

Victorian Budget 2014 | 15



David Martine

Secretary, Department of Treasury and Finance

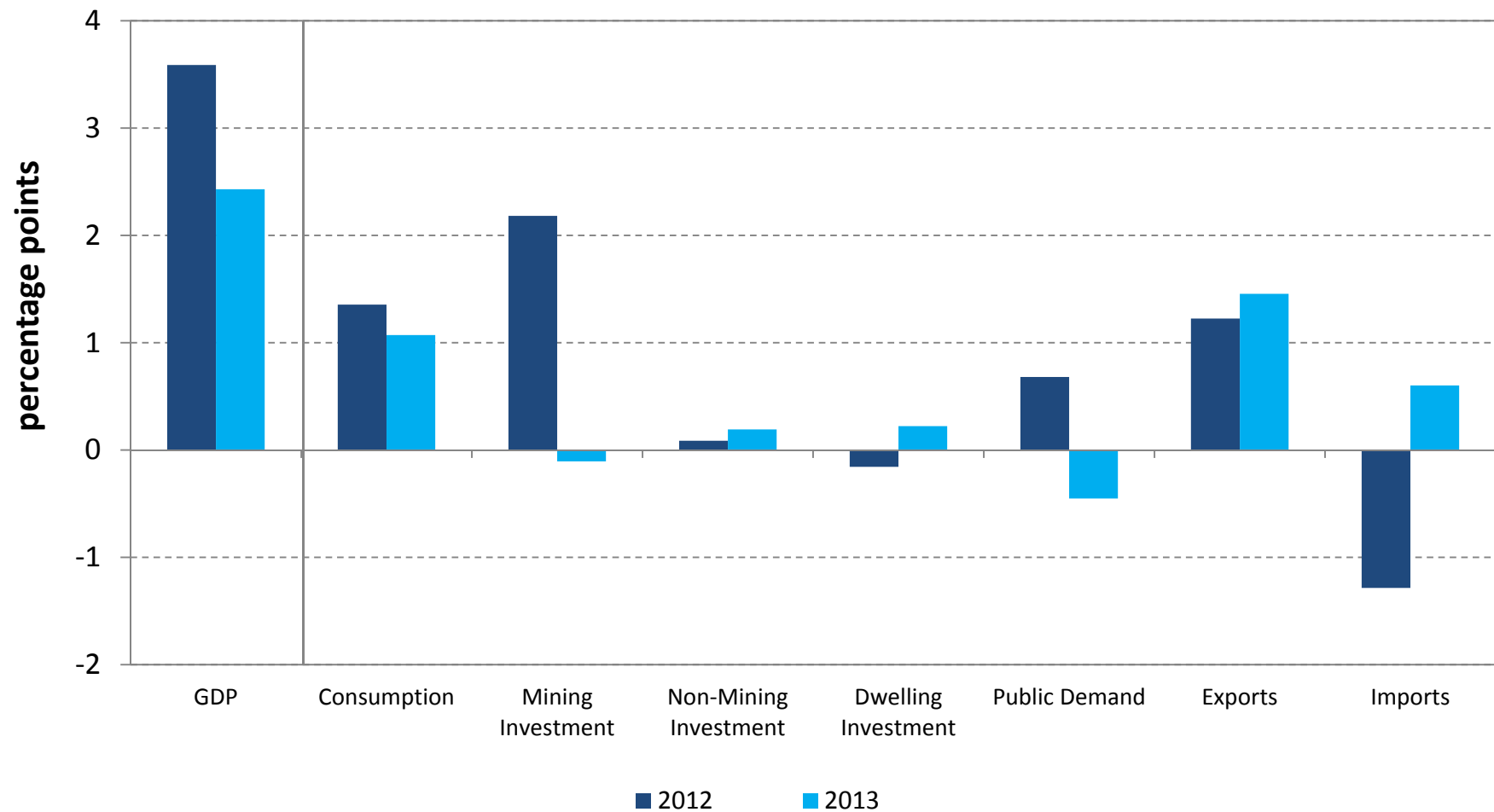
7 May 2014

2014-15 Budget economic and fiscal aggregates

| | <i>Unit of measure</i> | <i>2013-14 Revised</i> | <i>2014-15 Budget</i> | <i>2015-16 Estimate</i> | <i>2016-17 Estimate</i> | <i>2017-18 Estimate</i> |
|--------------------------------------|------------------------|------------------------|-----------------------|-------------------------|-------------------------|-------------------------|
| Net result from transactions | \$ billion | 0.9 | 1.3 | 3.0 | 3.2 | 3.3 |
| Net debt | \$ billion | 21.5 | 23.4 | 18.5 | 19.0 | 19.5 |
| Net debt to GSP | per cent | 6.1 | 6.3 | 4.7 | 4.6 | 4.5 |
| Government infrastructure investment | \$ billion | 5.2 | 7.5 | 7.1 | 6.4 | 6.4 |
| | | | | | | |
| Real GSP growth | per cent | 2.00 | 2.50 | 2.75 | 2.75 | 2.75 |
| Employment growth | per cent | 0.75 | 1.25 | 1.50 | 1.50 | 1.50 |
| Unemployment rate | per cent | 6.25 | 6.25 | 6.00 | 5.75 | 5.50 |
| Population growth | per cent | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |

Source: Department of Treasury and Finance

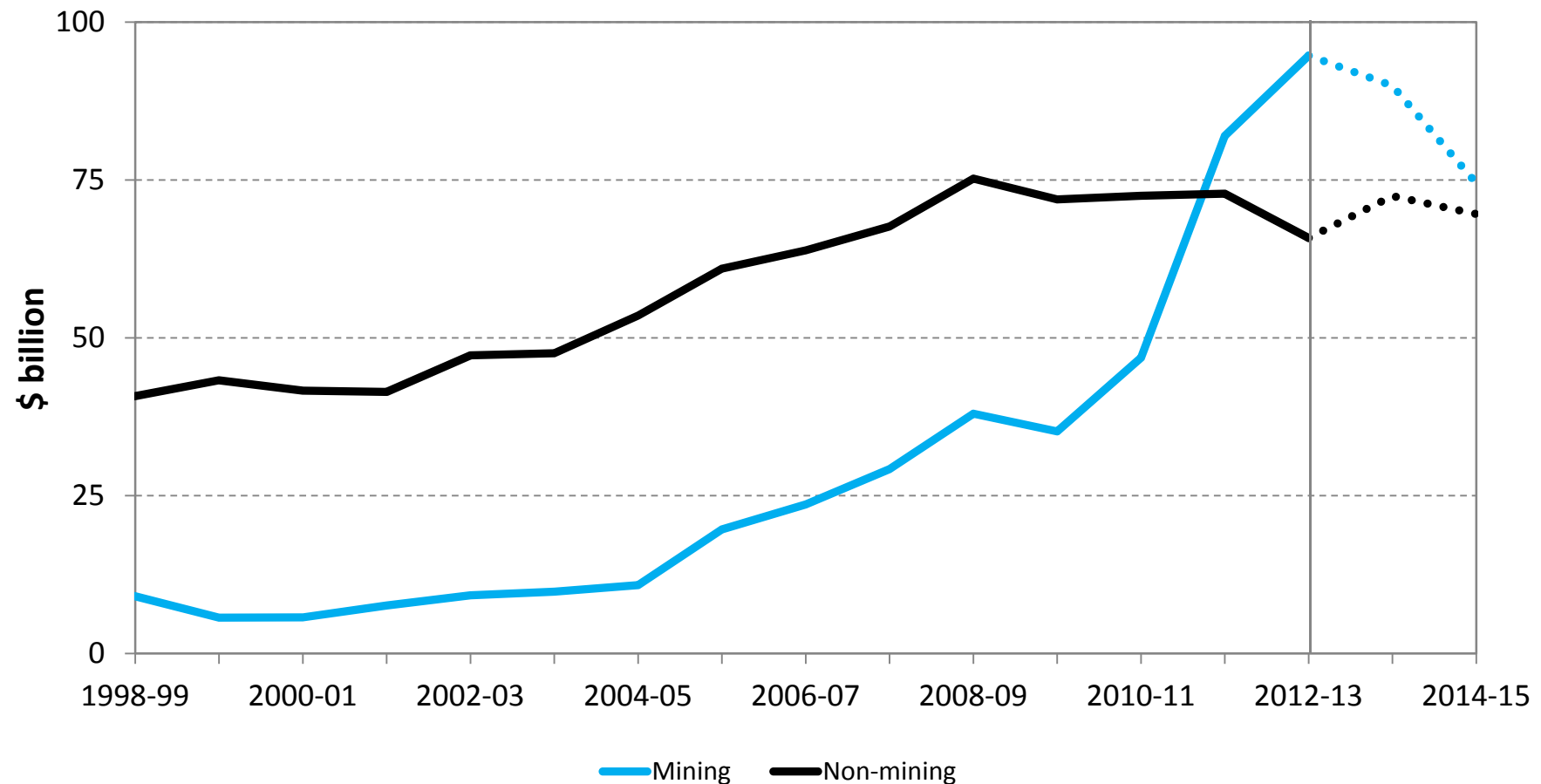
Contributions to national economic growth



Source: Australia Bureau of Statistics, Department of Treasury and Finance

National mining investment peaked in 2012-13

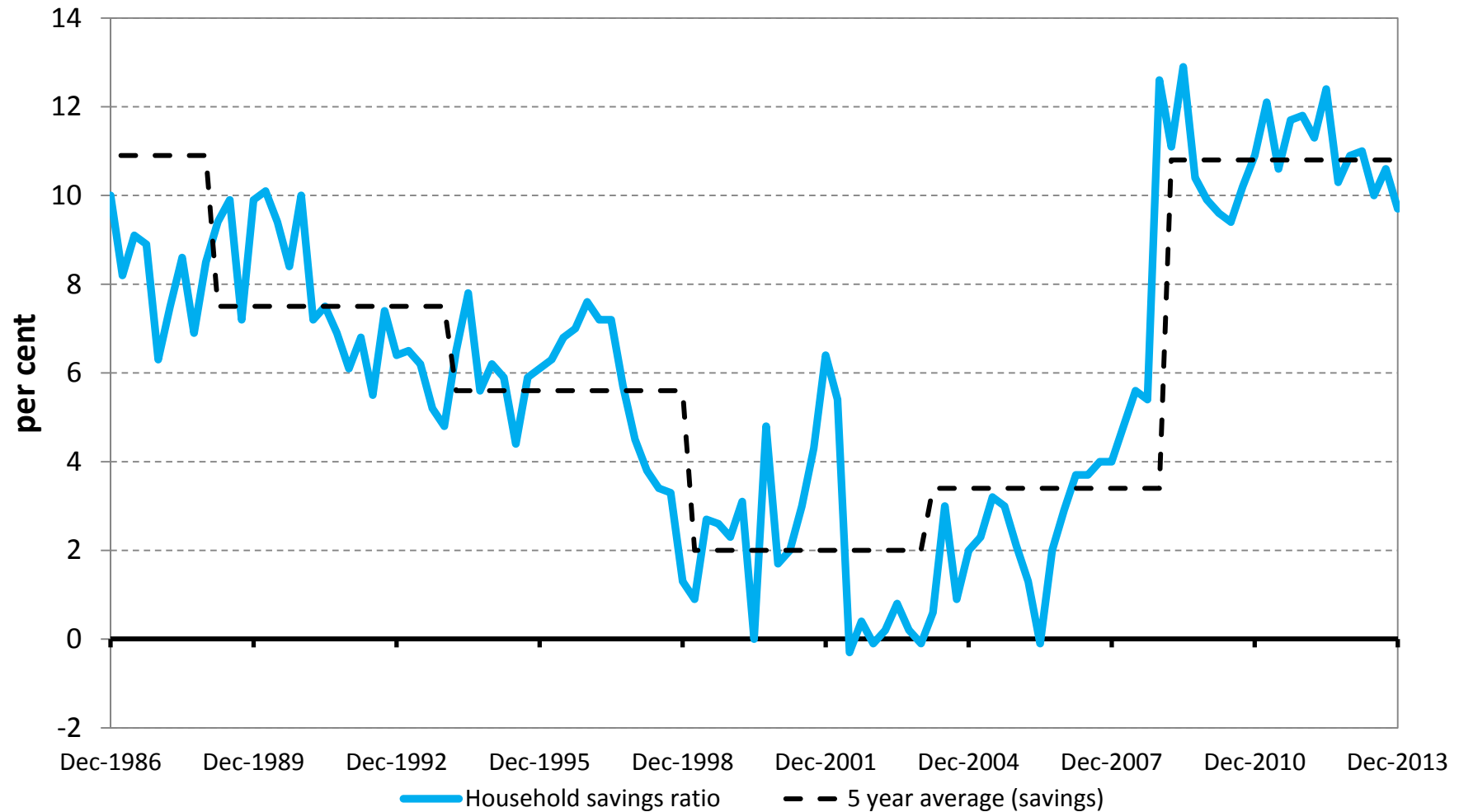
Actual and expected business investment by sector*



