



# **Review of the 2013-14 Victorian Budget**

**May 2013**

## OVERVIEW

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The 2013-14 Budget delivers quality services and major new investments in infrastructure that will promote productivity, employment and economic growth in Victoria. The Government has also exercised fiscal restraint to ensure longer term fiscal sustainability in light of challenging global economic conditions.

## KEY POINTS

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### Victorian economic performance

- Underlying fundamentals of the Victorian economy remain solid, despite the current slow patch.
- Victorian economy grew 2.3% in 2011-12 and is expected to grow at 1.5% in 2012-13.
- The Victorian government expects the state's economy to grow 2.25% in 2013-14. This is slightly below Australia's growth outlook of 2.50 to 3.0% (RBA forecast for national GDP growth).
- Economy anticipated to return to trend growth rate (around 3.0%) in 2014-15, on the back of low interest rates and improving conditions in Asia and the US despite expected continued weakness in the European economies.
- Consumption in the Victorian economy is picking up amid recovery in consumer sentiment, recent asset price growth and signs of improvement in the residential property market.
- Victorian employment growth moderated in 2012-13 but should pick up in 2013-14 to 1.5%. It will need to strengthen further in order to reduce the unemployment rate below 5.5%.
- Unemployment rate is expected to steady at around 5.5% in 2013-14 before declining to 5% in 2016-17.

### Budget analysis

- Budget surplus of \$225 million in 2013-14, building to \$2.5 billion in 2016-17.
- Victoria is now one of only two States to forecast operating surpluses over the next four years.
- Lower economic growth outlook is likely to reduce revenue growth, particularly GST revenue and State revenue (e.g. land transfer duty).
- Growth in household consumption in recent years has largely been driven by growth in goods not subject to GST, including education, health, utilities and rents. In contrast, growth in goods subject to GST has been modest since the financial crisis.
- Victoria's GST revenue is expected to be \$1.5 billion lower than previously expected from the 2012-13 Budget through the forward estimates.
- Victorian Government has addressed revenue challenges by restraining expenditure growth. Forecasted expenditure growth over the forward estimates to average 2.5% each year compared to forecast revenue growth of 4% each year on average.
- The government expects to keep growth in employee expenses (which will account for 41% of annual government expenses in 2013/14) at 2.4% in 2013/14 and at an average of 3% over the following three years.
- Among the initiatives to save money, the government will redirect the first home owner grant to new homes only and cap gas and electricity concessions.
- Infrastructure investment is projected to be \$6.1 billion in 2013-14 and average \$4.7 billion over the forward estimates. By 2015-16, infrastructure investment is forecast to be fully funded from operating surpluses.

- Net debt is forecast to increase in 2013-14 and 2014-15 rising to 6.6% of GSP at June 2015. Once the full impact of fiscal restraint is realised, the growing surpluses will produce sufficient cash balances to fully fund infrastructure investment and reduce net debt. By June 2017 net debt is expected to have fallen significantly in both nominal dollar and as a proportion of GSP.
- Victoria is currently the only Australian State with a AAA credit rating from both the major credit rating agencies (Standard and Poor's and Moody's) and a 'stable' watch outlook. NSW and Western Australia also have AAA ratings, but are on 'negative' watch warnings from at least one agency each. Queensland and Tasmania are on AA+ while South Australia is on AA (S&P ratings).

### **Key Budget announcements**

- Government infrastructure investment program of \$6.1 billion in 2013-14, including commitments to:
  - Fund the East West Link (Stage 1), a \$6 billion to \$8 billion project to join CityLink and the Eastern Freeway
  - Allocate \$280 million in addition funding to fix, maintain and upgrade road network
  - Invest extra \$52 million to progress removal of railway level crossing
- Policy to increase trade capacity:
  - \$110 million to progress development of a container port at the Port of Hastings
- Measures to attract business and investment include:
  - \$1.6 billion expansion of the Port of Melbourne
  - \$66 million transport interchange upgrade at Ringwood Station, helping to underpin a \$500 million expansion of Eastland Shopping Centre, expected to generate construction jobs and ongoing retail jobs.
  - \$33 million in new funding towards the East Werribee Employment Precinct, which is meant to transform Melbourne's West
  - \$25 million to enhance bus services in key growth areas
  - Establishment of Victorian Government Business Offices in Western China and Indonesia
  - \$16 million in new funding to drive business innovation over four years
- Initiatives to improve public transport, including commitments to:
  - \$179 million for eight new trains, adding to the seven trains funded already in the 2011-12 Budget
  - \$300 million of investment in the public transport network
- Pledges to deliver better training and development of workforce include:
  - \$11.6 billion towards the future of Victoria's education system
  - \$580 million in asset and output funding, including a \$200 million TAFE Structural Adjustment Fund and a \$203 million in school capital program
- Initiatives to increase productivity in agriculture industry include:
  - \$16 million to modernise the Macalister Irrigation District
  - \$150 million towards regional transport infrastructure
- Measures to boost tourism include:
  - \$16 million over four years to enhance tourism industry, including \$8 million funding for China Tourism Strategy
  - \$18 million to fund an international education strategy for Victoria
- Initiatives relating to the residential property market include:
  - The changes announced in April to limit the assistance to first home buyers to those purchasing new houses, lifting the Home Owner Grant for new homes to \$10,000 (from \$7,000) from 1 July 2013 and reducing stamp duty for first home buyers
- Strengthening health care initiatives, including commitments to:

- Deliver the new \$630 million Bendigo Hospital and fully funding the Monash Children's Hospital and Royal Victorian Eye and Ear Hospital redevelopment with an investment of \$197 million in 2013-14 and more than \$1 billion in total
- Allocate \$629 million in the Budget to fund key hospital infrastructure
- Pledge \$426 million in 2013-14 to boost hospitals and health services