



State Budget Snapshot
2017 Tasmanian Budget

State Budget Snapshot

Introduction



“The state budget sets our path for the next 12 months and over the forward estimates, and it provides you with some insight into the Government’s thinking.”

I love this time of year. Giving the speech prior to the Treasurer talking through his latest budget is an annual highlight for me. Travelling the state with the Premier and Treasurer I get numerous requests for my slides. Last year I decided to issue a bit more detail from my presentation and overlay this with a budget summary, with particular focus on the boom sectors of the economy (as identified in Deloitte’s 2013 Positioning for Prosperity report).

My aim remains to provide information that is written by a local for locals, is informative, easily readable and provides you with some valuable insights.

I hope you enjoy this years State Budget Snapshot.

Please feel free to provide me with any questions or feedback at carharris@deloitte.com.au

Regards



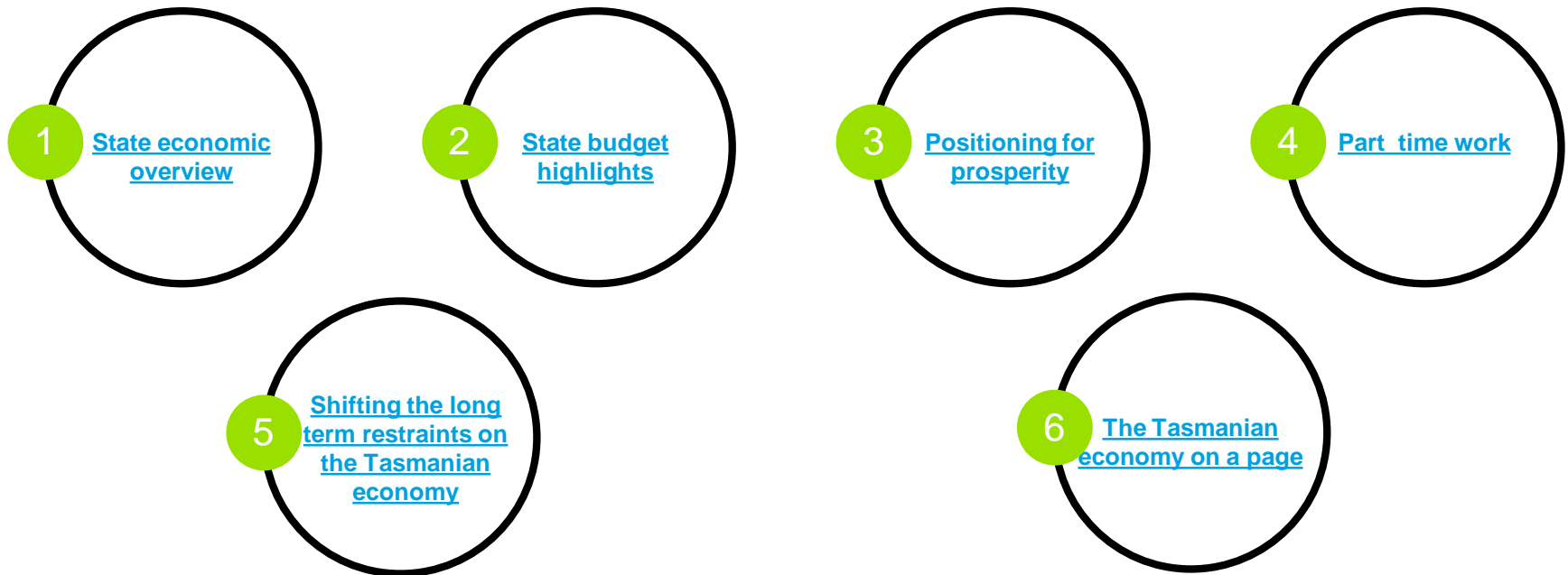
Carl Harris
Managing Partner | Tasmania



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State Budget Snapshot

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Economic overview

The Tasmanian Economy

Gross State Product ⁽³⁾

FY18 \$26.85b

(Forecast)