Source: Australia Bureau of Statistics, Department of Treasury and Finance

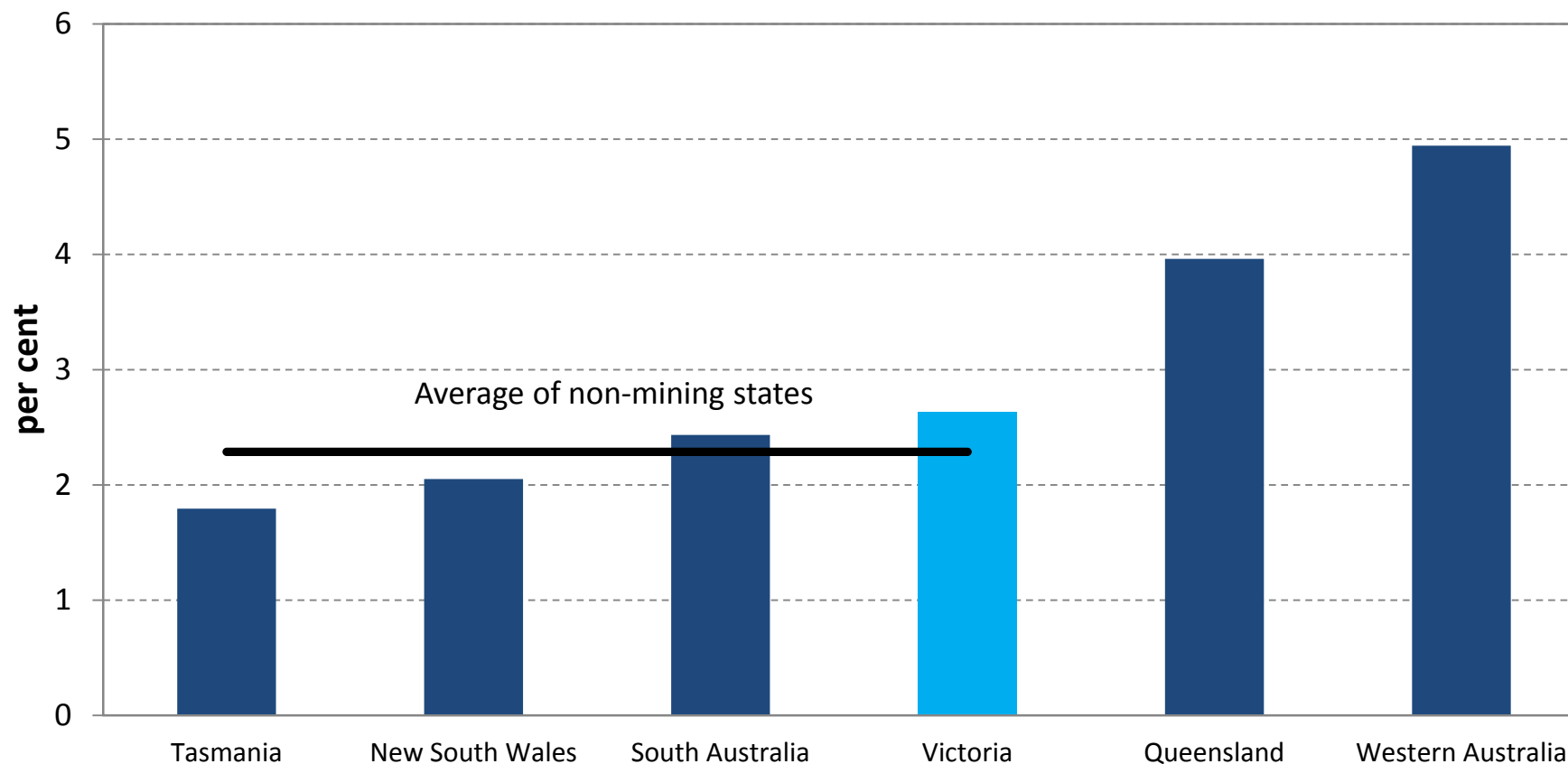
*Dotted lines indicate expected capital spending adjusted for average realisation ratios

Structural shift in household savings



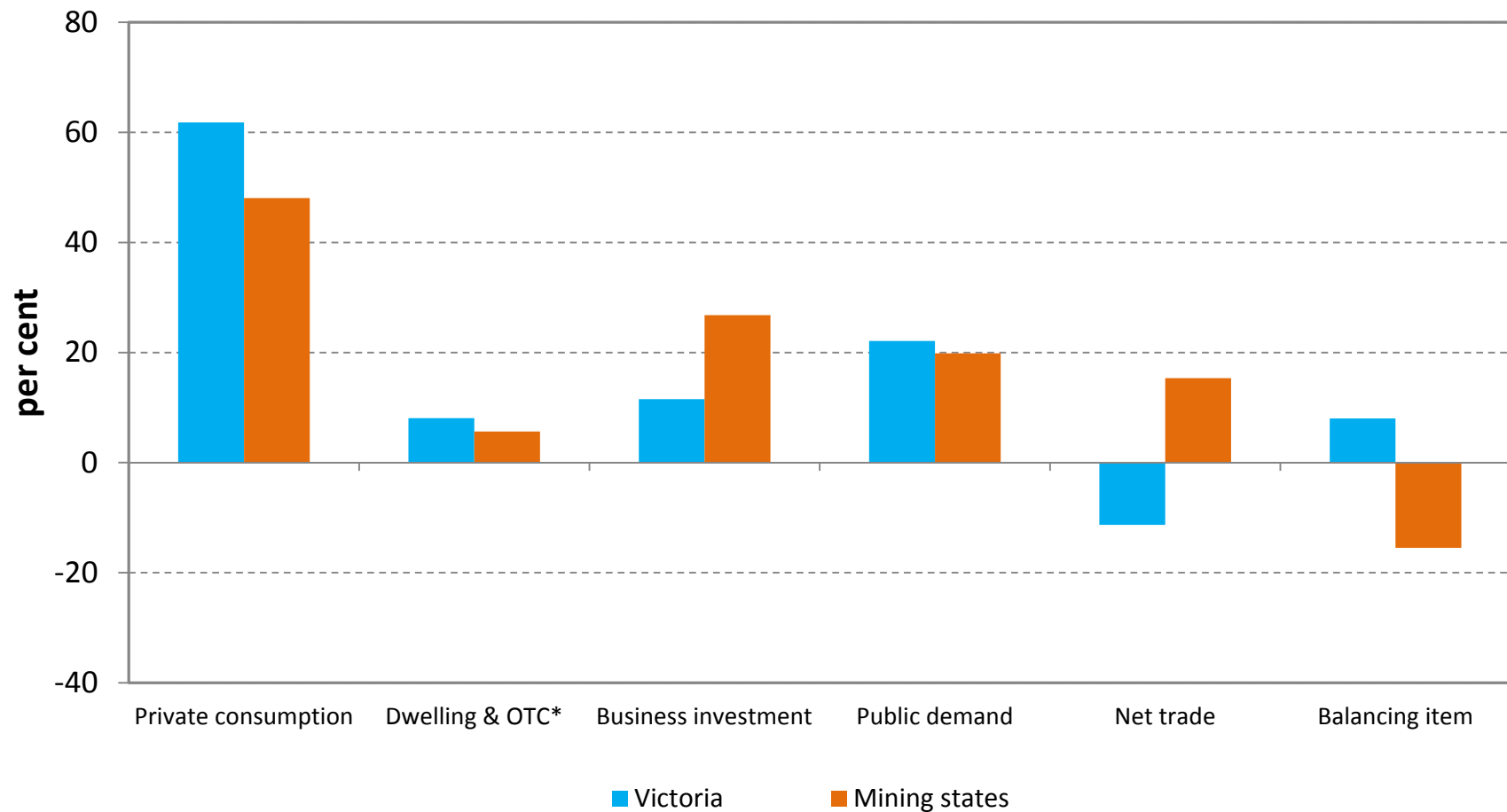
Victoria has the strongest economy of the non-mining states

10-year average GSP growth rates



Source: Australian Bureau of Statistics

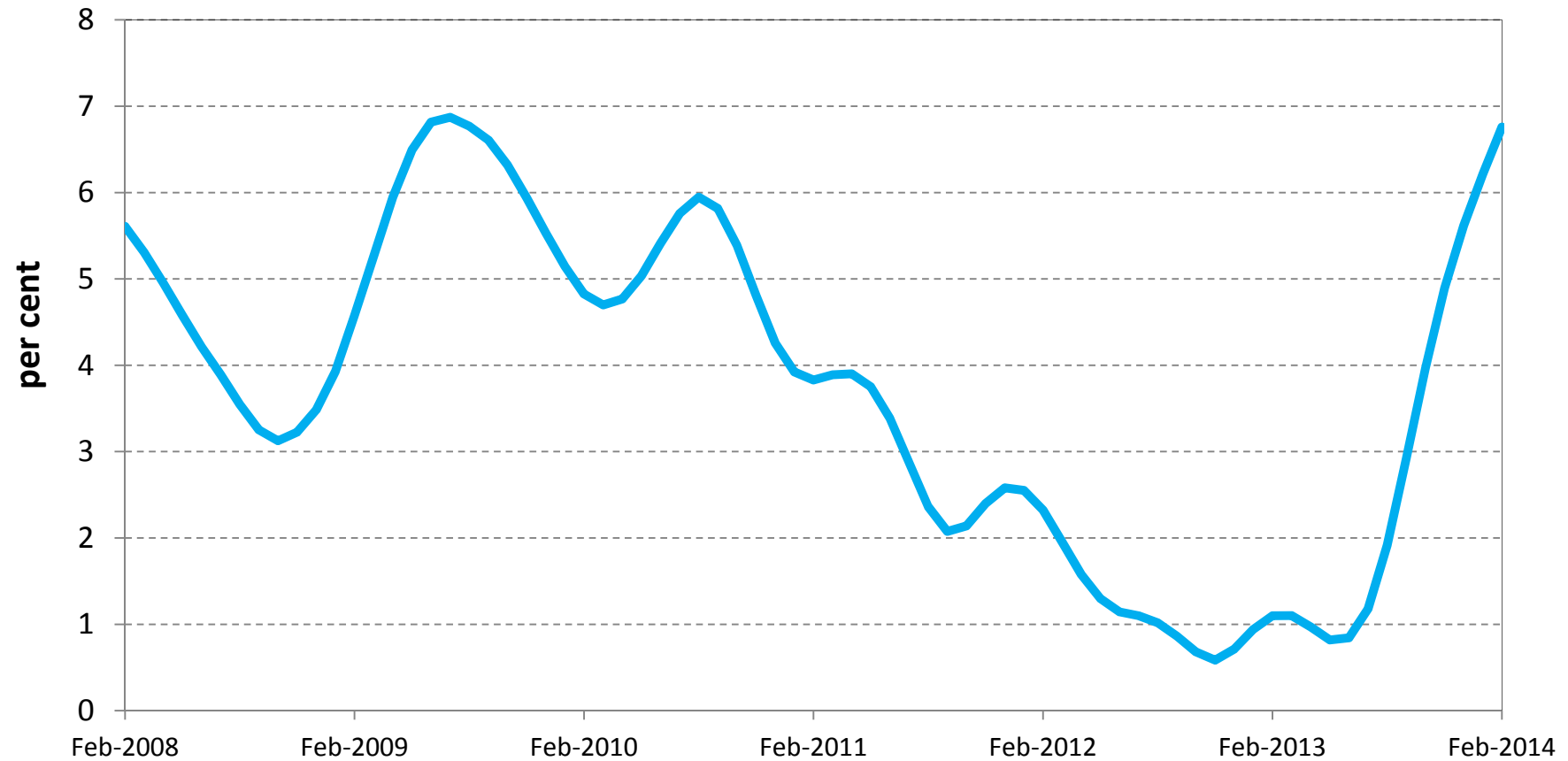
Components of the Victorian economy in 2012-13



