



State Budget 2009/10 - Overview

VECCI has broadly welcomed the release of the 2009/10 State Budget, as a solid response to the global economic crisis.

The Budget contains new initiatives to support jobs and provide economic stimulus through infrastructure development to deliver ongoing improvements and ease pressure on transport, education, and health care systems. It also builds on work already underway to assist in the recovery and rebuilding of communities following the Black Saturday bushfires.

Despite the difficult economic environment where both local and global conditions have deteriorated, this year's Budget maintains the Government's commitment to responsible economic management with a forecast **operating surplus** of \$165 million for 2009/10 and surpluses averaging \$349 million over the following three years. Maintaining a surplus during these difficult times will help support business and investor confidence going forward.

Total revenue is expected to increase by \$2.0 billion or 1.6 per cent a year on average over the Budget and forward estimates period (to 2012/13). In terms of the sources of revenue growth, grants from the Commonwealth are forecast to decline on average by 0.5 per cent a year over this period while total taxation revenue is expected to grow, on average, by 4.2 per cent a year.

Total outlays are similarly forecast to increase by an average of \$0.5 billion or 1.3 per cent a year, over the forward estimates period.

Net debt will increase to fund a substantial infrastructure program – rising from 1.9 per cent of Gross State Product (GSP) in June 2009 to 5.1 per cent in June 2013. However, this level has not led ratings agencies to readjust their rating of Victoria's financial and credit worthiness from AAA.

Net infrastructure investment is estimated to be a record \$7.0 billion in 2009/10 and average \$4.4 billion a year to 2013. Major new expenditure includes:

- \$4.9 billion, in partnership with the Commonwealth Government, to provide for the first tranche of initiatives under the **Victorian Transport Plan**, to implement a number of significant road and rail projects.
- \$1.7 billion, in partnership with the Commonwealth Government, to boost social housing to provide over 5,000 new dwellings and stimulate jobs in the construction sectors.
- \$2.9 billion for Victorian Government schools, including \$402 million to continue to rebuild and modernise all Government schools.

Reductions in Business Costs

The 2009/10 Budget contains no new measures to reduce business taxation and charges. While the outcome of the budget is not ideal in this regard, we are pleased that the Government has committed to a tax reform agenda as revenues improve, and is committed to ensuring Victoria's long-term competitiveness.

Other initiatives to reduce the burden on business:

- \$7 million over four years to introduce new planning reforms and electronic planning applications to clear the path for building projects.

Bushfire Relief and Rebuilding

The State Government, in partnership with the Commonwealth Government, has provided significant funding for bushfire recovery, rebuilding, support and preparation for the future.

Some of the new initiatives include:

- \$344 million for fire suppression activities.
- \$106 million over two years for case workers and compassionate assistance.
- \$51 million for a Business Assistance Package.
- \$241 million over five years for emergency services.
- \$40 million over two years for the Royal Commission.
- \$10 million for a tourism package to encourage visitors back to fire affected regions.

Support for Industry

The following initiatives provide direct assistance to specific industries:

- \$50 million over two years for the **Industry Transition Fund**, to provide assistance to strategically important firms that are struggling to cope in the economic downturn.
- \$1.2 million over two years for the **Transport Infrastructure Manufacturing Scheme** to boost Victoria's capability to manufacture trains and other major transport assets.
- \$60 million over four years for programs under the **Innovation: Victoria's Future** statement including \$40 million over four years for **Boosting Highly Innovative Small and Medium Enterprises** program.
- \$8 million over four years for the **Defence Industry Acceleration** program.
- \$4.2 million over four years for a new **Export Clusters** program.

Responding to Climate Change

The 2009/10 Budget does not include significant funding for new initiatives to help Victoria meet climate change and other environmental challenges. Any new funding is likely to be linked to Commonwealth initiatives and the release of the Victorian Government's Climate Change White Paper later this year.

However, ahead of the White Paper, the 2009 State Budget allocates up to \$100 million to encourage large-scale solar power generation in Victoria, subject to a matching contribution from the Commonwealth Government.

