual cash outlays for these. Percentage increase doesn't necessarily tell you what amount we're dealing with. In many respects it's just - it's not meaningless, but it doesn't have the same level of detail.

Is it possible for you to provide the raw figures that represent the percentages in each of those years for each year? In terms of operating expenditure by purpose, the interest debt servicing, define benefit outlays, infrastructure overlays and equity contributions into government businesses including TasWater, for example.

Mr FERRALL - We can certainly provide that level of detail. We'll have to pull it out. It's within the model, so yes, we can pull those out.

CHAIR - Yes. For the average punter out there, because general public services 5.5 per cent and the actual outcome 2019-20 in scenario 4 with low revenue, it's 11.5 per cent. How many dollars is that? What are we talking about? That's the question I'm just -

Mr FERRALL - Yes, again, quite happy to provide that. I guess it's contextual as well because as you go across the scenarios the budget grows as well. So, the reason we've put that as a percentage, so you can actually -

Ms CALVERT - It's more consistent across the time.

Mr FERRALL - Can see what those changes are.

CHAIR - Yes.

Mr FERRALL - Whereas if you just have the raw number without the context of how the budget has grown, you've missed a part of the story as well, but we can provide that.

Ms CALVERT - I'm not sure if this is what you're after but if you look on, for example, on page 27 of the report, the sum of the beer expenditure items, they do give the actual dollar changes.

CHAIR - Yes. But not - yes. Because some of the scenarios -

Ms CALVERT - Though it doesn't cover everything but it does cover some of those expenditure lines. Is that the sort of thing you're after?

CHAIR - Yes. So, it wouldn't be too hard to pull it out and put it into a table basically, that reflects the percentage with the numbers.

Mr FERRALL - We can definitely provide it, yes.

CHAIR - Thanks, Fiona. Then if you go to the revenue and expenditure breakup by scenario in attachment 5, which is the one before that. Sorry, it's the same one. Yes.

Mr FERRALL - So, you want the revenue dollars as well?

CHAIR - Yes, back on 57. Yes, on that as well, if you wouldn't mind?

Mr FERRALL - Okay.

Mr STREET - Outside of the pandemic, Tony, is every state in the same position in terms of the health budget as a percentage of the overall budget?

Mr FERRALL - Look, similar but not identical. So, all states have exactly the same set of challenges. I guess these have been discussed in these committees before, we have effectively an older and sicker community and so we're probably ahead of the pack in terms of what is developing over time.

Mr WILLIE - That is also factored in, in Commonwealth source revenue, in terms of the GST because it is to provide a similar level of servicing across the country, isn't it? We actually get more for health than other states per capita through the GST allocation.

Mr FERRALL - We have done some work on this. We do get more per capita but not -

CHAIR - You get a bigger disability in waiting.

Mr STREET - Because they are older, Josh, or because they actually take health into it? Is it because it is assumed that older people will cost more, or has there been an analysis done of the actual health?

Mr FERRALL - It is quite complex.

CHAIR - You might like to read the Horizontal Fiscal Equalisation Report when it comes out.

Mr FERRALL - We do have on our website a couple of publications that go through in a lay version how it works.

CHAIR - As much as you can make something really complicated into lay versions.

Ms CALVERT - Certainly health is one of the areas where we are classed as having disabilities and then benefit through the GST system.

CHAIR - Part of that is dispersed population as well as the demographic, the older, the sicker.

Ms CALVERT - There is a whole range of factors that drive that.

Mr STREET - It is a wonder they spin a figure out of it with everything that goes into it.

Mr FERRALL - I would make a comment, although the modelling is complex, any modelling on the basis of the nation and across all jurisdictions has to inevitably be complex. It is a very robust and very fair system for distributing the GST. People who make broad comments about it being too complex so we should blow it up or change it, to be frank, they are generally ill informed. If you want a fair system across the country where every Australian has effectively the same capacity, you have to have a complex model.

CHAIR - Tony, in your view when we get to the end of the period where we are guaranteed that we are no worse off with the GST, who knows who is going to be the strongest state then?

Mr FERRALL - I don't know, is the answer to that. Tasmania continues to be and will continue to support the approach to distribution of the GST. There are other jurisdictions that are less supportive of that and, in a federation, marvellous thing can happen.

CHAIR - Particularly when there are marginal seats involved.

Mr WILLIE - Under the changes I think Western Australia is guaranteed a minimum of 75 per cent, aren't they?

Mr FERRALL - Western Australia is a massive beneficiary of the changes that were made. We have put out a number of publications on that at the time and continue to have concerns at the level of benefit that Western Australia received under the changes that were made compared to the other jurisdictions.

Mr STREET - The guarantee that you were just talking about, that was a 25-year guarantee. Was it, or at the institute?

Mr FERRALL - 2026-27 the guarantee falls away so we are being sheltered from it.

CHAIR - We don't really know what is going beyond.

Mr STREET - When was that decided? When was the 2026 -

Mr FERRALL - That was when the new arrangements were put in place and it is no worse off guarantee. So none of the other states would be worse off than they would otherwise have been under the old methodology effectively until 2026-27. Then the guarantee falls away. Under the current arrangements the full impact of those change arrangements would then fall on the states. We do not know what the world will look like in 2026-27 but on our modelling - and other jurisdictions have very similar, if not identical modelling - we will be worse off when that guarantee falls away.

Mr STREET - Sorry, you've probably already said this. Is that reflected in these -

Mr FERRALL - Yes, we've taken that into account.

Mr STREET - Okay.

CHAIR - If we go back to page 57 with that -

Mr FERRALL - Are we talking about GST or the one that -

Mr WILLIE - There are obviously some negative impacts with the pandemic on the mainland at the moment in terms of the Commonwealth source revenue, but is there potential for the pandemic to distort that revenue in a positive way like closing the international borders, people redirecting their spending at home? Is it possible that the GST pie increases?

Mr FERRALL - I think everybody has been surprised at the level of resilience across the consumption expenditure through that period of lockdown. In fact, consumption increased and to a degree people are consuming, or seem to be consuming, more goods where GST is applicable than they were pre-pandemic. So, yes, things like international travel isn't occurring to any degree but what you're seeing is increased expenditure within the country effectively to a degree compensating for that.

We've seen in the last year, due to the range of support measures that were provided by both the Commonwealth and all the states that there's been a wealth impact across the board. I'm not saying every individual but more broadly there's been a wealth impact, and with that wealth impact that has contributed to growth and consumption as well. The GST has proven to be quite resilient through this last period; more resilient than we had anticipated at the start of the pandemic.

Ms CALVERT - If you look at the uplift that the Commonwealth Government did at both the Mid-Year Economic and Fiscal Outlook (MYEFO) and then the most recent budget, there were quite significant increases in GST.

CHAIR - That has been supported by federal government funding though from JobKeeper and JobSeeker and other measures.

Mr FERRALL - There was a range.

CHAIR - Yes, that have contributed to that.

If I could just go back to page 57 to the list and the table with the revenue percentage for the four scenarios. The most striking drop there is in the share of dividends and income tax equivalents falling as low as 3 per cent in 15 years' time.

Tony, can you give some more detail about how the models projected this revenue source? Are we talking about assuming 30 per cent tax and 90 per cent on the retained earnings as dividends? I want to understand how you've modelled that.

Mr FERRALL - We haven't modelled that on the basis of projections of revenue say from Hydro or the Motor Accidents Insurance Board (MAIB) going forward because we didn't have those. So effectively the reason you see those changes is because under the low revenue versus historic trends versus the forward Estimates' scenario, we have identified what that revenue growth would be over the forward Estimates, and that's what's driving those percentages. To be clear, it's not a view that we've generated that Hydro will be generating necessarily a lower revenue based on a set of projections from Hydro. What we've done is apply under those different scenarios some trends across the forward Estimates which is what's driving those individual numbers.

CHAIR - You haven't looked at each GBE or anything; you've just made some broad assumptions. Is that what you're saying?

Mr FERRALL - Yes, broader assumptions. We didn't go to each GBE and SOC and say, 'Tell us what you think your revenues and expenditures and net profit is going to be in 2035'. That's not the basis that this modelling has been done on.

Ms CALVERT - We took out some anomalies from the past experience in terms of, say for instance, Hydro dividends during the carbon tax period when they were substantially higher so things like that that might have impacted -

CHAIR - During the Bass Link outage, did you take that out?

Ms CALVERT - When it was zero, I think we did.

Mr FERRALL - We made adjustments for various historic - we took the figures from TAFR, made some adjustments in terms of some of those points Fiona just made, and then develop the scenarios as a projection forward.

