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PARLIAMENT OF TASMANIA

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PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS

**Review of the Tasmanian  
Fiscal Sustainability Report 2026**

**Members of the Committee**

**Legislative Council**

**Hon Ruth Forrest MLC**  
(Chair)

**Hon Luke Edmunds MLC**

**Hon Bec Thomas MLC**  
(Deputy Chair)

**House of Assembly**

**Mr Roger Jaensch MP**

**Mr Marcus Vermey MP**

**Mr Dean Winter 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 Act).

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 Act 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.
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## Abbreviations and Acronyms

<b>CAGR</b>	compound annual growth rate
<b>CBR Act</b>	<i>Charter of Budget Responsibility Act 2007</i>
<b>CGE</b>	Computable General Equilibrium
<b>COVID</b>	Coronavirus 2019 pandemic
<b>FSR</b>	Fiscal Sustainability Report
<b>FTE</b>	Full Time Equivalent
<b>GGS</b>	General Government Sector
<b>GSP</b>	gross state product
<b>GST</b>	Goods and Service Tax
<b>Hon</b>	Honourable
<b>MLC</b>	Member of the Legislative Council
<b>MP</b>	Member of Parliament
<b>PNFC</b>	Public Non-Financial Corporation
<b>the Act</b>	<i>Public Accounts Committee Act 1970</i>
<b>the Committee</b>	Parliamentary Standing Committee of Public Accounts

# Executive Summary

This is the third report by the Public Accounts Committee examining a Tasmanian Government Fiscal Sustainability Report, following reviews in 2020 and 2022, undertaken by the Committee.<sup>1</sup>

The Committee resolved to conduct a focused review of the Fiscal Sustainability Report 2026 (FSR) given its significance as a statutory obligation under the *Charter of Budget Responsibility Act 2007* (CBR Act). The Committee held one public hearing on 31 March 2026 with Mr Gary Swain (Secretary of the Department of Treasury and Finance) and Mr James Abbott (Assistant Director, Economic Policy).

The Committee notes the FSR is a projection, not a forecast or prediction. It illustrates what would occur if historical expenditure and revenue growth trends continued without corrective action. The Committee noted that the fiscal position as at 2024-25 is already worse than the worst-case scenario modelled in the 2021 FSR, and that government policy decisions over the intervening period have been a material contributor to that deterioration.

The 2026 FSR is explicit that the trajectory since 2021 represents a much greater rate of deterioration than projected in any scenario in the 2021 FSR and acknowledges that over the intervening years, the State's finances have deteriorated rapidly, and the corrective action needed to address the deterioration has not yet been taken.

The FSR modelled three budget repair pathways, achieving peak debt in five, ten and fifteen years, requiring cumulative corrections of \$3.3 billion, \$6.5 billion and \$11.3 billion respectively relative to the Historical Growth Scenario. Treasury's economic modelling found that all three pathways could maintain positive real economic growth and that the least disruptive approach combines reductions in operating expenditure, increases in revenue, and smoothing of capital and equity contributions simultaneously. Treasury concluded that the five-to-ten year repair window is credible and achievable, while the fifteen-year pathway carries unacceptable risk given the compounding debt dynamic and Tasmania's exposure to external shocks.


Notwithstanding the FSR's analytical framework, the Committee identified two significant gaps. The repair scenarios were not translated into practical terms through further modelling. The workforce implications, specific revenue measures, and capital deferrals required were not modelled, due to Treasury resourcing constraints and heavy workload over recent years.

The Committee considers this modelling essential for informed parliamentary and community debate and recommends further modelling be requested by the Government. The Committee also notes that the 2026 FSR's methodology may not fully satisfy the CBR Act's requirement to have specific regard to 'the policies of the Government'.

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<sup>1</sup> See [Review of Tasmanian Government Fiscal Sustainability Report 2016 \(No.32 of 2020\)](#) and [Review of Tasmanian Government Fiscal Sustainability Report 2021 \(No.15 of 2021\)](#)

The Committee makes two recommendations: that the Government commission supplementary modelling translating the FSR's budget repair scenarios into practical real-world terms, and that any such modelling be tabled in Parliament.

A handwritten signature in black ink, appearing to read 'R Forrester'.

**Hon Ruth Forrest MLC**  
**Chair**

13 May 2026

## Summary of Findings

With respect to Fiscal Sustainability Report 2026, the Committee made the following findings:

- F1. The Fiscal Sustainability Report 2026 provides a projection, not a forecast or prediction and seeks to illustrate what would occur if no corrective action were taken. This report did not consider current or expected government policy initiatives, including GST adjustments and other Commonwealth funding, that may change projected outcomes.
  - F2. The Fiscal Sustainability Report 2026, while modelling three budget repair scenarios across five, ten and fifteen year timeframes, does not translate those scenarios into the practical measures that would be required to achieve them.
  - F3. The report does not quantify the number of full-time equivalent employees that would need to be reduced, the specific revenue measures that would be required to achieve the necessary revenue uplift, or the capital projects that would need to be deferred or eliminated to achieve the required smoothing of capital and equity contributions.
  - F4. The practical implications of the three budget repair scenarios had not been modelled due to resourcing constraints arising from the concurrent preparation of the Fiscal Sustainability Report, a revised fiscal strategy, and the fourth State Budget in two years.
  - F5. The Fiscal Sustainability Report 2026 noted the most effective way to improve the financial position of the State whilst minimising negative impacts on the broader Tasmanian economy is to simultaneously reduce expenditure, increase revenue and reduce or reprofile infrastructure capital expenditure.
  - F6. The inclusion of the Public Non-Financial Corporation sector exposure is welcome: TT-Line, TasNetworks, and TasPorts, represent a material and growing fiscal risk that warrants inclusion in future Fiscal Sustainability Reports.
  - F7. The emerging fuel supply situation may require a supplementary Treasury analysis of budget impacts once the scenario becomes clearer.
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## Summary of Recommendations

The Committee makes the following two (2) recommendations:

- R1. The State Government request Treasury undertake supplementary modelling translating the Fiscal Sustainability Report's budget repair scenarios into practical terms, including the indicative workforce implications, revenue measures, and capital deferral or smoothing requirements associated with each scenario.
  - R2. The State Government table in Parliament any supplementary modelling undertaken with respect to the 2026 Fiscal Sustainability Report's budget repair scenarios.
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## Conduct of Review

In line with section 6(2) of the Act, the Committee resolved to undertake a review of the Tasmanian Fiscal Sustainability Report 2026.<sup>2</sup>

Under section 14A of the *Charter of Budget Responsibility Act 2007*, the Department of Treasury and Finance is required to prepare a report on the long-term sustainability of the State's finances. This is to be prepared no later than five years after the date of the previous report.

The Fiscal Sustainability Report 2026 presents a longer-term perspective on the sustainability of the State's finances, projecting key fiscal measures over a 15-year period.

The Committee resolved to hold a public hearing with the Secretary, Department of Treasury and Finance and Departmental representatives in Committee Room 2, Parliament House, Hobart:

**Thursday, 5 February 2026**

Department of Treasury and Finance

**Mr Gary Swain (Secretary)**

**Mr James Abbott (Assistant Director, Economic Policy)**

Copies of the transcripts, tabled papers, broadcasts and responses are available on the Committee's inquiry webpage.<sup>3</sup>

In addition, this report provides the following as attachments:

- Transcript of Public Hearing (31 March 2026) – Secretary, DoTF ([Attachment A](#))
- Presentation – Fiscal Sustainability Report (February 2026) ([Attachment B](#))
- Tasmanian Fiscal Sustainability Report 2026 – Summary and Key Findings (February 2026) ([Attachment C](#)), and
- Tasmanian Fiscal Sustainability Report 2026 – Q&As Fact Sheet ([Attachment D](#)).

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<sup>2</sup> See 'Fiscal Sustainability Report 2026', Department of Treasury and Finance, [https://www.treasury.tas.gov.au/Documents/Fiscal%20Sustainability%20Report%202026%20\(accessible\).pdf](https://www.treasury.tas.gov.au/Documents/Fiscal%20Sustainability%20Report%202026%20(accessible).pdf)

<sup>3</sup> See in general, 'Follow-up Audit - EOI Tourism Investment Opportunities', <https://www.parliament.tas.gov.au/committees/joint-committees/standing-committees/public-accounts-committee/inquiries/follow-up-audit-eoi-tourism-investment-opportunities>

## Summary of Evidence

The Fiscal Sustainability Report (FSR) is a statutory obligation under the *Charter of Budget Responsibility Act 2007* (CBR Act) and is required every five years. It was brought forward to inform the Multi-partisan Budget Repair Panel ahead of the 2026-27 Budget. The report was prepared by Treasury independently from the Government and the Government was not provided with any copy of the report until it was finalised.

The report uses a 10-year compound annual growth rate<sup>4</sup> (CAGR) methodology applied to revenue and expenditure as a 'historical profile' base case. This is a projection, not a forecast or prediction: rather it seeks to illustrate what would occur if no corrective action were taken.

The Committee noted that the fiscal position as at 2024-25 is worse than the worst-case scenario modelled in the 2021 FSR, and that government policy decisions over the intervening period are a material contributor to that deterioration.

The 2021 FSR was explicit that all four scenarios, including its worst-case High Expenditure Scenario, which projected Net Debt of \$29.8 billion by 2034-35, rested on the assumption that 'the scenarios present four possible outcomes that are based on the assumption that there is no policy intervention by the State Government'.<sup>5</sup>

The 2026 FSR confirms that actual outcomes have exceeded that worst-case baseline. In comparing the two reports' projections of the Net Operating Balance, the 2026 FSR states:

*This is a much greater rate of deterioration than projected in any scenario in the 2021 FSR and demonstrates the impact of high spending growth between 2020-21 and 2024-25, producing structural deficits, together with a higher interest rate environment since 2021.*<sup>6</sup>

The 2026 FSR further acknowledges that the warnings of the 2021 FSR were not acted upon, stating:

*... over the intervening years, the State's finances have deteriorated rapidly, and the corrective action needed to address the deterioration has not yet been taken.*<sup>7</sup>

At the public hearing, Mr Gary Swain (Secretary, Department of Treasury and Finance) also confirmed that under Treasury's own methodology, government expenditure and revenue decisions are directly embedded in the historical growth rates underpinning the 2026 FSR's projections:

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<sup>4</sup> Measures the mean annual growth rate of an investment or business metric over a specified period longer than one year. It represents a smoothed, hypothetical rate that assumes steady growth, ignoring volatility to allow for easier comparison between investments or business metrics.

<sup>5</sup> See 'Tasmanian Fiscal Sustainability Report 2021', Department of Treasury and Finance, <https://www.treasury.tas.gov.au/Documents/Tasmanian-Government-Fiscal-Sustainability-Report-2021.pdf>, p.2

<sup>6</sup> See 'Fiscal Sustainability Report 2026', Department of Treasury and Finance, p.66

<sup>7</sup> See 'Fiscal Sustainability Report 2026', Department of Treasury and Finance, p.32

*Mr SWAIN - ... We took the view that the policy positions of the Government were embedded in the compound growth rates that we used... the policy positions are embedded in the actual decisions as reflected in revenue expenses.*<sup>8</sup>

Treasury chose not to incorporate Forward Estimates, reasoning that to do so would risk diminishing the urgency of action required based on the Forward Estimates in the 2025/26 State Budget. Treasury suggested the Forward Estimates already represent a Government response to the historical trajectory, and their full delivery cannot be assumed. This approach does not fully satisfy the CBR Act's requirement to have regard to the policies of the Government (emphasis added):

**14A. Treasurer to table report on sustainability of State finances**

- 1) *The Treasurer is to table in both Houses of Parliament a report that relates to the long-term sustainability of the State's finances, with specific regard to –*
  - a. ***the policies of the Government;*** and
  - b. *the financial impact of anticipated changes to the demographics of Tasmania.*

Under the historical growth scenario, Treasury reported the General Government Sector (GGS) net debt would reach approximately \$130 billion in nominal terms over 15 years, driven by a compounding deficit dynamic: capital, operating shortfalls, and interest, all funded by debt.

Two measures were used to identify when this trajectory may become infeasible:

- debt servicing costs exceeding 10% of revenue which Treasury modelled to occur by 2029-30, reflecting Tasmania's specific structural vulnerabilities (GST dependence, unfunded superannuation liabilities, limited revenue-raising powers etc.), and
- absolute dollar increase in the required debt servicing exceeding projected revenue growth which Treasury modelled would occur at 2032-33.

Treasury concluded that the proximity of these two markers supports a 5-10 year budget repair window, with 15 years considered too risky given the compounding effect and potential for external shocks.

Three budget repair pathways were modelled: 5, 10, and 15 years to peak debt.

At the public hearing, 'peak debt' was defined by Mr Swain as:

*When our revenue is able to meet all expenditures, including interest, so effectively it would mean that you would be in a fiscal surplus, to allow you to cover the costs of capital and equity investments.*<sup>9</sup>

Therefore, peak debt is reached when the budget moves into fiscal surplus sufficient to cover both operating costs (including interest) and capital and equity investment needs, at which point debt stops growing and stabilises.

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<sup>8</sup> See Public Hearing (31 March 2026) – Secretary, DoTF, [https://www.parliament.tas.gov.au/data/assets/pdf\\_file/0018/104661/PAC-TASMANIAN-FISCAL-SUSTAINABILITY-REPORT-2026-31-March-2026-FINAL.pdf](https://www.parliament.tas.gov.au/data/assets/pdf_file/0018/104661/PAC-TASMANIAN-FISCAL-SUSTAINABILITY-REPORT-2026-31-March-2026-FINAL.pdf), p.23

<sup>9</sup> See Public Hearing (31 March 2026) – Secretary, DoTF, p.16

This definition focuses on stabilisation of debt, not repayment. Mr Swain was explicit that the FSR deliberately made no assumption about debt paydown, treating that as a matter for future governments.

