Ai Group Economics

Victorian Budget and outlook, 2014-15

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Victorian Budget 2014-15: overview

The 2014-15 Budget delivers investment in new transport infrastructure which will ensure a solid pipeline of local construction work over many decades. Once complete, these projects will ease congestion and help to reduce the cost of doing business in Victoria. The Government also continues to exercise fiscal restraint to ensure fiscal sustainability. The surpluses forecast over the next four years leaves them with some room for election promises in the lead up to the November state election.

Australian Industry Group Victorian Director Tim Piper said:

"*The significant $24 billion funding proposals outlined in this Budget around transport infrastructure will provide a boost to the construction industry and will improve efficiencies for Victorian business. Not only will projects like the $11 billion Melbourne Rail Link and ongoing road investments ease congestion and reduce the cost of doing business in Victoria, but they will provide job opportunities for our state and lead to urban reinvigoration. Ai Group would welcome bipartisanship on these projects.*

“The significant outlay for vocational training, including some additional new funding, will bring the total annual commitment of $1.2 billion to vocational training over the next four years. This welcome investment will help ensure Victoria has the skill base it needs to complete projects, particularly in the trade sector. We also look forward to transition assistance to local businesses which will be hit by the wind down of local car assembly in 2017. The $8.7 million announced to assist local manufacturers tendering in the defence industry is welcome and we look forward to further commitments by the Government in the future to help businesses identify other opportunities. The Budget’s $30 million commitment to reskilling affected automotive workers is also welcome and Ai Group looks forward to playing a constructive role in developing the package so that it provides workers with sustainable job opportunities.

“We also appreciate the Government delivering on Ai Group’s call to reduce taxes through the small reduction in the payroll tax rate announced in the 2014-15 Budget. A recent survey of Ai Group members found that 35% of Victorian businesses listed reducing company taxes as their number one priority from the Government and so we would welcome further reductions by the Napthine Government in the future.”

Victoria's economic outlook

The outlook for the Victorian economy set out in this year's Victorian Budget appears to be rather optimistic, relative to the recent experience of slow growth. The Budget expects a return to trend growth in GSP and the state unemployment rate over the forward estimates (the next four years), despite the exit of local car assembly by 2017, which will hit the state's economy over this time. Population growth is expected to be steady over the forecast horizon at 1.8% p.a.

The key forecast numbers:

- The Victorian economy (**GSP**) grew by 1.6% in 2012-13. It is expected to grow by 20% in 2013-14, 2.5% in 2014-15, and then 2.75% for three years thereafter which Victorian Government categorises as trend-growth. For 2014-15, Victoria's GSP forecasts are in line with national GDP forecasts in the federal MYEFO of 2.5%. However, Victoria's projections are slightly below the MYEFO forecasts for national GDP of 3.0% from 2015-16, 2016-17, 2017-18.
- The economy is anticipated to return to the 'trend' (long-term average) growth rate of 2.75% from 2015-16 due to strengthening household demand. Household consumption is expected to be solid, given strong asset price rises and strengthening incomes. Dwelling investment will stay strong this year but ease to trend growth over the next year.
- Business investment is only forecast to stage a modest recovery in investment. The state's trade balance will also widen further owing to strong growth in imports outweighing growth in exports, with service exports expected to rise.
- Victorian **employment growth** slowed to 0.8% in 2013-14 and is expected to be just 0.75% in 2013-14, strengthening to 1.25% in 2014-15 and 1.5% growth each year from 2015-16 onwards.
- This growth in activity and employment will reduce the **unemployment rate** from a predicted peak of 6.25% in 2013-14 (year average) gradually to 5.5% by 2017-18.
- **Population growth** is expected to be steady at 1.8% per year.
- The budget will remain in **surplus** over the forecast horizon, peaking at $3.3 billion in 2017-18.
- **Net debt as a percentage of GSP** is expected to peak in 2014-15 at 6.3%, before falling to 4.5% by 2017-18.

Table 1: Latest Victorian Economic Forecasts

(per cent)

	2012-13 Actual	2013-14 Forecast	2014-15 Forecast	2015-16 Forecast	2016-17 Forecast	2017-18 Forecast
Real gross state product	1.6	2.00	2.50	2.75	2.75	2.75
Employment	0.8	0.75	1.25	1.50	1.50	1.50
Unemployment rate [b]	5.7	6.25	6.25	6.00	5.75	5.50
Consumer price index [c]	2.2	2.75	2.25	2.50	2.50	2.50
Wage price index [d]	3.3	2.75	3.25	3.50	3.50	3.50
Population [e]	1.9	1.8	1.8	1.8	1.8	1.8

Sources: Australian Bureau of Statistics; Department of Treasury and Finance

Victorian Budget 2014-15: key announcements for business

The Budget concentrates on infrastructure detailing $27 billion of new infrastructure investment over the forward estimates and beyond, of which $24 billion on transport projects and the other $3 billion on schools and hospitals. This outlines a solid pipeline of infrastructure spending in this budget but not all projects announced today are fully budgeted for as work extends beyond the forecast horizon ramping up beyond 2017-18, especially for the centerpiece project, the Melbourne Rail Link. Within this Budget, an average of $6.5 billion a year in infrastructure over the forward estimates.