Ms CALVERT - Going forward, you have the Mersey dividend tapering off and falling off after the 10 years.

CHAIR - How many years away now?

Mr FERRALL - 2026-27.

CHAIR - Sorry if it's a horror year. Tony might retire before then. It's not going to be an easy budget, I don't reckon, that one.

Also, Tony, you mentioned I noticed in the report itself, the possible effects of Marinus and Battery of the Nation weren't included. Have you done any work, particularly on Marinus, on how Marinus may contribute to the state's revenues by dividends and income tax equivalents?

Mr FERRALL - No, we haven't. With the stage that Marinus and Battery of the Nation are effectively at it's not possible to do that sort of modelling of what the impacts would be.

CHAIR - It's really just a big unknown.

Mr FERRALL - It's too early, yes.

CHAIR - We did talk about this last time, Tony, about considering the total sector. I notice on page 18 in the report, it says down the bottom, 'It was not considered practical to attempt to assess fiscal sustainability of the total state sector. This would require detailed analysis and assessments to project the financial position of each Government business. However, the report does include projection returns from and equity transfers to Government businesses under each scenario'.

Can you tell us what you did take into account, specifically? You said you haven't gone to each GBE, yourself, and asked them what they think. Then you go on to say, 'It does include projected returns from equity transfers'.

Mr FERRALL - The report deals with the general government sector, not the total state sector. The general government sector receives dividends from the GBEs and state-owned companies. The general government sector also historically has provided equity injections and other support to various entities in terms of GBEs and SOCs.

Regarding the modelling, we have assumed the level of dividends coming in which we commented on a moment ago but we've also assumed that there will be a level of support or a level of equity injection going forward as well. We've seen that in past years. There's been quite significant support to the entities by way of equity injections. So, in the modelling going forward, we have included estimates of that or an allowance for that to continue to occur.

CHAIR - The TasWater one, for example, that's factored in?

Mr FERRALL - TasWater is in the projections.

Ms CALVERT - Things like Tas Irrigation and TasRail have received quite substantial amounts of Commonwealth funding so we had to make assumptions that are around what MPs there would be for those in the future and those types of things.

CHAIR - Page 38 at the bottom, 'The projection results in this report indicate that, if managed appropriately with sufficient fiscal flexibility available, shocks or adjustments to the economy, such as has been experienced with the COVID-19 pandemic, can have significant impacts in the short term, but are not the primary drivers of long-term outcomes. Rather, it's the underlying cost pressures that are the main influences on outcomes over the longer-term.'.

You did talk about this in your opening comments about COVID-19, perhaps a lesser impact than we might have thought originally. Mind, it's not over yet, and who knows what will end or if it will ever end? The cost pressures mainly is health. COVID and health tend to go together a bit and when you consider mental health in all of that, in my personal view there's going be a huge and continuing tail of significant demand in mental health services well beyond what might be sort of the end of COVID.

Did you factor in those sorts of things? Is that the key concerns or are there other things we should be aware of?

Mr FERRALL - The short answer to that is, no. We haven't factored in a long tail impact of COVID, which I think is the point you make. In drawing the conclusion that short-term impacts are manageable, it's on the basis that what we assumed through this report in terms of the additional impacts over the relatively short period of time, which is really through the budget and the forward Estimates of COVID, it's then falling away so that the significant levels of direct support, the immediate uplift in health costs due to COVID fall away. But we didn't try to model what a long-term tail impact might be on issues, such as you've raised, such as the increased cost in mental health.

Again, it's really impossible to make judgments around that, in trying to model that. I think it's quite reasonable to say there would be an impact. I certainly wouldn't disagree with your comment there, but it would be very hard for us to model what that impact might be across mental health going forward and then also how much of that impact would be picked up by the already included growth rates of health expenditure. There is a -

Ms WEBB - Yes, I don't imagine mental health is a particularly large proportion of our increasing health costs anyway, quite frankly. It's not one of the more expensive parts of our health. I'm not saying it shouldn't be, but it just realistically isn't, I don't think. It's not the parts that cost us the most necessarily.

Mr FERRALL - No. but it is a growing area obviously.

Mr WILLIE - When you're modelling health expenditure, if I can unpack that a little bit, it's not just the ageing population is it? It's technology, cost of treatments, a whole range of factors in that modelling.

CHAIR - Page 39

Mr FERRALL - Yes, it is. The way we've tried to do this modelling is to as much as possible use historic scenarios to generate growth rates across various factors going forward, to the extent that there might be significant shifts in things like technology. We haven't attempted to guess or include those. It's just not possible to do modelling on that sort of basis. So, the fact that there might be new technology in the health space, which may increase or even potentially decrease costs is not something we've modelled.

Ms WEBB - Our ageing population will still be a key factor because even if we have those it will still be the ageing parts of our population who are higher users of the increased technology, or different, new technology.

Mr WILLIE - Longer life expectancy -

Ms WEBB - So it's still interrelated to demographic profile.

Mr FERRALL - And there's been a steady - or not a steady - a quite a large increase of those ailments that are amenable to intervention. That's continuing to increase and it's continuing to drive health costs. It's not just technology. It's other interventions that can be delivered now which couldn't be delivered in past years.

Mr STREET - Financial cost to keeping people alive longer.

Mr FERRALL - I won't comment.

CHAIR - I was going to go there because on page 39 which Josh is talking about, are the key drivers of continuing medical advancements, which includes not just technology but it's drugs. I mean vaccines for one, you know, changing patient expectations. Okay, you've only had to talk to doctors. My son is one who talks about this all the time, that people, relatives will say, 'you can't let my father die,' or, 'you can't let my mother die,' when they're trying really hard to. So, the patient expectation is something that Treasury has no control over, and the pressure falls on the health professionals and then flows through to the system.

Socio-economic and demographic factors we can't do much about that, unless we all have more babies and lower the average age of Tasmania. Most of us have done our bit in that.

Mr STREET - Are you looking at me there, Ruth?

CHAIR - I'm not sure of anyone. Well, there's a man, he maybe could help out.

But the reality is that so many of these drivers, we have very little control over and unless we have your discussion about, 'Well, we're not going to offer these treatments in Tasmania,' but then there's the expectation that Tasmanians will be able to access that treatment and, say, go to Melbourne for it; borders being open and stuff like that. And then, as I understand it, if you access a treatment in Victoria that's not available here in Tasmania, we still pay for that.

Mr FERRALL - Generally, yes.

CHAIR - Yes, if you go to a public hospital. So, it doesn't matter whether the technology is available in Melbourne or Sydney or wherever, because it's not here if you don't have the critical mass of patients or the expertise and skills in our medical professionals to offer it, we can still end up paying for it. So, some of those costings are really hard to manage.

Mr FERRALL - It's a broader issue than Tasmania, obviously.

Ms CALVERT - That's a comment I was going to make. If you look at the New South Wales and Commonwealth intergenerational reports that they've just put out, they've got exactly the same messaging in terms of the costs of health expenditure: how much it's increasing, technology change, changing incomes, changing expectations. So, it's not just us.

Mr STREET - I wasn't trying to be flippant when I said that it costs money to keep people alive longer. Everybody looks at life expectancy going up and says what a great thing it is but -

Ms WEBB - There's a cost to it.

Mr STREET - There is a cost to it.

CHAIR - There is.

Mr STREET - And a cost to governments.

CHAIR - Yes. That's a community conversation.

Mr WILLIE - Well, it's a national conversation too, in terms of the federation.

Mr STREET - Yes.

Mr WILLIE - Funding it.

CHAIR - Yes. Meg, do you have any other questions you want to ask? Nic?

Mr STREET - No.

CHAIR - Josh?

Mr WILLIE - I'm fine, no.

CHAIR - No. Okay. Well, thank you, Tony, for coming in with your team. It's good to see some gender equality across that side of the table. It's been a little while -

Mr FERRALL - Treasury always does.

CHAIR - Yes. I will say it's nice to see.

Mr WILLIE - We have 50/50 on this side.

CHAIR - Yes, pretty even side. Very even side. So, thanks for that. This process has been really not a formal inquiry, rather a public hearing so that we could get some of this on the record. We'll no doubt publish the information that we have - the report is obviously already public - just to help in the general understanding of the process.

Mr FERRALL - We're happy to come back again, or whatever if the committee has further questions. But as I said, we will get the information that you require and take it from there.

CHAIR - We will send those couple through to you. Thanks for your time.

Mr FERRALL - Okay. Thank you.

THE WITNESSES WITHDREW.