Source: Australia Bureau of Statistics, Department of Treasury and Finance

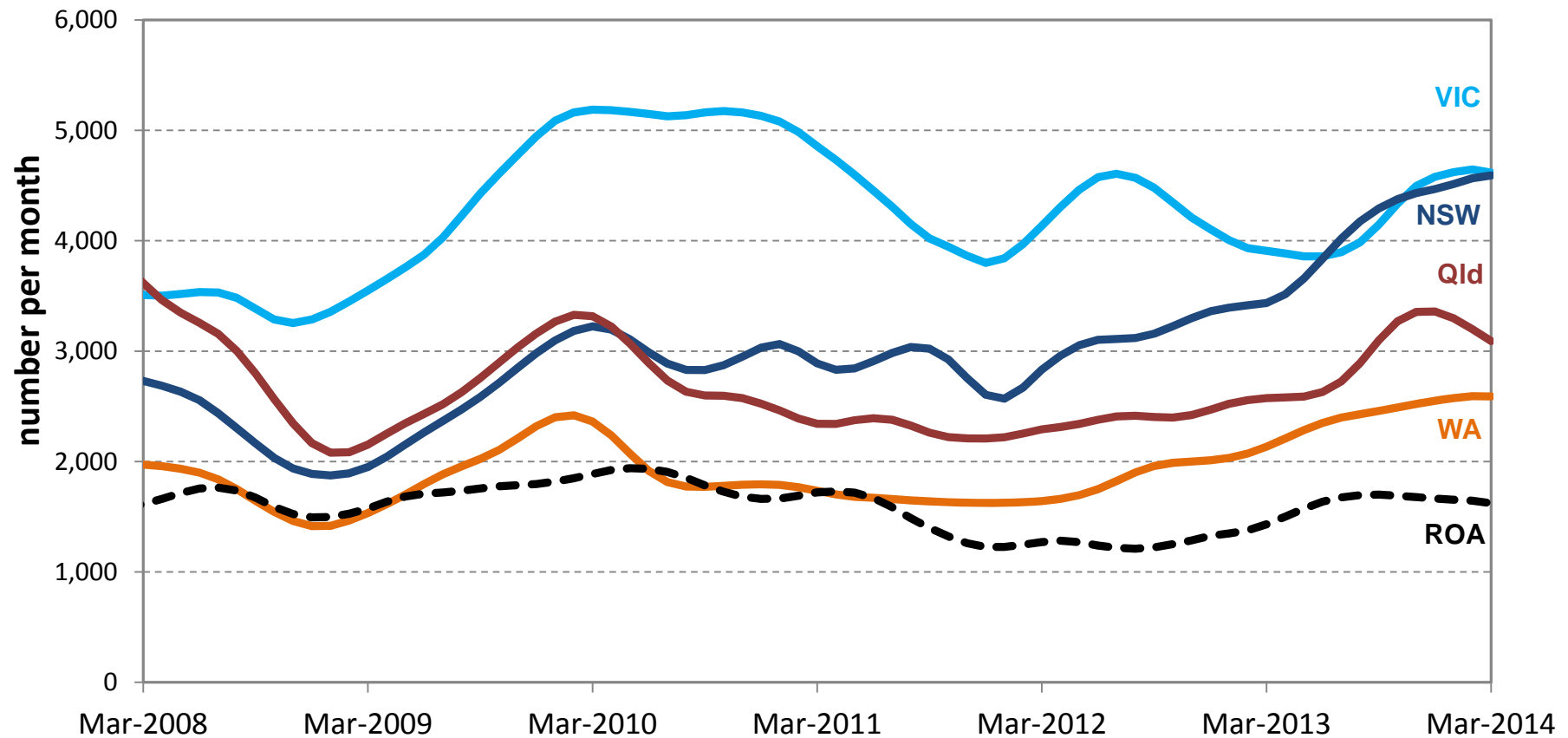
*OTC = Ownership transfer costs

Victorian annual retail trade growth



Source: Australian Bureau of Statistics (trend data)

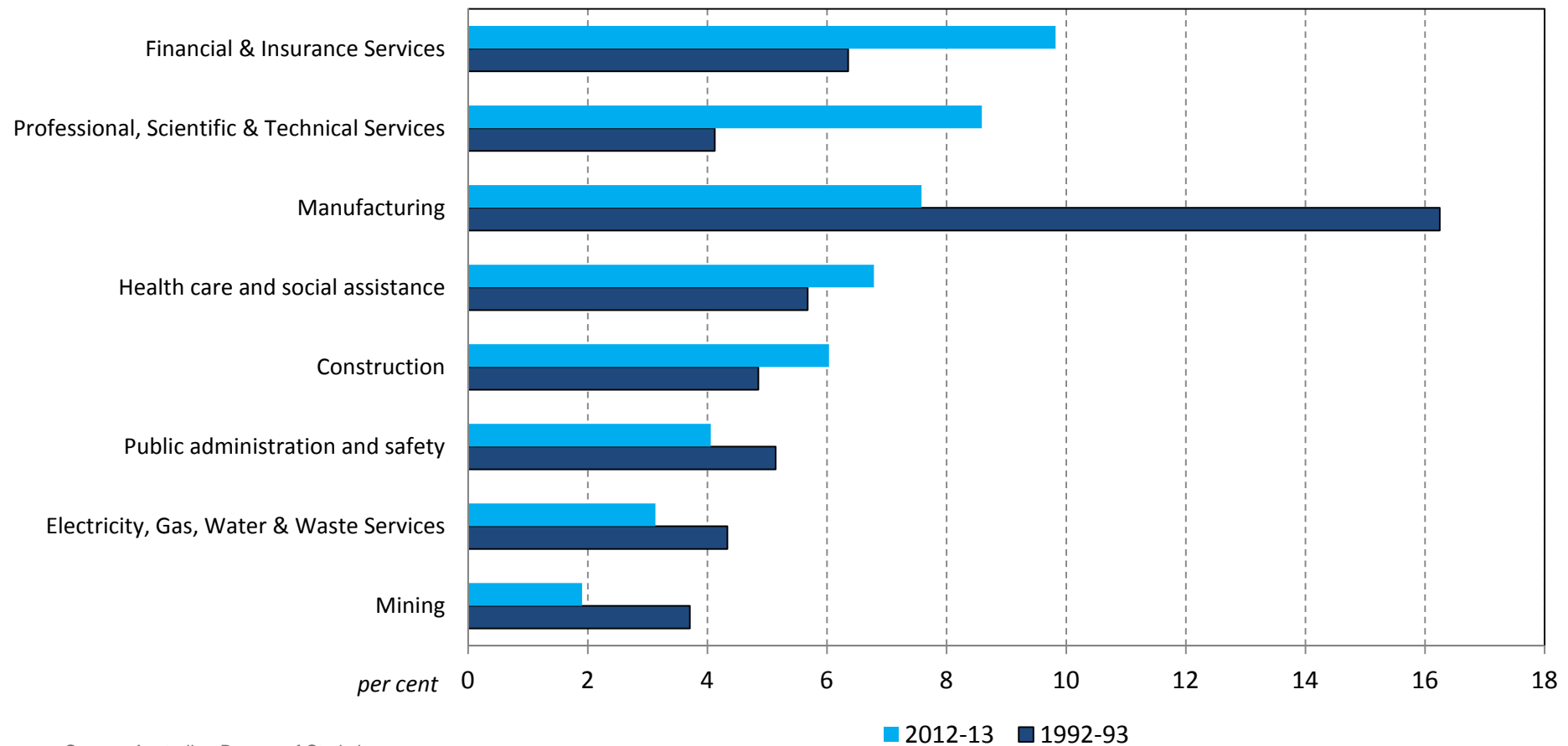
Dwelling approvals



Source: Australian Bureau of Statistics (trend data)

Our reliance on manufacturing has declined...

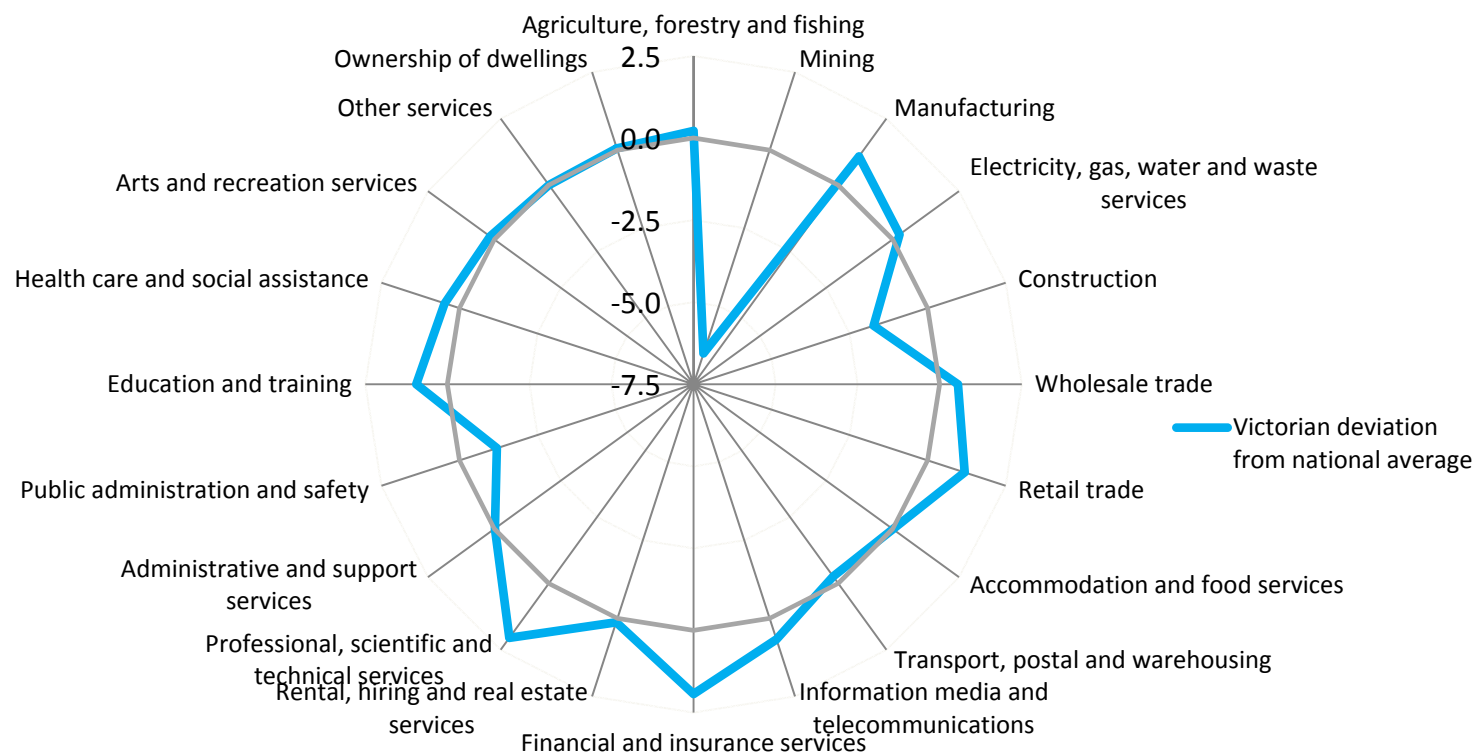
Selected Victorian industry gross value added as a share of nominal GSP



Source: Australian Bureau of Statistics

...and our industrial structure is diverse

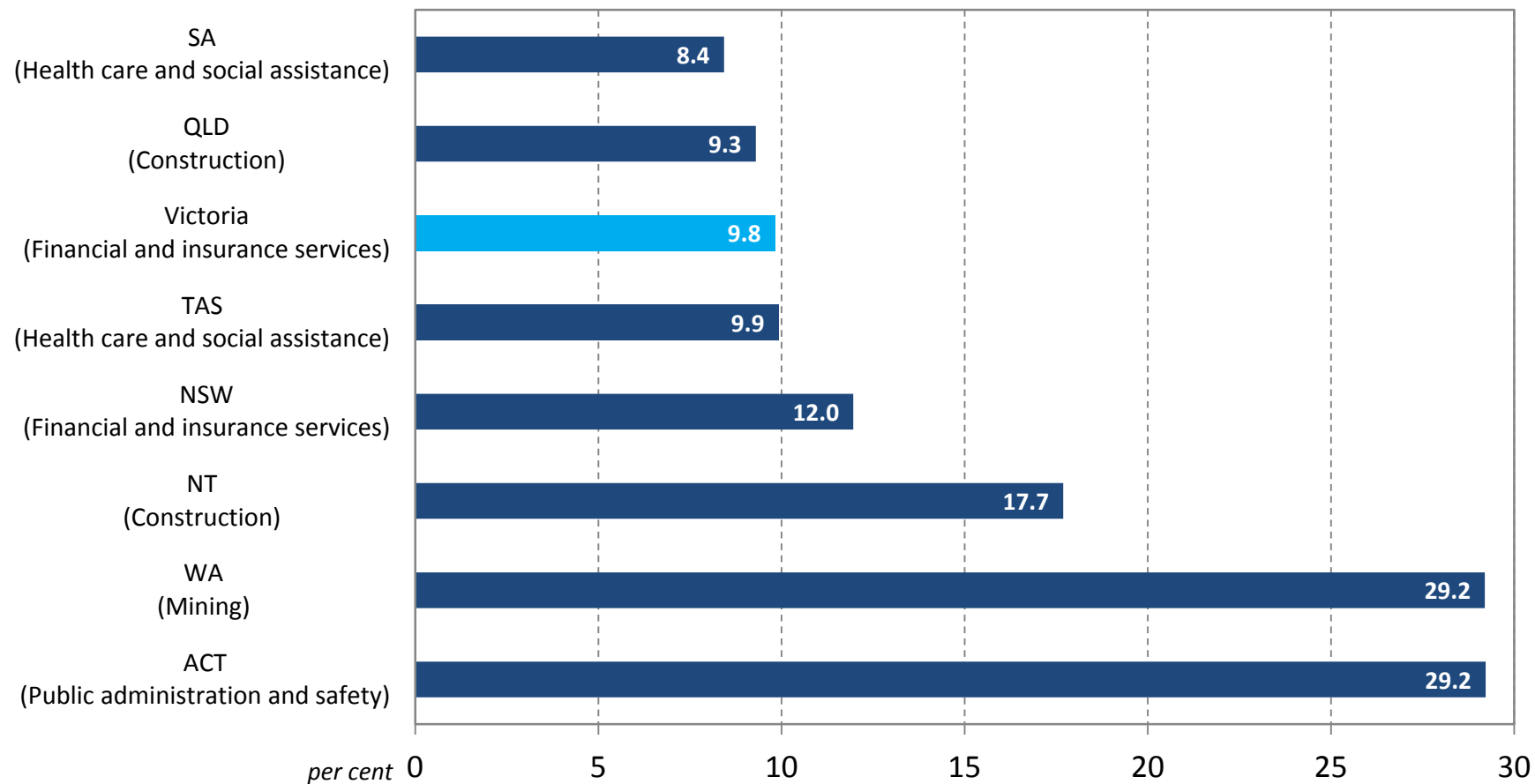
Deviation of Victorian industry gross value added share from national share (percentage points)



