



Victorian
Chamber of Commerce
and Industry

OVERVIEW

2018-2019 STATE BUDGET

The Andrews Government's fourth budget was delivered on 1 May 2018.

With strong operating surpluses forecast to average \$2.5 billion over the forward estimates period, the budget reflects Victoria's economic strength. This year's budget helps lower business costs, continues the government's already significant infrastructure spend and makes a strong investment in vocational education and training.

Initiatives contained in the budget directly reflect the influence of our pre-budget submission and advocacy on behalf of members, customers and clients. Particularly positive for business is the reduction in the payroll tax rate in regional Victoria to 2.425 per cent, the lowest in Australia.

Overall, the Victorian Chamber considers the budget makes a strong contribution to continuing the state's growth momentum. With an average annual infrastructure spend of \$10.1 billion per year over the next four years, the budget tackles rising pressures associated with population growth and congestion, helps business get products to market more efficiently and ensures Victoria's liveability credentials remain strong.



Overview

Infrastructure is a key feature of this year's budget. The government will spend \$10.1 billion per year on average over the next four years on projects including:

- > \$110 million to fast track the completion of design and planning for the North East Link
- > \$712 million for the second stage of the Monash Freeway upgrade
- > \$941 million for regional road upgrades
- > \$1 billion for metropolitan public transport upgrades, including station upgrades
- > \$50 million for detailed planning of a fast train to Geelong integrated with an Airport Rail Link
- > \$50 million for community infrastructure in fast growing interface council areas
- > \$153.2 million for a Geelong City Deal that includes a new convention centre and Stage 2 of the Shipwreck Coast Masterplan.

Skills and training receives \$172 million to make TAFE training free for 30 priority courses, \$25.9 million to strengthen vocational pathways, \$109 million to improve student career advice, and \$48.9 million to fast track secondary

school students into apprenticeships and traineeships. Funding has also been allocated to build 28 new schools and upgrade more than 130 schools around the state, including 60 regional schools. TAFE campuses in Bendigo, Morwell and Sale will also be upgraded.

\$13.5 million is provided for small business mentoring, \$16.1 million to grow agribusiness and wine exports and \$55.1 million to facilitate investment attraction into the state. The budget funds the creation of a Cross Border Commission to streamline regulatory requirements and improve access to services in border communities.

The cost of doing business is reduced by cutting the payroll tax rate to 2.425 per cent for regional business. The government estimates this will benefit approximately 4,000 businesses.

Regional businesses will also benefit from the creation of the Office of Industry Participation and Jobs and the expansion of the Industry Capability Network to Ballarat, Bendigo, Geelong and Shepparton. This will help connect more regional businesses to government procurement opportunities. \$11 million is provided to improve regional mobile telecommunications infrastructure.

Victoria's tourism interests are supported with funding of \$51.1 million for Visit Victoria to attract more visitors from interstate and overseas. \$70.6 million is allocated for Parks Victoria to enhance the management of the public parks network and improve visitor services. Also welcome is funding of \$21.8 million to help the events industry bring more of the world's biggest conferences to Victoria.

The budget confirms Victoria's strong economic and financial position. Real Gross State Product (GSP) is expected to grow at a steady rate of 2.75 per cent each year over the forward estimates period. Household consumption and public demand are expected to make the largest contributions to growth and dwelling investment is expected to remain near historically high levels as a result of continuing strong population growth.

Operating surpluses averaging \$2.5 billion over four years are forecast and government recurrent expenditure is expected to increase at an average annual rate of 3.9 per cent, slightly below the rate of revenue growth of 4.0 per cent. Net debt as a proportion of GSP is expected to be 4.6 per cent at June 2018, and increase to 6.0 per cent by June 2021. However, this remains low by historical levels and is consistent with maintaining Victoria's AAA credit rating.



