

Government measures for business and industry

The Tasmanian State Budget for 2016-17 was handed down by the Treasurer, Peter Gutwein on 26th May 2016. The Budget delivers an operating surplus in 2016-17 of \$77.3 million following a deficit of \$58.5 million in 2015-16.

On the revenue side, the Government is changing business costs for:

- The introduction of a corporate reconstruction regime that will provide exemption from stamp duty for certain transactions within a corporate group. This will bring Tasmania in line with other States and Territories, enabling businesses to derive some form of stamp duty relief for certain intra-group transactions;
- Deferral of the 2014-15 Budget commitment to reduce the tax rate on light vehicles (including light trucks) over two years commencing 1 July 2017, back to pre-1 October 2012 levels. The Tasmanian Government has made the decision to defer the implementation of this change in the light vehicles tax rate until the Budget is in a stronger position. Current tax rates on light vehicles are available at: www.transport.tas.gov.au/fees_forms/registration_licensing/motor_tax_light_vehicles;
- Deferral of the 2014-15 Budget commitment to reduce the duty on compulsory third party motor vehicle insurance premiums (a reduction from 10 per cent to 8 per cent that was due to commence on 1 July 2017). This decision has been deferred indefinitely, and duty will continue to be charged at the 10 per cent rate introduced from 1 October 2012.

Changes to Tasmanian Government programs that affect business and industry include:

- \$900 million over two years for the Work Readiness for Growth industries initiative. This is aimed at supporting leading employers in growth industries to provide young Tasmanians with the opportunity to develop technical and work ready skills;
- \$400 million in the two years to 2017-18 to support an improved state-wide small business

Table 1: Tasmanian Strategic Growth Sectors

State Government sectors identified for strategic focus and whole-of-government attention

- 1 Advanced manufacturing
- 2 Building and construction
- 3 Cultural and creative industries
- 4 Food and agribusiness
- 5 Forestry and related industries
- 6 Information, communication and technology
7. Mining
8. International education
9. Renewable energy
10. Science research

Source: Tasmanian Government, Department of State Growth

Table 2: Tasmanian Government “jobs, infrastructure and economic growth” confirmed funding initiatives

<i>Confirmed or additional funding: major programs</i>	<i>\$mn,</i>
Infrastructure package: over 4 years	+1,800.0
Metro Bus Initiative over four years	+18.0
Stage 2 of iPlan: Integrated Planning & Building Portal	+1.9
Geoscience Initiative Program	+1.4
Aviation Market Development Fund: over 2 years	+1.2
Work Readiness for Growth Industries	+0.9
Small Businesses: Apprenticeships & Traineeships Support	+0.6
Development of the Tasmanian Brand	+0.6
Business Events Tasmania	+0.6
State-wide small business assistance over two years	+0.4

Source: 2016-17 Government Budget

assistance program that enables targeted small business development; and

- \$600,000 over two years to support small business with apprenticeships and traineeships. Coupled with funding assistance, the Government will work with small businesses and Group Training Organisations to make it easier for small businesses to employ an apprentice or trainee.

Tasmanian Government infrastructure construction program

The 2016-17 Budget includes funding for \$1.8 billion over four years in infrastructure projects across all regions of the State to help drive economic growth and create jobs (see chart 1).

This includes an investment of \$656 million in road and bridge improvements, funded jointly by the State and Federal Governments. These projects will support jobs in the civil construction sector and address the State's vital infrastructure needs. Key funding allocations include:

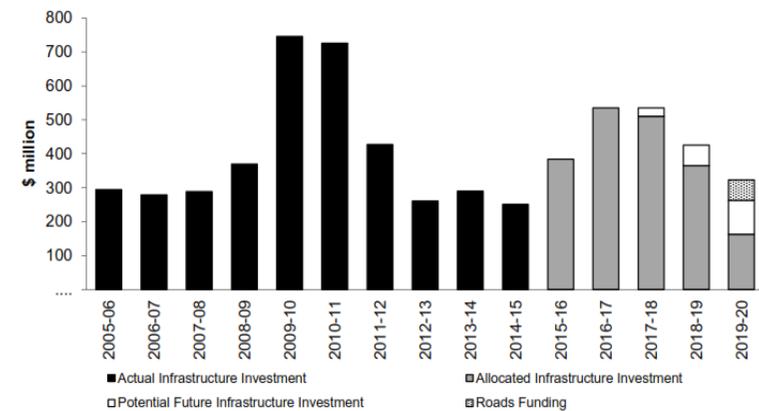
- \$204.4 million over three years for the Midland Highway program;
- \$18.8 million over two years for the Brooker Highway;
- \$18.4 million over two years for the Huon Highway/Summerleas Road upgrade;
- \$12 million over three years for the shoulder sealing on the Esk Main Road;
- \$9.5 million over three years for the bridge strengthening on Esk and Tasman Highways;
- \$6.0 million over three years to improve Colebrook Road between Cambridge and Richmond; and
- \$6.3 million from 2017-18 to 2019-20 towards infrastructure improvements for the Great Eastern Highway.

In addition, funding of \$62.3 million for rail infrastructure has been allocated in 2016-17 for Tasmanian Railway Pty Ltd with total rail funding over the four years to 2019-20 of \$114.8 million. In 2016-17, transport (road, bridges and rail) comprises 46.4 per cent of the total infrastructure spend (see chart 2).

Other major commitments in the 2016-17 Budget to upgrade Tasmania's infrastructure include:

- \$114.4 million to revitalise Tasmania's primary schools, high schools, colleges and TasTAFE

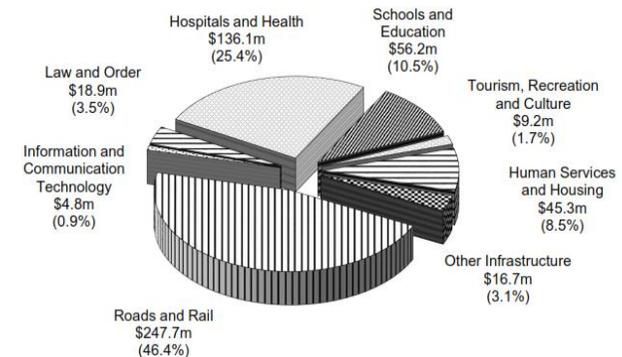
Chart 1: Tasmanian Infrastructure Investment, 2005-06 to 2019-20*



Source: Tasmanian Government Budget

*includes a provision for future Australian Government Roads Funding in what will be the first year of the next Australian Government State Roads Program in 2019-20.

Chart 2: Infrastructure by Category, 2016-17



Source: Tasmanian Government Budget

training facilities;

- \$457.2 million over three years for the Royal Hobart Hospital (RHH) Redevelopment;
- \$30.0 million for the Northern Cities Major Development Initiative, aimed at helping revive Northern Tasmanian communities through infrastructure investment projects;
- \$3.8 million over three years to redevelop the RHH pharmacy;
- \$7.9 million over four years to upgrade Children’s Ward 4K at the Launceston General Hospital;
- \$4.3 million to fund the minor maintenance, replacement or upgrade of existing hospital and health centre infrastructure; and
- \$1.7 million in 2016-17 towards construction of Stage Three of the Three Capes Track which, once completed, will provide improved access to the third cape, Cape Raoul.