Real Final Demand ⁽³⁾

FY16 \$30.91b

(Forecast)



FY18 Budget ⁽¹⁾

Revenue \$5.874b

Grants \$3.683b (62.7%)
State taxes \$1.128b (19.2%)

Expenditure \$5.819.8b

Health 1.723b (29.6%)
Education 1.543b (26.5%)

Surplus \$54.3m

Infrastructure Investment \$657.0m



Population ⁽³⁾

Tasmania: 521,000

427,100 working age (>15years)
of which 94,000 are over 65

Labour force 257,600 comprising:

- 242,000 Employed
- 15,600 Unemployed

Of the 242,000 Employed:

- 153,000 Full time
- 89,000 Part time



(1) 2017/18 Budget Paper No.1

(2) Deloitte Access Economics Business Outlook April 2017

(3) ABS data

Economic overview

The news is good

The lower AUD continues to play to some of our states most important sectors including tourism, international education, agribusiness, mining and manufacturing.

“Tasmania’s economy is chugging away at a relatively healthy rate.”

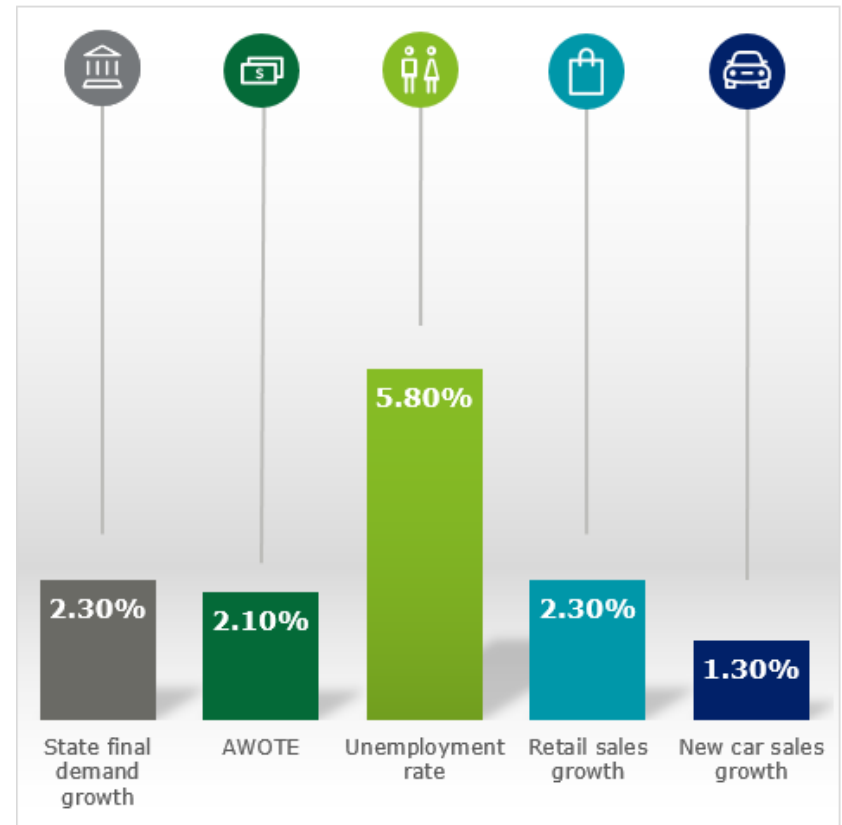
Deloitte Access Economics
Business outlook April 2017

Overall the economic indicators for the state are generally good (as the chart shows).

Additionally tourism is performing very strongly with increases in visitor numbers, nights and spend ⁽²⁾, Airbnb economic contribution of \$55m and 600 jobs through 126,000 nights booked ⁽³⁾, and increased Hotel occupancy. ⁽⁴⁾

Property growth and rental returns are also very strong.

