

THE GOVERNMENT'S BUDGET PLAN

THE IMPACT OF THE GFC AND THE NEED FOR ACTION

Over the decade prior to the Global Financial Crisis, Tasmania benefitted from the Government's strong financial management.

Budget deficits were turned into Budget surpluses which in turn helped deliver a \$2.6 billion improvement in General Government Net Debt.

Moody's rating agency awarded its highest credit rating (Aaa) to Tasmania in 2006. The State's economy also improved dramatically, with growth in employment, investment and the population.

THE GLOBAL FINANCIAL CRISIS

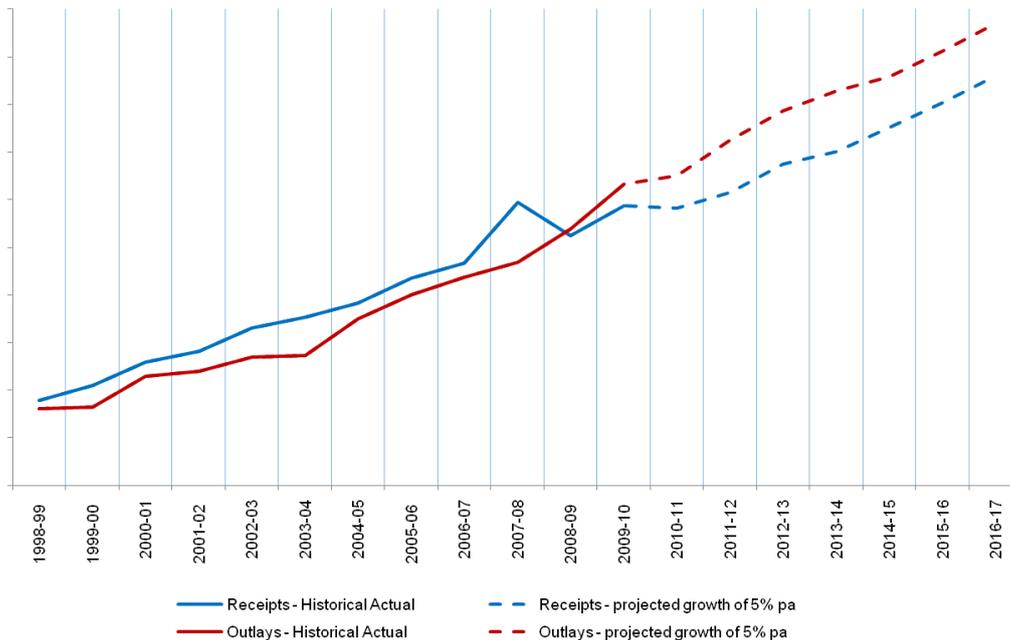
- In late 2008 the world was confronted with the most significant economic and financial crisis since the 1930s.
- The State Government faced unprecedented cuts to tax receipts and GST revenue.
- In response the Government made a responsible decision to use the financial assets accumulated over the past decade as a buffer against the impact of the GFC.
- This response avoided the need for drastic cuts to front line services.
- It also allowed the Government to support the economy and jobs through infrastructure investment, including the buyback of rail, investment in roads and the redevelopment of the Royal Hobart Hospital, and business support through land tax cuts.

THE IMPACTS OF THE GFC CONTINUE TO BE FELT

- In the wake of the GFC, the State must adjust to a new phase of reduced revenues.
- GST receipts are significantly below pre-GFC levels, with a \$200 million reduction in GST revenue from the Commonwealth over the course of the Forward Estimates.
- Taking into account previous reductions in GST income, the State Budget is \$800 million worse off compared with pre-GFC growth levels.
- State taxes are not growing as fast as was previously the case.
- Recurrent expenditure is higher than otherwise would have been the case due to the need to support frontline services, implement stimulus measures, minimise cost of living impacts and provide special assistance.
- Significant infrastructure funding commitments continue at levels in excess of pre-GFC levels.
- Critically, while the State's financial position is currently still relatively strong, the financial information provided in the Mid Year Financial Report shows the Government is no longer able to meet its Interim Fiscal Strategy targets and risks moving into an unsustainable position if no action is taken.
- While there continues to be jobs growth and other positive economic signs in Tasmania, the outlook for the State economy is weaker than at the time of the 2010-11 Budget.

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Since 2009-10 the Budget has moved to a point where expenditure is greater than revenue. This is an unsustainable position if expenditure continues to grow in line with historical growth rates (see chart below).



IF THE GOVERNMENT TOOK NO ACTION

- The Government would be spending beyond its means and the Budget would go back into net debt.
- The Government would be forced to take dramatic action to rein in spending through mass general redundancies, cuts to services and increased taxes on business and the community.
- Business confidence would fall, which would discourage investment and lead to private sector job losses.
- The Government would have to borrow funds, which would drive up interest costs and mean less money was available for Government services.
- While the economy is now stronger than it was in the 1990s, the Government needs to reduce spending to ensure we do not return to the situation the State faced then.

THE GOVERNMENT IS TAKING ACTION

- The Government remedied Tasmania's poor financial position of the 1990s, it has dealt with the impact of the biggest financial and economic crisis of the past 80 years, and it is determined to meet the current challenges.
- By taking action now, the impact on services and jobs will be much lower than if we wait to be forced into action.
- It will be difficult, but in the 2010-11 Mid Year Financial Report the Government has outlined a comprehensive plan to return the Budget position to its pre-GFC level.
- This Plan will require strong financial management over a number of years to deliver the required results.
- The Government will continue to focus on providing better services to the community – prioritising basic services like health and education, improving value for money, investing in infrastructure, and supporting jobs.