In addition, some smaller new initiatives include:

- \$28 million over four years for green transport initiatives, including improvements in bicycle lanes and paths, and support for increasing the take up of low emissions vehicles.
- Integrated transport and land development initiatives including \$79 million over six years to facilitate employment growth at six designated Central Activities Districts and employment corridor programs.

Road, Rail, Public Transport and Freight Improvement

The 2009/10 Budget provides \$4.9 billion, in cooperation with the Commonwealth, to boost the capacity of the road, rail and freight networks and associated infrastructure, to support Victoria's productivity, economic growth and population growth into the future. Initiatives include:

- \$38 million to implement 34 state priorities under the Victorian Transport Plan.
- Significant investment in Melbourne's public transport system including:
 - \$651 million over six years for 20 new metropolitan trains (in addition to new regional and metropolitan trains already purchased).
 - \$1.4 billion over five years for extensions, upgrades and improvements to the metropolitan rail and SmartBus networks including; \$562 million over five years to extend the Epping line to South Morang, and \$132 million over five years to improve the reliability and capacity of Melbourne's rail services.
- Key road projects designed to reduce traffic congestion and travel times, and improve road safety, including:
 - \$357 million over five years to construct the 25 kilometre Peninsula Link between EastLink at Currum Downs and Mt Martha.
 - \$1.1 billion over six years to deliver major metropolitan road projects in partnership with the Commonwealth.
 - \$75 million over four years to start work in 2010 on the Dingley Arterial to link the South Gippsland Highway to Westall Road.
- \$819 million over six years for regional road projects including:
 - \$716 million over six years for road projects in regional Victoria, in partnership with the Commonwealth.
 - \$102 million over four years to upgrade major roads in regional areas.
 - \$55 million over four years to continue to upgrade and maintain the regional rail freight network.

- \$28 million over four years to re-establish passenger rail services to Maryborough.
- \$23 million over four years for improved bus services in the Geelong region and the Bellarine Peninsula.
- \$8.8 million over four years to upgrade regional railway stations and interchanges.

Education and Training

The 2009/10 Budget contains a number of measures to boost education and skills. Among these measures are:

- \$25 million to extend the successful **Apprenticeship/Traineeship Completion Bonus** for a further twelve months.
- \$50 million over three years for an extra 15,000 training places in areas of skill shortage.
- \$10 million for the **New Workforce Partnership** program which will create 29 new work projects linking Victorian jobseekers facing persistent labour market disadvantage to jobs in key industries.
- \$14 million over two years for the **Skills to Transition** program to be offered for one year from 1 January 2010 to meet anticipated increased demand for training resulting from the economic downturn and rising unemployment.
- \$67 million over five years for a new student management solution that will replace outdated systems in TAFE institutes and enable better management and coordination of students' learning pathways and needs.
- \$146 million over two years for the Commonwealth's **Trade Training Centres in Schools** program, to address skill shortages and increase the proportion of students completing Year 12 or an equivalent qualification.
- A record \$4.1 billion over five years in education funding, including \$402 million over four years to modernise all Government schools.

Tourism, Events and Natural Assets

The 2009/10 Budget aims to provide support to the tourism industry following the recent bushfires, and also boost infrastructure and facilities to encourage greater use and appreciation of our natural assets.

Among the new initiatives is:

- \$10 million for a tourism package to encourage tourists to visit regions economically affected by the bushfires, through a cooperative marketing and branding program and redevelopment of tourism infrastructure.

The tourism and events industry also stands to benefit from a range of other initiatives including:

- \$38.5 million over four years to establish four new National Parks on the Murray River to protect Victoria's unique River Red Gum forests.
- \$14 million over four years to transform the former Port Nepean defence site into a nationally significant heritage park that will provide recreational and tourism benefits.

- \$6 million over four years to improve facilities, trails and recreation opportunities in urban parks.
- \$4 million over two years to improve piers, jetties and other facilities around Port Phillip and Westernport Bays.
- \$5 million to continue planning the redevelopment of the Melbourne and Olympic Park Precinct.
- \$69 million to support Victoria's arts sector including:
 - \$9.2 million for Museum Victoria.
 - \$19 million over three years for maintenance of the Arts Centre.
 - \$6.2 million for Victorian Opera.
 - \$5.1 million for the State Library of Victoria.

