



Review of the 2010-11 Victorian Budget

Overview

Ai Group has secured on behalf of Victorian industry a number of significant commitments from the Government that will help ease the taxation burden placed on local businesses, and better equip them to compete in a challenging global environment. The key theme of Ai Group's submission to the 2010-11 Victorian Budget was the important role the Government must play in supporting the competitiveness of Victorian companies, and a number of the Budget's announcements were in line with AiGroup's recommendations.

These include:

- A 0.05 percentage point reduction in the payroll tax rate to 4.90% (Ai Group had been pushing for a reduction to 4.75%);
- A 3.5% reduction in WorkCover premiums, leading to a projected saving to employers of \$60 million in 2010-11;
- The provision of \$16 million of funding over four year for the ***Transition to a Global Future*** initiative.
 - The program will include a new ***Competitive Business Fund***, new initiatives aimed at attracting investment and an assistance package designed to provide support to trade-exposed Victorian companies affected by the rising value of the Australian dollar.
 - Ai Group has pressed the Victorian Government strongly to have this proposal taken up and we will continue to work to ensure they remain committed and provide adequate funding for this important program.
- An extensive infrastructure program, most notably in the areas of transport and health, which will have substantial flow-on effects for firms in the State's manufacturing, services and construction sectors.
 - Ai Group has long pushed for the Victorian Government to ensure that local content is maximised in major infrastructure projects, and we will press for such a focus to be applied to these newly announced programs.

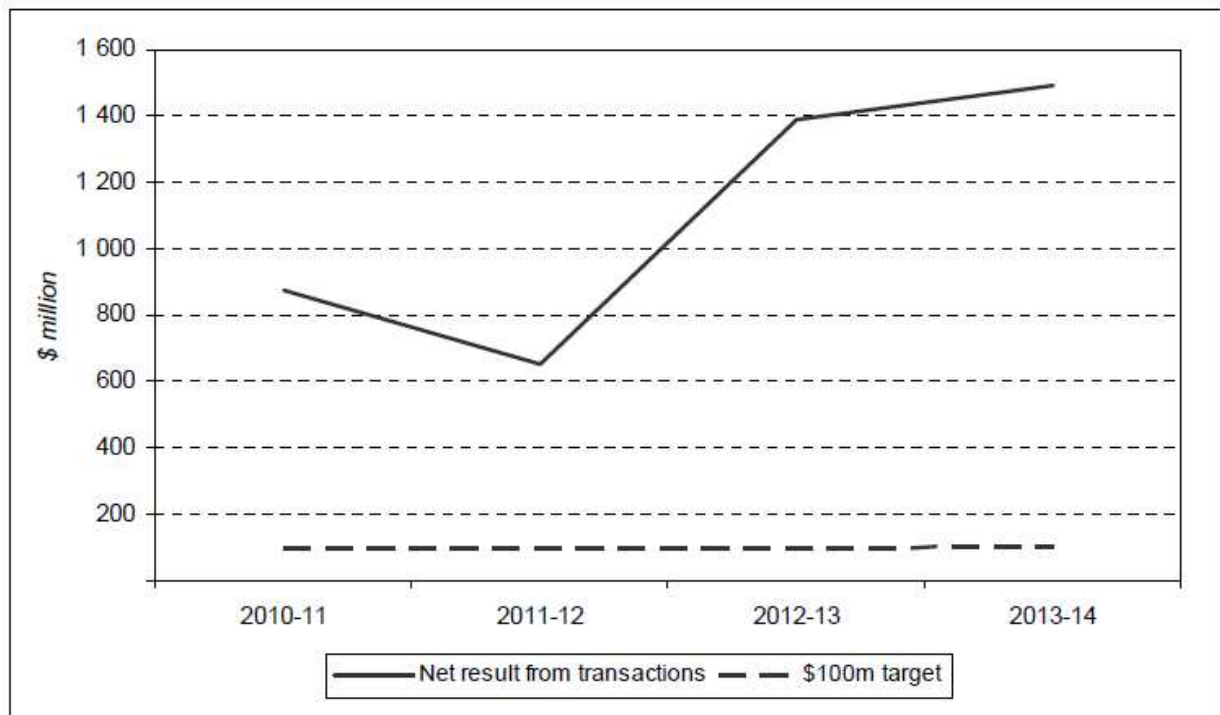
- Measures aimed at boosting the skills of Victorian workers and supporting apprentices and trainees.

Victoria’s construction sector will also welcome increases in the **First Home Bonus** for purchases of all newly constructed homes and the **Regional First Home Bonus** for purchases of all newly constructed homes in regional Victoria.