Improving Housing Supply and Affordability

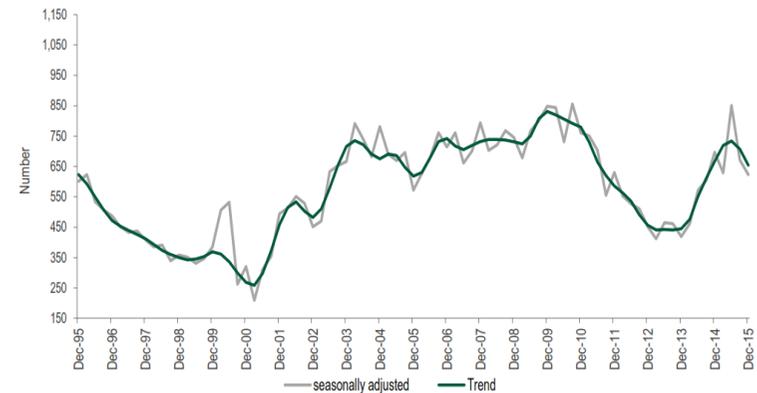
In recognition of the importance of housing development and improving the supply of housing, the First Home Owners’ Grant scheme will be increased from \$10,000 to \$20,000 for the period to 30 June 2017. The extra grant will also be backdated to January 2016 so that first home buyers who have already applied and qualified for the \$10,000 grant can qualify for the full \$20,000 announced in the Budget. This will help to improve affordability and lend support to Tasmania’s building industry ahead of the challenges of a softening in the number dwelling starts and the approvals pipeline (see Charts 3 and 4). Importantly, the Government expects that this initiative will generate around \$175 million worth of building activity across the State.

In addition, as part of the Government’s broader initiatives in protecting the vulnerable, \$60 million will be allocated to implement the Government’s priorities under Tasmania’s Affordable Housing Action Plan 2015-2019, which will allow for the construction of around 900 new homes and support to access affordable homes in the private market.

Supporting the Visitor Economy

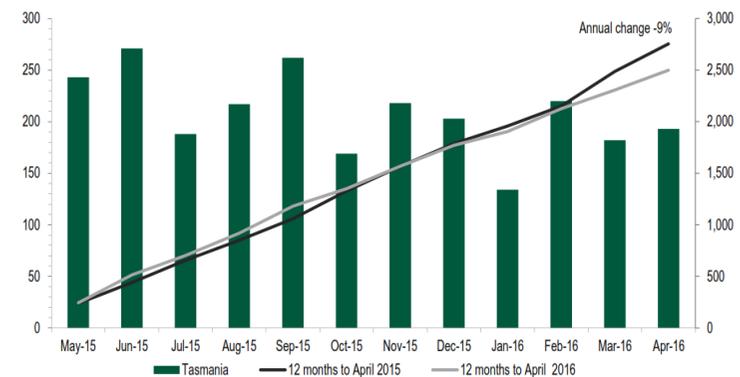
The 2016-17 Budget will direct additional funding of \$8.8 million to support the visitor economy, particularly tourist infrastructure. This reflects the continued investor interest in Australian

Chart 3: Tasmanian Housing Starts Off their Peak



Source: ABS, HIA

Chart 4: As Dwelling Approvals Pipeline Weakens



Source: ABS, HIA

tourism infrastructure projects and the important contribution of tourism services to economic growth. Of significance, the Tasmanian tourism investment project pipeline was valued at \$509 billion in 2015 with arts, recreation and business services infrastructure accounting for two-thirds of all projects (Tourism Investment Monitor, July 2016).

The 2016-17 Budget includes:

- \$6.3 million to upgrade the Great Eastern Drive to fund capital investment in visitor infrastructure;
- \$1.25 million over two years for Aviation Market Development fund to create partnerships through dedicated codeshare and marketing agreements with international airlines to grow our air access capacity;
- \$650,000 for the Brand Tasmania Project to engage the community, stakeholders, industries, and Brand Tasmania to advance Tasmania's brand attributes and determine how to best support and promote it into the future; and
- \$600,000 for Business Events Tasmania to support business events in Tasmania, with an additional \$150,000 per year to support business events in Launceston.