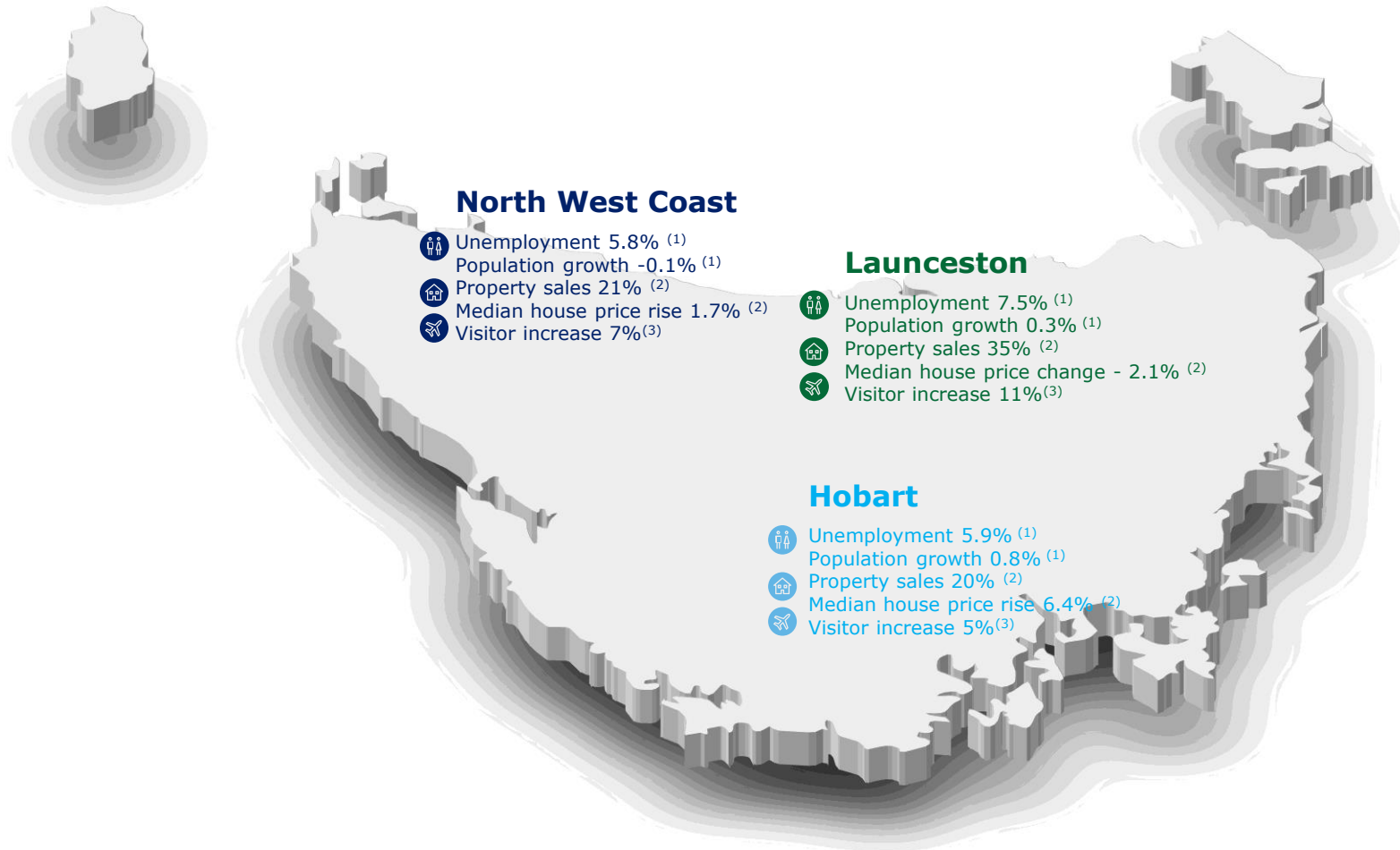
Key economic indicators for Tasmania ⁽¹⁾
(at or better than the Australian average)