Tasmanian Government Fiscal Sustainability Report

July 2021

Department of Treasury and Finance

What this presentation will cover

- Report context
- Its purpose
- Methodology and fiscal measures used
- High level results from the projections
- Conclusions

Context

- The Report has been prepared:
  - in accordance with the provisions of the Charter of Budget Responsibility Act 2007;
  - with regard to the existing policies of the Government and anticipated changes to the demographics of Tasmania; and
  - based on the 2020-21 Budget.
- The next report to be released by 30 June 2026.

Purpose of the Report

- Provides a long-term perspective on Tasmania's fiscal outlook that goes beyond the reporting in the Budget and Forward Estimates.
- Outlines the potential magnitude of any long-term fiscal imbalances for the State that may arise.
- May inform future fiscal management practices and policy.
- Similar long-term fiscal sustainability reporting is prevalent across Australia and other countries.

Fiscal sustainability measures

Measure	Definition	Used for
Net Operating Balance	The difference between General Government Sector revenue and expenditure, as defined by the Uniform Presentation Framework. This measure excludes net capital expenditure.	Shows the operating position of providing government services.
Fiscal Balance	The difference between General Government Sector revenue and expenditure, after allowing for net capital expenditure.	Shows whether a sufficient surplus is being generated by the operations of government to fund its capital expenditure needs.
Net Debt	The difference between General Government Sector borrowings and the sum of its cash, deposits and interest earning investments.	This measure is used to assess the overall strength of a government's financial position.

Projection methodology

- Considers long-term fiscal sustainability under four scenarios.
- Standard budgeting methodology and measures used.
- Covers a 15-year timeframe - first four years are the 2020-21 Budget and Forward Estimates.
- Known or expected revenue and expenditure, and major capital expenditure projects, taken into account.
- The projections assume no corrective policy action over the projection period.
- The projections are not forecasts and no scenario is considered more or less likely to occur.

What has been included in modelling

- Future events that may impact on revenue or expenditure included in the modelling:
  - Royal Hobart Hospital redevelopment;
  - Launceston General Hospital redevelopment;
  - Northern Prison;
  - Bridgewater Bridge;
  - additional road funding;
  - end of the GST Guarantee period; and
  - end of the Mersey Community Hospital Fund agreement.

Modelling exclusions

- Impacts that have not been explicitly modelled:
  - major electricity projects:
    - Project Marinus; and
    - Battery of the Nation;
  - TT-Line vessel replacement;
  - potential changes to the Australian Government's funding arrangements;
  - potential changes to State Government policies; and
  - 2021 State election commitments.

Scenarios

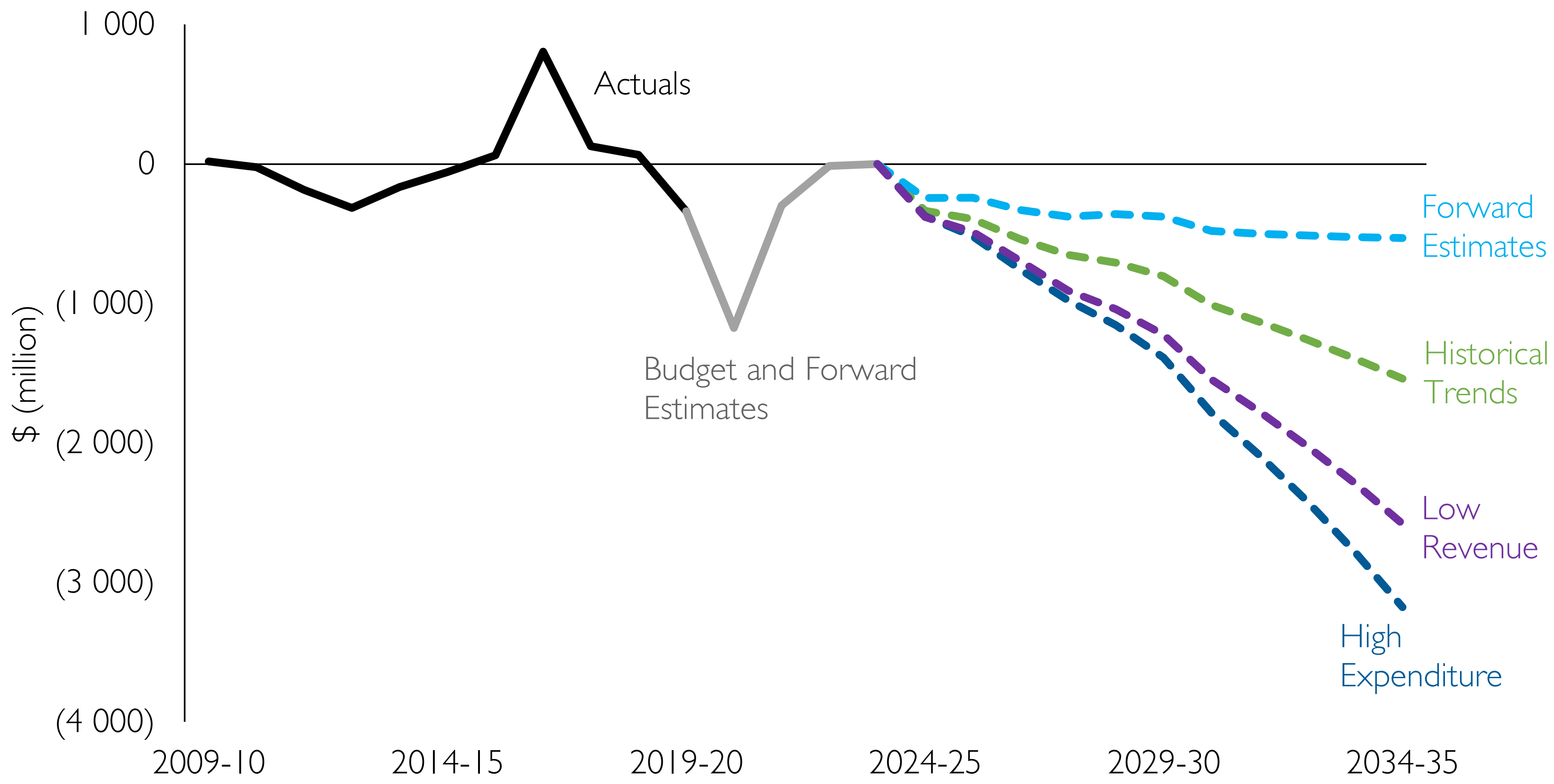
Scenario 1 Historical Trends	Scenario 2 Forward Estimates	Scenario 3 High Expenditure	Scenario 4 Low Revenue
• Uses past data to project expenditure and revenue on a historical trend basis. • Shows the potential impact of continuing historical trends in the absence of any policy response.	• Based on adjusted 2020-21 Budget and Forward Estimates trends. • Reflects current policies and fiscal intent over a longer period.	• Historical trends for most revenue and some expenditure. • Other expenditure projected at higher levels (eg health, education and capital projects). • Shows the potential risk of ongoing high expenditure growth.	• Historical trends for most expenditure and some revenue. • Other revenue projected at lower levels (eg GST, Australian Government payments, conveyance duty). • Shows the potential impacts of lower revenue outcomes.

Impact of COVID-19 pandemic

- Sharp increase in Net Debt, Net Operating Balance and Fiscal Balance deficits by the end of the Forward Estimates period.
- This is the starting point for all projections.
- Revenue impacts of the pandemic limited to 2020-21.
- Expenditure impacts last longer in form of higher Net Debt.
- One-off COVID related expenses removed from long-term growth rates.

