AUSTRALIAN INDUSTRY
GROUP

Review of the 2012-13 Victorian Budget

May 2012

OVERVIEW AND ASSESSMENT

The 2012-13 Victorian Budget announced a number of initiatives that were advocated by Ai Group in our submissions to the Victorian Government ahead of the Budget. Our submissions emphasised the importance of Government support for building a stronger Victorian economy.

We note that while further cuts to expenditure and to the public service workforce have been deemed necessary in this Budget, the Victorian government has been able to avoid cutting into its key business support programs. Indeed, in recognition of the tough trading environment currently faced by Victorian businesses, it has sought to maintain and even extend the support measures available to Victorian manufacturers and other businesses. The Government has also maintained its investment commitments to key transport infrastructure projects, in the face of considerable revenue pressures.

These measures will help to lift Victoria's productivity and competitiveness, enabling a better growth outlook in the future.

KEY POINTS

- Surplus of $155 million in 2012-13, building to $2.5 billion in 2015-16.
- Significant decline in revenue inflows due to drops in GST and stamp duty revenues.
- Another round of savings amounting to $1.8 billion to be delivered over the next four years, with expenditure growth capped at an average rate of 2.9 per cent each year.
- Infrastructure investments to be funded by operating surpluses and public sector debt, with net debt to GSP ratio projected to rise to 6.5 per cent by June 2014, before falling to 6 per cent by June 2016.
- Victoria's real GSP growth in 2011-12 has been downgraded to just 1.5 per cent, a significant deceleration from the 2.25 per cent forecast in the 2011-12 Budget Update, reflecting the strong Australian dollar, the recession in the Euro area and the impending carbon tax.
- The Government is commencing new transport infrastructure projects worth $2.7 billion. Long-term infrastructure projects include: developing the business case for the East West Link; planning and development of the Melbourne Metro railway; developing the Port of Hastings to handle international container trade within 10 and 15 years; and conducting feasibility studies for Doncaster rail, Rowville Rail Link and the airport rail link.
- The Budget will fund a new $58 million manufacturing strategy for Victoria.
- WorkCover premiums for Victorian employers will be cut by 3 per cent from 1 July 2012.
- The Government will provide $50 million over four years towards the Victorian International Engagement Strategy to increase engagement with overseas markets, increase export sales and increase investment. Victoria will undertake a mission to China in the second half of 2012.
- The Budget invests a further $1 billion in the skills sector, including increased funding and better access to apprenticeship courses.

BUDGET ANALYSIS

Consistent with election commitments, the Victorian Government will aim to achieve surpluses of at least $100 million a year, despite falling revenues and a tougher economic outlook.

SURPLUS

The Victorian Government forecasts a net operating surplus for the general government sector of $155 million in 2012-13, a downward revision from the $220 million it forecast in the 2011-12 Budget Update. Net operating surpluses are projected for each year over the forward estimates period, with the surplus reaching $2.5 billion in 2015-16.

REVENUE

The downward revision to the operating surplus largely reflects the deterioration in Victoria's revenue inflows, driven by the anticipated $6.1 billion reduction in GST revenue, plus a projected $7.6 billion decline in stamp duty revenue over the four year forward estimates period, relative to previous projections.

These projections highlight the fiscal challenge facing Victoria. The Government estimates that if spending had continued growing at the same rate as it averaged over the past decade, then net debt could hit 15 per cent of GSP by 2015-16 and exceed levels consistent with Victoria retaining its AAA credit rating (the retention of which was a pre-Budget commitment).

EXPENDITURE

In order to adjust for this fall in revenue and maintain a (smaller) surplus, the 2012-13 Budget delivers savings amounting to $1.8 billion over the four year forward estimates period. These savings are on top of those already implemented in the 2011-12 Budget and the mid-year Budget Update (the latter included for example, the cutting of 3,600 public service jobs).

Total state expenditure growth over the forward estimates period is to be capped at an average rate of 2.9 per cent each year, significantly lower than the 7.3 per cent average annual growth rate over the decade to 2010-11.

INVESTMENT

The operating surpluses are intended to help to enable the Victorian Government to fund additional infrastructure investment. The Victorian Government will also rely on more debt to fund infrastructure investment. The net debt to GSP ratio is projected to rise to 6.5 per cent by June 2014, before falling to 6 per cent by June 2016.

Net infrastructure investment by the General Government sector is projected to be $5.8 billion in 2012-13 and projected to average $4.3 billion a year over the four year forward estimates period. By 2015-16, the Government plans to be able to fund infrastructure investment from operating surpluses alone, and not by further additions to net debt.

VICTORIAN ECONOMIC CONDITIONS

Victoria's real GSP growth in 2011-12 has been downgraded to just 1.5 per cent, a significant deceleration from the 2.25 per cent the Government forecast in its 2011-12 Budget Update (Table 1). This downgrade reflects the strong Australian dollar, the recession in the Euro area and the impending carbon tax. Signfificant Victorian sectors including manufacturing, tourism, and international education are bearing the brunt of these headwinds. Melbourne's role as a key importing, transport and wholesale trade hub means it is also suffering the knock-on effects of the national downturn in retail spending. State GSP is now expected to accelerate only slowly, and to remain below 3 per cent for all of the outlook period. State population growth will also be a touch slower than previously estimated over the next four years.