(1) Department of Treasury & Finance "Summary of Economic statistics" 31 March 2017
(2) Tasmanian Tourism Snapshot – Year ending December 2016
(3) Deloitte Access Economics "Economic effects of Airbnb in Australia" 2017
(4) ABS data

Economic overview

Regional snapshot



(1) ABS data
(2) Q1 March 2017 - REIT Media release "Local market rockets to 13 year high" 25 April 2017
(3) Regions visited increase - Tasmanian Tourism Snapshot Year ending December 2016

State budget highlights

Overview, health & education



Total revenue \$5,874.0m

- Grants \$3,682.9m
- GST revenues up
- Payroll tax continues to be the highest state tax generator at \$338.7m

Total expenses \$5,819.9m

Surplus of \$54.3m in 2017/18 and >\$45m pa over the forward estimates

Growth in revenue of 2.7% and expenditure of 2.4% over the forward estimates

Net cash & investments /(debt) is \$451.8m

Infrastructure investment \$657.0m

Health and education account for over 56% of expenditure. Key budget announcements in these sectors were:

Health (\$1,722.8m or 29.6%)

- \$100 million for key hospital initiatives
- \$67.3 million to support Patients First - Stage 2 - New Hospital Beds and Staff
- \$16 million for mental health service delivery priorities
- \$14.4 million to supplement frontline staffing costs
- \$9 million to secure a second medical and police search and rescue helicopter
- \$9.5 million to support the cost of Ambulance Officers and \$3 million for a new Campbell Town Ambulance Station; and
- \$62.7 million for hospital and rural health facility infrastructure including \$35 million for Mersey Community Hospital capital upgrades.

Education (\$1,543.2m or 26.5%)

- \$3 million to implement the Global Education Growth Strategy
- \$3.2 million to support the Drysdale Centre of Excellence
- \$28.8 million for schools infrastructure and \$6 million to support Non-Government schools infrastructure development
- \$18.6 million to support the implementation of Education Act reforms; and
- \$17.8 million to support student learning through investing in district school nurses, school support workers, student engagement and flexible learning and child and student wellbeing.

Source: 2017/18 budget papers No.1

Positioning for prosperity

The Boom sectors



The Deloitte publication “Building the Lucky Country #3 – Positing for prosperity” suggested that there were three industries that were critical to the future prosperity of this state – Agribusiness, International education and Tourism.

The budget contains the following highlights for each of the ‘Boom sectors’ below.

Agribusiness

- \$12.5 million to support the Government's Agri-Food Plan; and
- \$20 million for the additional costs of Tranche 2 irrigation projects.

International Education

- No major new funding announced

Tourism and the visitor economy

- \$11m for tourism marketing
- \$21.8 million to support the Cradle Mountain Visitor Experience over 3 years
- \$8 million for tourism infrastructure in parks
- \$6m Tasmanian cycle tourism strategy
- Further funding for the TT-Line replacement (\$100m over the budget and forward estimates)
- \$2.9m Parks flood repair; and
- \$2m restoration of the Darlington site on Maria Island.

Source: 2017/18 budget paper No.1

Economic overview

Part time work

It is hard to talk about the Tasmanian economy without touching on the increase in part time work.

A global and national trend that has been **evident for some time**. Notably it has accelerated of late (especially post GFC) and now one in three workers are part time.

Leading the charge in Tasmania's part time⁽¹⁾ work are:

- Healthcare
- Accommodation and food services; and
- Retail.

These three sectors are⁽¹⁾ :

- Large employers in the state (and across the three main regions)
- Predicted to see significant job growth in the future; and
- Make up 3 of the top 4 sectors where Tasmania has more people employed as a percentage of the population than the Australian average.