At a glance: Key budget initiatives for business

Keep Victoria Competitive

- > A \$1.4 billion operating surplus in 2018-19 and annual surpluses averaging \$2.5 billion over the next four years
- > Government spending to rise at an average annual rate of 3.9 per cent, with revenue growth averaging 4.0 per cent
- > Retention of the state's AAA credit rating

Infrastructure

- > \$110 million to fast track the completion of design and planning for the North East Link
- > \$50 million for detailed planning of a fast train to Geelong integrated with an Airport Rail Link
- > \$712 million for the second stage of the Monash Freeway upgrade
- > \$941 million for regional road upgrades
- > \$50 million for community infrastructure in fast growing interface council areas

Regional Victoria

- > Funding to establish the Cross Border Commission
- > \$4.9 million to expand the Industry Capability Network to Ballarat, Bendigo, Geelong and Shepparton
- > \$16 million for a new GovHub in Bendigo, bringing more government jobs to the region
- > \$11 million for enhanced mobile coverage in regional Victoria

Small Business and Jobs

- > 4000 regional businesses will save \$167 million with a new lower payroll tax rate of 2.425 per cent, making it the lowest payroll tax rate in the nation
- > \$13.5 to strengthen SME mentoring and support
- > \$14.7 million to fast track planning permit applications

Education and Training

- > \$49.8 million to fast track secondary school students into apprenticeships and traineeships
- > \$172 million to make TAFE free for 30 priority courses
- > \$25.9 million to strengthen vocational pathways
- > \$109 million to improve secondary student career advice

Tourism and Liveability

- > \$51.1 million for tourism marketing and business events attraction
- > \$153.2 million for a Geelong City Deal that includes a new convention centre and Stage 2 of the Shipwreck Coast Masterplan
- > \$70.6 million for Parks Victoria to improve public parks management and visitor services
- > \$4.5 million boost to the Victorian Major Events Fund

Trade and Investment

- > \$55 million to support investment attraction facilitating private sector investment and job creation
- > \$16.1 million to help grow agribusiness and wine exports

Energy

- > \$48 million for \$50 energy comparison rebates for households

Economic outlook

The budget forecasts show Victoria's economy is strong and expected to remain robust with growth in Gross State Product (GSP) of 2.75 per cent in each year of the forward estimates period.

Victorian economic growth is being driven by strong population growth and low interest rates which are contributing to strong demand for Victorian goods and services. Government investment in infrastructure is expected to continue to be an important source of economic growth and employment over the next four years.

Victoria's population growth leads the nation and is expected to remain above the Australian average as Victoria continues to attract a high share of migrants from interstate and overseas.

Victorian labour market conditions are expected to continue to improve with the unemployment rate projected to decline from the 2016-17 level of 5.9 per cent to 5.75 per cent this year and to remain stable over the next four years. However, strong growth in employment over recent years is expected to moderate over the next four years as wages growth increases and population growth eases slightly.

Victoria's financial position

The budget predicts an operating surplus of \$1.4 billion in 2018-19 and annual surpluses averaging \$2.5 billion over the next four years.

This strong result is being driven by robust payroll tax, land tax and stamp duty revenue as well as a significant boost to revenue from the goods and services tax (GST) resulting from Victoria's strong population growth relative to other states and the need for greater investment in infrastructure.

Expenditure growth over the forward estimates period is expected to average 3.9 per cent, lower than average annual revenue growth at 4.0 per cent.

Net debt as a proportion of Gross State Product is expected to increase from 4.6 per cent at June 2018 to 6.0 per cent by June 2021, a level consistent with protecting Victoria's AAA credit rating.

Victoria's economic forecast (%)	2016-17 actual	2017-18 forecast	2018-19 forecast	2019-20 forecast	2020-21 projection	2021-22 projection
Real gross state product	3.30	3.00	2.75	2.75	2.75	2.75
Employment	3.90	2.75	2.00	1.75	1.75	1.75
Unemployment rate	5.90	5.75	5.75	5.50	5.50	5.50
Consumer price index	1.90	2.00	2.25	2.50	2.50	2.50
Wage price index	2.00	2.25	2.50	2.75	3.00	3.25
Population	2.30	2.30	2.20	2.10	2.00	2.00

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