Source: Australian Bureau of Statistics

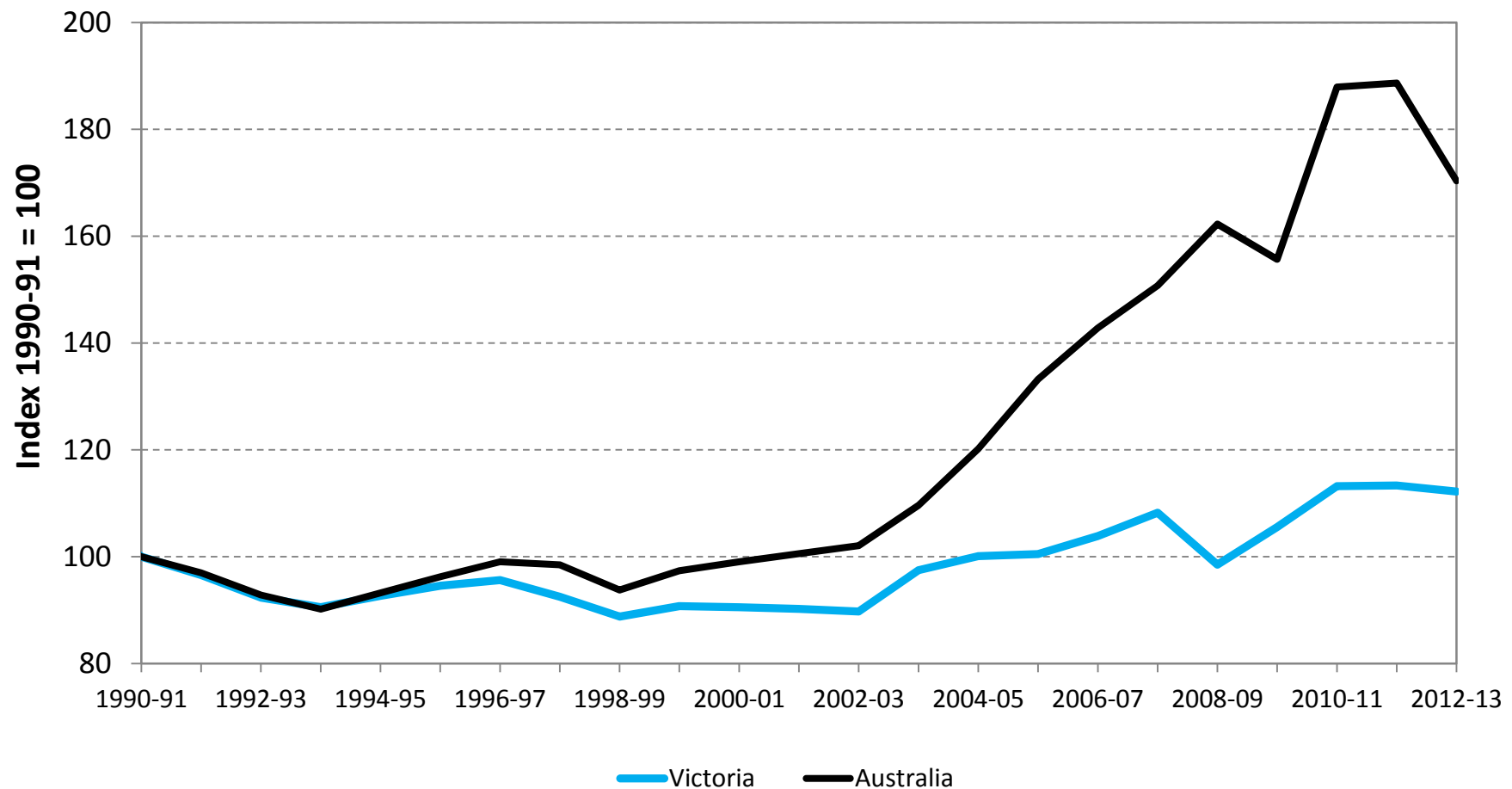
We are less vulnerable to external shocks

Largest industry - gross value added as a share of nominal GSP



Source: Australian Bureau of Statistics

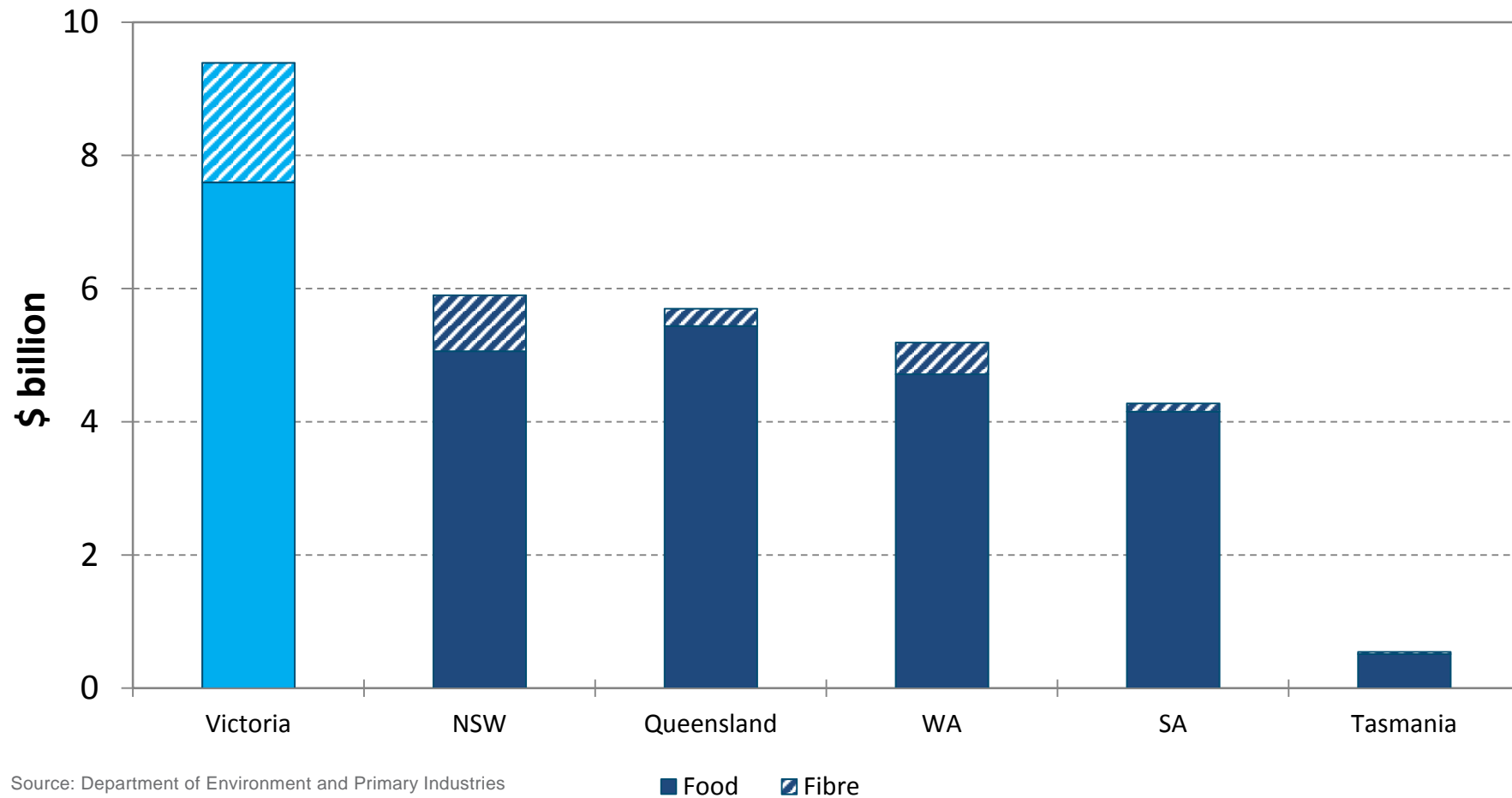
Victorian and national terms of trade



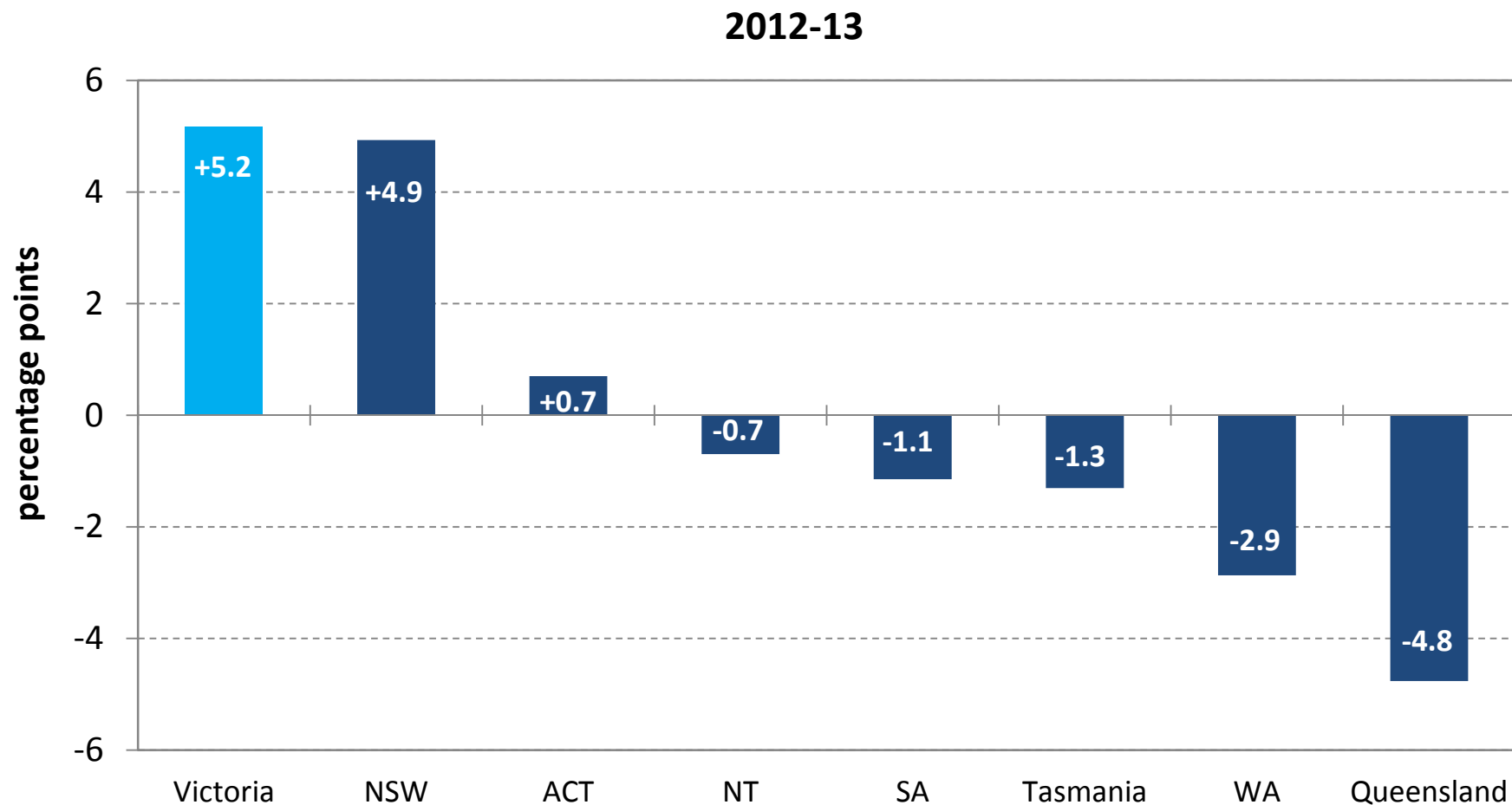
Source: Australia Bureau of Statistics, Department of Treasury and Finance

Leader in agricultural exports

Value of food and fibre exports (2012-13)