Source
(1) ABS data



Economic overview

Part time work

Evidence would suggest that this trend is due to:

- **Strong retail spending and a booming tourism industry** means more jobs in two sectors who tend to hire proportionately more part time employees
- Our **aging population** needing care for longer – **Healthcare** has a lot of part-time work and is the largest employer in the state.
- **The workforce dynamics are changing.** Some people want less hours:
 - Retirement: transition to retirement & working post retirement
 - Flexible working: mothers returning to work & increasing numbers of fathers involved in raising children
 - Students: more international students, more local students and keeping people in education longer
- **Restrictive employee regulations**

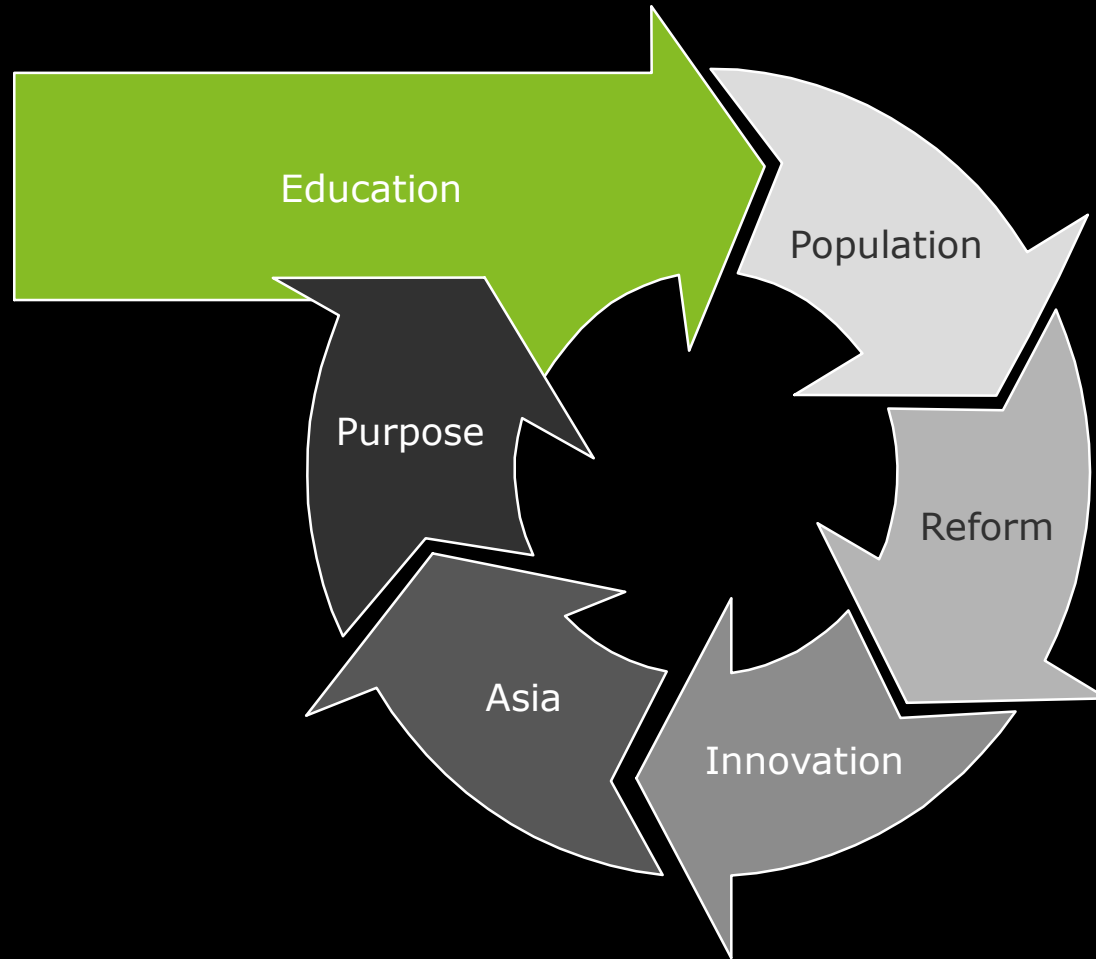
However - an increasing number of people working part-time actually want to work more hours so its not all personal choice. Underemployment nationally is at a record high of 9%.

