



2005/06 Victorian State Government Budget

Overview

The 2005/06 budget is a prudent attempt to balance the Bracks Government's social commitments, along with the need to further strengthen the competitiveness of Victorian industry. The government has been able to meet both demands through a combination of more efficient service delivery, favourable economic parameter variations and continuing strong growth in GST revenues.

However, while the budget has delivered further substantial cuts in business imposts, as well as bolstering expenditure on key infrastructure priorities (and which were major elements of Ai Group's pre-budget submission), the government has eschewed the opportunity to further facilitate innovation and skill development across industry. In Ai Group's view, these factors are crucial in sustaining an internationally competitive manufacturing sector, in addition to reducing business taxes and costs.

Key Budget Aggregates

Using the new Australian version of International Financial Reporting Standards (A-IFRS), the general government operating balance is forecast to narrow to \$365 million in 2005/06, from an estimated \$578 million in 2004/05. The surplus is forecast to narrow modestly further over the ensuing two years, to \$319 million in 2006/07 and to \$313 million in 2007/08.

The forecast surplus of \$365 million in 2005/06 compares with the most recent projection of \$467 million, presented in the 2004/05 Budget Update. The smaller surplus reflects the effect of new policy decisions announced in the budget (with a total cost in 2005/06 of \$604 million), and which were only partly offset by:

- economic parameter variations (\$204 million including \$142 million from higher than budgeted investment income);
- higher projected net Commonwealth grants (\$113 million);
- net administrative savings (\$150 million);
- variations to estimates of other own-source revenue and economic flows.

Operating expenses are budgeted to increase by 5.2% in 2005/06, lower than the forecast increase in nominal Gross State Product (GSP). Expenses are budgeted to increase by less than 3% in the following two years. More efficient delivery of State

government services is estimated to net the government \$532 million of savings over the next four years.

Income is forecast to increase by 4.3% in 2005/06, largely reflecting the cuts in debits and land taxes. Income growth is expected to slow even further in the following two years, as a result of other tax cuts and reflecting also the full-year effects earlier tax measures. Stronger growth in Commonwealth grants will also be offset by reduced conveyancing duties.

The budget also provides for sustained high levels of expenditure on key infrastructure projects. Expenditure on approved projects jumps to \$3,099 million in 2005/06 (from an estimated \$2,737 million in 2004/05), and averages around \$2,500 million in the following three years (consistent with Ai Group's submission). The government estimates approximately 25% of expenditure on infrastructure will be funded by means of new borrowings from capital markets, with the bulk financed by the operating surpluses, asset sales and provisions for depreciation.

The projections are based on estimated GSP growth of 3.0% in 2005/06, down from an estimated 2.75% in 2004/05. Growth is forecast to strengthen further to 3.5% in 2006/07. In Ai Group's view, the forecasts are broadly reasonable, although the balance of risks favour a slightly weaker profile in 2005/06 and 2006/07.

Key Initiatives

Key measures potentially affecting members are summarised below. ***The reductions in taxes and insurance premiums, along with the foreshadowed abolition of debits tax on 1 July 2005, will eventually deliver Victorian business full-year savings of around \$700 million.***

- ***WorkCover premiums*** are to be cut on average by a further 10% in 2005/06, bringing the average rate down to 1.8% (with savings in the first year of \$170 million and \$850 million over five years). The cut follows a similar 10% reduction in 2004/06, and leaves Victoria with the second lowest rate in Australia (behind Queensland);
- ***Land tax*** rates are to be reduced, which along with changes in some thresholds will yield savings to property owners of \$823 million over four years. Middle land tax rates will now range from 0.5% to 2.25%, compared with 1.0% to 3.0% previously. The top marginal rate will be reduced to 3.0% in 2007/08, while there will be a capping of 2005/06 liabilities and targeted cash rebates.
- ***Rental business duty*** is to be scrapped from January 2007, consistent with the 1999 GST agreement between the Commonwealth and the States. In the first full year (2007/08) total savings are estimated at \$64 million. The proposed abolition follows the cessation of debits tax in July this year.
- ***Service delivery charges*** will increase in some areas, including for the registration and discharge of mortgages (at a cost of \$13 million). The brown coal royalty rate will also be increased with a cost of \$13 million.

- ***Infrastructure funding*** has been increased to allow additional investment of \$2.0 billion over four years. Much of the investment is targeted at the public transport system and highways, including several regional highway projects.
- ***Regional Victoria*** will benefit from several additional programs. The Regional Infrastructure Development Fund will receive additional funding of \$10 million over four years, in order to facilitate investment, employment, and export opportunities in regional Victoria through the availability of enhanced infrastructure. Regional ports will receive \$2 million in extra funding, while \$12 million of new funding has also been allocated to strengthen the regional pre-apprenticeship program (under the *Blueprint for Government Schools* program).
- The ***Electricity Network Tariff Rebate Scheme*** has been extended at a cost of \$36 million, ensuring households and small businesses in regional Victoria are not harmed by the shift to more competitive retail electricity markets.
- An ***Energy Technology Innovation Strategy*** is to be implemented with funding of \$106 million over five years. The primary objective of the strategy is to advance the development of greenhouse abatement technologies, particularly to commercial ready stages.

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