The Government will benefit from the asset recycling initiative announced by the Federal Budget which will contribute an additional 15% of funds if states privatised state own assets and invest the proceeds into new infrastructure. This budget outlined the lease of Port of Melbourne and the sale of Rural Finance to Bendigo Bank as two initiatives that will benefit from this additional funding. The 40-year lease process of Port of Melbourne will open for Expressions of Interest early next year.

Rail Investment

- The major new project announced in this budget is the **Melbourne Rail Link**, total capital cost estimated at between $8.5bn to $11bn.
- However, only $830 million of the $8.5bn cost (just 10% of the total cost) is included in this Budget's forward estimates. Planning and design is set to begin immediately, early works will begin in mid-2016 and major construction to start in mid-2017 and go through until 2020.

This project includes:

  - Twin 7.5km tunnels from Southern Cross to South Yarra stations, with new underground platforms at each
  - New underground stations at Fishermans Bend (Montague) and Domain
  - Train-tram interchanges at Southern Cross, Montague, Domain and South Yarra.
  - A rail link to Melbourne Airport.

- Also the $2.5 billion invested in Cranbourne – Pakenham Rail Corridor beginning in 2015 going through to 2019, which will add capacity to the line and mean the purchase of 25 new trains. The Government will apply the 30% local procurement to these trains so that will help local businesses.
- Additional $685 million on level crossings.

Roads Investment

- Around $8 to $10 billion of new money is included in this Budget for the East-West Link extending from the end of the Eastern Freeway to the Western Ring Road.
- CityLink – Tulla widening adding extra lanes in each direction to the airport at a cost of $850 million, expected to boost traffic capacity by 30%.

Regional Projects

- $220 million Murray Basin Rail project over four years to upgrade rail gauge and create a new "transcontinental link" near Broken Hill linking Sydney – Perth rail line.
- $362 million Princes Highway West duplication between Winchelsea and Colac.

Vocational Education and Training (VET)

- $800mn in additional funding will be allocated to Victoria's Vocational Education and Training (VET) system over the next five years. This will be added to the general revenue stream for VET funding, via the Victorian Training Guarantee. These increases in VET will bring the total annual commitment of $1.2 billion over each of the next four years. This welcome investment will help ensure Victoria has the skill base it needs to complete projects, particularly in trades training.

Automotive Industry

- $30mn will be provided over the next two years for a Victorian automotive workers package. This will provide support and subsidised training through the Victorian Training Guarantee to re-skill automotive workers affected by the restructuring of the Victorian economy.
- $12mn added to "Victoria's contribution to the automotive structural adjustment and growth fund" over the next four years. Although the Federal Government has not yet set out the details of this Fund (likely to be worth a total of around $150mn), the Victorian Budget papers describe it as "*a structural adjustment package for the automotive industry established by the Commonwealth Government. … that will assist Victorian manufacturing to transition by attracting innovative, sustainable and footloose investment*."

Defence Industry

- The Budget outlines $8.7 million support to the defence manufacturing industry to "support Victorian-based defence and aerospace manufacturers to secure Australian and international defence contracts" and tap into supply chains.
- Opportunities identified for related to manufacturing opportunities are related to US-led Joint Strike Fighter program and the ADF's Land 121 program (which looks new vehicles like the Bushmasters).
- Will also assist lobby for more work for BAE's Williamstown shipyard.
- In addition, around $8 million of State Government's IT work will also be outsourced which will provide to ICT operators.

ICT Procurement

- $6mn allocated in 2014-15 to set up 'CenITex' and $9.5mn for 'VicConnect over the next four years. Both of these programs will restructure the way in which the Victorian Government manages its ICT procurement.
  - CenITex will support the Government's commitment to improving the procurement and management of ICT in the Victorian Government in order to achieve better value for money outcomes and service delivery. This initiative seeks to outsource the ICT services currently provided by CenITex, the Victorian Government ICT shared services provider. The funding will support the process to procure outsourced services.

- The VicConnect project will transform the way the Victorian Government purchases and manages telecommunications and other ICT services. The funding for VicConnect project will create a Government cloud - a secure private data network - and Government ICT marketplace for the existing Telecommunications Purchasing and Management Strategy.

General industry initiatives

- $64.2mn for the Victorian Investment Support Program in 2016-17 and 2017-18, to attract valuable investment in major projects that have "*a net economic benefit to the State*".
- $18mn over the next four years in additional support for small business, in the form of extra seminars, workshops and mentoring programs

Charges to Business

- **Payroll tax** reductions of 0.05% points to 4.85% from July 2014, when the rate will be reduced to 4.85% from July 1, which will save around 39,000 employers around $234.5 million reduction over the forward estimates. There was no change to the threshold at which payroll tax must be paid, at $550,000 for eligible industries.
- This payroll savings is dwarfed by increase in $548.4 million to be collected in **car stamp duty** over the forward estimates: around $140 million per year, or $25 more on each car registration.
- A new **Metropolitan Planning Levy** will impose an additional charge on planning permit applications in metropolitan initiatives with construction costs of over $1 million at a rate of $1.30 per $1,000 in construction costs. This will add $1,300 to the cost of every million dollars' worth of construction for large projects. This is expected to raise $17.1 million a year from 2015-16 on, or $51.3m over forward estimates and effect around 6% of all planning applications (by number).

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