The aim of the modelling throughout the report was reaching peak debt, the point at which the debt trajectory flattens, rather than achieving any particular level of debt reduction.

This distinction is relevant as it means the repair scenarios described (5, 10 and 15 years) are all targeted at stopping the debt from growing further, not at reducing the stock of debt that will have accumulated by that point.

The Computable General Equilibrium (CGE)<sup>10</sup> modelling found that:

- pulling all three levers simultaneously i.e., reducing expenditure (approximately 65% expenditure reduction), increasing revenue (10% revenue uplift), reduced or reprofiled infrastructure capital expenditure (25% capital expenditure smoothing), would produce the least economic impact
- all three scenarios modelled maintained positive real gross state product (GSP) growth and unemployment within historically acceptable ranges (around 5 - 5.5%), and
- the 5–10 year range modelled is described as ‘credible and achievable’ with 15 years carrying an unacceptable risk of permanent service delivery impairment.

Treasury has recommended a portfolio approach to capital and equity prioritisation across both the GGS and Public Non-Financial Corporation (PNFC) sector, rather than case-by-case decision-making.

When asked whether the repair scenarios could be translated into real-world terms (e.g., the number of full-time equivalent (FTE) employees that would be required to be cut to achieve the proposed reduction in spending, what specific tax increases would be required to achieve revenue increase requirements, and what capital project eliminations or deferrals would be required), Mr Swain acknowledged this work had not been done. He noted that operating expenditure is approximately 46-47% labour costs, meaning any significant operating expenditure reduction would necessarily imply a smaller State Service but he had not modelled the specific mix.

When asked why this supplementary work had not been done, Mr Swain cited resourcing constraints, noting the FSR was being prepared concurrently with a revised fiscal strategy and the fourth budget in two years. He did indicate that further work could be commissioned by the Government as follow-on from the FSR.

A notable and welcome new feature of this FSR is the inclusion of major committed PNFC projects. Projects that were included were the North West Transmission Developments and the Macquarie Point Stadium. Projects not yet committed, the Cethana Pumped Hydro Project and Tarraleah Power Station Redevelopment Project, were excluded.

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<sup>10</sup> Large-scale numerical economic simulations that use real data to analyse how policy changes, technological shifts, or external shocks affect all sectors of an economy simultaneously. They are widely used by governments and organizations to evaluate impacts on gross domestic product, trade, employment, and specific industries, capturing both direct and indirect effects through interconnected markets

A \$500 million reduction in PNFC debt was included as a sensitivity. Mr Swain was questioned about the practical feasibility of this reduction given the equity and debt pressures facing TT-Line, TasNetworks, and TasPorts. Mr Swain acknowledged that achieving a \$500 million debt reduction may require either extending timeframes or reducing the level of ambition across businesses:

***CHAIR** - ... the only way we can reasonably do this is to actually provide equity for these companies.*

***Mr SWAIN** - Or smooth out the level of ambition across all the businesses. So, again, you might say this is what the businesses would like to do in the next three to five years. It might need to take seven years or eight years.<sup>11</sup>*

Mr Swain discussed some sensitivities noting a plus or minus two (2) percentage point change shifts peak debt by approximately \$3.5 billion per scenario:

***Mr SWAIN** - There were some sensitivities I will just touch ... we did find that the level of debt and the extent of repair was sensitive to interest rates. There's a sensitivity that looked at plus or minus two interest rate changes: that really took about \$3.5 billion, from memory, off each of the peak debt numbers. So, there's more downside of risking them at this moment in that than there is upside risk.<sup>12</sup>*

Mr Swain also referenced sensitivities related to the GST 'no worse off' guarantee. He indicated that if it continues, this reduces peak debt by approximately \$2.8 billion across all scenarios:

***Mr SWAIN** - ... Because a report was prepared on a same-policy basis, we had a conundrum with GST, where the existing policy position is that ... the 'no worse off guarantee' is scheduled to end. So, to keep with the methodology of the report, we couldn't factor in – what might be a political outcome - that the 'no worse off guarantee' continues in some way. So, to deal with that, we did a sensitivity that looked at what if the 'no worse off guarantee' continued, and that found that that is, again, very important to peak debt outcomes. I think that was worth about \$2.8 billion reduction in all scenarios.<sup>13</sup>*

Mr Swain noted operating expenditure shocks have greater impact due to their ongoing nature:

***MR SWAIN** - ... we've looked at whether an expenditure shock to operational expenditure versus capital expenditure - what impact that would have. Unsurprisingly, the operating expenditure shock, because that tends to be ongoing, had a bigger impact. The capital shock we were thinking about was actually stylistically not relatively small projects; we were thinking about something like having to bring a Tasman bridge forward - a really big project.<sup>14</sup>*

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<sup>11</sup> See [Public Hearing \(31 March 2026\) – Secretary, DoTF](#), p.22

<sup>12</sup> See [Public Hearing \(31 March 2026\) – Secretary, DoTF](#), p.10

<sup>13</sup> See [Public Hearing \(31 March 2026\) – Secretary, DoTF](#), p.10

<sup>14</sup> See [Public Hearing \(31 March 2026\) – Secretary, DoTF](#), p.10

Mr Swain also stated that TasInsure<sup>15</sup> was not specifically modelled but acknowledged this government policy as an unquantified risk.

It is important to note the FSR was finalised before the disruption to global oil flows occurred due to the conflict in the Middle East. Mr Swain responded to questions on this matter:

*Mr SWAIN - ... A comment I'd make is, it's not clear what scenario we're in yet. It could be a short-term price effect, it could be a significant shock to the world economy, conceivably stagflation, where you've got high inflation and low output growth. Or the third one, which will also have economic effects, would be a supply shortage where you're actually having to seriously ration.*

*We're at the front end of the short-term price effect at the moment. The only comment I'd make on that is we've sort of been plugged into that Federal Government work and we've got the same part of Treasury that's involved in that work will be plugged into the consequence management work that the State Government does in preparation. So, we'll try to link that work through.*

*I think ... there is a global comment you can make, that a lot of the interventions for COVID were about trying to stimulate activity or generate revenue for sectors. We're in a really different scenario, I think, where it's more about maintaining supply certainty for priority areas, which could be freight capacity to supply food and pharmaceuticals, and other priorities.*

*Because if any of these scenarios play out, which they haven't at the moment, you wouldn't be wanting to stimulate activity broadly. Because stimulating activity broadly would increase fuel demand, or fuel demand as well. So, I think, we need to make sure that we don't just dust off COVID solutions. We think carefully about what scenario we're in.<sup>16</sup>*

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<sup>15</sup> See in general TasInsure website, <https://tasinsure.com.au/>

<sup>16</sup> See [Public Hearing \(31 March 2026\) – Secretary, DoTE](#), p.11-12

## Attachments

- Attachment A: Transcript of Public Hearing (31 March 2026) – Secretary, DoTF  
Attachment B: Presentation – Fiscal Sustainability Report (February 2026)  
Attachment C: Tasmanian Fiscal Sustainability Report 2026 – Summary and Key Findings (February 2026)  
Attachment D: Tasmanian Fiscal Sustainability Report 2026 – Q&As Fact Sheet

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**THE PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON TUESDAY 31 MARCH 2026.**

**TASMANIAN FISCAL SUSTAINABILITY REPORT 2026**

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**Department of Treasury and Finance**

**The Committee met at 11:17 am.**

**CHAIR** (Ms Forrest) - Thank you both for appearing before the Public Accounts Committee inquiry into - which is just a very targeted focused inquiry - into the fiscal sustainability report. The PAC has looked at the previous reports, and this is a symbol of the approach we're taking.

Everything you say is covered by Parliamentary privilege. That may not be the case if you speak outside this forum. If there was anything of a confidential nature you wish to share with the Committee, you could make that request, and the Committee would consider it. Otherwise, it is all public - being transcribed and broadcast.

Do you have any questions before we start?

**Mr JAENSCH** - I have a question, Chair, briefly. Sorry to interrupt, but in your language, you said a targeted or a focused inquiry into the fiscal sustainability report - is this a briefing or an inquiry?

**CHAIR** - This is an inquiry. We're not just going out broadly to ask for input from every other person who has an interest. We can talk about this later offline.

**Mr JAENSCH** - Okay. Just normally with an inquiry, we have terms of reference and various other things.

**CHAIR** - Yes, okay. What we're looking at is the fiscal sustainability report and have the opportunity to ask questions about its construction, its findings, why it was done, the way it was done, et cetera.

I will get you both to take the statutory declaration and we'll start.

**Mr GARY SWAIN**, SECRETARY, AND **Mr JAMES ABBOTT**, ASSISTANT DIRECTOR, ECONOMIC POLICY, DEPARTMENT OF TREASURY AND FINANCE, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

**CHAIR** - I'll hand it over to you, Gary. I understand you are going to do a presentation for the Committee, and then we'll have questions to follow.

**Mr SWAIN** - I'll time myself, so I don't take too long. Thanks, Chair. Perhaps, just - and apologies to at least one member who's already heard this. It's a bit repetitive.

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So, the FSR<sup>1</sup> is a significant undertaking for Treasury. As you'd be aware it's a statutory obligation that occurs every five years. It's an independent report from Secretary of Treasury. In this case it was prepared in that way, so the Government didn't see it until it was finalised. We did, however, agree to bring it forward in the context of the multi-partisan budget repair panel, so that it could be considered, or would provide a backdrop for understanding leading up to the debate around the 2026-2027 Budget.

It looks out over a 15-year period and it has - it looks at scenarios relative to a base case. The base case is a historical profile, which is a stylistic, if you like, trajectory for the key fiscal measures that looks - is based primarily on a 10-year compound aggregate annual growth rate methodology across revenue and expenses with some adjustments. It assumes on that historical profile, there's no corrective policy actions and the projections or the scenarios that we look at - they're not forecast, they're to just shed light and insight on actions a government might take.

Going to the next slide, fiscal sustainability - the more formal definition is the first point on the slide, the more commonsense definition is the second point, which is really about a sustainable position that ensures the capacity of governments to smoothly provide services to the community, while having the ability to manage shocks and provide for intergenerational equity.

The context of this FSR was a bit different. We're coming out of a recent credit downgrade and an increased rate of debt growth, which is different to some of the earlier FSRs and that's reflected in the way that we approached the scenarios, which I can talk to a bit later on. Part of the context for the FSR was the State is not in a strong position in relation to additional shocks. When we wrote the report, we obviously didn't have potential wars in Iran in mind, so we would rather have been less prophetic on that front, but anyway.

**CHAIR** - I don't think it was your fault, actually, Gary.

**Mr SWAIN** - No, no, no, just the timing of that event is not ideal for Tasmania.

New features of the FSR. We have very much focused on peak debt and that's partly because through this FSR we wanted to test the point at which it may become unlikely that you could continue to move along the historical trajectory. I might talk about that in a bit more detail. We also brought into play some new capability that Treasury has developed over the last couple of years, which is the computable general equilibrium model. And, we wanted to examine different combinations of measures to affect budget repair. So in the past - the scenarios themselves don't make any assumptions around expenditure or revenue or capital; they just assume some aggregate outcomes. What we tested through the CGE<sup>2</sup> modelling was different combinations of revenue, expenditure and capital [inaudible].

We also had a look this time at PNFC<sup>3</sup> sector and largely factored in major projects that were of such scale that it would be potentially misleading to leave them out, that were committed by the government, but we didn't include things that were still in business development. So, that meant that North West Transmission<sup>4</sup> and Mac Point<sup>5</sup> are in, but

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<sup>1</sup> Fiscal Sustainability Report

<sup>2</sup> Computable general equilibrium

<sup>3</sup> Public Non-Financial Corporations

<sup>4</sup> North West Transmission Developments Project

<sup>5</sup> Macquarie Point Multi-purpose Stadium

Cethana<sup>6</sup> and Tarraleah<sup>7</sup> are not in, because they're not yet committed projects, so that's a sort of, an important point because some of those projects are very lumpy in themselves.

The historical growth scenario outcomes, and I'm sorry for Members who have heard this before, but the analogy that always sticks in my mind is the comparison to the home budget, where, if you are in deficit spending, which we are, where revenue is inadequate to meet expense growth, the reason the debt accumulates quickly is because you are paying for your capital out of debt; you're paying for some of your opex<sup>8</sup> out of debt and you're paying for all interest out of debt so that has - that leads to a compounding effect, which means the historical scenario is not a linear scenario. The debt increases on an increasingly steep curve. What we've effectively found is that in nominal terms on the historical scenario, General Government Sector debt would grow to around \$130 billion over the 15-year period, which led us to ask this question: at what point on that trajectory might that become infeasible?

The next slide just talks - just shows the difference between nominal and real, and I think this makes the point that - it's a word of caution for interpreting the results of the FSR - they're generally expressed in nominal dollars. There is, of course, a very significant difference between nominal and real when you're looking at it over 15 years. The light blue is real: the dark blue plus light blue is nominal.

This slide - I think it's a bit hard to see on the screen - perhaps it's easier in your handout copies - was a really important slide. As I said, we started to ask the question: at what point might it not be feasible to continue along the historical trajectory? We looked at two potential points. The first was when debt servicing costs exceeded 10 per cent of revenue, which, under that scenario, is modelled to occur by about 2029-30. That's about where Tasmania was in 1990. Now, in a different economy, either an economy that was less dependent on GST, less exposed in relation to unfunded superannuation liability, or had the powers of a sovereign to raise revenue, which we don't have, you would call that number probably too low: but that number reflected Treasury's thinking about the structure of Tasmania's budget, not other people's budgets.