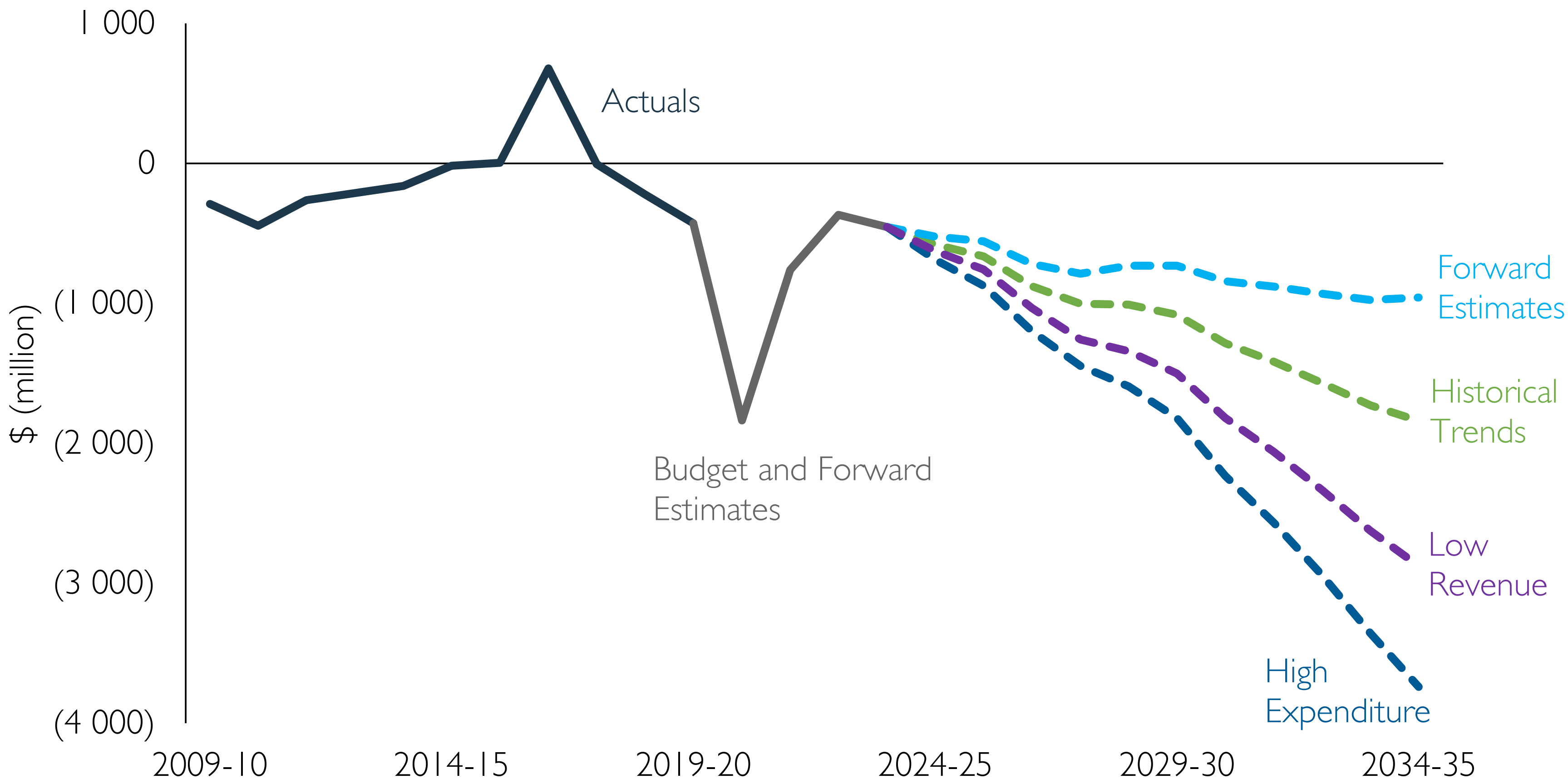
Projection results

Net Operating Balance



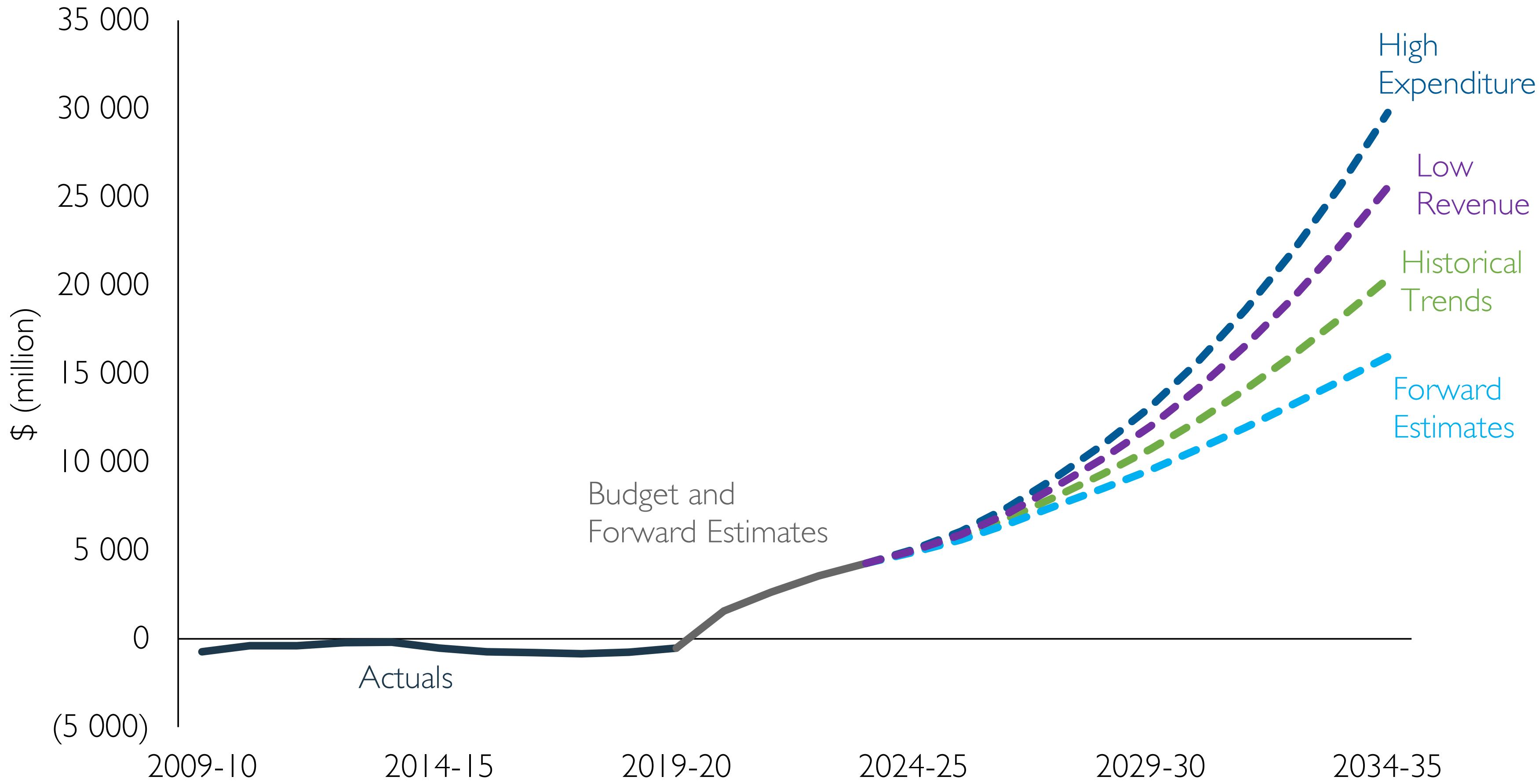
Projection results

Fiscal Balance



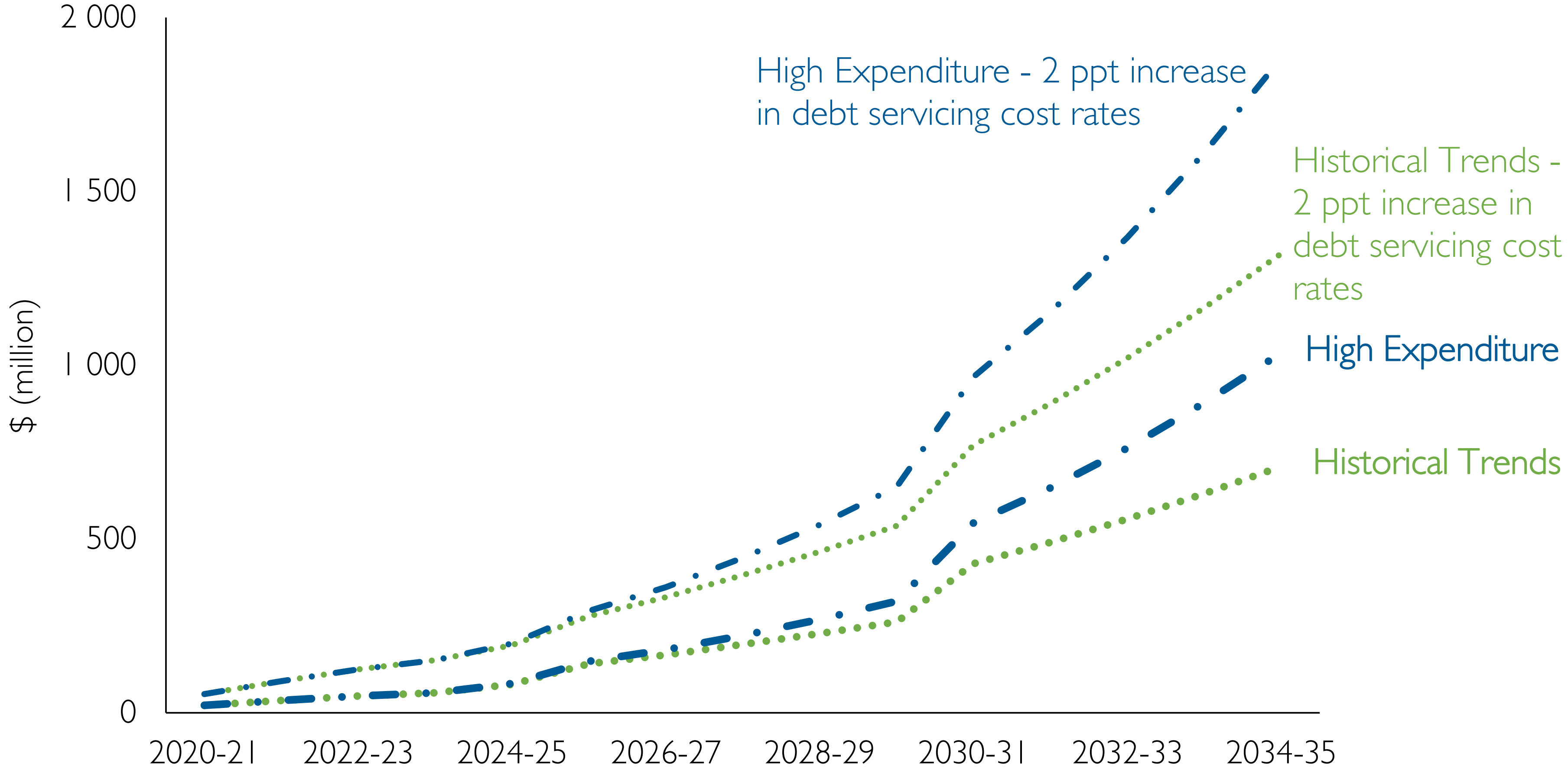
Projection results

Net Debt



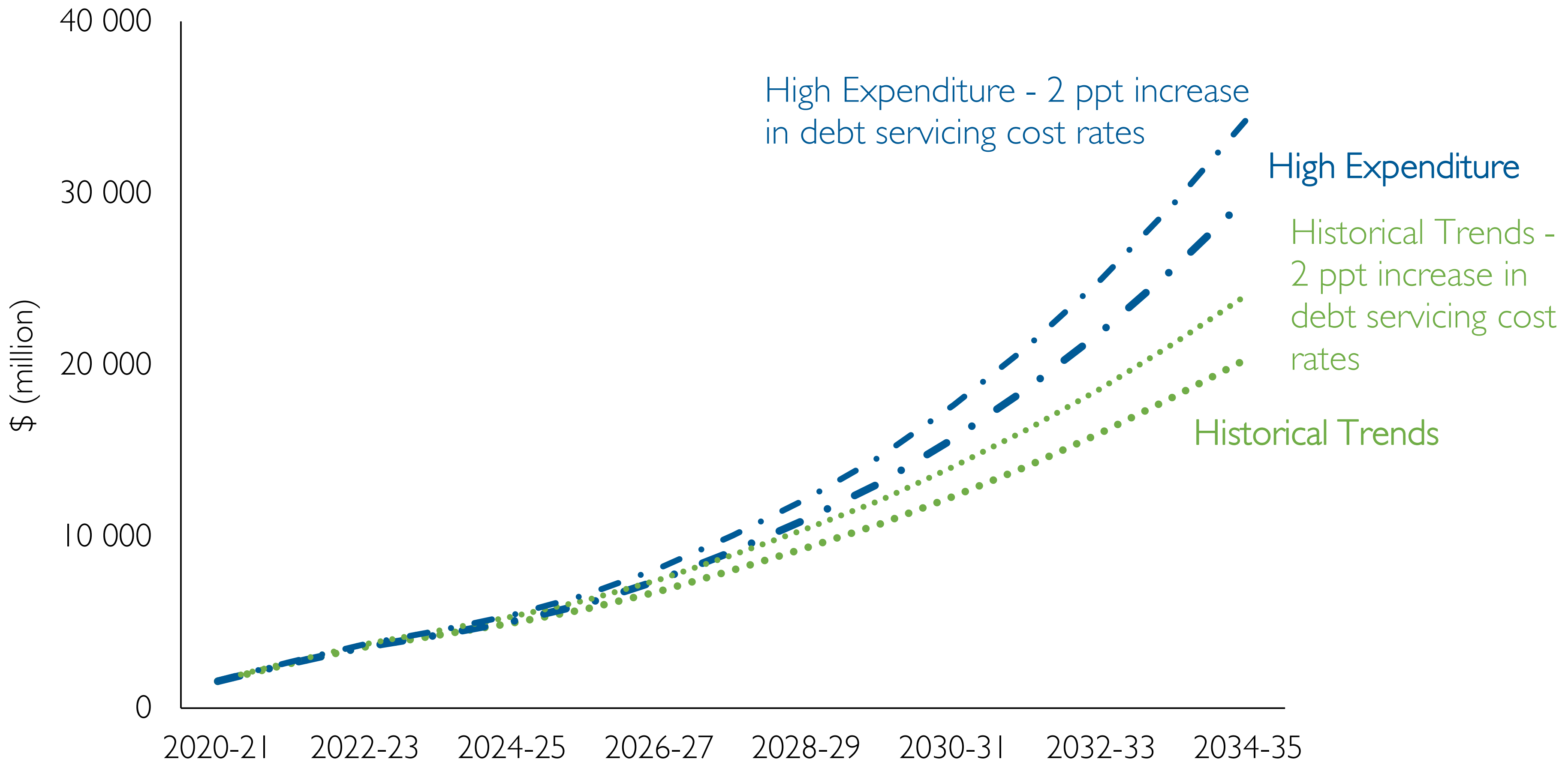
Interest rate sensitivity analysis

Debt Servicing Cost Interest Rate Sensitivity



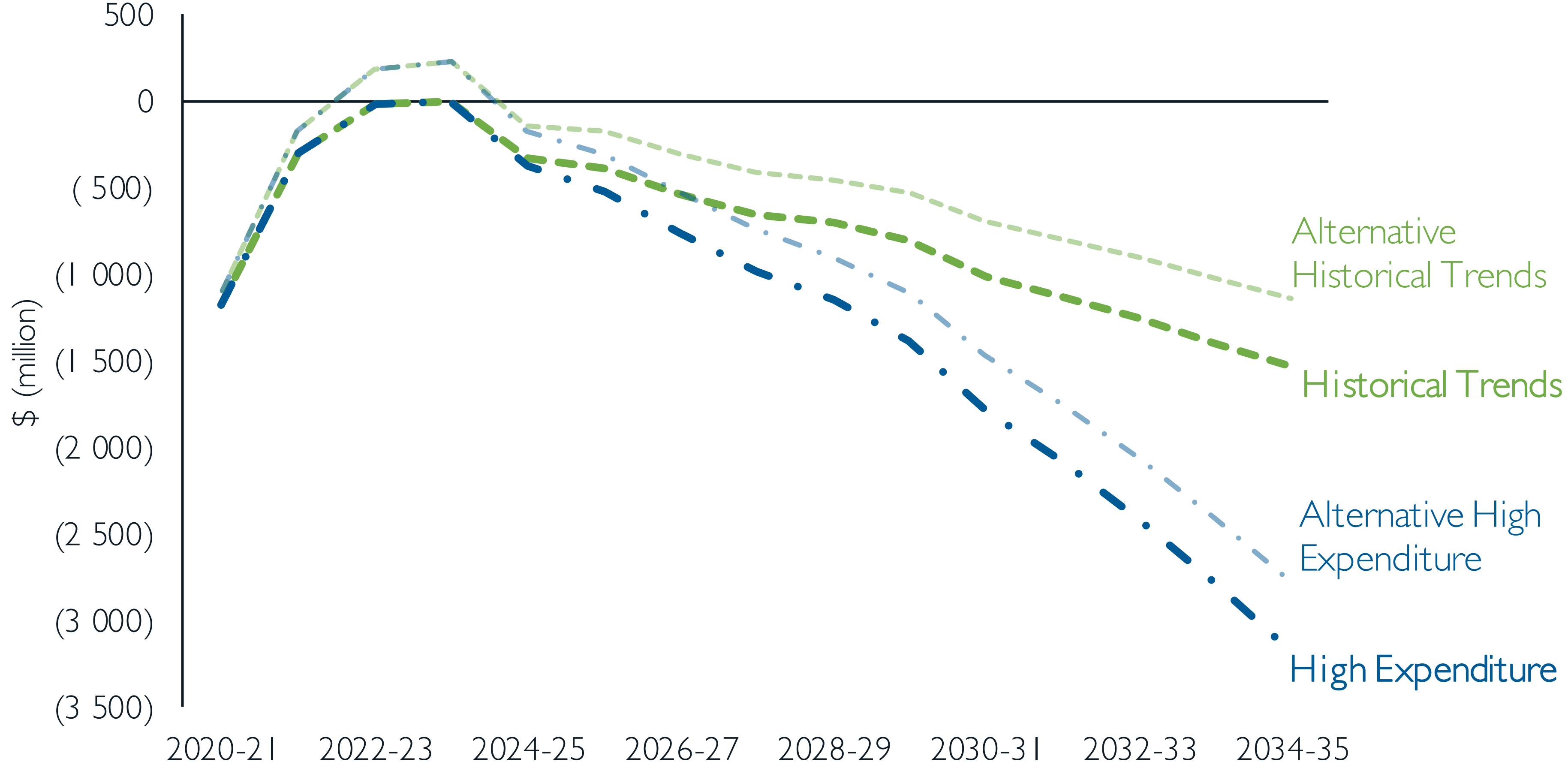
Interest rate sensitivity analysis

Net Debt Interest Rate Sensitivity



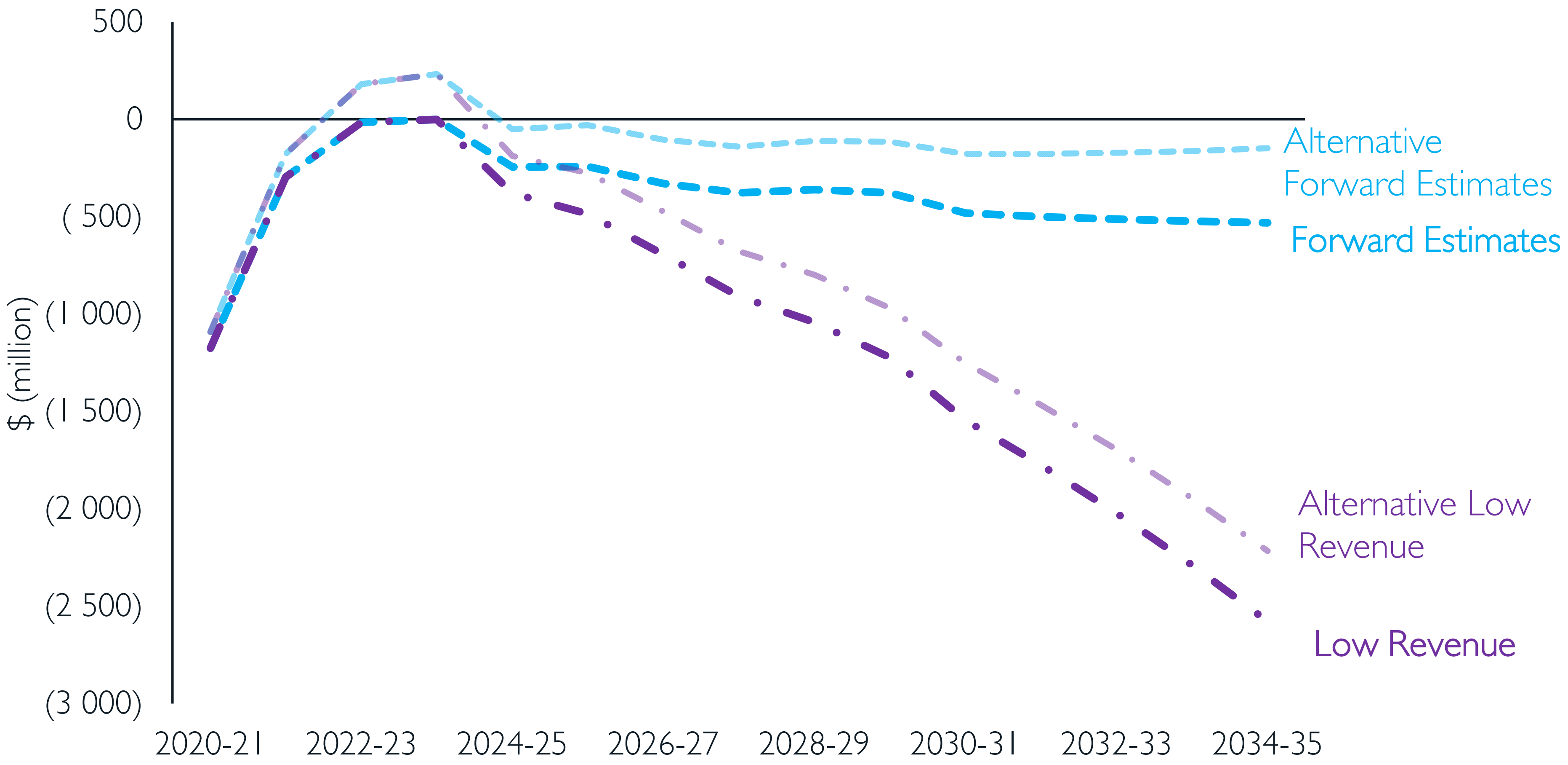
High level analysis of updated data

Net Operating Balance



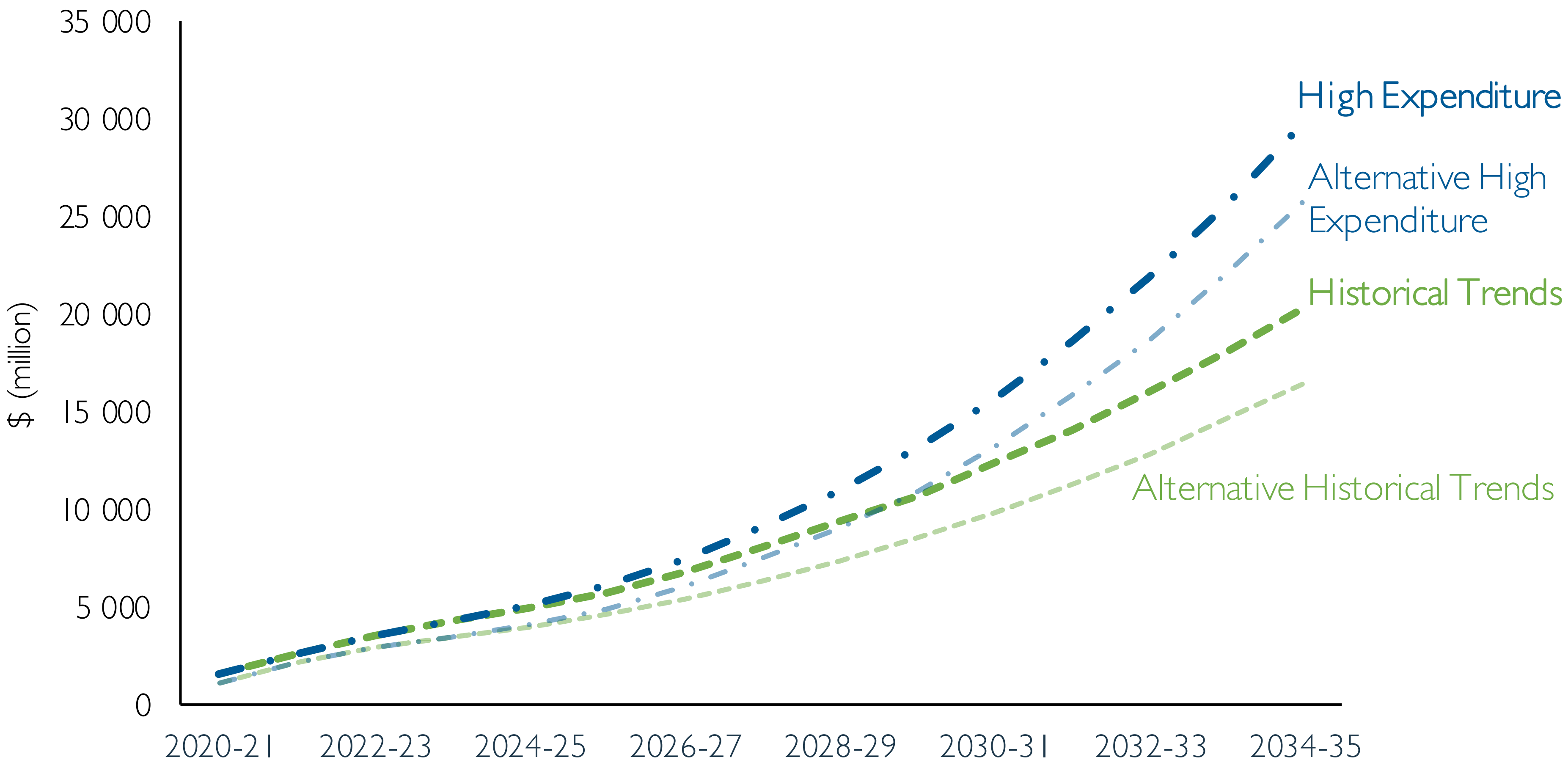
High level analysis of updated data

Net Operating Balance



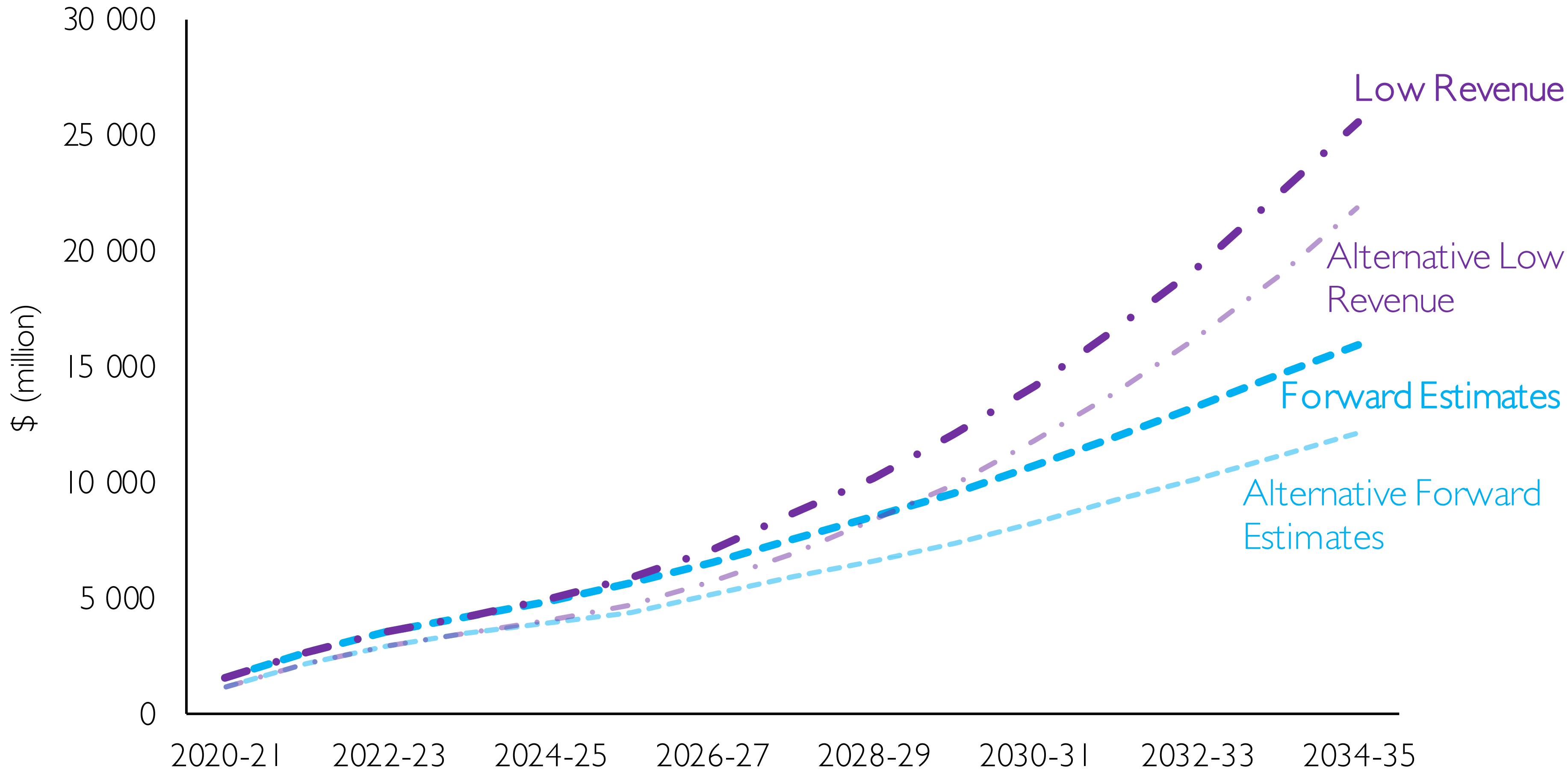
High level analysis of updated data

Net Debt



High level analysis of updated data

Net Debt



Conclusions

- Without intervention, projections indicate increasing fiscal pressures over time.
- COVID-19 increased Net Debt over the Budget and Forward Estimates, but is not the main driver of longer-term outcomes.