Regional Victoria

Measures to support and promote regional Victoria include (some measures previously mentioned in the Road, Public Transport and Freight Improvement section above):

- \$716 million over six years for road projects in regional Victoria, in partnership with the Commonwealth.
- \$102 million over four years to upgrade major roads in regional areas.
- \$55 million over four years to continue to upgrade and maintain the regional rail freight network.
- \$28 million over four years to re-establish passenger rail services to Maryborough.
- \$23 million over four years for improved bus services in the Geelong region and the Bellarine Peninsula.
- \$8.8 million over four years to upgrade regional railway stations and interchanges.

Other initiatives include:

- \$171 million over four years for improved health care services in regional Victoria, including improved infrastructure and facilities at Bendigo, Warrnambool, Ballarat, Alexandra hospitals.
- \$145 million to support farmers and farming communities, including an additional \$30 million in drought relief assistance for farmers and small businesses in exception circumstances declared areas.
- \$20 million over two years to upgrade regional airports.
- \$10 million over two years to upgrade recreational cycling and off-road walking paths.
- \$10 million for the Small Towns Development Fund, to invest in infrastructure and boost jobs in small regional towns affected by drought.
- \$7.5 million to upgrade roads to support agricultural, horticultural and timber industries.
- \$1 million to commence the Gippsland Regional Infrastructure Development initiative to identify infrastructure needed to support growth of the coal-based industries.

Economic Outlook

According to the Budget forecasts, the Victorian economy is expected to grow by 0.5 per cent in 2008/09. This low level of growth follows on from 3.2 per cent in 2007/08.

Following low growth in 2008/09, **economic growth** is expected to remain low in 2009-10 at 0.25 per cent, recover to a moderate rate of 2.25 per cent in 2010-11, and then settle at a trend growth rate of around 3 per cent in the forward years. The weakest growth is expected to occur in the first half of 2009. National economic growth is also forecast to ease over this period.

The recovery in economic growth is expected to be gradual, as households, firms, Governments and financial institutions alike recover from large declines in asset prices. The low economic growth is expected to accompany lower employment growth and rising unemployment which is expected to reach 7.75 per cent in 2010-11.

The main contributor to weaker economic growth in 2009-10 will be private business investment, greatly impacted by low confidence and credit constraints. This will be offset in part by an increase in public investment as both the Victorian and Commonwealth Governments seek to boost infrastructure investment during the downturn. In general, household consumption is expected to be moderate, as households increase the savings in response to reduced household wealth. However, investment in dwellings is expected to be solid, boosted by low interest rates and strong underlying demand.

Short-term Victorian **export growth** is expected to be adversely affected by the rapid slowdown in the economies of key trading partners such as Japan and Korea. Any gains in the competitiveness of Victorian exporters resulting from the lower Australian dollar, are likely to be more than offset by significantly weaker global demand. Low business confidence, together with weakness in the manufacturing sector - one of the main import drivers - is expected to cause Victorian imports to continue to moderate. Overall, net trade is expected to make a small but positive contribution to Victoria's GSP growth in 2008-09 and 2009-10.

The **labour market** is expected to slow, tempered by weaker domestic and international demand. Employment growth is forecast to slow considerably, declining in 2009-10, with the unemployment rate expected to increase over the forecast period to reach a high of 7.75 per cent. Population growth is projected to ease over the short-to-medium term.

Pressure on **wages growth** is expected to remain in the short-term, before easing over the remainder of the outlook period, as a result of rising unemployment and declining employment growth. However skill shortages in some areas will prevent wages growth from declining significantly.

Price growth is expected to remain moderate in 2008-09 before easing over the remainder of the forecast period.

The future, however, is filled with considerable uncertainty. The Budget identifies a number of potential **risks** to the Victorian economy over the forward period. These include; further deterioration in the global outlook, ongoing global financial market volatility, low confidence, and higher than expected unemployment.

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