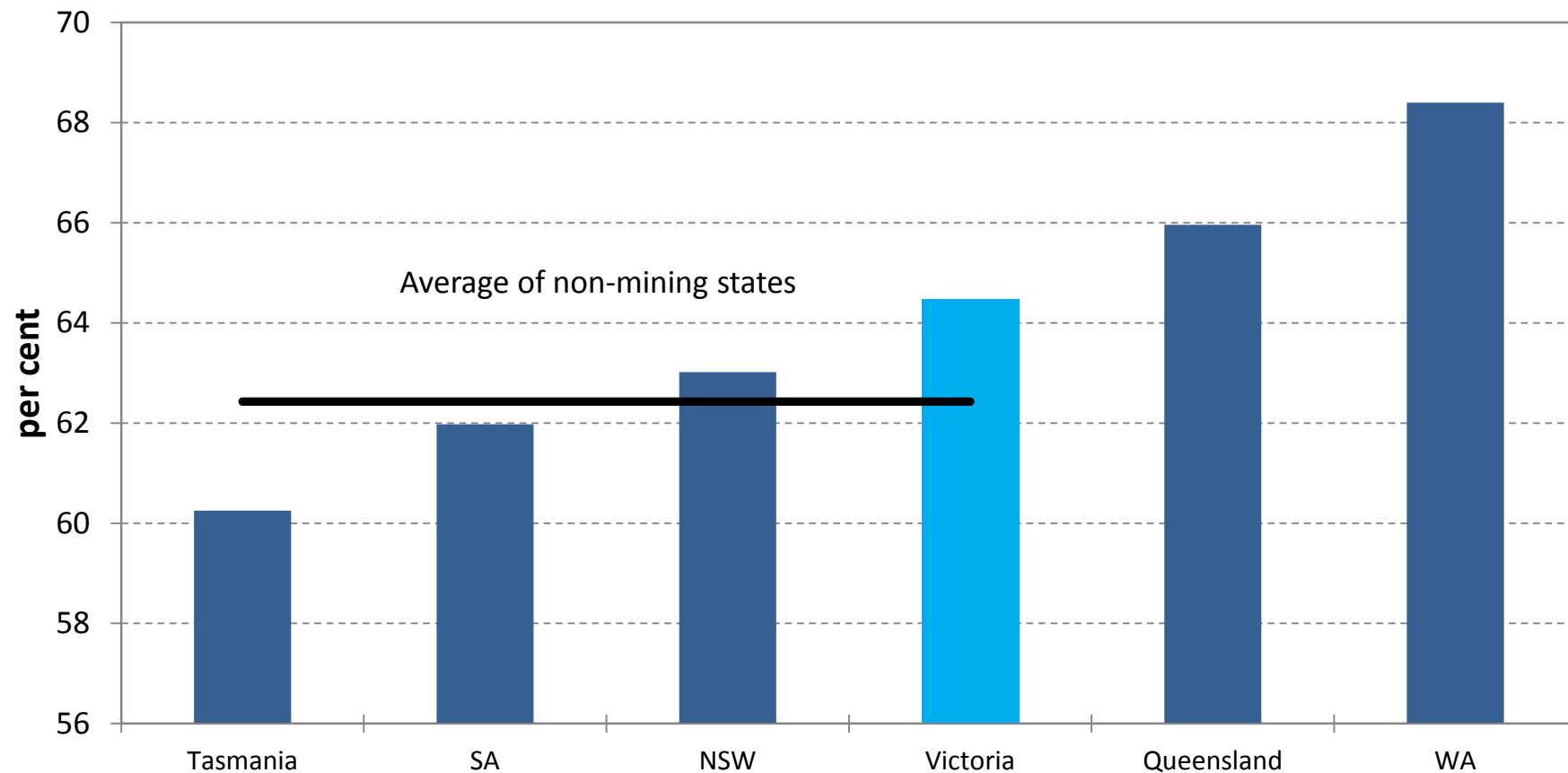
Share of national education exports less population share



Source: Australia Bureau of Statistics, Department of Treasury and Finance

Highest participation of the non-mining states

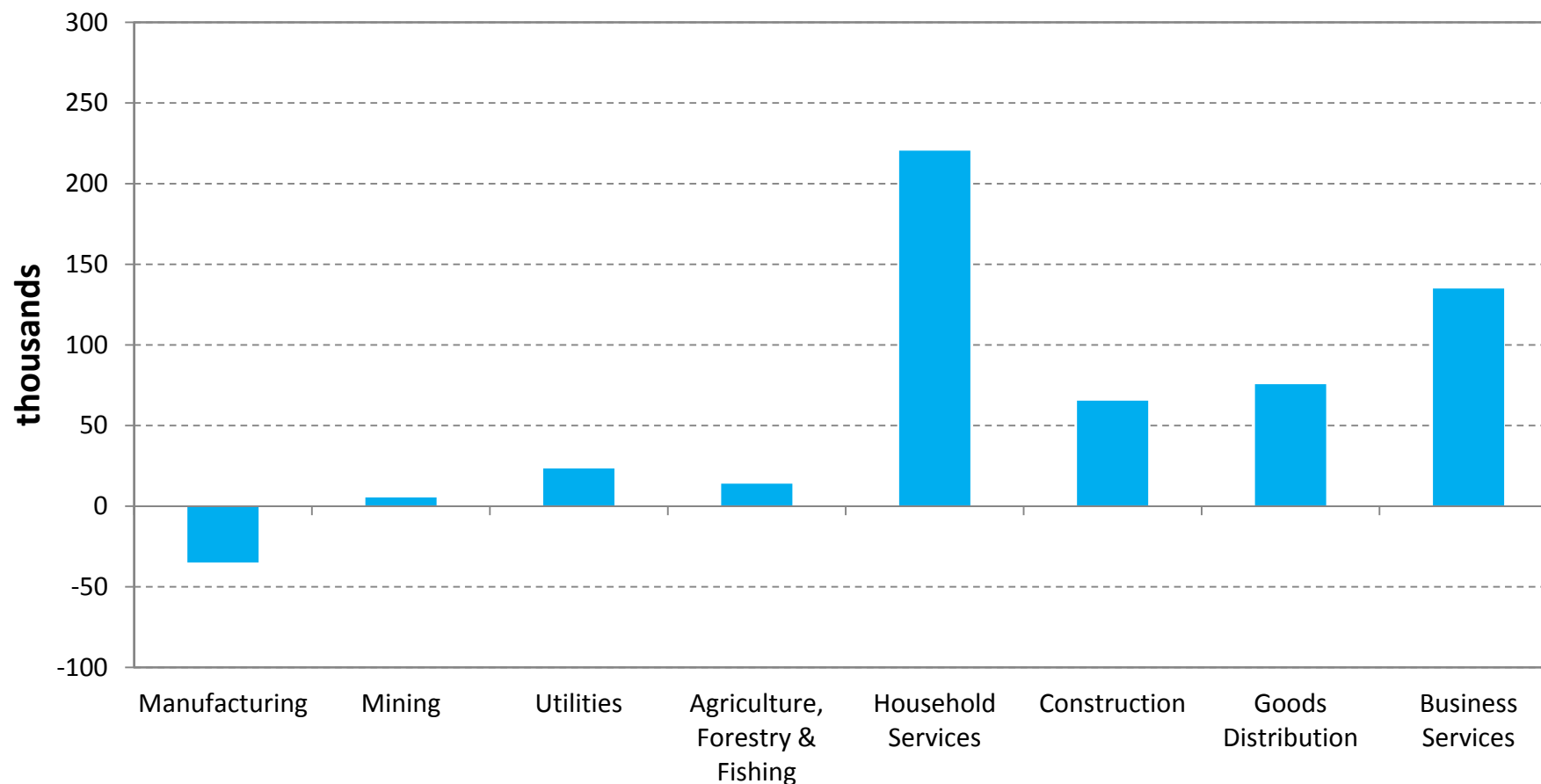
Trend labour force participation rate – March 2014



Source: Australian Bureau of Statistics

Victorian employment change by industry

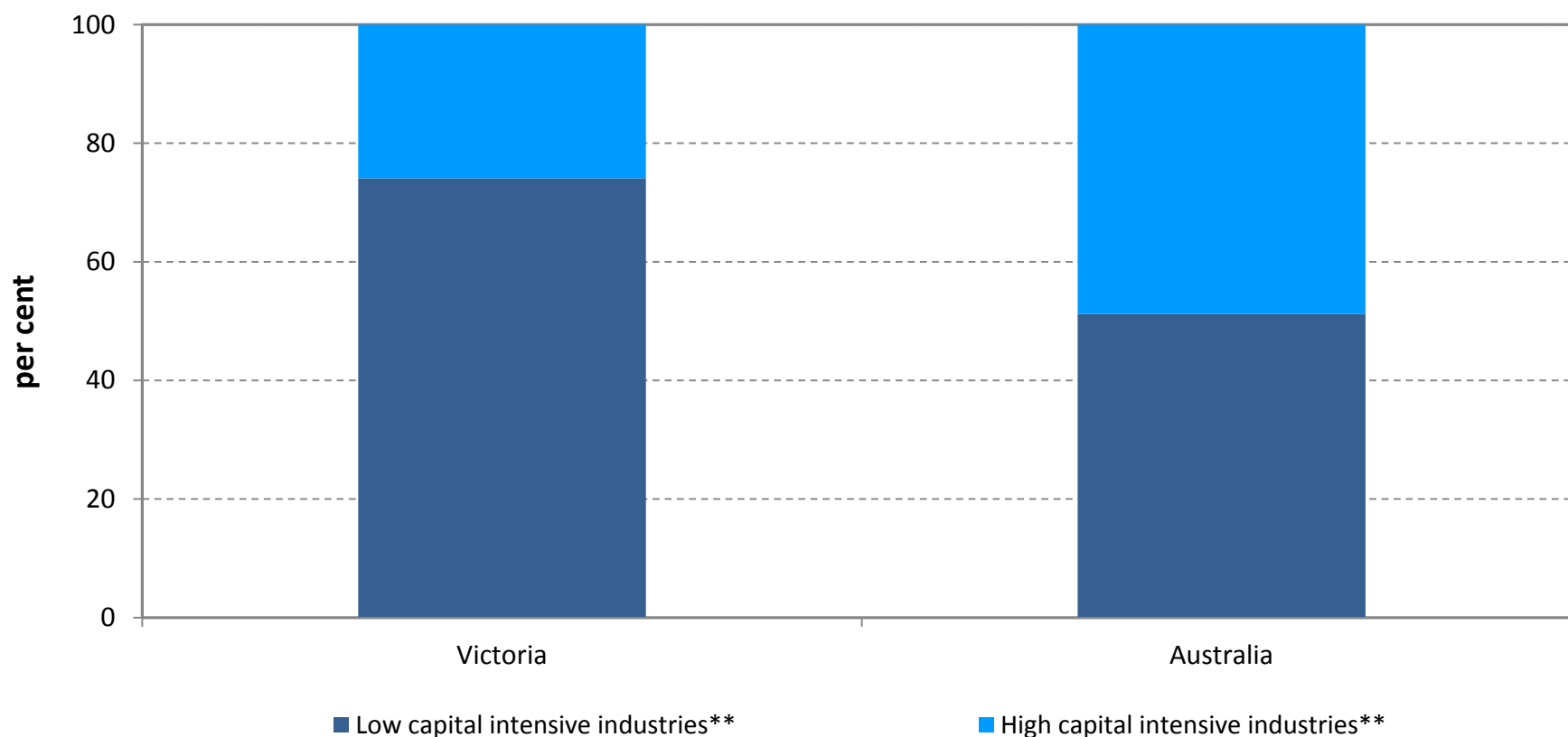
Change in employment: February 2004 – February 2014



Source: Australian Bureau of Statistics

Victorian growth driven by low capital intensive industries

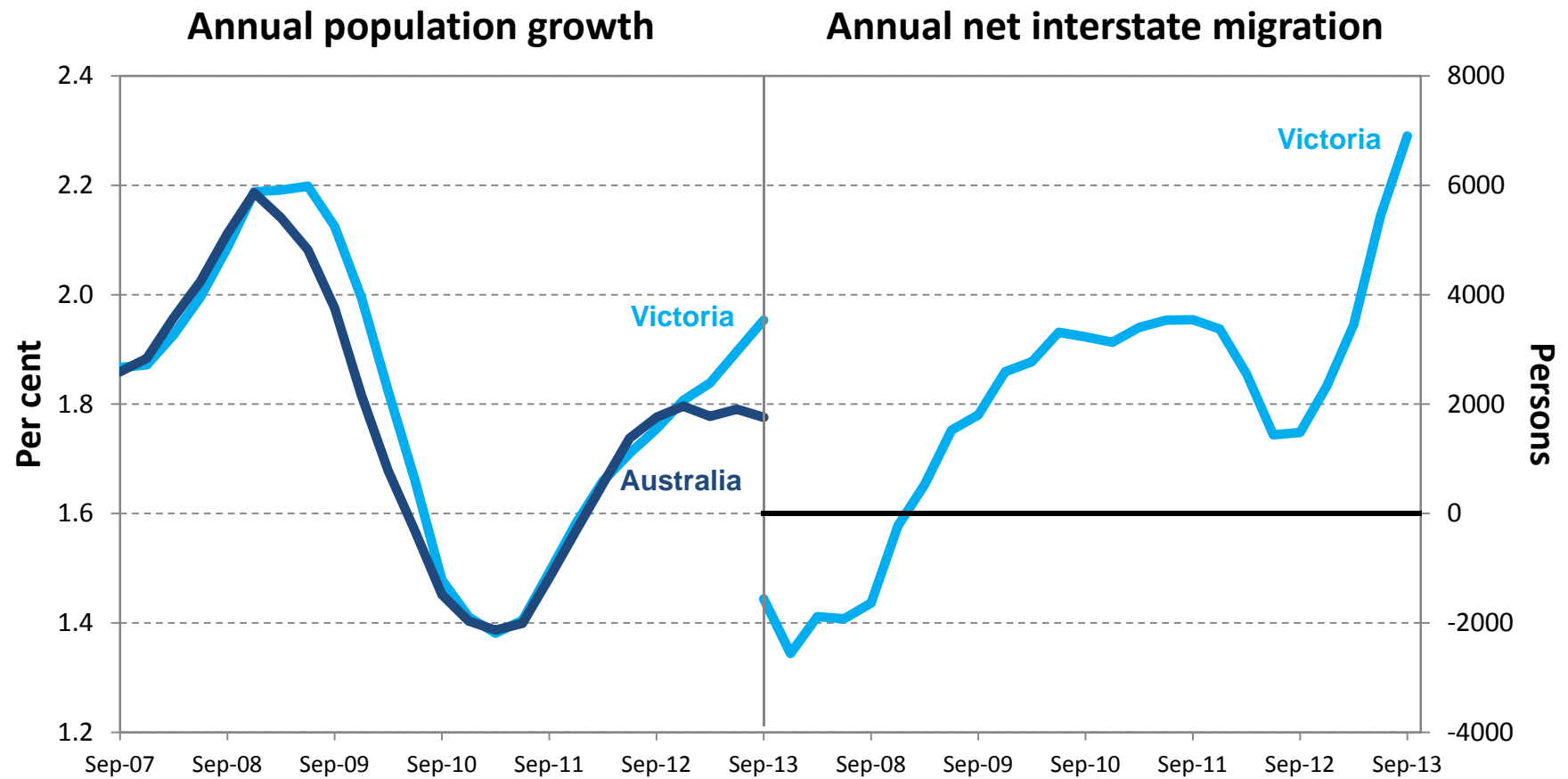
Share of economic growth 2007-08 to 2012-13*