- Borrowing costs remain manageable because of low interest rates.
- Health continues to be the most significant driver of fiscal outcomes.
- This is consistent with previous analysis and similar to fiscal pressures facing other jurisdictions.
- Corrective action easier and more effective if implemented early.

APPENDIX 3

Department of Treasury and Finance

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Tasmanian Government

Doc reference 21/177588

Hon Ruth Forrest MLC
Chair
Parliamentary Standing Committee of Public Accounts
via email: pac@parliament.tas.gov.au

Attention: Natasha Exel

Dear Ms Forrest

Tasmanian Government Fiscal Sustainability Report 2021

I am writing in response to your letter of 28 July 2021 regarding my appearance before the Parliamentary Standing Committee of Public Accounts in relation to the Tasmanian Government Fiscal Sustainability Report 2021.

Please find attached responses to the questions taken on notice during the Committee hearing.

Should you have any queries or require any further information regarding this matter, please contact me on (03) 6166 4440 or email Tony.Ferrall@treasury.tas.gov.au.

Yours sincerely

Tony Ferrall
Secretary

30 July 2021

Encl

PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS

QUESTION NUMBER: 1

Provide a breakdown of net debt figures across the years for all four scenarios and a table of the increases in debt for each year for each scenarios.

ANSWER:

TABLE 1: NET DEBT BY SCENARIO*

Year	Scenario 1	Scenario 2	Scenario 3	Scenario 4
	Historical Trends	Forward Estimates	High Expenditure	Low Revenue
	$ Millions			
2019-20	-531	-531	-531	-531
2020-21	1 570	1 570	1 570	1 570
2021-22	2 619	2 619	2 619	2 619
2022-23	3 553	3 553	3 553	3 553
2023-24	4 250	4 250	4 250	4 250
2024-25	4 945	4 889	5 053	4 989
2025-26	5 758	5 593	6 074	5 894
2026-27	6 818	6 494	7 455	7 108
2027-28	8 045	7 504	9 127	8 591
2028-29	9 337	8 518	11 004	10 218
2029-30	10 721	9 553	13 128	12 022
2030-31	12 338	10 727	15 691	14 172
2031-32	14 108	11 960	18 611	16 585
2032-33	16 043	13 256	21 921	19 284
