

“In Support of Progress” Newsletter

In this issue

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Budget Balance

Does the Budget Balance?

In framing a response to a budget, the issue confronting any Opposition is whether to provide a detailed response or to deliver platitudes. In other words, to become a big target, by focussing debate on their alternative, or to be a little target, and focus debate on the government's failings.

It is a real dilemma, and especially so when done in an election year. Federally, the Liberals have taken the small target view, however at the State level they have opted for the big target approach. So, at the State level, and at their own choosing, the spotlight falls on them.

Now everyone knows that the State's economy is in a parlous state. Unemployment is high – investment is low. So the budget and the budget reply was a real opportunity for both parties to state not only their awareness of this fact but that they were willing and able to resolve the malaise. A time for VISION, and a NEW direction. The question therefore is obvious: Did they deliver?

If one was to ask the question “What did the Labor budget deliver?” what would be your answer? Mmm, thought so – you are not sure. Maybe you might be thinking, sort of OK, but steady as she goes, little in the way of a new direction, and debt remains a problem. As does the Labor – Green agreement generally.

And what if I asked the same for the alternative Liberal budget? What would be your response? Maybe, some lollypops for some interest groups, but again, no great change? An alternative budget that sacks 500 public servants and yet the books don't balance? That is the problem with the big target approach – it's got to be good, or else it's not good. Presenting a target means getting targeted. And it all ends up negative.

I was intrigued by the revenue issue that got the Liberals into so much trouble. The argument is based around the amount paid to government by Hydro Tasmania. Hydro pays a dividend to the government each year, plus a tax equivalent amount. Treasury forward estimates show the following (in \$million). Note the falloff in revenue in later years.

	2012-13	2013-14	2014-15	2015-16	2016-17
Dividend	50.9	109.7	135.6	98.8	27.3
Tax Equiv.	74.1	83.3	60.5	16.7	22.3
TOTAL	125.0	193.0	196.1	115.5	49.6

Treasury, on which the government is basing its advice, says the high dividend in the next 2 years is a result of Hydro maximising its carbon revenue, after which the carbon price will fall, perhaps as low as \$12/tonne. Readers might be aware that the carbon price, at present set at \$27/tonne, is to float from July 1, 2015. Note also that the present price for carbon in the EU is around \$4/tonne, and falling – and some would say failing.

The Liberals have accepted these totals as the basis for their calculations.

Their figures look like this - as you can see, not much has changed:

	2012-13	2013-14	2014-15	2015-16	2016-17
TOTAL	125.0	193.0	196.1	115.5	49.6
Rebate		-37.0			

However, they say they will rebate the carbon tax immediately. And their argument continues that there would be NO carbon tax from July 2014, courtesy of an Abbott government, so no need for the rebate after that time. However, the dividend and tax equivalent will still be collected in 2014-15, because, like all dividends, it is paid in the following year to the year of collection. The dividend in 2015-16 (without a carbon tax) will be derived from setting up new arrangements (read dividend levels) with Hydro Tasmania and presumably those arrangements will extend beyond that time, although that has not been raised, by them or by others. Why not?

The government has jumped on these figures. How can you collect as a dividend monies that you have already rebated in the previous year? Spending money before you have got it? How can you generate revenues from Hydro without the benefit of the carbon price? The dividend will exceed the profit! You have simply been dishonest by saying you will get this money! Shame!

The Liberals, confronted with this full frontal attack, fluffed it, and although they came back eventually, the image remains that the books had been cooked. And in a way they have been, because they have simply set an arbitrary target dividend level in later years. Just like the government has done!

Mind you, making any future revenue predictions on the basis of a carbon tax is a risky business, and the government should also exercise some caution. Treasury figures on carbon pricing could be equally rubbery. And let's not forget the transfer of the Tamar Valley Power Station from Aurora to Hydro (see Newsletter 1306). This disgraceful legacy from Aurora management could make **any** dividend return from the Hydro rather suspect. After all, no profit – no dividend. And that power station is a white elephant, and an expensive one. It could eat up all profit. So the criticism of fudging the books can be made both ways.

Sacking public servants seems like good sport. "Axe to Fall – 500 to go" – screamed the headlines the following day. The trouble for the Liberals was to answer the obvious question "Where were they going to come from?" To that, the Liberals did not appear to have a clear answer, other than through "efficiencies, including IT efficiencies, departmental amalgamations" etc. (*if one is looking for IT efficiencies, don't ask Aurora – ed*). Again they seemed unprepared for the onslaught.

Whether you believe there should be a trimming of the public service or whether you don't is somewhat irrelevant from a pre-election perspective. The general statement of loss, without targeting any particular area, will only make all public servants nervous, and will encourage them to support the status quo at the next election. In that regard, that is at least one quota in each of Denison and Franklin that is now not so certain to support the Opposition.

It would appear that the "big target" approach has backfired somewhat. The fact of the matter is that the next election is for the Opposition to lose – most pundits accept that. It would appear they could be on their way to doing so.



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