Source: Australian Bureau of Statistics; Department of Treasury and Finance

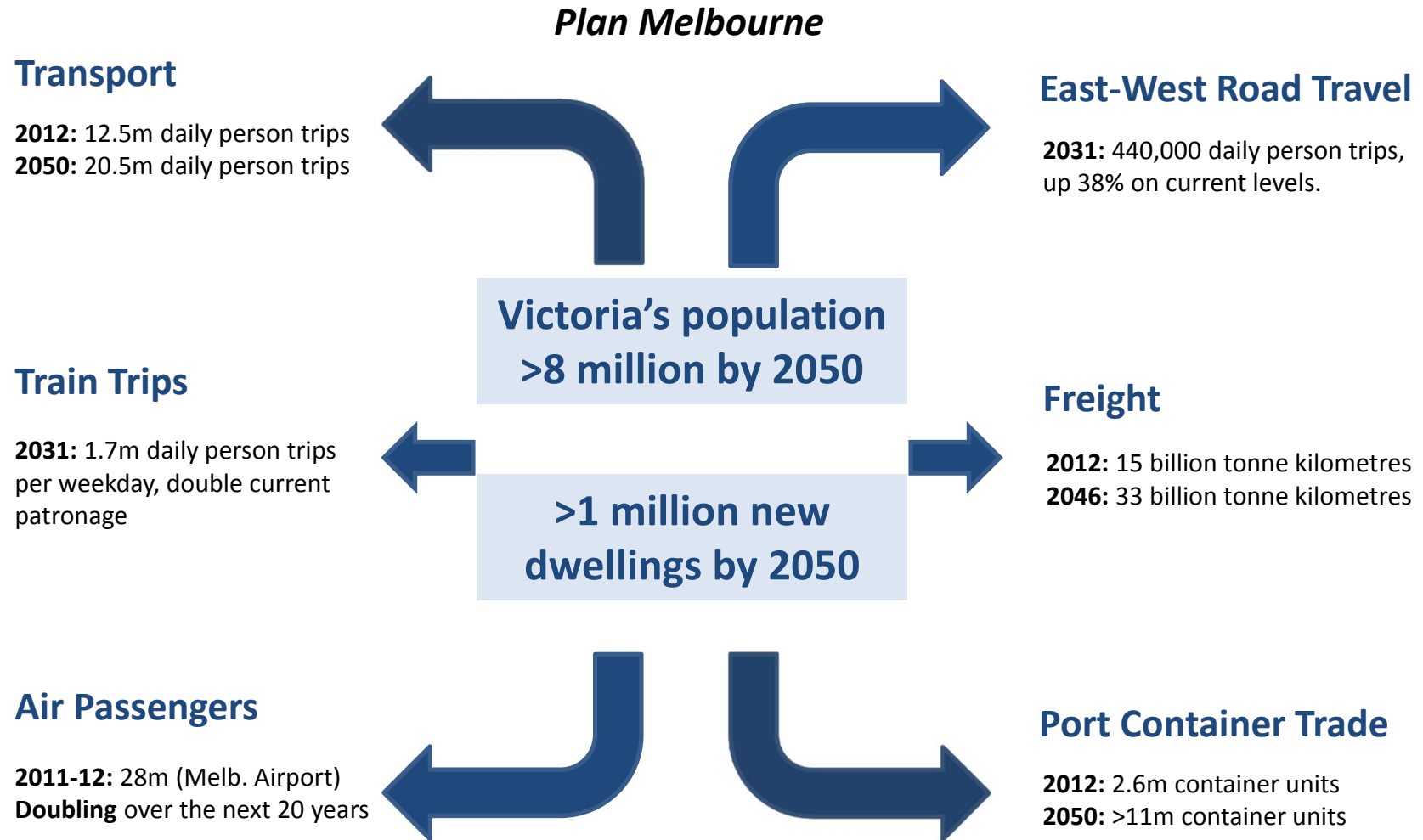
*Excludes ownership of dwellings
**Categorised based on industry capital intensity relative to manufacturing as a baseline.
Capital intensity is defined as capital stock over hours worked

A growing population



Source: Australian Bureau of Statistics

Driving demand for infrastructure and services

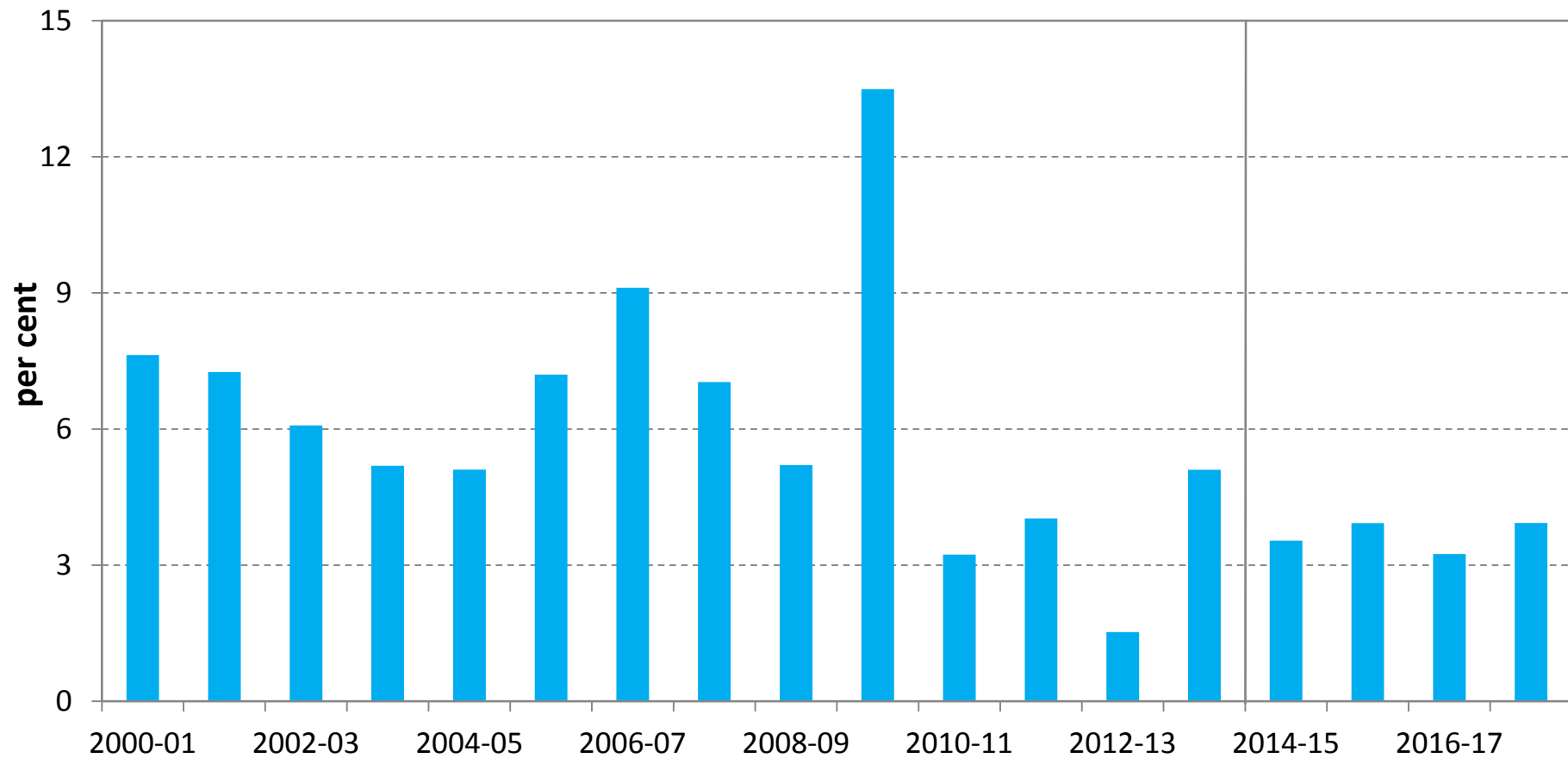


Medium-term fiscal strategy

| <i>Financial measures</i> | <i>Parameters</i> |
|----------------------------|--|
| Operating surplus | A net operating surplus of at least \$100 million and consistent with the infrastructure and debt parameters |
| Net debt | General government net debt reduced as a percentage of GSP over the decade to 2022 |
| Infrastructure investment | Infrastructure investment of 1.3 per cent of GSP (calculated as a rolling five-year average) |
| Superannuation liabilities | Fully fund the unfunded superannuation liability by 2035 |

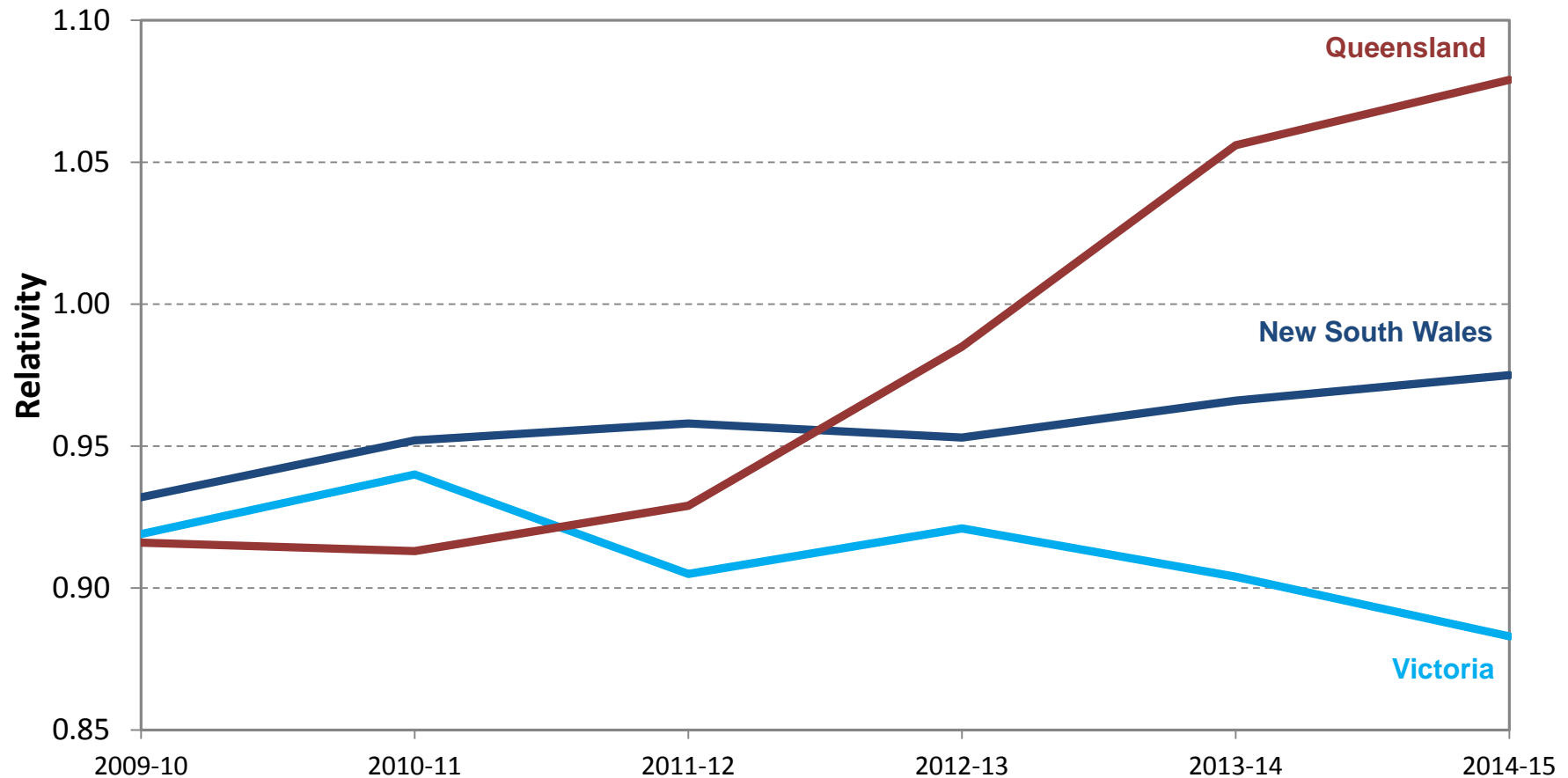
Source: Department of Treasury and Finance