We were also conscious that that could be challenged and seen as excessively conservative. So, we looked for another measure of when that trajectory might become unsustainable, and we arrived at a point which was where the absolute dollar increase in debt servicing costs exceeded the projected growth in revenue. It's theoretically possible to improve from that point, but it becomes increasingly hard because you have to make deep cuts just to offset the increases in interest that are then compounding into your debt every year. I should have said at the beginning: in general, we didn't make any assumption about paydown of debt. We treated that as a decision for a future government. So, we really focused on moving to peak debt over time.

The interesting thing from this slide is that the two measures of where you might not be able to progress along the historical curve were very close together: so 2029-30 and 2032-33. In the conclusions of the report, we didn't conclude that that meant that you had to achieve budget repair within six or seven years, because we thought that was overly precise. In reality, you wouldn't move along the historical trajectory: there would be adjustments year by year that might stretch the timeframe before you got to the equivalent of 2032-33, which is why we

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<sup>6</sup> Lake Cethana Hydro Project

<sup>7</sup> Tarraleah Power Station Redevelopment

<sup>8</sup> Operating expenditure

didn't. The mechanical conclusion doesn't line up with 2032-33 because we thought that was artificially precise.

Some of the public commentary about the FSR focuses on the validity of comparing some international interventions in economy to our context. We kind of felt that we had to address that issue, having raised in the report that there was a likelihood that at some point on that trajectory you wouldn't be able to continue along it. So, implicit in the report are three potential interventions that would take you away from this scenario. The first is the electorate, so what happens at elections. The second is, potentially, some form of Australian Government intervention, and we had two in mind.

There is no power in the Commonwealth Constitution to put a State into administration or anything like that, but what a Commonwealth Government could do, we think, is more subtle interventions like you could have a State-based arrangement for health or education or anything that the Commonwealth funds. We typically think of those as good things that will give additional funding to the State, but they could also be things that require different financial disciplines to be applied by the State in order to access major funding. That's probably the more likely source of Australian Government intervention we contemplated.

**Mr JAENSCH** - Chair, through you: just to question that. Does the FSR take into account the uplift in Commonwealth funding for our health system and the adjustments to GST that have been announced in the last couple of months?

**Mr SWAIN** - Implicitly, yes. Explicitly, no. It looks at compound annual growth rates as the base methodology for the historical projection across expenses and revenues. In broad terms, the history of the GST on the revenue side is picked up on the revenue side, and in broad terms, revenue contributions by the Commonwealth to Health are picked up in those growth forecasts. It's trend analysis: we're not picking up every specific decision from every layer of government, in the way the methodology is constructed.

**Mr JAENSCH** - But when you referred to ways that this scenario could be addressed through adjustments in Commonwealth interventions, there have been, since the numbers which you are reporting here, changes in the revenue streams likely to come from the Commonwealth in terms of Health and GST: are they factored into your projections?

**Mr SWAIN** - Only broadly through the methodology, but not specifically. I mean the problem with doing - factoring in specific, in-the-moment changes, is you would inevitably overweight the last piece of information. So if we were doing an FSR today, we would have to think about what would be happening to GST or fuel prices, what decisions households would make to purchase non-discretionary goods that were not subject to GST versus goods that were subject to GST. So under that scenario, we would have probably overweighted a GST downturn relative to trend analysis, which is meant to pick up the aggregate decisions that have been made over the last five to 10 years.

**Mr JAENSCH** - Okay. So another way of looking at it, then, is that if your report shows a picture of here's what happens if you do nothing, and where you might need to intervene in the future, there are some things that have already happened -

**Mr SWAIN** - Yes

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**Mr JAENSCH** - which changed those projections?

**Mr SWAIN** - No, that's right. I mean the purpose of the report is to assist in a parliamentary and community debate, and also to assist the Government of the day to make decisions that may well take you away from the historical projection.

**Mr JAENSCH** - Yes. So some things have already happened to change this. Some more things will happen, we presume, as part of the budget process, if it's responding to the same conditions.

**Mr SWAIN** - Yes.

**CHAIR** - What we thought in 2021, and we actually ended up being worse than the worst-case scenario modelled in 2021, because the actions taken made it worse.

**Mr SWAIN** - Well, certainly - I mean, I will get back to the scenarios. We didn't start from the position of, if we don't take some corrective action there are scenarios, some of which you want to avoid and some of which are less bad. We started from, we are already in a challenging budget situation and what are the pros and cons of different repair trajectories. So it was quite philosophically different to the previous.

**CHAIR** - I might ask some questions about that later when you've finished your whole presentation, Gary.

**Mr SWAIN** - I will speed up, Chair, if you like.

**CHAIR** - No, that's alright, I just want to ask some questions.

**Mr SWAIN** - So the third potential intervention that might take you off this historical growth is bond markets.

**Mr WINTER** - Did you go into - you talked electorate, and then government intervention. There was a second, 2.2, that I thought you were going to talk about.

**Mr SWAIN** - Oh, sorry, the second one was Government. The third one was bond markets. In relation to Government, we had a look at some examples. Most of the examples we could find were at the sovereign level. There were a couple of examples that are in one of the appendices here at the sub-sovereign level. The commonality we did find between any of the interventions was that they came late and they were pretty draconian when they did come. So by the time they came, the economy already had - or the budget fiscal position was already - there was already significant debt. There were already quite high debt payments, and then there was an intervention which required quite significant corrections to happen over, sort of, various timeframes.

We thought this was the intersection of analysis with politics, so we didn't make any firm conclusions about whether the Australian Government would or wouldn't intervene: but we did observe that where we could see interventions, they all came pretty late. So I guess of those three interventions, the one that will have no regard whatsoever to local considerations or politics is the bond markets. That's just really the cost and availability of debt.

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**CHAIR** - On the bond market issue, what particular work did you look at that?

**Mr SWAIN** - We didn't really. We were aware that the forward yield curve had changed over the last couple of years in response to a range of factors, but I guess one of the things that we were conscious of was that because of equity markets being very favourable and because of some of the trade uncertainty coming out of United States of America policy, feedback that we had around the bond market was that, notwithstanding states and territories had been issuing a lot of bonds, the demands had still been strong for take-up of those bonds, but that the forward yield curve was getting steeper and moving up, which meant that if you were going for a longer debt trajectory, effectively what the market is saying is they're anticipating that most governments will run deficits so that the creditworthiness of the government will get worse so that the cost of - the interest you'll have to build into your bond to get somebody to want to buy your bond will be higher.

I guess the third intervention was really conceptual. We know that bond markets will price in their view of what governments are actually doing, not what they might be saying they're going to do.

**CHAIR** - If you can't answer this, Gary, that's fine, but in terms of the recent events with the war in Iran, does that make that even more challenging?

**Mr SWAIN** - I can make a general comment, but I'd need to be wearing another hat with more expertise around me, but I think it's generally true that inflationary environments are not favourable for bond markets because it erodes the returns from the bond, which is a fixed return. They're tradable instruments, so their price can adjust, but all things being equal, a steady inflationary environment is probably better for bond markets than a volatile one. So yes, that bond environment is less certain than it was when this report was released.

**Mr JAENSCH** - Could I ask a question before we move off this slide as well?

In terms of the point on the curve, debt-servicing costs exceeding 10 per cent of revenue, what benchmarks are there for debt-servicing as proportion of revenue, compared to, say, a household budget for what a treasury might be monitoring?

**Mr SWAIN** - The issue is that it's so circumstantial to each location, so the structure of each party's budget, but the State Treasury here has taken the view that 10 per cent is when you are starting to get to a point - the reason treasuries get nervous about debt is that the concern is that at some point the snowball will gather momentum and run away down the hill. And what you find when you model that is the boundaries are reasonably tight before that compounding effect is hard to counteract with repair measures. There isn't, I don't think, a document that would set that out by jurisdictions because every single jurisdiction has a different budget and has different budget strengths and weaknesses, but that's been a long-held view in Treasury and I guess we challenge that by looking for an alternative, less conservative view, which is the second measure on the slide.

**Mr JAENSCH** - Thank you.

**Mr SWAIN** - On the next slide, I'll just try and speed up.

**CHAIR** - You're alright. We're asking questions on the way, Gary. That's fine.

**Mr SWAIN** - Okay.

We looked at three scenarios, five, 10 and 15-year scenarios for budget repair to get to peak debt. We then did a range of sensitivities on each scenario, which I'll come back to at the end.

We looked through the computable general equilibrium (CGE) model at the capacity of the economy to withstand the interventions required to achieve repair, and the broad conclusion was the economy is pretty well positioned to manage, effectively, a downturn in government expenditure in some form which would have an impact in relation to key metrics for the economy like Gross State Product (GSP) and labour market outcomes. But what we found was those impacts were fairly short and then you returned towards trend pretty quickly. In all scenarios, all three scenarios, the five-, 10- and 15-year GSP - real GSP growth remained positive and labour outcomes stayed at levels that were historically pretty good. The conclusion was the links between the government's fiscal position and the economy and the position of the economy now mean that it's a manageable repair.

Where we got to because of the previous slide was really the budget repair over five to 10 years is a credible and achievable goal.

In terms of combination of measures, we found that the best combination - in kind of common sense, it landed where common sense would take you - that spreading a downturn in government expenditure as broadly as possible across the economy had the least impact. So, if you had some turn-down in expenditure -and what we modelled was I think 65 per cent - some increase in revenue - and I think we modelled 10 per cent - and then the balance being 25 per cent being a smoothing of capital and equity contributions. So, all three of those levers: two expenditure, one revenue being pulled simultaneously had the lowest impact on the economy compared to, for example, only expenditure or only revenue, which was something we've not been able to look at before.

**Mr JAENSCH** - The Treasurer was taken to task for using the word 'manageable' in his response to a question about the fiscal situation. Could you define 'manageable' in terms of your language and your context and what you've presented here?

**Mr SWAIN** - Positive real GSP growth trending back towards long-term average and unemployment outcomes that are still historically strong, which I think would be around 5 to 5.5 per cent. We didn't get above that, in my memory, of the modelling.

Again, if you take a longer-term perspective on - Tasmania is still extremely good really overall.

**CHAIR** - Does that include any presumption about increasing revenues, not just cutting spending?

**Mr SWAIN** - Yes, we looked at all. Against those three scenarios, we looked at different expenditure-only, revenue-only expenditure, and we found that by far the best was the combination.

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**CHAIR** - Going back to your discussion about 'manageable'. Does that presume that there will be action in all three areas - reducing operating, reducing capex<sup>9</sup> and increasing revenues?

**Mr SWAIN** - What the FSR says, that choice is for the government of the day, but our modelling suggests that the best option is that combination option.

**CHAIR** - So, it's manageable in that context. I'm trying to understand and be clear about what you're saying, Gary.

**Mr SWAIN** - And manageable in that it doesn't show us going into a recession. It doesn't show us having a significant long-term spike to unemployment that goes on for years. It shows one-to-two-year adjustment where your metrics drop off a bit but are still historically okay and then start to trend back to long-term average and remain positive throughout.

**CHAIR** - This is all prior to the Iran war?

**Mr SWAIN** - Yes. But again, those results would be relative to any scenario you're in, so they should still apply.

The next slide is just around - it's probably common sense again. It's really just showing from that lower line, middle line and high line that depending on whether you do a five- or 10- or 15-year pathway to peak debt, your actual peak debt number is a lot lower and, therefore, your interest payments are a lot lower and, therefore, your impairment or future service delivery because of debt is a lot lower.

I don't actually have those numbers with me, but I think it was 7.6 or 7.8, 12.1 and I think about 16 on the top trajectory. They are very, very different to the historical scenario, which sort of partly points out the historical scenarios, no-one's really assuming you would travel along that. It's a way to look at and analyse the different scenarios in a consistent way because you can talk about how much you have to make change relative to historical scenario as opposed to you really expect that there'll be no intervention of any kind.

Turning to the key findings, they're fairly common sense, I think. If we traverse along the historical, we would see a rapid deterioration in the state's position and that's across the net operating balance, the fiscal balance and debt because obviously the first two are why the net debt is increasing to that level.

We concluded that from this point, with what we know and understand, that doing nothing would not be a responsible option, that the sooner that you commence corrective action the better, really, so immediate action is required to stabilise debt, that the credible repair pathways were over the 5-10 year timeframes because we are concerned that if you go beyond that - well, concerned that one or more significant external shocks to the economy at the wrong time could be very challenging to manage. Hopefully that's not what's going to occur, but because of the snowball effect, that if you didn't get to peak debt, you would have very high interest rates relative to your revenue increase; but because of the modelling we've done around the economy in particular, we still concluded that it is an achievable outcome, to repair the fiscal position.

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<sup>9</sup> Capital expenditure

## PUBLIC

**CHAIR** - But it requires immediate action in all three areas?

**Mr SWAIN** - Well, it requires immediate action, and we're saying the report indicates that the lowest impact on the economy is if you pull all three levers. Yes. I'm just being - I'm not trying to be clever there.

**CHAIR** - That's fine. I'm not trying to put you in a position where you say something you don't want to: I'm just trying to be clear.

**Mr SWAIN** - It's more that I'm saying they're choices for the government of the day, and they will have their philosophical positions around those measures.

