

Will Hodgman MP
Leader of the State Opposition
Tuesday June 24, 2008

Aird behind the times on Future Fund

The State Opposition has urged the Labor Government to start thinking about the long-term future of Tasmania, rather than making everything it does about a short term media hit.

The State Government's attack today on the Opposition's Future Fund is a classic case of its inability to think strategically about the future.

Leader of the State Opposition, Will Hodgman, said the Treasurer, Michael Aird, clearly had not heard a word of the Budget Reply last week, when Mr Hodgman detailed the merits of the Future Fund, that has also been endorsed by independent commentators.

And Mr Aird has effectively cast doubt on the investment strategies of the Retirement Benefits Board in his search for a cheap headline.

"I understand that Mr Aird is twitchy about the State Opposition exposing the government's lack of transparency in relation to the management of the Superannuation Provision Account, but if the government is interested in good ideas, then it should look at long term strategies such as this to manage the SPA independently, and ensure that there is capacity to meet the infrastructure challenges of the future," Mr Hodgman said.

"It is sadly typical of Labor that a strategy that focuses on sound and responsible long term economic management is something it instinctively cannot accept."

The following is an excerpt from Mr Hodgman's Budget Reply in relation to the Future Fund:

In response to last year's Budget the State Opposition proposed consideration of a Tasmanian future fund, a concept that has received support from independent economic commentators. The fund could be established initially from the Superannuation Provision Account and would be further enhanced by allocations from the Consolidated Fund,

dividends from existing government business enterprises, and asset transfers or proceeds from asset sales such as those that have been realised over the last financial year. With pressing challenges such as demographic change, constraints on our tax base and access to GST revenues or the underfunding of infrastructure, a Tasmania future fund could be built to provide the base for our future needs. The fund would be an investor and its investment decisions could be statutorily independent and managed in a way that does not result in exposure to risk, as is being deviously and mischievously suggested by the Premier. An additional benefit of the fund would be to provide greater transparency and accountability in our finances. This would protect the SPA funds from being misinvested and make transparent the lie of the Government's claim that it has no debt.

Lack of accountability by this Government is one of the fundamental reasons we will pursue a future fund. Over successive years this Government has claimed to be in a positive net-debt situation but the real story is that it counts its superannuation account twice. It uses it to offset its unfunded superannuation liability but also uses it to offset its general government debt liabilities. Currently, as at 30 June 2008, net debt is estimated to be \$969.4 million in the positive; that is, we have \$969.4 million in cash over and above the government debt that is disclosed. However, once the superannuation provision account is deducted from this figure, the real net-debt situation emerges. The estimated superannuation provision account at 30 June this year is \$1.25 billion. Once this is taken into account and deducted from the Government's cash balance, the true debt situation is \$282 million in net debt. That is not money in the bank, that is money owed to the bank. Furthermore, our unfunded superannuation liability has grown to \$3.76 billion today.

This has been another exercise in creative book-keeping and shows a lack of accountability and honesty by the Government. We welcome the fact that the Treasurer has finally acknowledged the need to repay the hidden debt in this Budget. The debt has been hidden in the temporary debt repayment account created in 2003 by no less than the former Treasurer, David Crean. The balance of this account in June 2007 was \$1.17 billion and, at the rate the Government proposes to pay this off, we will continue have a debt liability for over 30 years into the future. However by 2014, the Liberals will have untangled this financial mess we will inherit from Labor and the Budget will remain in surplus, I hasten to add, and will not have increased the State's borrowings. Furthermore, we will remove the superannuation provision account from the public account to improve returns, another important element of the future fund proposal.

By establishing a statutorily independent Tasmania future fund, public servants can be confident that their superannuation is safe while payment obligations will be guaranteed by the Government. The unfunded superannuation liability would be significantly reduced and the nominal interest burden on the Budget reduced also. With improved returns, this would enable increased spending in the future on the core government responsibilities of health, education and infrastructure. The Tasmania future fund could be managed in a way akin to that administered by the RBF and I do not believe anyone is suggesting that they engage in risk-friendly management practices. In fact, they invest in a balanced portfolio in a way that does not expose them to great risk, and the Tasmania future fund could similarly administered.

The future fund would only be utilised for investment in infrastructure where it met a commercial criterion to the satisfaction of the independent board, so the claims of the Premier that this would somehow cost Tasmanian taxpayers \$70 million - and we do not know where he has plucked that figure from - are simply fabricated. I challenge the Premier to provide whatever advice he has and explain how he repeats this still unsubstantiated claim.

Interestingly, just recently, the CEO of the RBF, Mr Simon Gillies, said in a newsletter - and I quote:

'Much of the media's focus has been on the short-term effect of these losses on superannuation.'

This is talking about returns:

'This can make it easy to lose sight of the fact that superannuation is a long-term investment and short-term market fluctuations are normal. So we should not scare investors away from the proven long-term value adding of disciplined investing.

'It is important in times of uncertainty and volatility that members do not overreact and undermine their long-term goals by changing their investment strategies.'

That is a responsible, risk-averse approach to management and one that we would support. So I urge the Premier, if he is genuine in his desire to progress a debate of ideas, to look beyond the short-sighted attempt to gain some political opportunity from this and look at this proposal on its merits because, as I say, it meets with approval from independent economic commentators.

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