Annual revenue growth



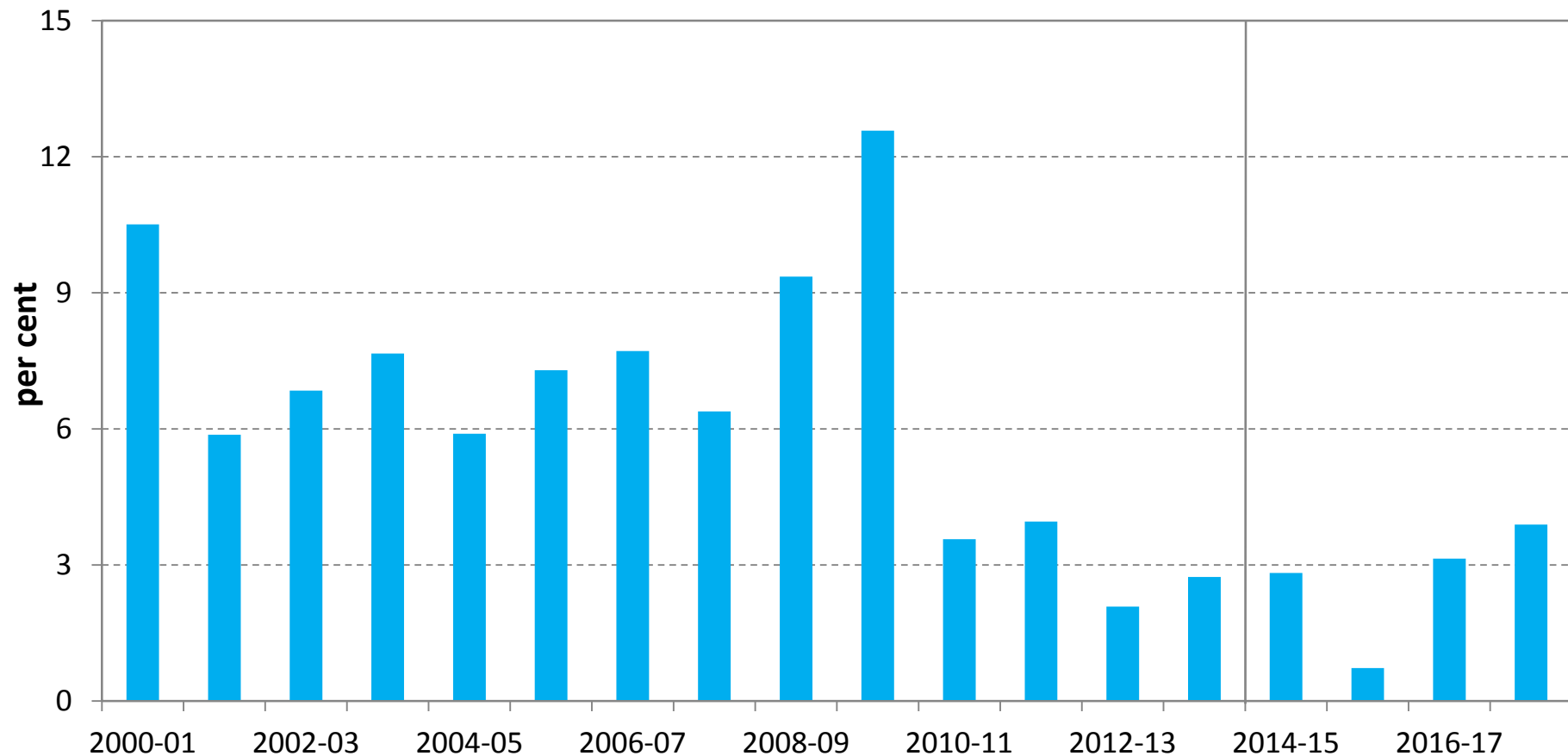
Source: Department of Treasury and Finance

Distribution of GST revenue



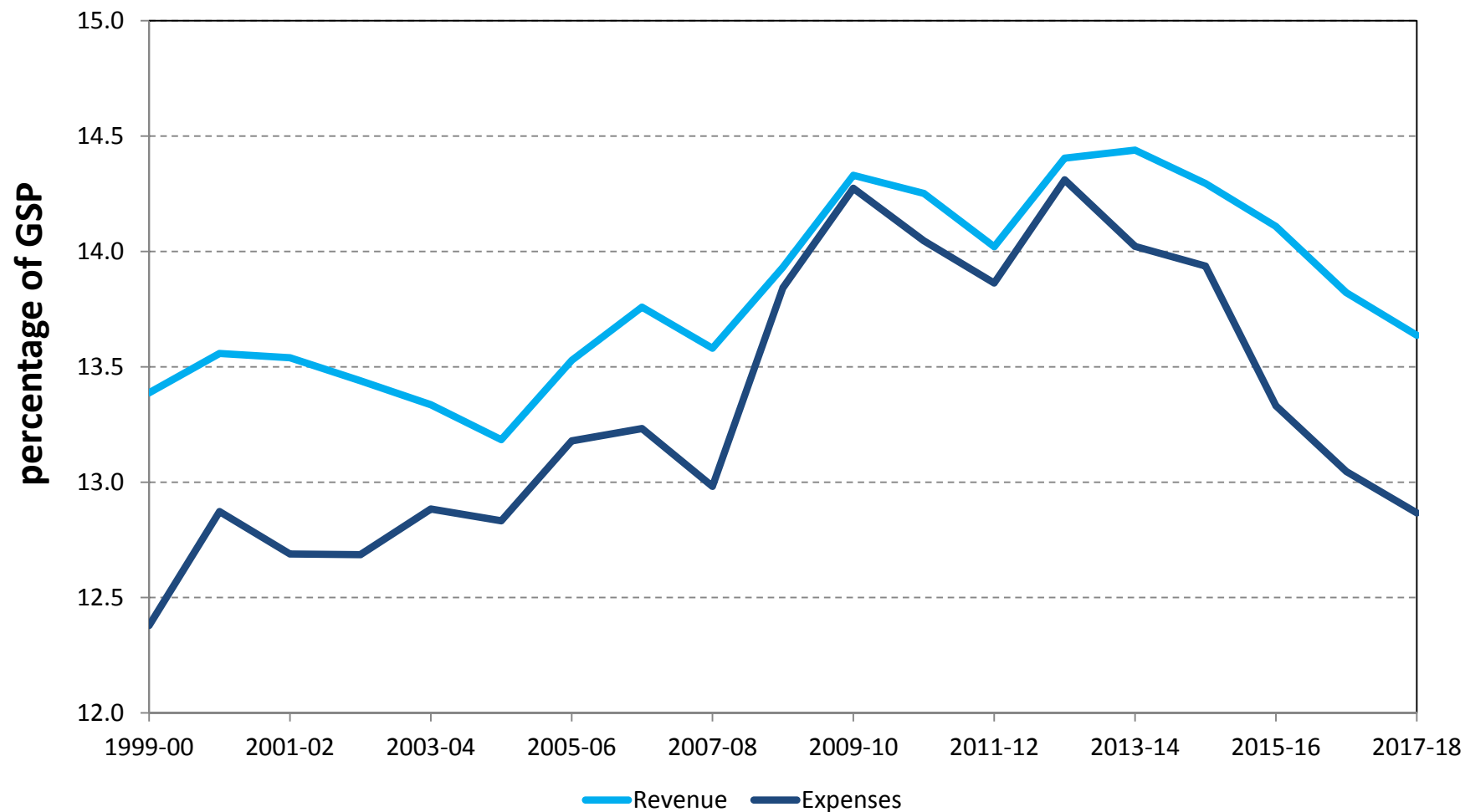
Source: Department of Treasury and Finance

Annual expenditure growth



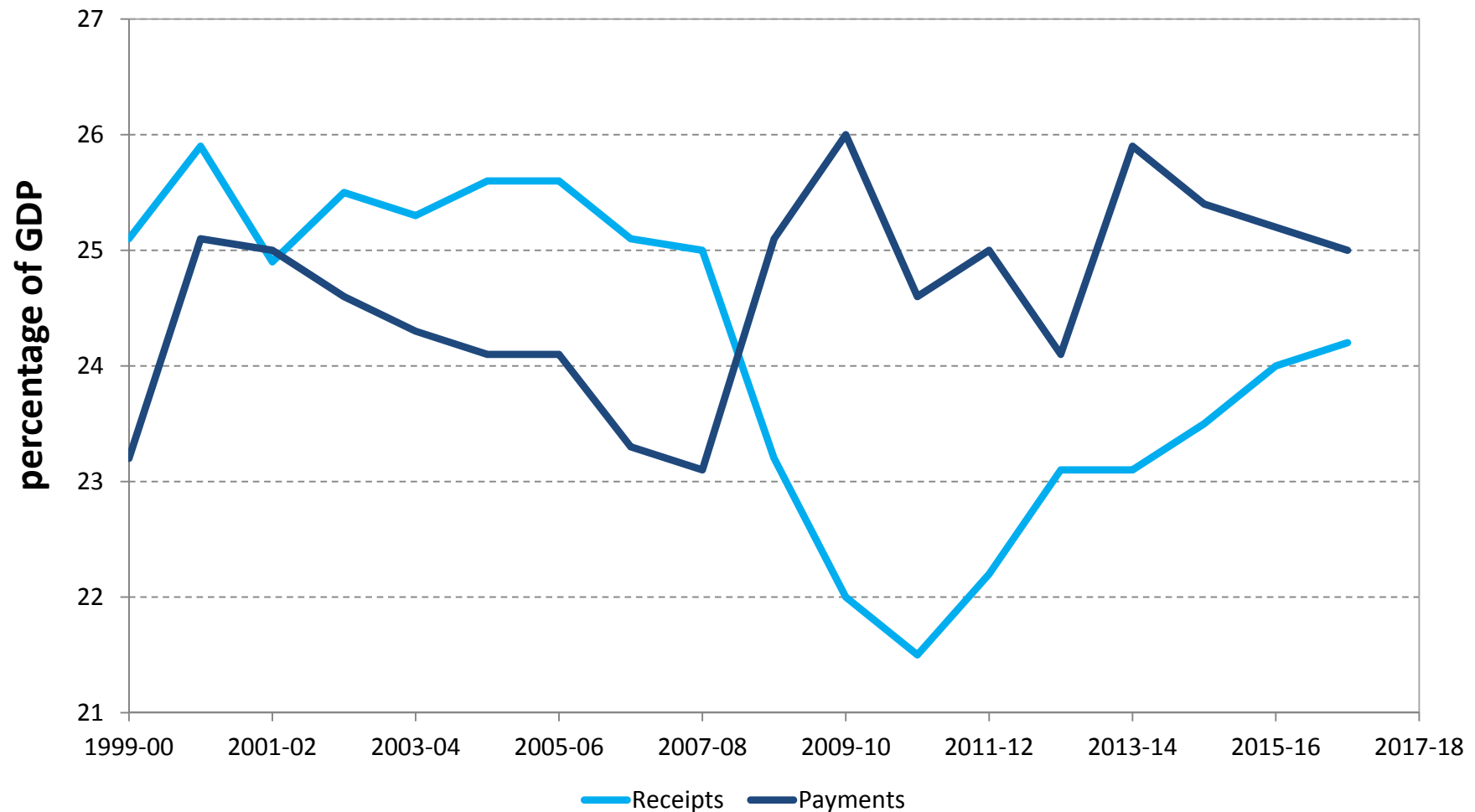
Source: Department of Treasury and Finance

Victoria general government revenue and expenses



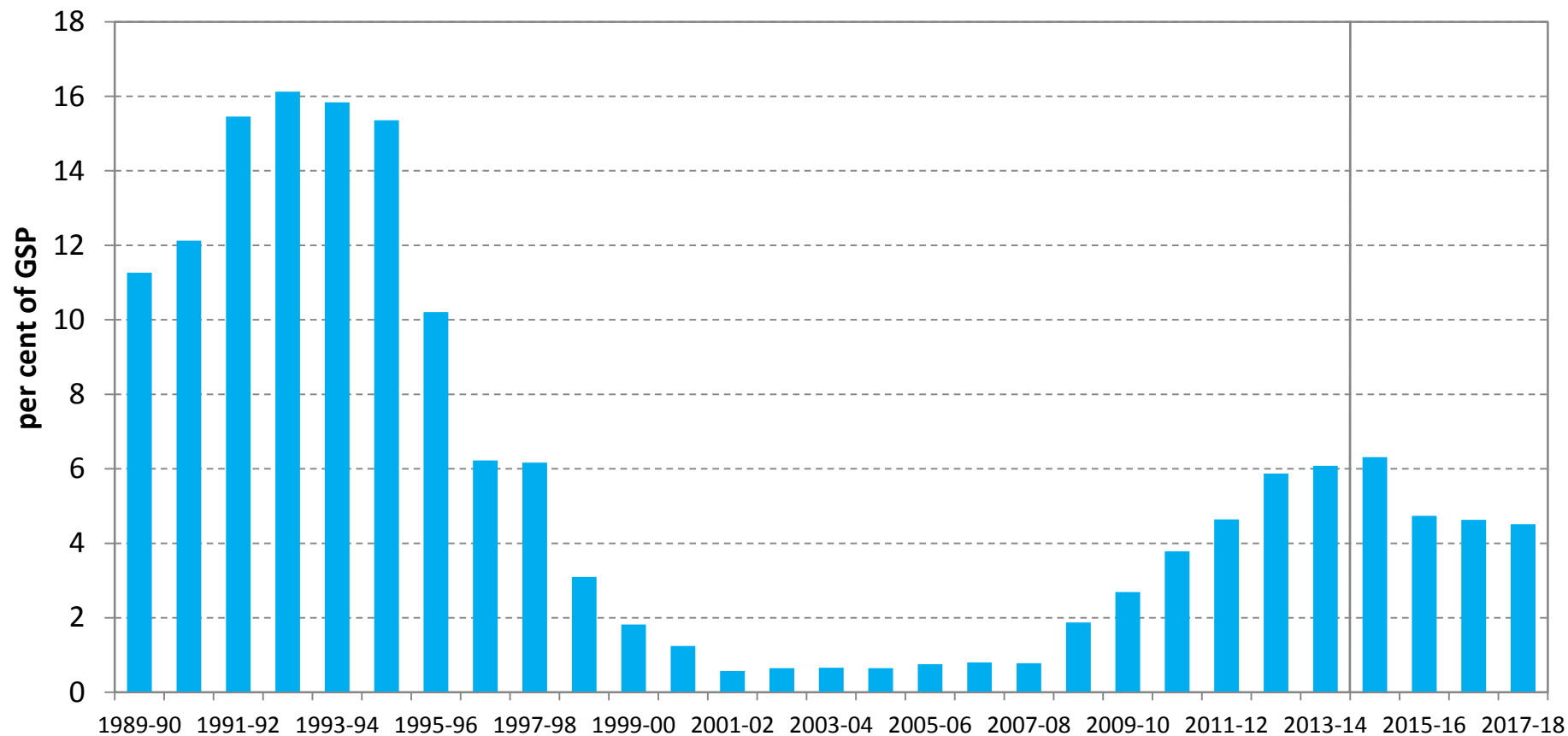
Source: Department of Treasury and Finance