**CHAIR** - Sure.

**Mr JAENSCH** - Gary, the first line there, the first finding 1, the previous slide. That's one which has sort of been the headline around which there's been most commentary since the report was released. A lot of the audience are not super familiar with the use of the term projection and the extent to which that is different from a prediction or a forecast or a model outcome. Could you, for the sake of the broadcast, just go into that a little bit? This sounds like Treasury believes that net debt will be \$129.55 billion.

**Mr SWAIN** - Yes. A projection is saying that based on a particular methodology, this is where you will land; it's not making any commentary about the likelihood of that scenario relative to other scenarios. Yes, it's not a prediction, which is where you are saying balancing what we know, this is where we predict we will land. I think you make an important distinction, but what it is saying is given the methodology is based on - you could say if you looked at a five-year-compound-annual-growth-rate-dominated methodology, which we didn't do, we looked at 10 years, you might get a bigger debt number, but we were worried that that would artificially put too much weight on the post-COVID environment where governments all around the country continue to spend at significantly higher levels. In that sense, 10 years is sort of a more balanced view, but it also means that there's a lot of embedded decisions in that methodology. You're talking about needing to move away on average in the way you're making decisions from the world that produced the 10-year compound growth rates, if I can put it that way.

**Mr JAENSCH** - We've previously seen things like commentary on the growth of the budget or the cost of our health system in Tasmania sits at around one-third of the budget or more, but the comment has been made that if Health keeps growing at this rate, by X year it will be 80 per cent of the State budget, which is also not realistic, is it, because it won't ever be - you can't have that - it's a projection of - that sort of is more apocryphal than predictive?

**Mr SWAIN** - Yes. We did do some moderation of the Health expenditure growth, taking into account that there would be a point where there physically weren't enough people to support expenditure at the level that a straight extrapolation of growth would take you to. So, there are other production factors, analysis you could do, to say at what point - there are the constraints on your ability to move along the historical profile, but we thought that was a little academic, because the historical profile is a mechanism for saying that's not a profile you want to continue along. I guess our view was at a point that can't occur anyway, because of other factors.

## PUBLIC

**Mr JAENSCH** - Yes, that's right. Understood. Thank you.

**Mr SWAIN** - There were some sensitivities I will just touch on very quickly because I think they're relevant. I will be very quick, Chair: we did find that the level of debt and the extent of repair was sensitive to interest rates. There's a sensitivity that looked at plus or minus two interest rate changes: that really took about \$3.5 billion, from memory, off each of the peak debt numbers. So, there's more downside of risking them at this moment in that than there is upside risk.

Because a report was prepared on a same-policy basis, we had a conundrum with GST, where the existing policy position is that it's scheduled that the 'no worse off guarantee' is scheduled to end. So, to keep with the methodology of the report, we couldn't factor in - what might be a political outcome - that the 'no worse off guarantee' continues in some way. So, to deal with that, we did a sensitivity that looked at what if the 'no worse off guarantee' continued, and that found that that is, again, very important to peak debt outcomes. I think that was worth about \$2.8 billion reduction in all scenarios.

**CHAIR** - Would you consider full horizontal fiscal equalisation instead?

**Mr SWAIN** - Sorry?

**CHAIR** - Did you consider what full horizontal fiscal equalisation would have looked at instead of the 'no worse off guarantee'?

**Mr SWAIN** - No, we didn't. We didn't do that. We were trying to just extrapolate, I think -

**CHAIR** - The status quo?

**Mr SWAIN** - Well, more because that might've been different again. We were more just trying to extrapolate that this might be an issue where all members of parliament in Tasmania have a shared interest. We were just trying to demonstrate how important it is to the state's fiscal outcomes at a sort of directional level, as opposed to the number being the perfect number, because we could have modelled it on that basis, but we just did 'no worse off guarantee'.

Not surprisingly, we've looked at whether an expenditure shock to operational expenditure versus capital expenditure - what impact that would have. Unsurprisingly, the operating expenditure shock, because that tends to be ongoing, had a bigger impact. The capital shock we were thinking about was actually stylistically not relatively small projects; we were thinking about something like having to bring a Tasman bridge forward - a really big project.

**CHAIR** - So, bigger than what the challenges TT-Line are facing at the moment?

**Mr SWAIN** - Yes.

**CHAIR** - Did you factor in the likely need to assist TT-Line into the future?

**Mr ABBOTT** - I don't think specifically.

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**Mr SWAIN** - No, I think we made some assumptions around equity, looking at averages over the last few years.

**CHAIR** - But that wouldn't pick up what could happen - I mean, we're looking at TasNetworks needing equity, we're looking at TT-Line needing equity, TasPorts is likely to because of the work that it needs to do.

**Mr SWAIN** - I think if you looked at the PNFC debt in the report, you could imagine scenarios where that debt gets much higher. I think there is a more global - I guess we wanted to focus primarily on the GGS,<sup>10</sup> but not ignore the PNFC, which hasn't been factored into previous.

**CHAIR** - Which I do appreciate because it is so critical to the State at the moment.

**Mr SWAIN** - Yeah, I think you make a very valid point. I guess we put it in there because we were trying to show that, in a context where the rating agencies don't care whether that comes from, they only care about total state debt. A default projection that takes you to high debt means there is less capacity to have PNFC debt at a high level.

**CHAIR** - But in some of these Government-Owned Businesses, it is either an equity transfer, which takes money at the GGS, or it's additional borrowings, which ends up on the total state sector debt. So the end result is the same, isn't it?

**Mr SWAIN** - Yeah, I suppose it goes to the level of risk, the level of ambition you might have across your government businesses, and the level of risk you're prepared to take to realise that ambition. So what I'm referencing there is, if you've got businesses that have, you know, a relatively low credit rating in their balance sheet and they take on very, very big projects. That project blows out, then it turns into an equity call from the government. Which goes, as you say, to GGS debt. This is, I guess, pointing to the need to make choices in relation to the PNFC sector as well as the GGS sector.

I think the other main sensitivity, so maybe, Chair, I'm sorry that took longer than it should have, but I might stop it at that.

**CHAIR** - The other thing that, I mean, obviously you weren't aware of the Iran war at the time, but a lot of our government businesses have a very heavy reliance on fuel, fossil fuels. So you know, just looking at that, is there some sort of view from Treasury about what this could mean? For the total state sector when we look at the impact. Obviously the PNFCs have a lot of exposure there, but GGS does too. Some of these are dealings with very big capital projects, now, and you know, cost of freight and all that sort of stuff is pretty significant.

**Mr SWAIN** - Yeah, we're just at the front end of that. So we're plugged into the interstate Australian Government treasury forums We've plugged into some modelling that the Commonwealth is starting to do around the fuel price changes. A comment I'd make is, it's not clear what scenario we're in yet. It could be a short-term price effect, it could be a significant shock to the world economy, conceivably stagflation, where you've got high inflation and low output growth. Or the third one, which will also have economic effects, would be a supply shortage where you're actually having to seriously ration.

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<sup>10</sup> General Government Sector

## PUBLIC

We're at the front end of the short-term price effect at the moment. The only comment I'd make on that is we've sort of been plugged into that Federal Government work and we've got the same part of Treasury that's involved in that work will be plugged into the consequence management work that the State Government does in preparation. So we'll try to link that work through.

I think it there is a global comment you can make, that a lot of the interventions for COVID were about trying to stimulate activity or generate revenue for sectors. We're in a really different scenario, I think, where it's more about maintaining supply certainty for priority areas, which could be freight capacity to supply food and pharmaceuticals, and other priorities.

Because if any of these scenarios play out, which they haven't at the moment, you wouldn't be wanting to stimulate activity broadly. Because stimulating activity broadly would increase fuel demand, or fuel demand as well. So, I think, we need to make sure that we don't just dust off COVID solutions. We think carefully about what scenario we're in.

But very early days, and I've got no crystal ball on that.

**CHAIR** - I think a lot of people would like a crystal ball right now. So can I just go to a couple of areas, Gary. I mean you've talked at the beginning about why you took the approach you did from a budget-repair perspective. I go back and look at the previous fiscal sustainability reports and, obviously, a different approach was taken. They're looking at the high-expenditure, low-revenue different scenarios in the forward Estimates as well.

Forward Estimates are indicative of taking into account government policy. The reason I say that, and I want to ask you why you didn't at least include that, was, and when you look at the *Charter of Budget Responsibility Act*, it says in 14A, subclause (1): the Treasurer is to table in both Houses the report, et cetera, with specific regard to - the long-term sustainability of the State's finances - with specific regard to -

- (a) the policies of the Government; and
- (b) the financial impact of anticipated changes to the demographics of Tasmania.

That tells me that you are to look at the policies of the Government and that is reflected in their forward Estimates. So I just want to understand why you didn't do that, because I think that would be an interesting comparator.

**Mr SWAIN** - Yes, we did debate that quite a lot internally and I believe where we got to was partly coming off the rating agency's decision that, perhaps, actual outcomes are a better indicator. We could have included those. There were two things. We had a view that the actual outcomes would be of most interest to external parties, including the ratings agencies, and we were also mindful that if you factored in forward Estimates that had implicit expenditure reductions in them you might get a sense of - which is already effectively taking you away from the historical projection, because that's what it does significantly - but if you factored those in explicitly, you might end up with a conclusion that said you had a lot more time to do repair than - you only have an amount of time if you fully implement all your forward Estimates if you're able to. You could have done it that way, but you would have had to have been very explicit in what you were doing.

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We took the view that the policy positions of the Government were embedded in the compound growth rates that we used, so we took a different approach.

I'm not saying that the previous approach was wrong. We just looked at it differently and said we think that the policy positions are embedded in the actual decisions as reflected in revenue expenses.

**CHAIR** - So, you think it adequately meets the requirements of the Act, that you're looking at the policies of Government in that?

**Mr SWAIN** - James might want to add some detail.

We did make modifications to that general proposition. We had a 10-year CAGRs (compound annual growth rates), but then we went through sector by sector and said: 'do we need to make any adjustments? Are there any major projects that have been committed? What's happening in the public non-financial corporations (PNFC)?' - same thing. So we did make adjustments to the general approach, as needed, but we didn't bring in the forward Estimates because, in a sense, they are the government already starting to respond to the historical scenario, so we didn't want to double count.

**CHAIR** - I'm not sure if that's true with the last budget, but anyway - well, sort of is, I suppose, because a lot of things weren't funded in it.

**Mr SWAIN** - There are quite flat expenditures in there, which is different from the historicals. We felt we would have been -

**CHAIR** - Undercooking it.

**Mr SWAIN** - It might have said that you had longer than -

**CHAIR** - What you believed you had.

**Mr SWAIN** - You have longer if you implement all those things and if we were criticised in five years' time for having a Financial Stability Review (FSR) that said you had longer to do that than eventuated. We thought that was a better criticism to withstand than the other way.

**CHAIR** - Just on that, and I will come to you, Dean, I'm trying to understand clearly what you're saying, Gary. A forward Estimate scenario could actually be better than historic trends because if you look at the 2025-26 Budget, the one in November that passed, and scrutiny clearly showed there were so many projects and services that were not funded in the out-years.

**Mr SWAIN** - That's right. If you achieve that trajectory or if the Government does achieve that trajectory, you're already significantly improved against historical.

**CHAIR** - Yeah, so. And history shows us that we don't do that?

**Mr SWAIN** - Well -

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**CHAIR** - Well, has in the past anyway. I mean, clearly from the 2021 fiscal sustainability report, the worst-case scenario - which everyone said, 'Well, the Government won't allow that to happen.' Well, they've actually made it worse. So -

**Mr SWAIN** -Yeah, I mean, I don't want to lose - I don't want to be defending the Government in this process because it was Treasury analysis.

**CHAIR** - That's my job.

**Mr SWAIN** -Yeah. But some of the commentary was also - it's not like these are unique outcomes for Tasmania. Like the health pressures are pretty commonly understood. This is more commentary around affordability, what we can actually afford and I guess the other thing we were trying to draw out in some of the - we're trying to make some of the information more accessible, particularly with the three-page summary report. I think what we're trying to say at a global level is, those higher levels of debt - so it's not a - sometimes I've had it presented to me that it's kind of like services in 2040 and 2050 will be affected. What we were trying to get across in the report is, if you take on an extra couple of billion dollars of debt a year, interest of that is circa \$100 million and that means you can afford sustainably \$100 million less services, so it has an immediate consequence for sustainable service delivery and I guess we were trying to get that through with the whole focus on peak debt.

**CHAIR** - I'll come to some of that a bit more in a minute, but Dean's got a question.

**Mr WINTER** - Yeah, just - I noted the - really interesting about using actual outcomes rather than forecast expenditure into the future and the change in methodology. I just wanted to ask about that in terms of the fiscal strategy. So, the previous fiscal strategy from a few years ago basically measured our projected or our estimated expenditure and because estimated expenditure was never actually achieved, it appeared as though we were meeting fiscal strategy even though we [inaudible] and the new fiscal strategy hasn't done that.

In terms of your review, doing this every five years is good, but what's more important is making sure that we have some solid rules in the fiscal strategy that we can keep to. Are you looking to include using those actual outcomes as part of your new fiscal strategy that you're working on going forward?

**Mr SWAIN** -So, the new fiscal strategy is kind of - it's more of a return to a what I'll - a more traditional fiscal strategy. It's meant to be able to evolve and it's sort of trying to give you a series of measures that are kind of a light on the hill of what you should be trending towards. The only reason I'm hesitating is I think there's a sort of third component, which is the kind of discipline around achieving the numbers in the budget and moving towards the targets in the fiscal strategy. And, again, I just think that was, you know, a kind of post-COVID world. During COVID everybody got in the space of, we'll make decisions quickly and the financing of that will catch up. What this report is trying to say is we need to - now, having done that for a few years, it's going to be a period where there has to be a lot of discipline around actually achieving the expenditures that you build into your budgets.

