




OVERVIEW

2017-2018 State Budget



The Andrews Government's third budget was brought down on 2 May 2017.

With forecast strong operating surpluses averaging \$2.4 billion over the forward estimates, the budget reflects Victoria's strong financial position. Importantly, it lowers business costs and continues the Government's already significant investment in infrastructure.

Many of the initiatives contained in the Victorian Budget directly reflect the influence of our pre-budget submission and associated advocacy on behalf of members, customers and clients. Particularly pleasing is the announced bring forward in the increase in the payroll tax threshold and significant payroll tax rate cut for regional business.

Overall, we consider the budget will build capacity, boost business confidence and enhance Victorian liveability.

Overview

The budget lowers business costs by bringing forward payroll tax relief announced in last year's budget. This means the \$575,000 threshold will be increased to \$650,000 from 1 July 2018. Approximately 38,000 businesses will benefit from this measure, with around 1600 small businesses no longer having to pay any payroll tax a year earlier. A 25 per cent payroll tax rate cut will apply to regional businesses that have at least 85 per cent of their employees in regional areas, saving \$173 million over four years and benefitting around 4000 regional businesses.

In addition, businesses that pay less than \$40,000 in payroll tax each year will now be able to choose to make an annual payroll tax payment instead of monthly payments, thereby improving cash flow.

There is \$3.5 million to reduce retail small business red tape by improving SME access to information, streamlining approvals processes and making retail leases easier and fairer.

The budget commits \$100 million for planning and pre-construction activities associated with the North East Link, the Victorian Chamber's number one infrastructure priority. This vital project will address growing freight traffic and relieve congestion in Melbourne's north-eastern suburbs.

Other significant road investments across the State include \$300 million to build the Mordialloc Bypass and \$10 million for Stage 1 of the Shepparton Bypass. Regional

Victoria will also benefit from \$530 million to upgrade regional roads and a substantial \$1.45 billion to address the reliability of the regional rail network under the Regional Rail Revival plan.

Victoria's important agribusiness sector will benefit from \$44 million to safeguard the sector from biosecurity risks and the removal of stamp duty on agricultural insurance products, saving agribusiness \$16 million.

Education and training receives a boost in the budget with \$8.2 million for Apprenticeship Support Officers to support apprentices under 25. Monies have also been allocated to improve teacher training and performance. School infrastructure spending also receives a \$685 million boost, with \$296 million to construct, plan and buy land for new schools, \$239 million to upgrade schools across the State and \$84 million for school IT upgrades.

Victorian international engagement prospects will be enhanced by \$90 million for an expanded Investment Attraction and Assistance Program and \$2 million to strengthen Victoria's presence in fast growing Asian markets by bolstering Victoria's network of trade and investment offices, 11 of which are currently based in Asia.

Health and community safety is a key focus of the budget which invests almost \$2.9 billion in hospital and ambulance services and boosts access to mental health services. The budget allocates \$1.9 billion to address family violence and provides

new funding to increase police numbers, strengthen youth justice and improve emergency service readiness. There is new funding to promote multiculturalism and support Victoria's creative industries. Taken together, these measures will strengthen the State's liveability credentials.

Victoria's vital tourism and events industries will benefit from \$25 million for Visit Victoria to attract more interstate and international visitors to the State. There is also \$271 million to complete the third stage of the Melbourne Park redevelopment, \$193 million to extend all night public transport on weekends and \$28 million to support the continued growth of the National Gallery of Victoria as a key tourist destination.

The budget confirms Victoria's strong economic and financial position. Operating surpluses totalling \$8.3 billion over 4 years are forecast and Government is expected to increase spending at an average annual rate of 3.2 per cent, slightly below the rate of revenue growth of 3.7 per cent. Net debt will increase to 6 per cent of Gross State Product but remains low by historical levels and is consistent with maintaining Victoria's AAA credit rating.