“And partly it is because Australia’s reasonably restrictive employment regulation is less restrictive when it come to casual workers and there’s been a degree of crossover between casual work and part time work.”

Deloitte Access Economics
Business outlook January 2017

Deloitte.

Shifting the long term restraints on the Tasmanian economy



Education

Educate all generations

A lot of good developments - Year 12 extension and increased year 12 enrolment, Associate degrees, Campus relocations (and investment), Beacon's Collective Ed pilot project, VET outcomes and International students.

"...The single most important thing that needs to be done in order to improve Tasmanians' material living standards...is to increase the levels of educational participation and attainment..."

Saul Eslake
Tasmania report 2016

We need to enhance our **education outcomes** and ultimately participation and earning capacity.

But we can all do our bit to engage the workforce and **community**. Let's not just focus on the **current generation** being educated, let's focus on **those in the workforce already**. Qualifications and education need to be the norm - not optional or a nice to have.

Education

AURORA - 52 employees (close to 1/3 of workforce) undertook customised training with TAFE achieving cert III qualifications.

"One of our most proudest moments, especially seeing the pride of the individuals and their families on being able to "go back to school" and be successful as for many "school" wasn't that great the first time."

Rebecca Kardos
CEO - Aurora Energy

Lifelong learning, re-skilling and serial careers will be the key traits of the future workforce. Education is the preparatory foundation for this new environment.

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Population

Growth and resilience

People create, produce and consume.

Our aging population will see fewer in the workforce in years to come.

We need to retain our young people, attract people from interstate and overseas and increase our birth rate.

We need to make a compelling case for people to build a successful future here.

Technology is changing how, where, how often, when and in what industry we work. Robotics, AI etc will change employment contracts, industries and jobs as workers adapt their skills to changing and expanding demand.

Industries will change, jobs will disappear, but new industries and jobs will emerge.

We need to have a resilient and adaptable labour force open to change, and primed for **re-skilling/re-training and life long learning.**



Population

Technological change drives long-term economic growth, productivity and improvements in living standards. It has led to net job creation, as new industries replace old ones and workers adapt their skills to changing and expanding demand.

OECD Job Strategy

Deloitte.

Reform

State lead reform

Minimal action at the Federal level. Politics is placed ahead of beneficial reform. (Although Company tax cut for business under \$50m is welcome).

“Tax reform is mostly a prosperity story – if you can shift from ‘bad taxes’ to better ones, then you can make Australia more prosperous.”

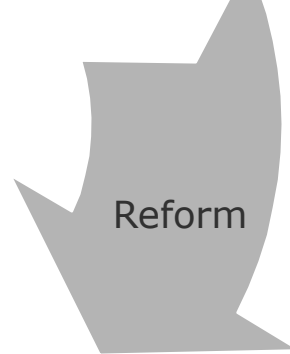
Mythbusting tax reform
Deloitte

Bad taxes actually have a negative impact on the economy. These ‘bad taxes’ tend to be state taxes such as payroll tax and stamp duty (although company tax also rates poorly). However, there are only so many levers a state can pull without Federal reform.

Reducing payroll tax where an apprentice, young person or re-trained worker is hired is good policy.

The first two retain young people (critical for population growth) and the third supports a key element of the future workforce – the re-trained worker.

Both create full time roles.



Land tax and consumption taxes have the least deadweight loss and are considered ‘good taxes’.

I remain convinced the GST will change. Whether it be the allocation method, an increase in the rate or an expansion of the base (or a combination).