**Mr WINTER** - I wanted to ask about the analysis of the potential shocks. If we go to the report, it outlines in attachment 5 or 6, I think it is - you've modelled the very first one, I think A is a potential decrease - or increase in expenditure. And, reading it, it appears to be pretty similar to what we could potentially be facing in terms of the fuel shortage and inflation of fuel

prices. Do you have you any comments to make about the similarities between what you've modelled there and what we could potentially be facing with the fuel situation coming from the Iran war?

**Mr SWAIN** -I'm a little reluctant to do that because I just don't feel I know enough about that - where this shock will go. I mean it would definitely be - I think you would expect to see some interventions to deal with supply chain challenges and to deal potentially with cost of living. But the macro effects, I don't think, are understood yet. So, we would end up potentially in a higher inflation environment, a higher interest rate environment, different debt costs. So we looked at an operating shock, not so much a change in macroeconomic settings at the same time.

**Mr ABBOTT** - And its ascent over three years.

**Mr SWAIN** - So there are some differences to what we modelled.

**Mr ABBOTT** - Yeah.

**Mr WINTER** - Have you done any analysis so far of the potential impacts to the budget from the situation?

**Mr SWAIN** - Not yet, other than, as I said, we're just plugging in the last week really to modelling that the Commonwealth Government's doing. But, at the moment, I think the information base is very unclear because I think it's understood that there really isn't a supply shortage in Tasmania. We don't have that issue at the moment. This is more analogous to the COVID toilet paper demand.

**CHAIR** - At the moment. They kept making toilet paper.

**Mr SWAIN** - I think, what I'd say is the general conclusions of the FSR, I wouldn't expect to change. If there was a deterioration in the budget, then you would still expect the relative outcomes in this report to be the same that the five-year trajectory, the 10-year trajectory, the 15-year trajectory, you would still kind of expect similar results. What might change is the capacity of the Government to make the reductions in expenditure and the weight, you know, the - you might, for example, go, in this environment it might be preferable to turn down operating expenditure less and to turn - and to smooth out capital delivery more. You know, you might change the mix of measures used in the setting. But, I think I'm kind of speculating at this point because we really don't know enough about that scenario and what it would look like.

**Mr WINTER** - In terms of your - you've modelled - five-, 10- and 15-year peak debt scenarios. Which one are you recommending?

**Mr SWAIN** - We are clearly saying that the repair should be between the five- and 10-year scenarios. And that 15 years, we think there is too much risk that the debt levels will become so high that there's a permanent impairment to service levels. So, yes, we're really saying 10 years or under. And, if you go through the detail of those two points where we were worried that you start to lose control of the state's ability to recover, implicitly, it's saying up to 10 years if you moderate from historical now.

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**Mr WINTER** - Which one of those scenarios has the Government selected?

**Mr SWAIN** - That's a question for the Government through the budget process.

**Mr WINTER** - Do you know? Have you been told what the target for peak debt is?

**Mr SWAIN** - Look, obviously, the Treasurer made some public comments around peak debt in 2028-2029, last year in the budget process, which I can obviously comment on, because they're in the public domain. But, what's in this year's Budget is obviously a matter for the Government. I can't comment on that.

**Mr WINTER** - In that budget speech, from memory, he talked about peak debt by 2028-2029. Is that in line with the commentary within this piece or is that a different -

**Mr SWAIN** - That's in line with the five-year repair scenario, if all the expenditure and revenue forecasts are delivered. I mean it's actually probably - it's within the five years, so, even if - it would allow - if that scenario occurred, it would allow you a little bit of room to deal with not fully achieving what was in your budget for any reason.

**Mr WINTER** - So, if the Government meets its current expenditure, with the forecast within its budget, it would achieve peak debt by 2029.

**Mr SWAIN** - No, I'm not going to comment on that because that's -

**Mr WINTER** - Okay, I don't want to - I'm not trying to trip you up: I just want to understand the task here. If we do want to hit that scenario 1, the peak debt by 2029, what does that actually mean in terms of this year's Budget? What does it mean in terms of the expenditure forecasts, or revenue projections that need to be hit in order to get there?

**Mr SWAIN** - So I really can't comment on what's in the Budget. The only other thing I can say is it's not a static world, as Mr Jaensch pointed out previously. There are some GST outcomes in the Budget which are above expectation. There is a health agreement which is significant. There are also a range of expenditure pressures in the Budget, some of which are understood, and some of which are emerging. So I don't think I can go much further, but what I can say is that the current Treasurer has encouraged Treasury to give frank advice. So while we did not share the FSR with the Government until it was finalised, a lot of the positions in it I would have articulated to the Treasurer at various times in giving advice.

**CHAIR** - Could I just pick up on this bit. I know you did describe it in the in the FSR report itself, but can you talk us through what you mean by net debt, and how we will know that we've reached it?

**Mr ABBOTT** - Do you mean peak debt?

**CHAIR** - Sorry, peak debt. Thank you.

**Mr SWAIN** - So when our revenue is able to meet all expenditures, including interest, so effectively it would mean that you would be in a fiscal surplus, to allow you to cover the costs of capital and equity investments.

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**CHAIR** - So the way I read your report is that it will not happen unless we pull all three levers?

**Mr SWAIN** - Well, no. We're saying it's possible to get there in different ways: but in our modelling, our computerised general equilibrium model, suggests that the approach that has the least impact on the economy is to pull all three levers.

**CHAIR** - So you gave some commentary around those options, about how you could achieve that. With each of those, can you give us some more detail of what that would actually look like in a budget setting? For example, how many FTEs, in broad terms. It depends on how much people are paid obviously, but there are averages and all of that. What I'm trying to understand is, and maybe this is a piece of work that needs to be done, it may not have been done, but if you were to convert the implied reductions, as described in this scenario, to the real world, what would these actually look like, in FTEs, increases in taxes, revenue, in whatever form, and the elimination, or reduction of capex projects?

**Mr SWAIN** - Yes. We didn't go to that level of detail. So effectively, on the expenditure side, we didn't track through the form of reduction, although it is factually true that 46 to 47 per cent of opex expenditure in the GGS is labour, so it could be a combination of labour and any other expenditure, opex expenditure. We didn't look at that mix, but because opex is so significant, you would have to assume it would be a smaller State Service that would deliver those savings. Similarly on revenue, we didn't look at whether that was taxation, or sale of goods and services, or returns from the Government Businesses: we just modelled an uplift in revenue, however achieved, and -

**CHAIR** - What I think the people of Tasmania are interested in is what does that look like in reality? It's easy to talk about, this is how much we would need to see in this, if we're going to pull that lever, and this is how much we will need to see by pulling that lever. For example, and I know that's not what you're suggesting, but if 100 per cent was against opex, most of that would have to come from wages and salaries, because that's the biggest part: I think it makes up over 50 per cent of the budget?

**Mr SWAIN** - Yes. 46, 47.

**CHAIR** - Around that then, around 50 per cent: so if you're trying to make \$2 billion of savings from wages and salaries, for example, that would be a roughly 35 per cent reduction in staffing. That's about 10,000 FTEs. I mean, that's not possible or realistic to continue to deliver services. I'm just asking, is there any way you can put some colour and movement about what it would actually look like on the ground?

**Mr SWAIN** - We could look at further work, but we haven't done that work because I mean, all of that's practical, right? We were doing an FSR at the same time as developing a revised fiscal strategy, at the same time as developing the fourth budget in two years.

**CHAIR** - I appreciate that, yes.

**Mr SWAIN** - I mean there is a range of follow-on work - this is a statutory obligation, as you know. There's a range of follow-on work the Government could ask us to do, and some of that informs the budget process, or just general economic or financial policy advice coming out of this. I guess we took it as far as our resourcing would allow on the time we had.

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**CHAIR** - Yeah, I appreciate the resourcing of your office, Gary. It's not a criticism. It's trying to make it - when we look at and when we - us as Members of Parliament, looking at the next Budget that you're obviously busy working on as well - in order to get somewhere near the place we need to be, without having any additional shocks, which is almost a moot point at the moment, but then what sort of things should we expect to see from a Government that's taking this seriously?

**Mr SWAIN** - Yes. I think you'd want to see some moderation in expenditure, so opex, and I think, probably at a broad level, you'd want to see more active choices, because as you've just pointed out, if you look to achieve all of the savings through opex, and you say half of that is labour expense, then you quickly get to a number of State Servants which is too big to accommodate the likely service needs of Tasmania.

**CHAIR** - And you couldn't pay out the redundancies either.

**Mr SWAIN** - Then if you have a look at the capex trajectory and, say we've been on average running about 20 per cent behind on delivery what's actually been in the budget, which is sort of \$200 million, if you smooth capex to a level that industry can actually deliver on, that's a very, very big reduction in the scale to which the number of people in the public service needs to be reduced. When you start looking at it, common sense would tell you that the mix of measures is (a) more achievable and (b) as it's modelled, actually has less impact.

**CHAIR** - Because we have a couple of - some not approved - but some very large capital projects like the stadium, like the North West Transmission Developments and potentially like Tarraleah and then further down the track potentially Cethana - then with these really large capital investments, is this creating a challenge that - because we still got to build roads and bridges and new health facilities or upgrade them at least, and schools, et cetera. - is this focus on really large capital projects making this task more difficult?

**Mr SWAIN** - Well, I'd say fiscal strategies have identified that the capital spend needs to at least meet the depreciation on the existing capital stock. You can probably take that a bit further, which is sort of circa \$500 million. You take that a bit further and go - but you know the population is growing and some of the needs of the population are changing with demographic changes in ageing. There is a number that is higher than depreciation, but lower than we currently spend, which I think would be the minimum capex that would be sustainable. We've been spending in the sort of \$900 million, high \$800 million space; if you said depreciation is \$500 million and you allowed for changing needs and that existing capex might be more expensive than the depreciated previous capex. We haven't calculated this number, but it might be somewhere north of \$600 million, or \$650 million is your minimum spend, and we're quite a way above that at the moment.

**CHAIR** - So, what do we cut?

**Mr SWAIN** - I don't know that it's cutting -

**CHAIR** - That's more of a question to the Government, I know.

**Mr SWAIN** - But it may be time. It might be that you don't sequence stuff over three to five years - you're taking longer. You're spreading some of those out.

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**Ms THOMAS** - You're not spending \$900 million in the one year.

**Mr SWAIN** - Yes. That's why I took a pretty neutral view in the multi-partisan budget repair panel of: it's the Government's choice whether it does or doesn't do a stadium or any other project, but the concern for Treasury is what other decisions go alongside that, in terms of other capital or equity investments that you then might push out by a year or two while you work your way through this one.

**CHAIR** - But some things like, for example, TT-Line's solvency, can't be ignored.

**Mr SWAIN** - Yes, so we are having a discussion with the Government about the need to think across portfolio - so across the GGS and across the PNFC - and sort of not look just case-by-case and looking across the potential capital program and across the equity program, if you like - because it used to be an equity program, but there now are more equity calls - in any given year, what's the priority? I mean, solvency is obviously a key priority for any circumstance where the services that the business is providing are required by the community. But there are other projects where you go, that doesn't support an existing service. It might provide an economic return, but it doesn't have to be done this year.

**CHAIR** - But we can delay it?

**Mr SWAIN** - Yes, we could do that. Or Government can decide to do it or not do it, and if it decides to do it, then there's when should you do it; having regard to those things that are not possible to shift in time, for one reason or another. So, I think we are advocating for a more portfolio approach to capital and equity prioritisation.

**Mr WINTER** - When you talk about active choices, are you talking about the size of the public sector, in that context?

**Mr SWAIN** - I think I'm just referring to, like, most things that come to Budget Committee, and then through Budget Committee to Cabinet, they're generally all sensible things. They're generally things that have come from a department or a minister who wants to improve service delivery to the State in some way. The question is: which of them is more important relative to the Government of the day's priorities? That's what I'm talking about, really.

**Mr WINTER** - It was recently reported that since the announcement of a freeze on recruitment 12 months ago, there's actually been an additional 500 public sector workers added into the State Service. What role does Treasury have in regulating that? Because, on the one hand, we're hearing from Government that it wants to freeze the appointment of new public sector workers, but on the other hand we're seeing a real increase in 500. What role do you play in that process?

**Mr SWAIN** - We have an involvement -

**Mr WINTER** - And how did it happen, I guess, is the question.

**Mr SWAIN** - Well, employment sits more - I mean, the Premier sets employment directives and the Head of the State Service has particular powers in relation to employment.

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I guess Treasury has largely focused on expenditure. The two are clearly linked. So, I guess we would see, first and foremost, that if Departments and Ministers are meeting their budget, their Treasurer's Expenditure Control Authority (TECA) numbers, whether they do that through employment or other expenditure levers, Treasury is less concerned. But I think the fundamental problem is more that we don't, like a business, we don't use price to limit demand. So, on a lot of the services - normally, if you said you have a good or a service that more people want than you can provide, the price would go up and that would then limit demand. But unfortunately, in Government, we don't have that demand signal most of the time.

**CHAIR** - Have universal health care. Everyone who walks in the door needs to be treated.

**Mr SWAIN** - Yeah, which means then that you might have to look at blunter tools for limiting the supply of the service, and one of those is limiting the inputs that go into the service.