Table 1: Victorian economic projections [(a)]
(forecasts in the 2011-12 Budget Update are shown in parentheses)

	2009-10 Actual	2010-11 Actual	2011-12 Forecast	2012-13 Forecast	2013-14 Forecast	2014-15 Forecast
Real GSP	2.0	2.5	1.5 (2.25)	1.75 (2.5)	2.75 (2.75)	2.75 (2.75)
Employment	2.8	3.5	0 (0.75)	0.25 (1.5)	2.0 (1.5)	1.75 (1.75)
Unemployment rate [(b)]	5.5	5.1	5.5 (5.0)	5.75 (5.25)	5.5 (5.0)	5.25 (5.0)
Consumer price index	2.1	3.3	2.25 (2.75)	2.75 (3.0)	2.5 (2.75)	2.5 (2.5)
Wage price index [(c)]	2.8	3.8	3.5 (3.75)	3.0 (3.75)	3.25 (3.5)	3.5 (3.5)
Population [(d)]	1.8	1.5	1.6 (1.5)	1.6 (1.5)	1.6 (1.5)	1.6 (1.5)

Notes:
(a) Year-average percent change on previous year unless otherwise indicated. All economic projections are rounded to the nearest 0.25 percentage point, except population projections which are rounded to the nearest 0.1 percentage point. Figures in parentheses were obtained from the 2011-12 Victorian Budget Update.
(b) Year-average level, percent.
(c) Total hourly rate excluding bonuses.
(d) June quarter, percent change on previous June quarter.

The Victorian Government acknowledges in this Budget that productivity in the Victorian economy needs to be lifted in order to adjust to the high terms of trade and stronger Australian dollar. To this end the Victorian will focus on:

- Funding a more substantial program of infrastructure investment;
- Creating a more competitive business environment, more highly skilled workforce and better delivery of infrastructure;
- Increasing international trade engagement and expanding into new markets to create jobs and investment; and

- Providing assistance to help businesses and workers transit and adjust in response to changes in consumer demands and industry structures.

KEY INITIATIVES AFFECTING BUSINESSES

The Victorian Government has committed to fund a number of initiatives that could support Victorian businesses competing in an increasingly challenging business environment. Infrastructure investment is expected to reach record levels in 2012-13, with the amount of total public sector capital projects exceeding $41 billion.

TRANSPORT MEASURES

The Government is commencing new transport infrastructure projects worth $2.7 billion, including:

- The Port Capacity project at the Port of Melbourne, which will increase stevedoring capacity and competition in the sector by redeveloping Webb Dock as an international container terminal;
- The development of the Victorian Freight and Logistics Plan to identify options to manage current and future freight demand and to promote efficiency;
- Eliminating level crossings at various locations;
- Constructing the Dingley Bypass;
- Funding the Koo Wee Rup bypass and duplication of the Narre Warren-Cranbourne Road;
- Funding the Ballarat Western Link Road and extending the duplication of the Western Highway between Beaufort and Buangor;
- Funding the Stud Road duplication from Boronia Road to Mountain Highway
- $171.9 million in rail renewal for regional freight and passenger network (Procurement of additional carriages for V/Line Services to be delivered between 2014 and 2017);
- Additional funding for the West Gate Bridge;
- Land acquisition for the new Grovedale railway station and improved passenger access to Warragul Station.

Longer term transport infrastructure investments proposed in the Budget include:

- $15 million to deliver the business case for the East West Link
- $49.7 million to progress planning and development of the Melbourne Metro railway
- $4 million for the Port of Hastings Development Authority to commence expansions of the Port of Hastings to handle international container trade within 10 and 15 years
- Feasibility studies for Doncaster rail and Rowville Rail Link and the airport rail link.

MANUFACTURING MEASURES

The Budget will fund a new $58 million manufacturing strategy, which consists of five components:

- $13.7 million over four years for the Specialist Manufacturing Service to work with medium sized businesses to achieve world class service standards;
- $24.8 million over four years to provide incentives for businesses to invest in advanced technologies to make their business competitive;
- $7.5 million over four years to support Building Innovative Small Manufacturers;
- $3 million over four years to deliver support and information to employees in transition; and
- Continue to support local manufacturing through its local content policies.

GENERAL BUSINESS SUPPORT MEASURES

1. The Government will provide $50 million over four years towards the Victorian International Engagement Strategy. Through this program, the Government will support a larger number of businesses to engage with overseas markets, increase export sales and increase investment. Victoria has already strengthened its trade and investment relationships with India through SuperTrade Mission in 2012 and it will undertake a mission to China in the second half of 2012.
2. WorkCover premiums for Victorian employers will be cut by 3 per cent from 1 July 2012.
3. The Budget investments a further $1 billion in the skills sector. All apprenticeship courses will see an increase in hourly rate funding. TAFE funding rates will be brought in line with private sector providers, boosting competition and choice. The Government will work with TAFEs to develop new business models and leverage their establish VCEC or Victorian Certificate of Applied learning to access a training place at Certificate II and above and the continuation of funding for pre-accredited training through the Learn Local provider network.
4. Also in the TAFE space, the Government will increase protection students by requiring providers to disclose prices upfront and establishing the new market monitoring unit to review prices. The Government will work with providers to make sure VET FEE-HELP loans are available to reduce upfront costs for students. These reforms will ensure enrolment growth is financially sustainable and government subsidies better target productivity-enhancing training.
5. Training will also be supported through schools, with a reform program that aims to empower school leaders and teachers to work with communities to improve education outcomes, devolving more decisions making to principals and school communities rather than head office. A key component of this agenda is an effort to boost teacher quality through school-level performance management recognition and reward for excellence and flexibility in employment arrangements.
6. The Budget also provides additional school capital works funding worth $200 million over the four year forecast period, providing a small boost to construction activity in the State.