Budget Analysis

The Victorian Government’s expected total **operating surplus** in 2010-11 has been revised up to \$872 million. An average total operating surplus of \$1.2 billion has been forecast across the forward estimates period.

General government sector net result from transactions



Source: 2010-11 Budget Paper No. 2, *Strategy and Outlook*, pg. 8.

Revenue is forecast to grow by 4.6% to \$45.8 billion in 2010-11 and expand by an average of 3.3% over the forward estimates period (2011-12 to 2013-14).

Taxation revenue is forecast to be \$14.4 billion in 2010-11 (5.8% higher than in 2009-10), partly reflecting recent strength in the property market, and in turn its impacts on land transfer duties and land tax revenue, as well as the continued recovery in the domestic economy and labour market conditions.

Expenditure is expected to grow by 3.5% to \$44.9 billion in 2010-11 and increase by an average of 2.9% over the forward estimates period. Total expenses from transactions are forecast to be \$2.3 billion higher in 2010-11 than published in the Government's *2009-10 Budget Update*, and an average \$2.3 billion a year higher over the period from 2011-12 to 2013-14.

Net **infrastructure investment** is projected to be \$6.4 billion in 2010-11, and is expected to average \$4.6 billion over the three years to 2013-14. The Victorian Budget's additional spending on infrastructure, most notably on transport, hospitals, schools and other significant capital projects, should contribute to reducing transport costs and lifting the state economy's productivity. The Victorian Government's **net borrowing** requirement in order to support its infrastructure program will be \$1.2 billion in 2010-11.

General government **net debt** is forecast to increase from a revised \$8.7 billion at June 2010 to \$15.8 billion at June 2014 – equivalent to 4.1% of GSP. Since the 2009-10 Victorian Budget, estimates of net debt as a percentage of GSP have been revised down by around 1% over the forward estimates period.

The 2010-11 Victorian Budget indicates the Government will be in a net cash deficit position in 2010-11 (\$697.4 million) and 2011-12 (\$390.5 million), reflecting the profile of its capital expenditure program, before returning to a cash surplus position in 2012-13 (\$870.7 million) and 2013-14 (\$1,457.1 million).

Key initiatives affecting business

The Government has announced a number of initiatives, many proposed by Ai Group in its pre-budget submission, which will support Victorian business. These include:

- A 0.05 percentage point reduction in the payroll tax rate, from 4.95% to 4.90%, effective from 1 July 2010. This will provide Victorian business with a projected saving over four years of \$193 million, benefitting a projected 31,000 businesses.
- A reduction of 3.5% in WorkCover premiums, leading to a projected saving to employers of \$60 million in 2010-11. The reduction will drop the average premium rate to an historic low of 1.34% from 1 July 2010, the second lowest state rate behind Queensland (1.30%).
- \$16 million of funding over four years for the ***Transition to a Global Future*** initiative, assisting Victorian business in accessing new opportunities emerging in the global economy. Funding will also cover assistance and guidance to be provided to trade-exposed Victorian companies impacted by the rising value of the Australian dollar.
- An \$11.8 million investment over four years on a range of small business initiatives, including:

- \$4.5 million for enhanced workshops and seminars to assist business operators in attaining skills to assist them in running their business;
 - \$3.5 million to fund forums, workshops and one-on-one business counseling for small businesses in regional Victoria on changing economic circumstances;
 - \$2.2 million to expand the small business mentoring program to 1,500 sessions per year; and
 - \$1.6 million in additional funding for the Energise Enterprise festival.
- \$1.6 million of funding over two years for a **Masterclass for Growth** program, providing business owners with information on business trends and advice from industry leaders on how to manage growth.
 - A \$2,000 increase in the **First Home Bonus** for purchases of newly constructed homes (although the grant for first homebuyers purchasing existing homes will be cut by \$2,000 to \$7,000).
 - An increase in the **Regional First Home Bonus**, providing an additional \$4,000 to first home buyers building a new home in regional Victoria (although the grant for first homebuyers purchasing existing homes in regional Victoria will be cut by \$2,000 to \$7,000).
 - \$175 million over five years to secure jobs and business opportunities through the **Jobs for the Future Economy** program.
 - \$32 million of funding over four years to continue the apprentice/trainee completion bonus and to support apprentices who study away from home.
 - \$27 million of spending over five years for new Victorian tourism campaigns.
 - An investment of \$17.7 million for the purchase of land necessary to expand the Melbourne Exhibition Centre precinct.
 - \$4.4 million in funding for new infrastructure at Melbourne's Docklands Studios.
 - \$5.8 billion of funding, in cooperation with the Commonwealth Government, for increasing the capacity of Victoria's transport system, including:

Public transport projects

- \$4.3 billion (including Commonwealth Government funding) for the Regional Rail Link;
- 50 new, low-floor trams and supporting infrastructure (\$808 million);
- \$38 million of funding for completing the construction of new train stations in growth areas.
- \$84 million over four years for the upgrade of 20 train stations to 'Premium Station' status.
- \$23 million of funding over four years for the expansion of the Transport Connections program.