**Mr WINTER** - What does that mean, practically?

**Mr SWAIN** - Well, it means that you might say, 'We can only afford to employ this many people.'

**Mr WINTER** - But obviously that's not happening, because the number of public servants went up. I mean, it's hard not to go past the concerns and warnings that you've raised within this report, and then I read that there's an extra 14 people working in the Department of Treasury and Finance. How does that happen?

**Mr SWAIN** - Well, what I would say is Treasury is within its budget.

**Mr WINTER** - But if there's a freeze on the appointment of new public sector workers, how did you end up with -

**Mr SWAIN** - There was a freeze on non-essential workers, so you have to make a judgment as an agency head of what's essential and what isn't, and that's going to be different in different departments. I guess I've taken - there are a couple of things. In our uplift, 11 of those are actually kind of a pro-youth employment policy where, I think, we've had a cadet program for 30 years.

**Mr WINTER** - I was one of them, I know.

**Mr SWAIN** - We are very reluctant to move away from that. So, we've taken the view that we're keeping employment growth to a minimum and it must be within budget. We're not going outside our budget.

**Ms THOMAS** - A follow-up to that question?

**Mr SWAIN** - I mean, it's open to the Government to consider whether it is happy with the outcomes from that employment freeze, but I guess what I'm saying is that's probably a question for the Premier.

**Mr WINTER** - I mean, there was an employment freeze and now there are 500 extra workers. It's pretty clear it hasn't worked, and there's a directive, and the rhetoric from

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Government is that they were going to freeze the appointment of new public sector workers and instead we've got 500 more. So, I'm trying to understand here what's broken down, because clearly, the stated intent from Government is completely different to what's actually happened.

**Mr SWAIN** - I think it would have slowed down employment, but it's one tool, right? You need to say what's changed in relation to the service delivery, the way it's delivered, because you probably, to effect a reduction in employment, you need to do some other things as well.

**Ms THOMAS** - My question is similar to Dean's, along the same lines in terms of the responsibility for oversight of that, then. I think I just heard you say that it's up to each agency head to determine whether a job is essential or not. Is there any central monitoring or reporting of that?

**Mr SWAIN** - Yes, there is, but again, I think that's probably a question more for DPAC than Treasury. And I think all agency heads understand. I mean, I've sent a copy of the FSR to all agency heads when it came to all parliamentary, so I think the context is understood and the intent of the Government, which is that agencies start thinking about employment in a more disciplined way, as an enabler for budget improvement.

**Ms THOMAS** - The Efficiency and Productivity Unit that was announced by the Government last year, does that sit within Treasury or in DPAC?

**Mr SWAIN** - No, that's within DPAC, although we are working with that team.

**CHAIR** - Can I just go to a slightly different area? Gary, on page 103, you've factored in a reduction in PNFC debt of \$500 million. So, why did your Treasurer, in this speculative proposal where there is no clear mechanism to achieve a reduction in PNFC debt - for some of the reasons we've already discussed - on what basis is that projection there?

**Mr SWAIN** - We made a range of adjustments up and down to PNFC debt, and I guess we thought, having put a number of 'ups' in, that this was a significant committed policy, so we thought it was balanced to put it in at the same time. What it has caused us to look at is the way that debt comes into the budget. Historically, it's kind of reflected that capital delivery requirements in the businesses really sit with boards, in the first instance. They make decisions about what capital is needed to support their services. Then above certain thresholds, a capital review is triggered, where Treasury will look at a business case from an entity and give some advice to the government around the extent to which the business's assessment reflects properly the director's duties to act in the best interests of the business. Do they line up fully with the State's interests? And that could result in advice saying that notwithstanding the business wants to do this, it should be deferred or stopped.

So, in the past, it's tended to be the case that if a business has it in its corporate plan that it's intending to do this capital, it tracks into the budget. We're looking at how that process works more from that portfolio perspective. It may be the case that you go, a business wants to do a capital project but the Government has to think about, among other things, the State debt position and what debt levels will mean for credit ratings and the cost of debt.

**CHAIR** - I'll come to that in a minute. I mean, it says here that this was basically done to meet a commitment from Dean Harriss during the stadium debate. Okay?

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**Mr SWAIN** - I mean, we felt that we've taken in the stadium debt and this was - you wouldn't get the stadium debt without a number of commitments. This was one of which - so we felt that this was a symmetrical treatment, if you like.

**CHAIR** - So, somewhere some of the GBEs, state-owned companies, PNFCs, have got to reduce their debt by \$500 million. We know that can't be - well unless there's \$500 million given to TT-Line, they can't reduce theirs by \$500 million. If you give it to TasNetworks, they're already needing an equity injection to do the North West Transmission Developments. TasPorts, unless you give them an equity transfer to fund some of their capital works on some of the major berths and that, like Berth 4 in Burnie, for example -

**Mr SWAIN** - It is relating to debt, not equity.

**CHAIR** - Yes, but I'm saying they'll either have to take on debt or be given equity. So, we're saying that if you're going to meet this expectation or commitment - it wasn't your commitment, it was the Government's commitment, or the Premier's commitment - the only way we can reasonably do this is to actually provide equity for these companies.

**Mr SWAIN** - Or smooth out the level of ambition across all the businesses. So, again, you might say this is what the businesses would like to do in the next three to five years. It might need to take seven years or eight years.

**CHAIR** - Let's go to the North West Transmission Developments, then. That's a required piece of infrastructure to meet the requirements of Marinus Link, which is mostly owned by the Federal Government, not by us. So, there's sort of an imperative there that if Marinus is progressing, this needs to progress: otherwise, they won't work. And that won't be such a good happy scenario for the Victorians or the Federal Government, who have more skin in the game than we have. So, some things can't easily be pushed back.

**Mr SWAIN** - Yeah, that's right.

**CHAIR** - I'm just trying to understand where we're going to see this, because there are not many that you can actually say, well, no. You can't stop building the gantry at Devonport.

**Mr SWAIN** - I agree with everything you're saying, but we're also mindful that, I mean, we were basically put on notice, as a jurisdiction, through the credit rating downgrades, that the credit rating agencies would - one of their key considerations was debt, and they are observing the actual outcomes in Tasmania.

**CHAIR** - But debt sits not just in the general government, it sits in - yeah, if we have to put more money into some of the GBEs we've talked about - TasNetworks, TasPorts, TT-Line - then that'll be done through the taking on of debt by the GGS. The credit rating agency will see that, so -

**Mr SWAIN** - I think it goes to both the timing and level of ambition across all of the businesses the government has equity in, and it also goes to the risk that an individual business that doesn't have a lot of balance sheet flexibility - like it's already got a lot of debt - the level of expenditure it can take on in new projects, noting, that if there's a cost blowout, it will come as an equity call to the government. That's what I was trying to say before, when we were

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advocating that the Government takes now a more portfolio-view across capital and equity. That would include accounting for this particular commitment.

**CHAIR** - To go to the matter then of the credit rating agencies, did you model what impact the high-growth scenario would have on the potential decisions of the credit rating agencies?

**Mr SWAIN** - I want to - this is where it gets a bit careful, because you're saying something on the public domain -

**CHAIR** - You can upset the credit rating agencies.

**Mr SWAIN** - Yes.

We were mindful that sometime - how can I put this? When the credit downgrade occurred, there was a very limited market response in terms of bonds, which tells you that the bond market had already factored in the change, which tells you that, potentially, the change, in terms of being within the band of that credit rating, we may already be through the cap - through the top of the band and into the credit rating band between that and the next level down. So, I would say we did think about the potential to move through credit ratings in preparing this report.

**CHAIR** - The downgrades and what it would mean?

**Mr SWAIN** - Yes. At a high level: we didn't - I mean, in the credit rating methodology, there are quantitative elements and there are qualitative elements and the quantitative ones you can form a view on, but the qualitative ones are much harder because they're kind of the view of the credit rating agencies.

**Mr ABBOTT** - Their methodologies are rather opaque.

**Mr SWAIN** - We had a look: we did think about that broadly, but we didn't model it to the nth degree or anything.

**CHAIR** - Is TasInsure included in any of modelling?

**Mr SWAIN** - No, TasInsure wasn't because, at that point, it was still being worked on, so we didn't know what to -

**CHAIR** - It could be another risk that hasn't been factored in at all?

**Mr SWAIN** - In this Budget, like every budget, there'll be a whole range of risks.

**CHAIR** - The FSR, as we read it, has no consideration of TasInsure?

**Mr SWAIN** - Only through the general methodology, which looks at compound growth rates in expenditure because we picked - I mean, the growth rate that's embedded in expenditure is quite high, which is why the debt increases as quickly as it does, so you could argue that implicitly it's in the methodology.

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**CHAIR** - Okay. I'm aware we're running out of time. One thing I wanted to ask: you talk about debt servicing costs as a proportion of total revenue for the GGS reaching 10 per cent and you say maybe at that point it may become unsustainable.

**Mr SWAIN** - That was our bottom measure, if you recall from that slide.

**CHAIR** - I just want to know how you established that as the measure.

**Mr SWAIN** - It's a judgment call from within Treasury. There isn't a table that tells you at what point is - we had a look at where debt's been. We identified that that was the level associated with the 1990 position that was significantly responded to by the Government of the day. We identified that the interest rates in 1990 were lower than they are now. Therefore, the 10 per cent now is higher than it would have been in 1990 and we looked at what that meant in absolute dollars and thought we were being -

**CHAIR** - Did it include the unfunded superannuation, the emerging cost of that?

**Mr SWAIN** - Only in that it's implicit in why Treasury has the view that what other states might consider to be a relatively low debt consequence, 10 per cent.

Part of the reason that we had that at that level was thinking about the defined benefits and the unfunded superannuation liability, yes, and the structure of our budget, which is that two-thirds of the revenue comes from the Commonwealth and we can't directly control it. We can advocate, but we can't control. So, Treasury's view is that we have to be inherently more conservative because we have less levers to pull than other jurisdictions.

**CHAIR** - Sure. We are out of time. So, Gary, if there are any other questions that members had, would you be happy to take anything on notice?

**Mr SWAIN** - Look, I think so.

**CHAIR** - Within limits, obviously.

**Mr SWAIN** - Yes.

**CHAIR** - I'm not saying that's the case. Anyway, I appreciate your work. Thank you for your time today. The best with the rest of the things you've got to do.

**Mr SWAIN** - Yeah, well, we would have -

**Unknown** - The fuel thing is - let's just hope that's temporary. For everyone.

**CHAIR** - Yes, I think for everybody.

**The witnesses withdrew.**

**The Committee adjourned at 12:45 pm.**

# Fiscal Sustainability Report

February 2026

# What is the FSR?



The FSR is Treasury's assessment of the long-term sustainability of Tasmania's finances



Treasury uses historical trends to project key fiscal measures over a 15-year period



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 is fiscal sustainability and why does it matter?



*“Fiscal sustainability is the government’s ability to manage its finances so it can meet its spending commitments, now and in the future, without large and sudden adjustments to policy settings”*  
(Commonwealth 2023 Intergenerational Report)



A sustainable position ensures the capacity to smoothly provide services to the community over time, manage shocks and provide for intergenerational equity

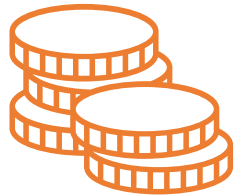


Tasmania’s Budget has a structural deficit, driving significant growth in debt and debt servicing costs – this is unsustainable and will result in impairment in the ability to provide services

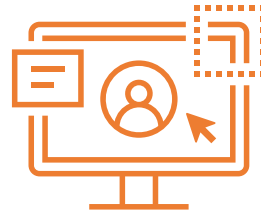


Tasmania’s fiscal buffers have been depleted, and the State is poorly positioned to respond to a major economic shock – such events have been observed to occur approximately every 10 years, the most recent being the COVID-19 pandemic in 2020

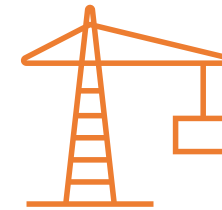
# New features in the 2026 FSR



Treasury has focused its alternative scenario analysis on Budget repair and the fiscal effort required to reach peak debt



Treasury has used its new Computable General Equilibrium (CGE) model to examine the economic impact of achieving peak debt



The FSR includes a projection of potential growth in government business borrowings (ie the PNFC Sector)

# Historical Growth Scenario outcomes

01

Without action, Tasmania's finances rapidly deteriorate, with growing deficits and escalating debt