2033-34	18 152	14 610	25 655	22 289
2034-35	20 380	15 958	29 786	25 556

*Reported Net Debt values over the Budget and Forward Estimates period (2020-21 to 2023-24) differ from those reported in the 2020-21 Budget due to modelling adjustments.

TABLE 2: NET DEBT INCREASES BY SCENARIO*

Year	Scenario 1	Scenario 2	Scenario 3	Scenario 4
	Historical Trends	Forward Estimates	High Expenditure	Low Revenue
	$ Millions			
2020-21	2 101	2 101	2 101	2 101
2021-22	1 049	1 049	1 049	1 049
2022-23	933	933	933	933
2023-24	697	697	697	697
2024-25	695	639	803	739
2025-26	813	704	1 022	905
2026-27	1 060	900	1 381	1 214
2027-28	1 227	1 011	1 672	1 483
2028-29	1 292	1 014	1 877	1 627
2029-30	1 384	1 035	2 123	1 804
2030-31	1 617	1 173	2 564	2 150
2031-32	1 770	1 233	2 919	2 413
2032-33	1 935	1 296	3 310	2 699
2033-34	2 109	1 355	3 734	3 004
2034-35	2 228	1 347	4 131	3 268

*Changes in Net Debt over the Budget and Forward Estimates period (2020-21 to 2023-24) differ from those reported in the 2020-21 Budget due to modelling adjustments.

PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS

QUESTION NUMBER: 2

Provide raw figures related to the percentages for each year and each scenario in the tables on pages 57 and 58 of the Report

ANSWER:

TABLE 1: COMPONENTS OF REVENUE BY SCENARIO, 2019-20 AND 2034-35

REVENUE BY TRANSACTION TYPE	ACTUAL OUTCOME 2019-20	SCENARIO 1 HISTORICAL TRENDS 2034-35	SCENARIO 2 FORWARD ESTIMATES 2034-35	SCENARIO 3 HIGH EXPENDITURE 2034-35	SCENARIO 4 LOW REVENUE 2034-35
	$ MILLIONS				
GST REVENUE	2 402	4 391	4 520	4 391	4 072
SPECIFIC PURPOSE PAYMENTS	1 044	2 073	1 923	2 073	1 770
NATIONAL PARTNERSHIPS	379	560	628	667	560
OTHER GRANTS	74	49	49	49	49
PAYROLL TAX	343	584	554	584	554
CONVEYANCE DUTY	314	455	367	455	360
OTHER TAXATION	614	997	939	997	997
DIVIDEND, TAX AND RATE EQUIVALENT INCOME	542	439	326	439	326
FINES AND REGULATORY FEES	93	161	149	161	161
OTHER REVENUE	217	288	288	288	288
SALES OF GOODS AND SERVICES	383	727	667	727	727
INTEREST INCOME	10	36	36	36	36

TABLE 2: COMPONENTS OF EXPENDITURE BY SCENARIO, 2019-20 AND 2034-35

EXPENDITURE BY PURPOSE	ACTUAL OUTCOME 2019-20	SCENARIO 1 HISTORICAL TRENDS 2034-35	SCENARIO 2 FORWARD ESTIMATES 2034-35	SCENARIO 3 HIGH EXPENDITURE 2034-35	SCENARIO 4 LOW REVENUE 2034-35
	$ MILLIONS				
GENERAL PUBLIC SERVICES*	372	1 254	1 023	1 580	1 433
PUBLIC ORDER AND SAFETY	672	1 159	970	1 159	1 159
ECONOMIC AFFAIRS	277	240	281	309	240
ENVIRONMENTAL PROTECTION	149	207	180	207	207
HOUSING AND COMMUNITY AMENITIES	244	295	270	295	295
HEALTH	2 180	4 989	4 040	5 867	4 989
RECREATION, CULTURE AND RELIGION	153	174	178	232	174
EDUCATION	1 680	2 690	2 851	3 104	2 690
SOCIAL PROTECTION	552	814	672	814	814
TRANSPORT	290	400	436	400	400
NOMINAL SUPERANNUATION INTEREST EXPENSE	180	77	77	77	77

*Debt servicing costs are allocated to General Public Services. The increase in this expenditure classification under the High Expenditure and Low Revenue Scenarios reflects the higher levels of Net Debt projected for these scenarios.

APPENDIX 4

Department of Treasury and Finance

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Tasmanian Government

Doc reference 21/183860

Hon Ruth Forrest MLC
Chair
Parliamentary Standing Committee of Public Accounts
via email: pac@parliament.tas.gov.au

Attention: Natasha Exel

Dear Ms Forrest

Tasmanian Government Fiscal Sustainability Report 2021

I am writing in response to your letter of 5 August 2021 regarding further questions of the Parliamentary Standing Committee of Public Accounts, subsequent to the questions on notice from the recent hearing in relation to the Tasmanian Government Fiscal Sustainability Report 2021.

Please find attached responses to the Committee's follow up questions.

Should you have any queries or require any further information regarding this matter, please contact me on (03) 6166 4440 or email Tony.Ferrall@treasury.tas.gov.au.

Yours sincerely

Tony Ferrall
Secretary

12 August 2021

Encl

QUESTION NUMBER: 1

Please provide estimated cash outlays for each year for the four scenarios for:

a. Employer contributions to the defined benefit super fund(s);

b. Purchases of non-financial assets;

c. Equity contributions into government businesses; and

d. Interest paid.

ANSWER:

The modelling included in the 2021 Fiscal Sustainability Report is primarily presented on an accrual accounting basis, consistent with the Statement of Comprehensive Income in the Treasurer's Annual Financial Reports and the General Government Income Statement presented in Budget Financial Statements. For the purposes of calculating Net Debt, some cash outlays were projected. Where available, the requested items have been provided below on either a cash or accrual basis.

a. Employer contributions to defined benefit super fund(s) were implicitly included in the projections of the 2021 Fiscal Sustainability Report. Projected employer contributions to defined benefit superannuation fund(s) cash payments were provided by the State Actuary (Mercer Consulting). These projections are presented below in Table 1.

TABLE 1: DEFINED BENEFIT EMPLOYER CONTRIBUTIONS BY SCENARIO

Year	Scenario 1	Scenario 2	Scenario 3	Scenario 4
	Historical Trends	Forward Estimates	High Expenditure	Low Revenue
	$ Millions			
2019-20	291	291	291	291
2020-21	302	302	302	302
2021-22	301	301	301	301
2022-23	310	310	310	310
2023-24	318	318	318	318
2024-25	334	334	334	334
2025-26	353	353	353	353
2026-27	372	372	372	372
2027-28	399	399	399	399
2028-29	444	444	444	444
2029-30	450	450	450	450
2030-31	464	464	464	464
2031-32	472	472	472	472
2032-33	473	473	473	473
2033-34	475	475	475	475
2034-35	476	476	476	476

b. Purchases of non-financial assets projections are presented below on a cash basis.

TABLE 2: PURCHASES OF NON-FINANCIAL ASSETS BY SCENARIO

Year	Scenario 1	Scenario 2	Scenario 3	Scenario 4
	Historical Trends	Forward Estimates	High Expenditure	Low Revenue
	$ Millions			
2019-20	509	509	509	509
2020-21	1 086	1 086	1 086	1 086
2021-22	923	923	923	923
2022-23	819	819	819	819
2023-24	937	937	937	937
2024-25	745	782	818	745
2025-26	786	831	876	786
2026-27	868	923	977	868
2027-28	896	961	1 025	896
2028-29	862	937	1 012	862
2029-30	851	936	1 023	851
2030-31	862	958	1 058	862
2031-32	889	997	1 110	889
2032-33	929	1 050	1 177	929
2033-34	969	1 104	1 246	969
2034-35	947	1 096	1 254	947

c. Equity contributions into government businesses are presented below on a cash basis.

TABLE 3: EQUITY CONTRIBUTIONS INTO GOVERNMENT BUSINESSES BY SCENARIO*

Year	Scenario 1	Scenario 2	Scenario 3	Scenario 4
	Historical Trends	Forward Estimates	High Expenditure	Low Revenue
	$ Millions			
2019-20	-109	-109	-109	-109
2020-21	-72	-72	-72	-72
2021-22	-187	-187	-187	-187
2022-23	-414	-414	-414	-414
2023-24	-88	-88	-88	-88
2024-25	-83	-83	-83	-83
2025-26	-85	-85	-85	-85
2026-27	-87	-87	-87	-87
2027-28	-89	-89	-89	-89
2028-29	-92	-92	-92	-92
2029-30	-94	-94	-94	-94
2030-31	-96	-96	-96	-96
2031-32	-99	-99	-99	-99
2032-33	-101	-101	-101	-101
2033-34	-104	-104	-104	-104
2034-35	-106	-106	-106	-106

* Equity contributions provided to government businesses primarily reflect National Partnership funding agreements between the Tasmanian and the Australian Governments.

d. In the 2021 Fiscal Sustainability Report, interest paid is measured as debt servicing costs, which are calculated using projected interest rates and the stock of Net Debt. Projections for debt servicing costs are presented below on an accrual basis.

TABLE 4: DEBT SERVICING COSTS BY SCENARIO

Year	Scenario 1	Scenario 2	Scenario 3	Scenario 4
	Historical Trends	Forward Estimates	High Expenditure	Low Revenue
	$ Millions			
2019-20	2	2	2	2
2020-21	21	21	21	21
2021-22	35	35	35	35
2022-23	48	48	48	48
2023-24	57	57	57	57
2024-25	82	81	84	83
2025-26	140	136	148	144
2026-27	166	158	182	173
2027-28	196	183	223	210
2028-29	228	208	268	249
2029-30	262	233	320	293
2030-31	429	373	545	493
2031-32	490	416	647	576
2032-33	558	461	762	670
2033-34	631	508	892	775
2034-35	708	555	1 035	888

QUESTION NUMBER: 2

If interest is unpaid in any year, please provide the amount of accrued interest for each year for each of the four scenarios.

ANSWER:

In the 2021 Fiscal Sustainability Report, interest paid is measured as debt servicing costs, which are calculated on an accrual basis. Please refer to the response to Question 1 for further information.