The Tasmanian Government will also be providing funding support for non-commercial public infrastructure required to progress the Cradle Mountain Master Plan such as the Dove Lake lookout Visitor Centre and associated public infrastructure outside the Park. The exact cost is not yet confirmed, although it is now being assessed through the Structured Infrastructure Investment Review Process and could be up to \$15 million.

Other Key Initiatives in Support of Industry and Growth

Metro Bus Fleet: The 2016-17 Budget will deliver 100 new buses for Metro Tasmania, with \$31 million committed over four years to implement the Metro Bus Fleet Initiative. This will provide an opportunity for Tasmania's advanced manufacturing sector to bid for the manufacture, customisation and fit-out work to deliver an accelerated replacement Metro Tasmania bus fleet;

iPlan Project: \$1.9 million will be allocated to the iPlan project - an integrated planning and building portal that will enable builders and commercial developers to track the progress of their planning applications online and provide clarity about how the rules apply to different projects

The Tasmanian Tourism Investment Pipeline



Source: Tourism Investment Monitor, Tourism Research Australia, July 2016

from home renovations to major commercial developments. It will also build on current systems that feature searchable planning schemes and will feature the ability to make submissions online; and

Geoscience Initiative Program: The 2016-17 Budget delivers \$1.4 million for the Mineral Resources Tasmania (MRT) Geoscience Initiative Program, which is designed to improve Tasmania's capability to attract investment in mineral exploration and development, targeting projects on the north-west and west coasts.

Tasmania Budget: revenue, expenditure, balance and debt

Revenue to the Tasmanian Government is forecast to grow at an average annual rate of 1.1% p.a. over the four years to 2019-20 while expenses are forecast to increase at 0.4% p.a. (nominal growth). On the revenue side, the Tasmanian Government is budgeting for growth in revenue from conveyance duties in 2016-17 (up by 5.9%) due to the expectation of continuing improvement in residential property sales and a solid outlook for activity in the commercial building sector. Revenue from payroll tax is forecast to rise by 3.0% in 2016-17 due to the expectation of a lift in employment and average weekly earnings. Payroll tax and transfer duties together are estimated to have accounted for close to 50% of the state's total taxation revenue in 2015-16.

Government expenses are being sustained at an average level of around \$5.5 billion over the next four years due to on-going strong demand for health and education services, the financing of major infrastructure projects, continuing commitment to the National Disability Insurance Scheme, and significant funding for key services to protect vulnerable people in the community. Despite the constrained overall pace of future expenses growth, the Government notes that employee costs remain a significant expenditure risk for the Budget given that public sector wages costs account for 47% of total General Government operational expenditure.

The Government expects an operating surplus of \$77.3 million in 2016-17 following a deficit of \$58.5 million in 2015-16. This is three years ahead of the Government's original target of a return to surplus in 2019-20. Modest operating surpluses are also expected to be achieved in 2017-18 (\$7.9 million) and 2019-20 (\$18.4 million), and a net operating deficit in 2018-19 (\$61.0 million).

Net debt (borrowings less the sum of cash, deposits and investments) is estimated to be negative \$301.3 million as at 30 June 2017, an improvement on the estimated 30 June 2017 figure of negative \$214.2 million in the previous year's Budget. By 2019-20, net debt is forecast to show further improvement to a figure of negative \$162 million due to the impact of positive net

Table 3: Tasmanian Budget Aggregates

	2015-16 budget	2016-17 budget	2017-18 estimate	2018-19 estimate	2019-20 estimate
Operating revenue, \$m	5,307.8	5,573.7	5,497.3	5,485.2	5,585.0
Operating expenses, \$m	5,366.3	5,496.3	5,489.4	5,546.2	5,566.6
Budget Result, \$m	-58.5	77.3	7.9	-61.0	18.4
Net Debt at 30 June, \$m	-252.6	-301.3	-174.1	-56.6	-162.0
Infrastructure investment, \$m	409.8	534.9	535.2	425.2	323.1