02

By 2039-40, operating expenditure is projected to be more than double revenue

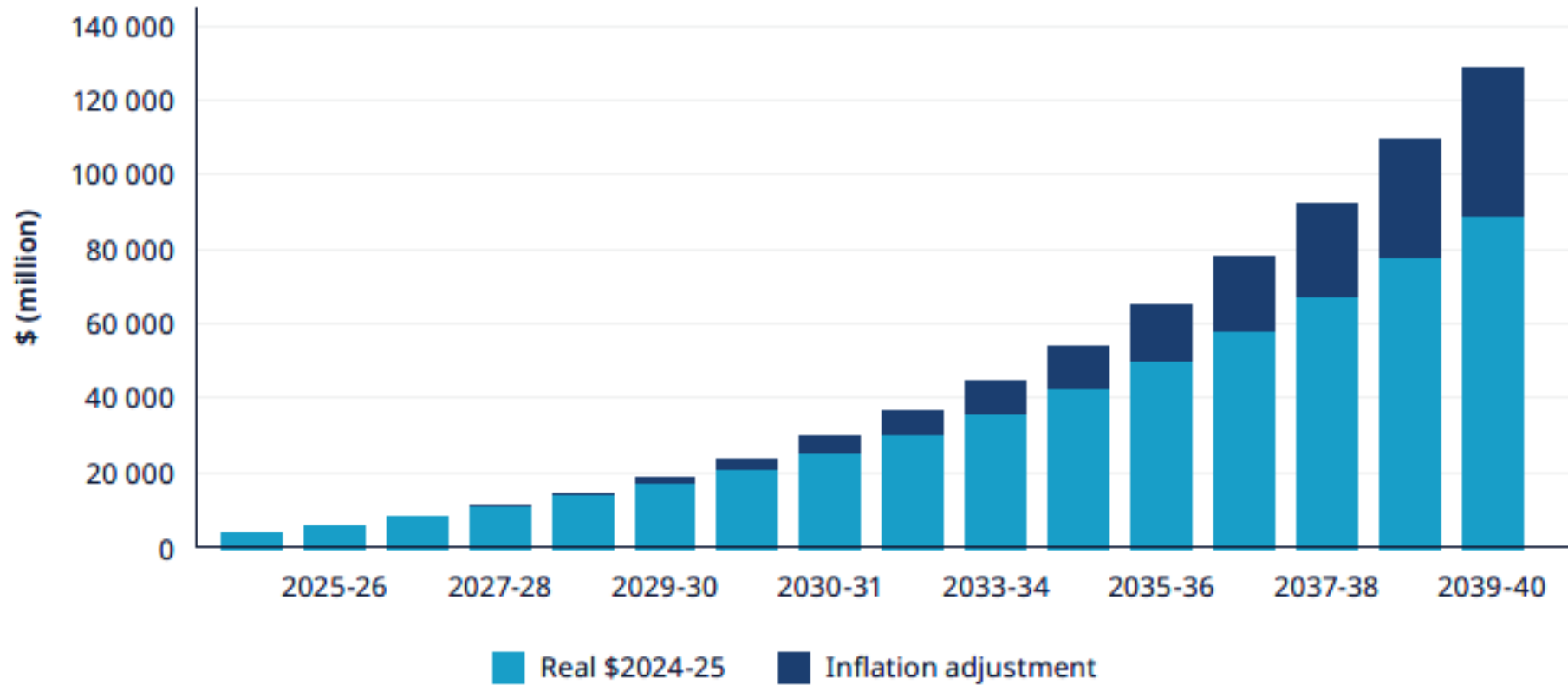
03

Compounding debt servicing costs grow rapidly to become the 2<sup>nd</sup> biggest operating expense after Health

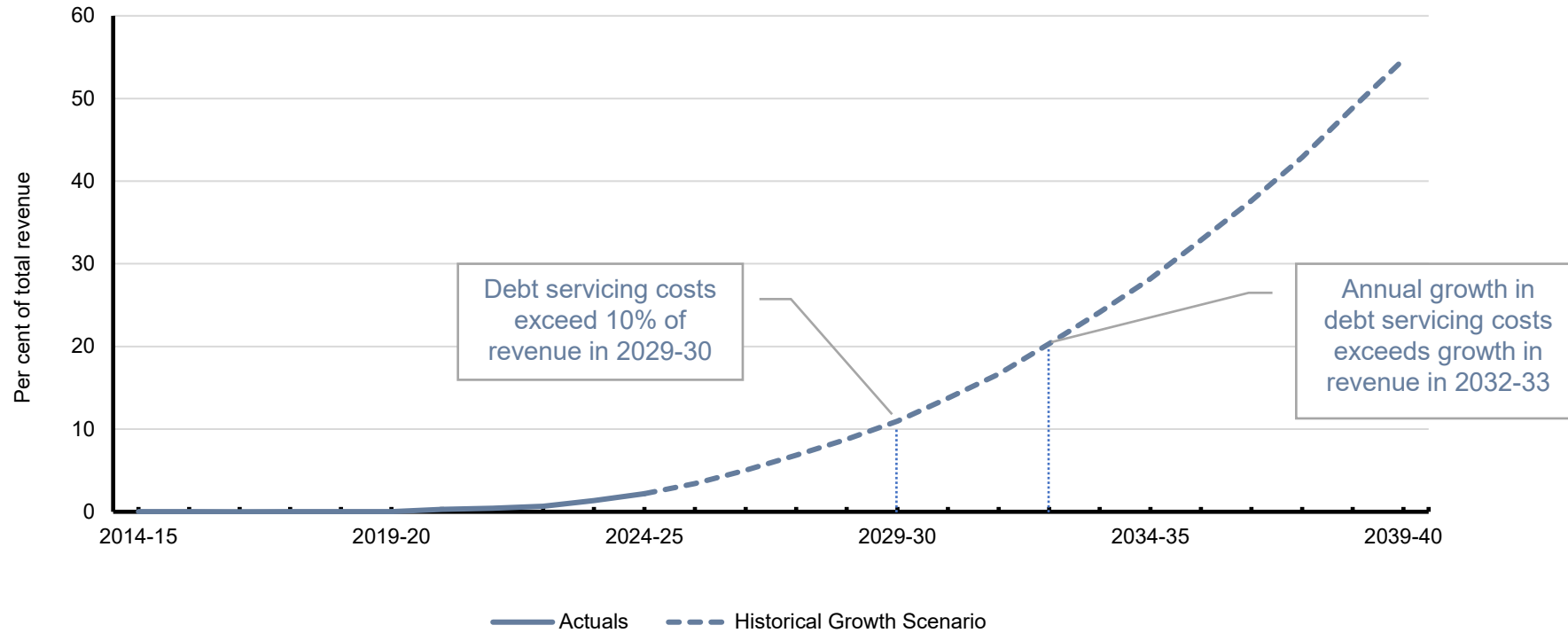
04

Within 15 years, GFS Net Debt grows to \$129.5 billion

# Historic Growth Scenario - GFS Net Debt grows rapidly (GGS)



# Historic Growth Scenario - debt servicing costs as a ratio of revenue



# Budget Repair Scenarios

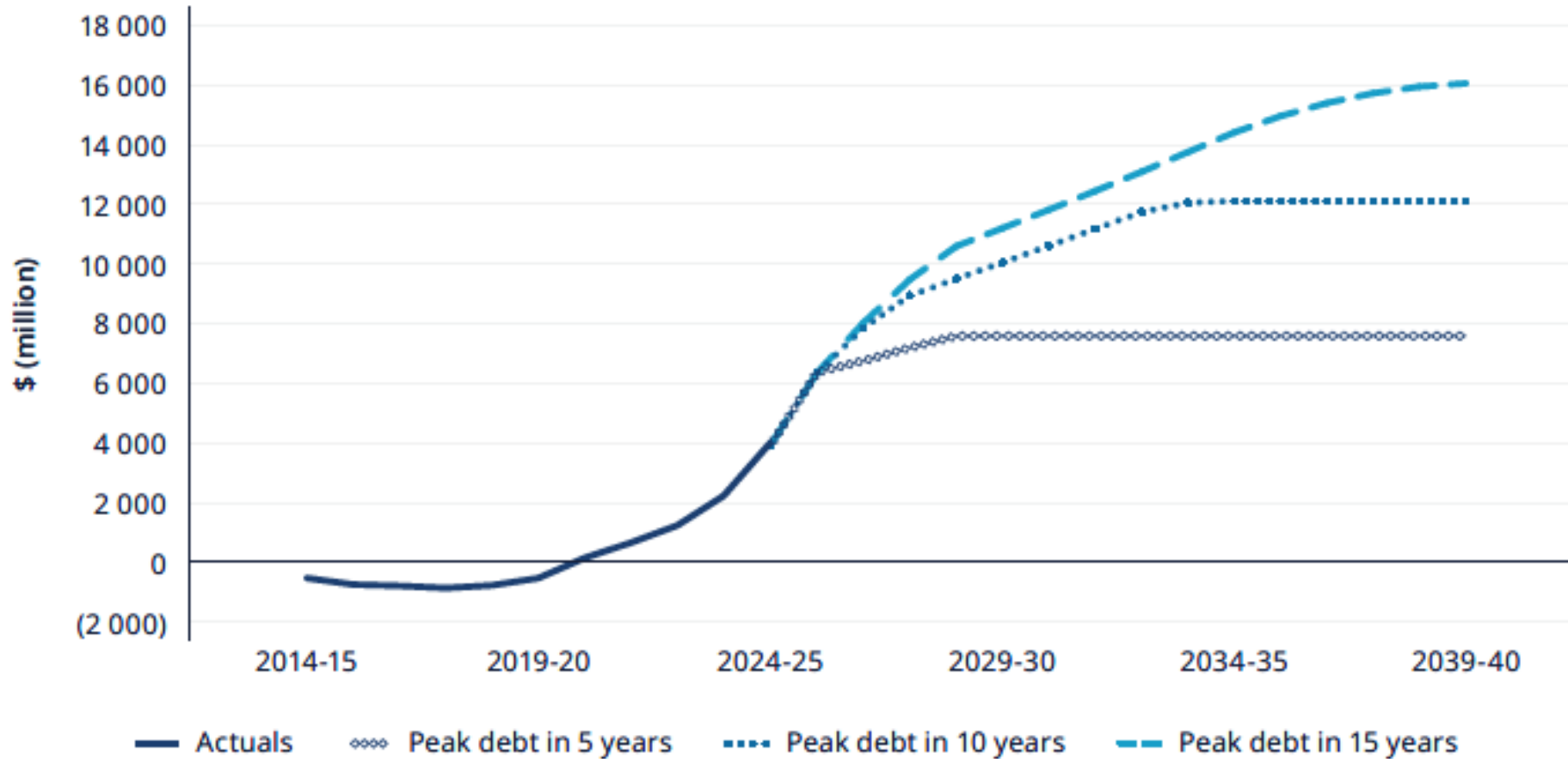
The 2026 FSR examines the extent of fiscal repair required to achieve peak debt over five, 10 or 15 years

Peak debt is the point at which revenue fully funds expenditure and additional borrowings are not required

Economic impact analysis shows that Tasmania's economy is well placed to support Budget repair in all three scenarios

Budget repair over five to 10 years is a credible and achievable goal, using a combination of reduced operating and capital expenditure, and increased revenue

# Budget repair will lead to much lower GFS Net Debt outcomes



# Key findings

- 1 **Tasmania's finances are projected to rapidly deteriorate** with GFS Net Debt growing to \$129.5 billion by 2039-40
- 2 **Doing nothing is not a responsible option** with debt projected to reach unmanageable levels and impact on service provision
- 3 **Immediate action is required to stabilise debt** through lower expenditure and increased revenue
- 4 **Budget repair is required over the next 5 to 10 years** – further delay will lead to unacceptable consequences
- 5 **Budget repair is achievable if action is taken** – the benefits of taking action outweigh the costs of inaction, and modelling shows the economic impact is manageable

# Other findings

- ① Sensitivity analysis shows that the State does not have the fiscal buffers to respond to a substantial economic shock similar to COVID-19
- ② A major shock to operating expenditure would derail the State's path to peak debt under all scenarios
- ③ A shock requiring unexpected infrastructure investment would be manageable as the financial impact is lower, leading to lower GFS Net Debt outcomes
- ④ A continuation of the GST No Worse Off Guarantee materially improves debt levels in the peak debt scenarios, but cannot be relied on

# Tasmanian Fiscal Sustainability Report 2026

## Summary and Key Findings

February 2026

Department of Treasury and Finance

The 2026 Fiscal Sustainability Report (FSR) has been prepared by the Department of Treasury and Finance in accordance with the provisions of the *Charter of Budget Responsibility Act 2007*.

This Report differs from previous FSRs as it:

- presents alternative budget repair scenarios;
- models the economic impacts of budget repair; and
- includes projections of total State debt, including estimates of Government business debt.

The Report has been prepared recognising Tasmania's specific circumstances. For example, its greater reliance on Australian Government grants than other states, and its large unfunded superannation liability.

The projections presented in the Report show outcomes relating to different scenario assumptions. The projections are **indicative** and are **not forecasts**.

## KEY FINDING

### Tasmania's finances are projected to rapidly deteriorate

- Tasmania's public finances have worsened significantly since the previous FSR in 2021. The 2026 FSR confirms Tasmania's financial position is unsustainable and that, if unaddressed, the Budget's structural problem will rapidly deteriorate.
- Government spending is growing faster than State revenues and Treasury's projections show that, without action, the gap will widen and Net Operating Balance deficits will become increasingly unmanageable.
- The structural deficit will drive significant growth in Government debt, which will accelerate over time due to increased interest payments. Modelled debt servicing costs would grow from two per cent of revenue to more than 50 per cent over 15 years, becoming the second largest operating expenditure item if the Historical Growth Scenario occurred.
- Treasury's projection of recent trends in revenue and expenditure shows that GFS Net Debt for the General Government Sector could grow from \$4.0 billion in 2024-25 to \$129.5 billion (\$89.4 billion in 2024-25 dollars) by 2039-40 if action is not taken.
- Public Non-Financial Corporations Sector GFS Net Debt is projected to grow from \$4.3 billion to \$16.8 billion over the same period. As a result, Total Non-Financial Public Sector GFS Net Debt is projected to reach \$146.3 billion by 2039-40.

## KEY FINDING

### **Doing nothing is not a responsible option**

- Without action, the annual growth in debt servicing costs is projected to exceed the growth in State revenue within ten years. Beyond this point, budget repair would be exceedingly difficult.
- In effect, Tasmania will be borrowing significantly more money just to pay the interest on existing debt. Eventually the growth in interest expenses will become so great that no reasonable reduction in services will be capable of achieving budget repair.
- Tasmania has recently been downgraded to the equal-lowest credit rating of any Australian jurisdiction (Aa3/AA). Without financial improvement, there is an increased probability that Tasmania's credit rating will be further downgraded, increasing interest costs.
- High debt levels also leave the State exposed to economic or financial shocks. Tasmania's financial buffers have been depleted and the State is poorly positioned to adequately respond to a shock, such as a pandemic or a natural disaster.
- Ongoing deterioration will cause increasing community concern and risk external intervention. International experience shows that such external intervention usually only occurs when the situation has reached a crisis point and can result in a loss of financial autonomy and onerous long-term impacts.