Key budget initiatives for business at a glance

Keep Victoria competitive

- > Operating surpluses totalling \$8.3 billion over 4 years
- > Government spending to rise at an average annual rate of 3.2 per cent, with revenue growth of 3.7 per cent
- > Net debt increasing to 6 per cent of gross state product to fund infrastructure
- > \$1.35 billion in public service efficiency savings

Strengthen international engagement

- > \$90 million for an expanded Investment Attraction and Assistance Program
- > \$2 million to strengthen Victoria's presence in fast growing Asian markets

Foster tourism and events industry success

- > \$271 million to complete the third stage of the Melbourne Park redevelopment
- > \$193 million to extend all night public transport on weekends
- > \$25 million for Visit Victoria to promote tourism and major events
- > \$28 million to support the continued growth of the National Gallery of Victoria as a key tourist destination

Lower business costs

- > The payroll tax threshold will increase to \$625,000 from 1 July 2017 and to \$650,000 from 1 July 2018, saving business \$48 million over two years and benefitting around 38,000 businesses
- > A 25 per cent payroll tax rate cut for businesses that have at least 85 per cent of their employees in regional areas, saving business \$173 million over four years and benefitting around 4000 regional businesses
- > Businesses that pay less than \$40,000 in payroll tax each year will now be able to choose to make an annual payroll tax payment instead of monthly payments, improving cash flow and potentially benefitting 9700 businesses
- > \$44 million for agricultural biosecurity, reducing costs and risks for agribusiness
- > Removal of stamp duty on agricultural insurance products, saving agribusiness \$16 million
- > However, changes to motor vehicle duty and stamp duty, and a new vacant residential property tax will increase tax revenue by \$1.4 billion over the next four years

Grow small business and tackle red tape

- > \$3.5 million to reduce retail small business red tape by improving SME access to information, streamlining approvals processes and making retail leases easier and fairer

Strengthen infrastructure

- > \$100 million for the design and planning of the North East Link
- > \$1.45 billion for regional rail upgrades, including \$435 million for the Gippsland line upgrade
- > \$530 million for the regional road network, including \$11.5 million to upgrade local roads used by agribusiness
- > Upgrades to the Great Ocean Road
- > \$10 million towards the Shepparton Bypass
- > \$10 million to progress the airport rail link

Improve education and training

- > \$8.2 million for Apprenticeship Support Officers to support apprentices under 25
- > \$685 million for school buildings, including STEM facilities
- > \$34 million to improve teacher training and performance

Economic outlook

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

Victorian economic growth is being driven by a lower exchange rate and strong population growth which are contributing to strong demand for Victorian goods and services. Housing construction, business investment and government infrastructure spending will also make a significant contribution to economic growth.

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 2015-16 level of 5.9 per cent to 5.5 per cent this year and to remain stable over the next four years. Improvements in the labour market are reflected in a high labour force participation rate, lower youth unemployment rate and strong employment growth in Victoria's regions.

Victoria's financial position

The budget predicts an operating surplus of \$1.2 billion in 2017-18 and surpluses totalling \$8.3 billion over 4 years. This strong result is being driven by robust payroll tax, land tax and stamp duty revenue as well as increased revenue from the goods and services tax (GST).

The budget position is also bolstered by changes to motor vehicle duty and stamp duty, and a new vacant residential property tax that will increase tax revenue by \$1.4 billion over the next four years.

Expenditure growth over the forward estimates period is expected to average 3.2 per cent, lower than average annual revenue growth at 3.7 per cent.

Net debt as a proportion of Gross State Product is forecast to increase from 4.6 per cent this year, to 6.0 per cent by June 2021, reflecting the Government's significant planned investments in infrastructure.

Victoria's economic forecast (%)	2015-16 actual	2016-17 forecast	2017-18 forecast	2018-19 forecast	2019-20 projection	2020-21 projection
Real gross state product	3.30	3.00	2.75	2.75	2.75	2.75
Employment	2.40	3.25	2.00	1.50	1.50	1.50
Unemployment rate	5.90	5.75	5.50	5.50	5.50	5.50
Consumer price index	1.60	2.00	2.00	2.25	2.50	2.50
Wage price index	2.30	2.00	2.25	2.75	3.00	3.25
Population	2.10	2.00	1.90	1.80	1.80	1.80

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