Source: Tasmanian Government Budget

Table 4: Tasmanian Economic Outlook

% change p.a.	2015-16 revised estimate	2016-17 forecast	2017-18 forecast	2018-19 forecast	2019-20 forecast
Real GSP	2.5	2.25	2.00	2.00	2.0
Real SFD	1.75	2.25	2.25	2.25	2.25
Employment	0.5	0.5	1.0	1.0	1.0
Unemployment %	6.5	6.75	6.75	6.75	6.75
CPI (Hobart)	1.75	1.75	2.25	2.25	2.25
Population	0.5	0.6	0.6	0.6	0.6

Source: Tasmanian Government Budget

operating balance outcomes and a reduction in levels of total infrastructure investment.

Tasmania economy: outlook, opportunities and risks

The Tasmanian Government is forecasting that growth in real state output (GSP) will ease slightly to 2.25% p.a. in 2016-17 from 2.5% p.a. in 2015-16. This reflects a smaller contribution to state growth from export demand, both from interstate and overseas. However, dwelling investment is expected to be sustained at a relatively high level in 2016-17 (despite the likelihood of some loss of momentum) while further increases are forecast in public investment and business investment. Underpinning the positive growth outlook for business investment are various major commercial building projects in planning, including several hotel developments in Hobart, the new Port Arthur resort and the Silo Hotel development in Launceston.

State Final Demand (SFD) - a measure of total spending in the Tasmanian economy by households, business and governments - is expected to increase marginally from a 1.75% p.a. pace in 2015-16 to 2.25% in 2016-17. A key area of support is likely from consumer spending with Tasmania recording real trend growth in retail sales in the year to the March quarter 2016 of 3.5%, as compared with the national growth rate of 2.3%. Consumer spending is benefitting from strong growth in the tourism industry and the low interest rate environment.

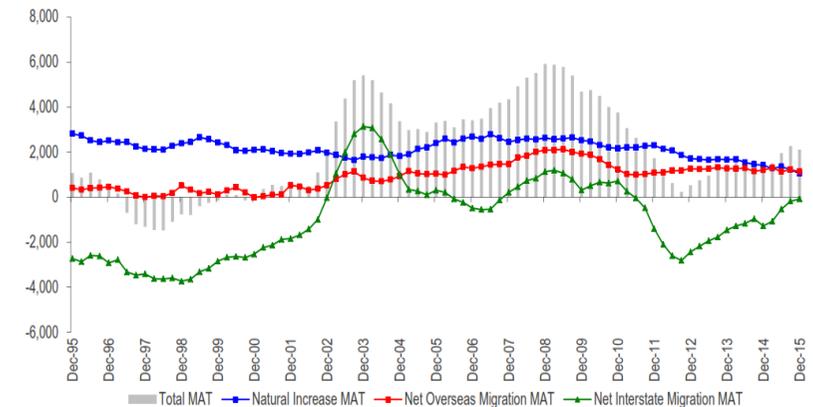
Labour market conditions are expected to be stable in 2016-17 with modest year-average growth in employment of 0.5% p.a. in 2016-17 consistent with the low reported level of employment in Tasmania in recent months. Tasmania's unemployment rate is forecast to remain high at 6.75% in 2016-17. This reflects the constraints on the state's economic expansion from a low population growth rate (forecast at just +0.6% p.a. in 2016-17) as well as a population that is aging to a greater degree than other states (see chart 5).

Key risks to the outlook for the Tasmanian economy include:

- lower than expected export demand and weaker commodity prices if there are obstacles to China's transition from investment-led to consumption-led growth;
- Weaker interstate trade if national economic growth is more sluggish than expected;
- Lower overseas export demand, and potentially a softer tourism sector, if there is a significant appreciation of the Australian dollar; and
- Uncertainty about the timing of major proposed investment projects in Tasmania.

Chart 5: Tasmania's Population Growth Remains Low

Population Growth by Component: Moving Annual Total



Source: ABS

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