## KEY FINDING

### **Immediate action is required to stabilise debt before it becomes unmanageable**

- Immediate and sustained action is needed to reach peak debt as soon as possible, and return Tasmania's finances to a sustainable position. Peak debt is achieved when all operating and capital expenses are fully funded from operating revenue on a cash basis so that the Net borrowing requirement for the year is zero. If this does not happen, Tasmanians will be faced with difficult ongoing choices about essential services and infrastructure.
- Budget repair can be achieved through actions such as increasing revenue, and reducing capital and operating expenditure, as well as efficiencies in service delivery and productivity improvements.
- No single action will be sufficient on its own, and all measures are needed to return the State to a sustainable pathway.
- Improvements to productivity and the planning and delivery of services can be beneficial. However, they are not sufficient on their own and will take time to have an effect. The repair task needs greater and more urgent action.
- Growing the economy won't fix the problem. Government revenues correlate poorly with economic growth, and Tasmania's major revenue sources are largely outside the State's control (GST and Commonwealth grants).

## KEY FINDING

### **Budget repair is required over the next five to 10 years**

- Treasury has modelled the level of budget repair needed to achieve peak debt over five, 10 and 15 years.
- These scenarios require significant cumulative financial corrections relative to the Historical Growth Scenario of between \$3.3 billion (five-year scenario) and \$11.3 billion (15-year scenario), resulting in debt peaking at between \$7.6 billion and \$16.1 billion.
- There is a balance to be achieved between the rate of repair, and the intergenerational inequity of a higher level of peak debt.
- Treasury has not modelled the reduction of debt from its peak level, as stopping the projected growth in State debt is the current priority and the rate of debt reduction in the future is a policy choice for government.
- Whilst achieving peak debt within five to 10 years is a credible timeframe, further delay will result in larger financial corrections being required that lead to unacceptable impacts on essential services and higher risks.
- Economic modelling of five- and 10-year repair scenarios show the impact on the Tasmanian economy is manageable, and that budget repair is best achieved through a mix of increased revenue and reduced operating and capital expenditure.
- While economic growth under each repair scenario is reduced, the Tasmanian economy does not contract under any of the scenarios, even after adjusting for inflation.

## KEY FINDING

### **Budget repair is achievable if action is taken**

- The challenge facing the State is large but not insurmountable.
- Budget repair will be difficult in the initial years but, if implemented broadly, can minimise the impacts on any one part of the community.
- The sooner peak debt is reached, the lower the ongoing impact of debt servicing costs and the faster the State becomes more resilient to future shocks.
- The benefit of taking action now outweighs the costs of inaction. Rising debt and debt servicing costs will impose far greater costs on the community if the situation is left to deteriorate further, leaving an unreasonable burden on future generations.

	Peak Debt in Five Years (2029-30)	Peak Debt in 10 Years (2034-35)	Peak Debt in 15 Years (2039-40)
GFS Net Debt (GGS)	<b>\$7.6 billion</b> ^ \$3.6 billion increase from 2024-25	<b>\$12.1 billion</b> ^ \$8.1 billion increase from 2024-25	<b>\$16.1 billion</b> ^ \$12.1 billion increase from 2024-25
GFS Net Debt (PNFC)	<b>\$8.3 billion</b> ^ \$4.0 billion increase from 2024-25	<b>\$12.2 billion</b> ^ \$7.9 billion increase from 2024-25	<b>\$16.8 billion</b> ^ \$12.5 billion increase from 2024-25
Debt servicing costs	<b>\$0.6 billion</b> ^ \$0.4 billion increase from 2024-25  (5% of Revenue in the Historical Growth Scenario)	<b>\$1.2 billion</b> ^ \$1.1 billion increase from 2024-25  (9% of Revenue in the Historical Growth Scenario)	<b>\$1.8 billion</b> ^ \$1.7 billion increase from 2024-25  (10% of Revenue in the Historical Growth Scenario)
Cumulative correction to budget position required (relative to the Historical Growth Scenario)	<b>\$3.3 billion</b> by 2029-30  (equivalent to 25% of projected expenditure on government services)	<b>\$6.5 billion</b> by 2034-35  (equivalent to 35% of projected expenditure on government services)	<b>\$11.3 billion</b> by 2039-40  (equivalent to 43% of projected expenditure on government services)
Economic impacts	<p>Across nine modelled scenarios, growth slows but remains positive, averaging between 1.7 and 1.9 per cent in real terms, somewhat below the long-term average of 2.3 per cent.</p> <p>In all scenarios, economic impacts are smallest when fiscal repair is shared between:</p> <ul style="list-style-type: none"> <li>• lower operating expenditure;</li> <li>• higher State taxation; and</li> <li>• lower infrastructure expenditure.</li> </ul>		

**Risk of  
shocks**

Sensitivity analysis show that a shock could derail the State's pathway to fiscal repair under all scenarios.

Longer fiscal repair pathways increase the risk that the repair is derailed by a shock.



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# Tasmanian Fiscal Sustainability Report 2026

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## Q&As

### What is this Report about?

The Report provides a long-term perspective of the State's fiscal outlook over a 15-year projection period. The Report examines Tasmania's long-term fiscal sustainability based on historical trends in revenue and expenditure. Consistent with the requirements of the *Charter of Budget Responsibility Act 2007*, the Report has regard to current Government policies and anticipated demographic changes, and provides early notice of potential long-term fiscal pressures for the State to inform future fiscal management.

### How is fiscal sustainability measured?

The Report uses a number of measures to assess fiscal sustainability. The measures are consistent with those presented in the Treasurer's Annual Financial Report and the State Budget. Compared with the previous 2021 Fiscal Sustainability Report, this FSR has introduced a new key fiscal measure, Net Borrowings.

The achievement of peak debt is an important element of fiscal sustainability. The introduction of Net Borrowings as a key fiscal measure enables an analysis of what is required to achieve peak debt, ie when all operating and investment expenditure is fully funded from revenue and no new borrowing is required.

The key fiscal measures are therefore:

- Net Operating Balance;
- Fiscal Balance;
- Net Borrowings; and
- GFS Net Debt.

### Why was a 15-year timeframe chosen?

A 15-year projection period was chosen because:

- there is some level of knowledge of events that are likely to occur over the next 15 years, but reduced certainty beyond that timeframe;
- projections over a long-term would likely follow the trend established over 15 years and not add further value in relation to fiscal sustainability; and
- it is within the range of the OECD's guidance on long-term reporting, where long term is considered to be between 10 and 40 years.

## **Which scenarios were used and why?**

The Report has adopted a central Historical Growth Scenario, and three Peak Debt Scenarios.

The Peak Debt Scenarios determine the extent of fiscal correction required relative to the Historical Growth Scenario to achieve peak debt in the nominated time frame. Peak debt is the level of GFS Net Debt at the point where the annual Net Borrowing requirement is reduced to zero or less on an ongoing basis.

The three Peak Debt Scenarios do not model any reduction in GFS Net Debt from its peak, as the rate of debt reduction is a policy decision for Government taking into account its priorities and economic circumstances at the time. Thus, to reduce GFS Net Debt from its peak level in any of the Peak Debt Scenarios, additional fiscal correction would be required.

Similarly, these scenarios do not assume any particular combination of achieving fiscal correction, eg revenue increases or reductions in operating or investment expenditure, as these are policy considerations for Government.

Each scenario is described briefly below.

### **Historical Growth Scenario**

This scenario uses historical data to project expenditure and revenue over the period 2025-26 to 2039-40, including known significant future changes. The projections provide an assessment of the level of the key fiscal measures that may occur in the future if there is no policy intervention.

### **Peak Debt in Five Years**

This scenario determines the extent of fiscal correction required relative to the Historical Growth Scenario to achieve peak debt by 2029-30. This scenario requires ongoing fiscal correction beyond this date to maintain GFS Net Debt at its peak level.

### **Peak Debt in Ten Years**

This scenario determines the extent of fiscal correction required relative to the Historical Growth Scenario to achieve peak debt by 2034-35. This scenario requires ongoing fiscal correction beyond this date to maintain GFS Net Debt at its peak level.

### **Peak Debt in 15 Years**

This scenario determines the extent of fiscal correction required relative to the Historical Growth Scenario to achieve peak debt by 2039-40. Beyond this date, ongoing fiscal correction would be required to maintain GFS Net Debt at its peak level.

## **Which of the scenarios is most likely to occur?**

The three Peak Debt Scenarios are not forecasts, in that they are not attempting to predict what will happen in the future. None of these scenarios are more likely to occur than others, as they rely on policy decisions of Government regarding the rate of and timing of budget repair.

## **Why were the scenarios in the 2021 Report not used?**

The 2021 alternative scenarios effectively provided sensitivity analysis of the core Historical Trends Scenario.

Tasmania's finances have deteriorated significantly since the 2021 FSR. In developing the 2026 FSR it was considered that these scenarios would not meaningfully assist in understanding Tasmania's current financial situation.

Given the need for budget repair, Treasury has instead focused the 2026 FSR on understanding the effort required to return Tasmania's finances to a sustainable footing. The 2026 FSR has separately undertaken sensitivity analysis based on a range of potential revenue and expenditure events (see Attachment 5 of the Report).

## **Why were the 2025-26 Budget and Forward Estimates not used in Treasury's modelling?**

The 2021 FSR used the 2020-21 Budget and Forward Estimates as the basis for projections beyond the 2023-24 year, modelling a Historic Trends Scenario and three alternative scenarios which examined how future outcomes might differ from the projections in the baseline scenario.

The 2026 FSR has developed a Historical Growth Scenario depicts what Tasmania's finances will look like if historical trends in revenue and expenditure continue, and the three alternative scenarios have instead modelled different timelines for the achievement of peak debt.

The Government has acknowledged that the 2025-26 Budget was an interim budget prepared over a compressed timeframe. There are a range of 2025 election commitments which were not funded in the 2025-26 Budget, together with a range of significant financial risks that, if realised, will undermine the return to a NOB surplus in 2028-29. These risks include but are not limited to:

- agency cost pressures;
- public sector wage outcomes;
- interest rates and borrowing costs;
- borrowing support and equity contributions to Government businesses;
- health demand and expenditure; and
- abuse-related liabilities.

It is acknowledged that the 2025-26 Budget forecasts a lower growth in total expenditure than the FSR model and contains savings measures, that if achieved, could lessen the Budget repair task compared to the Historical Growth Scenario.

## **How are equity transfers treated?**

All scenarios include equity transfers from the General Government Sector (GGS) to Government businesses. The projection uses the known profile of equity injections to 2028-29. From 2029-30 onwards, this value is indexed based on the five-year compound annual growth rate in the ABS Producer Price Index for Heavy and Civil Engineering Construction.

## **How has the growth in Total Non-Financial Public Sector GFS Net Debt been modelled?**

The Total Non-Financial Public Sector (TNFPS) comprises the GGS and the Public Non-Financial Corporations (PNFC) Sector, which includes all Tasmanian Government businesses, with the exception of the Motor Accidents Insurance Board and the Tasmanian Public Finance Corporation.

While previous iterations of the FSR have focused solely on the GGS, the PNFC Sector is a major component of Tasmania's total borrowings, and PNFC Sector borrowings are expected to increase in the short- to medium-term as several major infrastructure projects are progressed.

The 2026 FSR has therefore included a projection of TNFPS GFS Net Debt. PNFC Sector GFS Net Debt has been projected using the GGS equity transfer calculations in the core FSR model, and a simplifying assumption that PNFC Sector GFS Net Debt increases by an amount equal to the equity transfers from the GGS (ie a dollar of equity will support a similar increase in debt). The PNFC Sector projection is then added to the projection of GFS Net Debt for the GGS to give TNFPS GFS Net Debt.

## **How have climate change and natural disasters been treated?**

As the baseline Historical Growth Scenario is based on historical trends, the general increase in costs from climate change are implicitly captured in the overall expenditure trends for some categories. For example, increasing bushfire related expenses are captured in the growth rates for the public order and safety expenditure category.

Given the occurrence and impact cannot be predicted, it is not possible to explicitly capture climate change in the projections, and its effect has therefore not been explicitly modelled. Notwithstanding this, the 2026 FSR has included a sensitivity analysis regarding the impact of a significant shock to operating expenditure. Such an event could include a major natural disaster.

## **How has the emergence of Artificial Intelligence been treated?**

The emergence of AI has not been explicitly modelled in any of the scenarios, as the impacts of this technology are uncertain at this time. Whilst AI may lead to greater efficiency and productivity in the operations of government, its impacts in the private sector will have unknown implications for the future composition of the economy, the ability of governments to raise revenue, and the community's expectations regarding service provision.

## **How were the results determined?**

The projections were developed using standard budgeting practices and were based on data that is consistent with that presented in the Treasurer's Annual Financial Reports. Input data was adjusted for known, or expected changes in revenue, expenditure and major capital projects to determine results for the fiscal measures for each year of the 15-year projection period. All projections assume there is no corrective policy action by government.

## **When will the next Report be published?**

Under the provisions of the *Charter of Budget Responsibility Act 2007*, the next Report will be published before 30 June 2031.