City and regional road connections

- \$230 million over 6 years, in partnership with the Commonwealth Government, for major road projects, including an upgrade of the Princes Highway East from Traralgon to Sale and the duplication of Clyde Road in Berwick.
- \$77 million of funding over five years for the next stage of the Geelong Ring Road.
- \$67 million over three years for outer suburban arterial road projects.
- \$52 million over four years to upgrade major roads in regional areas.
- \$19 million of funding over four years for noise walls along the Monash Freeway.
- \$15 million over four years for an upgrade of railway level crossings across the State.

Other significant, broader policy initiatives include:

- Around \$4 billion worth of new health and hospital services and capital improvements, in partnership with the Commonwealth Government, including:
 - \$1.1 billion for the Parkville Comprehensive Centre and Wonthaggi Hospital;
 - \$473 million of funding for the new Bendigo Hospital; and
 - \$408 million of funding for the Box Hill Hospital redevelopment.
- A significant boost of more than 1,900 frontline police over the next five years (\$673 million).
- \$271.3 million in funding to exceed by 53 schools the Government's 2006 election commitment to rebuild or modernise 500 government schools.

Key Economic Parameters

The Victorian Government forecasts that **gross state product** (GSP) growth will strengthen from a year average of 2.25% in 2009-10 to 3.25% in 2010-11, before moderating to 3.0% over the forward estimates period.

Victorian economic projections

	2008-09 Actual	2009-10 Forecast	2010-11 Forecast	2011-12 Forecast	2012-13 Forecast	2013-14 Forecast
Real gross state product	0.8	2.25	3.25	3.0	3.0	3.0
Employment	0.2	2.25	2.0	1.75	1.75	1.75
Unemployment rate	5.1	5.50	5.50	5.25	5.25	5.25
Consumer Price Index	2.8	1.75	2.25	2.50	2.50	2.50
Wage Price Index	4.0	3.0	3.25	3.50	3.50	3.50
Population	2.2	2.1	1.9	1.8	1.7	1.7

Source: Victorian Budget 2010-11 Overview

The key underpinnings of growth in 2010-11 are expected to be high levels of consumer confidence and household spending, dwelling investment and public investment. The outlook for export growth is weaker, largely due to the strong value of the Australian dollar, which will have more pronounced impacts on Victoria's manufacturing base.

Victorian **employment** growth is expected to ease slightly from 2.25% in 2009-10 to 2.0% in 2010-11. The unemployment rate is expected to remain broadly steady at 5.5%, with recent business surveys indicating an improvement in business confidence and greater hiring intentions.

The forecast for growth in Victoria's **population** in 2010-11 has been revised up to 1.9%, although the pace of growth is expected to moderate to 1.7% by 2013-14, consistent with Commonwealth Government policies aimed at tightening visa categories.

Inflation is expected to accelerate from 1.75% in 2009-10 to 2.25% in 2010-11, consistent with medium-term inflation targets. Inflationary pressures are likely to stem from rising unit labour costs, higher rents and increasing house prices. The high value of the Australian dollar, however, is likely to restrain imported inflation while rising interest rates should help ensure inflationary pressures do not become unsustainable.

Wages growth is also expected to pick-up, from 3.0% in the 2009-10 to 3.25% in 2010-11, and 3.5% over the forward estimates period, consistent with an improving economy and labour market conditions. Emerging skill shortages stand as a key upside risk to wages growth.

In terms of the international environment, while the outlook for the global economy is has improved, countries are recovering at different speeds. The Budget papers cite the International Monetary Fund's (IMF) forecasts for global growth of 4.2% in 2010, an upward revision of 1.1 percentage points since October 2009. Of particular importance for global growth over the near term, the IMF is forecasting China, India and other East Asian nations to lead the global economic recovery. By contrast, the IMF expects that the recovery will remain sluggish, relative to past standards, for most advanced economies.

The key **risks** to the improved outlook for the Victorian economy include:

- Global concerns over high levels of public debt and sovereign risk, particularly in Europe;
- High levels of unemployment in the United States and Europe, and their constraining impact on private demand;
- Concerns over the state of the property sector in China, where strong lending growth has driven up property investment and prices;
- Further upward pressure on the AUD exchange rate and interest rates;
- Stronger than expected inflation and wages growth;
- The re-emergence of skills shortages; and
- A loss of momentum in the Victorian housing market as interest rates rise (although strong population growth should provide a solid base for the sector).