Protect Tasmania’s position but be open to reform for upside. Instead of what we might lose, how about **what might we gain ?**

Three of our top four visitor countries of origin have consumption taxes of 15% to 20%. Are we missing an opportunity ?

And its not just tax reform. All levels of Government can help continue to make business and investment easier – Reforms that encourage and support sustainable, responsible investment are essential.

Getting the infrastructure right is central to our future success.

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Asia

Riding the wave

The boom sectors of Agribusiness, International education and Tourism continue to lead the charge.

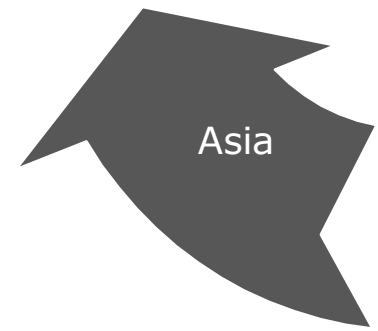
The mining construction boom is over and we are seeing explosive growth in **China's middle class**. Their consumption, increased wealth and desire for education play to Tasmania's strengths.

India will transform the world economy the way China has done. By 2021 it is tipped to be the third largest world economy.

Indonesia, Vietnam and the Philippines will also be important.

Australia is ideally placed in terms of global proximity to Asia.

As the southern most state, Tasmania needs to proactively position ourselves to seize opportunities that will come from Asia in the future.



Purpose

Empowering potential

Purpose

We should strive to enhance the prosperity of those who are currently not that prosperous or face barriers to reaching their potential.

Create an environment where everyone has a chance to grow, succeed and reach their potential.

The Gens Y and Z expect we all have a purpose over and above personal success. Gen Alpha are unlikely to be any different. That purpose is community focussed.

76% of Millennials now regard business a force for positive social impact ⁽¹⁾

We need to ensure the vulnerable are cared for, the underprivileged are given support and opportunities, and the sick have appropriate health care.



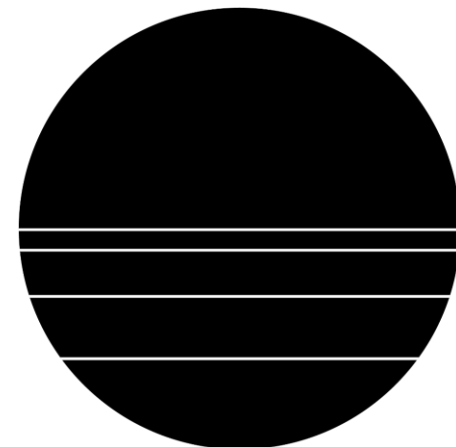
(1) The 2017 Deloitte Millennial Survey

Record low interest rates. Low AUD. Unemployment below the Australian average. Majority government. Tourism, Agribusiness and International education are booming. Retail is strong. Property is rising. Airbnb. Spending is under control. Population growth slowly trending upwards but the oldest in the country. Low participation rates. Education outcomes are improving. Investment needs a boost. Affordability and availability of housing. Part time work is replacing full time. Robotics, cognitive technologies, and new entrants are causing continuous disruption and changes to workforce dynamics. Cyber risk is huge. A new political leader and a looming election. Our water and sewerage infrastructure, council suspensions and amalgamations, energy security, unfunded superannuation liabilities. A select few are powering investment. Manufacturing is innovating. Hard to do business ? GST changes ? Tasmania as a battery. Retraining and re-skilling are the future. Educate the current & future workforce, Grow the population, build a resilient labour force, embrace reform, innovate and collaborate, ride Asia's wave, enable all to reach their potential and support the vulnerable.



In Building the Lucky Country #6, we consider scenario planning. How would a slow down in China impact your industry or business ? We include numerous scenarios across 50 industries with millions of data points via the Deloitte Access Economics tool - Deloitte Horizon.

Find out more at www2.deloitte.com.au



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