Commonwealth government receipts and payments



Source: Commonwealth Mid-Year Economic and Fiscal Outlook

General government sector net debt to GSP



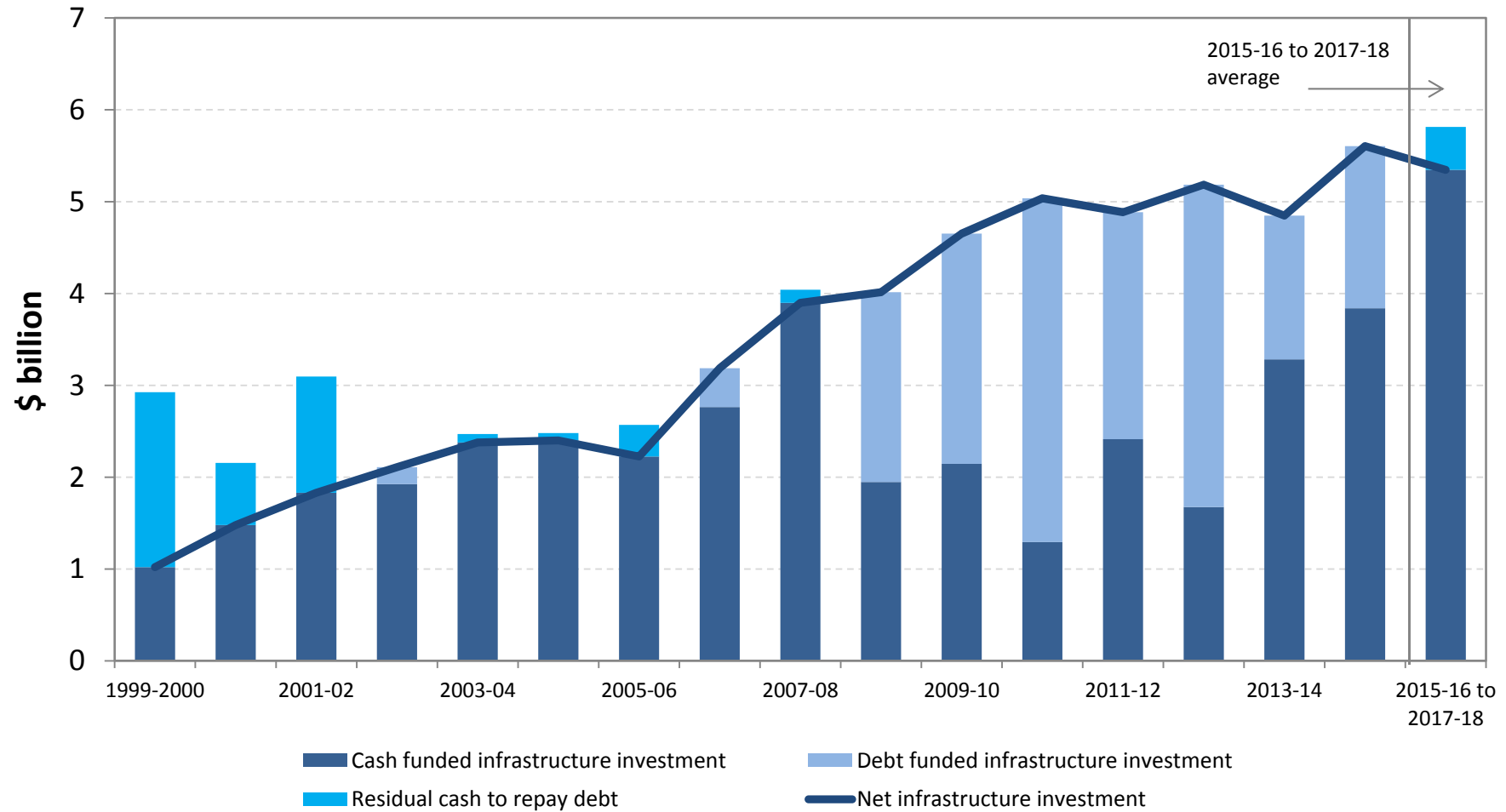
Source: Department of Treasury and Finance

Strongest credit rating among the States

| State | Standard & Poor's | | Moody's | |
|------------------------------|-------------------|----------|---------------|----------|
| | Credit rating | Outlook | Credit rating | Outlook |
| Victoria | AAA | Stable | Aaa | Stable |
| New South Wales | AAA | Negative | Aaa | Stable |
| Queensland | AA+ | Stable | Aa1 | Negative |
| Western Australia | AA+ | Stable | Aaa | Negative |
| South Australia | AA | Stable | Aa1 | Stable |
| Tasmania | AA+ | Stable | Aa1 | Negative |
| Northern Territory | N/A | N/A | Aa1 | Negative |
| Australian Capital Territory | AAA | Stable | N/A | N/A |

Source: Department of Treasury and Finance

Net infrastructure investment



Source: Department of Treasury and Finance

Asset recycling initiative

- Partnership between Commonwealth and Victorian Governments to deliver significant projects for Victoria
- Victorians will benefit from incentive payments through divestment of the:
 - Port of Melbourne (via medium-term lease)
 - Rural Finance Corporation
- Enabling additional investment in long-term infrastructure projects

Source: Department of Treasury and Finance

Infrastructure program – summary

| Project | Construction Period | Estimated Value |
|---|---------------------|-----------------|
| Melbourne Rail Link (including Airport Rail Link) | 2016-2026 | \$8.5b-\$11b |
| East West Link – Western Section | 2015-2023 | \$8b-\$10b |
| Cranbourne-Pakenham Rail Corridor | 2015-2018 | \$2b-\$2.5b |
| East West Link – Eastern Section | 2014-2019 | \$6b-\$8b |
| CityLink-Tulla widening | 2015-2016 | Up to \$850m |
| Princes Highway West duplication | 2015-2019 | \$362m |
| Murray Basin Rail Project | 2014-2018 | \$180m-\$220m |
| Latrobe Regional Hospital redevelopment | 2014-2018 | \$73m |

Source: Department of Treasury and Finance

Melbourne Rail Link - \$8.5b-\$11b

- Rail tunnel from South Yarra to Southern Cross
- Two new underground stations at Domain and Fishermans Bend (Montague)
- Alignment will act as a major catalyst for commercial and residential development
- Increases capacity of Melbourne rail network by 30 per cent
- Construction of Airport Rail Link

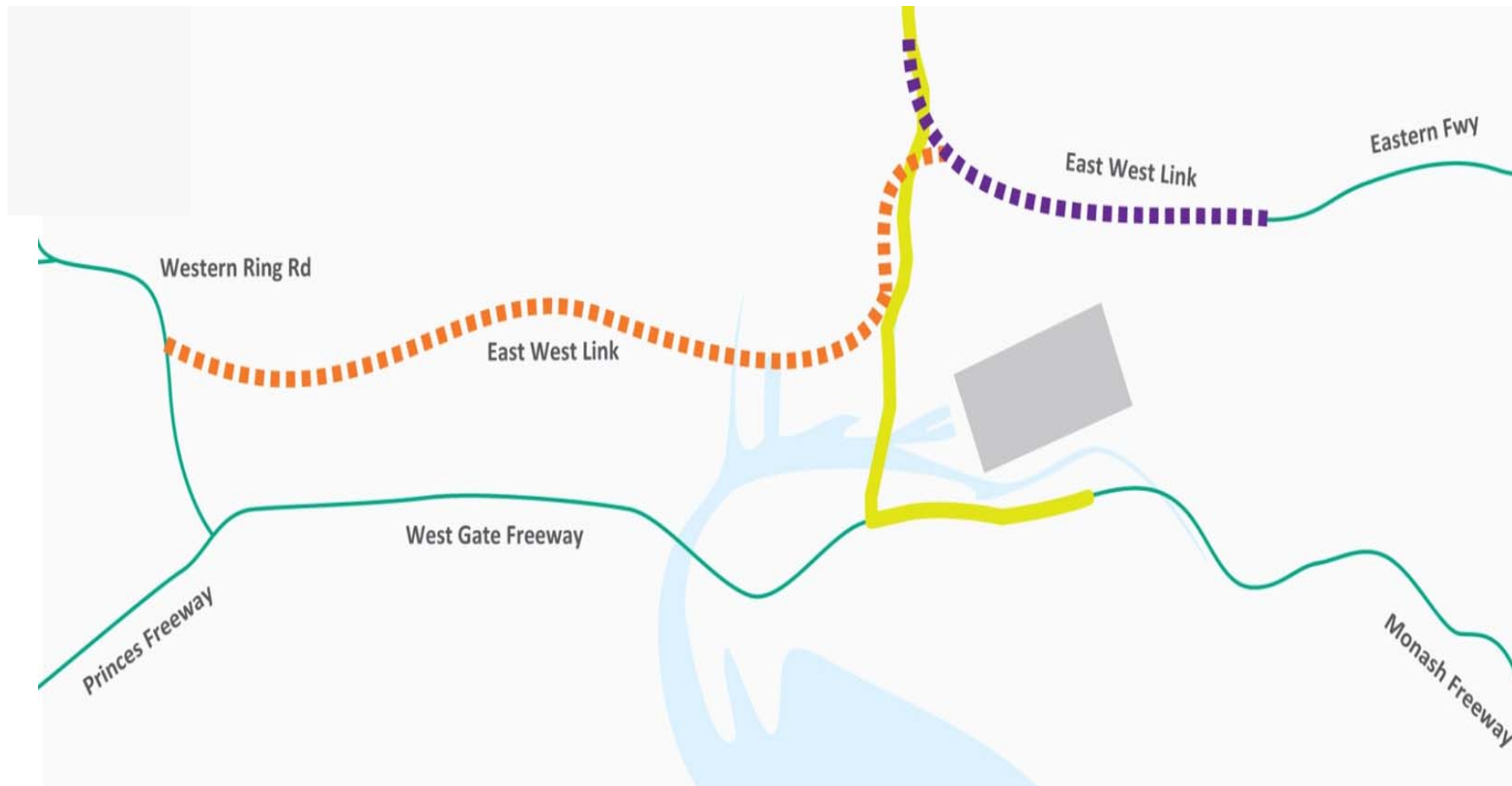
Source: Department of Transport, Planning and Local Infrastructure

Cranbourne-Pakenham Rail Corridor project - \$2b-\$2.5b

- 1 in 10 Melburnians to benefit from improved services on Melbourne's busiest suburban train line
- 25 next-generation, high capacity trains
- Accommodating an additional 4 500 passengers during peak periods
- Four level crossing removals with plans for a further five
- Gippsland V/Line services to benefit from improved reliability

Source: Department of Transport, Planning and Local Infrastructure

East West Link – Western Section - \$8b-\$10b



Source: Department of Transport, Planning and Local Infrastructure

Other infrastructure initiatives

- Up to \$850m CityLink - Tulla widening
- \$362m Princes Highway West duplication
- \$180m-\$220m Murray Basin Rail Project
- \$447m to expand Victoria's prison capacity
- Additional \$685m to remove more level crossings
- \$73m Latrobe Regional Hospital

Source: Department of Treasury and Finance

Education and training initiatives

- \$2.8b over five years for initiatives and enrolment funding
- \$500m to build and upgrade government school facilities, including:
 - Construction of 12 new schools
 - More than 70 existing schools to be upgraded
- PPPs to deliver components of the school capital program
- VET funding \$1.2b a year, including \$30m to assist automotive workers

Source: Department of Treasury and Finance

Health care and community services

- Additional \$1.4b over four years
- \$60m to boost health service capacity over the winter peak
- \$156m for mental health and drug services
- \$190m for elective surgery
- \$200m to support people with a disability
- Additional capital expenditure

Source: Department of Treasury and Finance

Community safety

- \$33m to construct new police stations
- \$783m investment in fire services
 - CFA funding up 2.5 per cent to \$457m
 - MFB funding up 3.1 per cent to \$326m
- \$29m for 78 new CFA fire trucks
- Correction system expansion including:
 - Additional 871 prison beds
 - Infrastructure upgrades at Beechworth Correctional Centre and Langi Kal Kal Prison

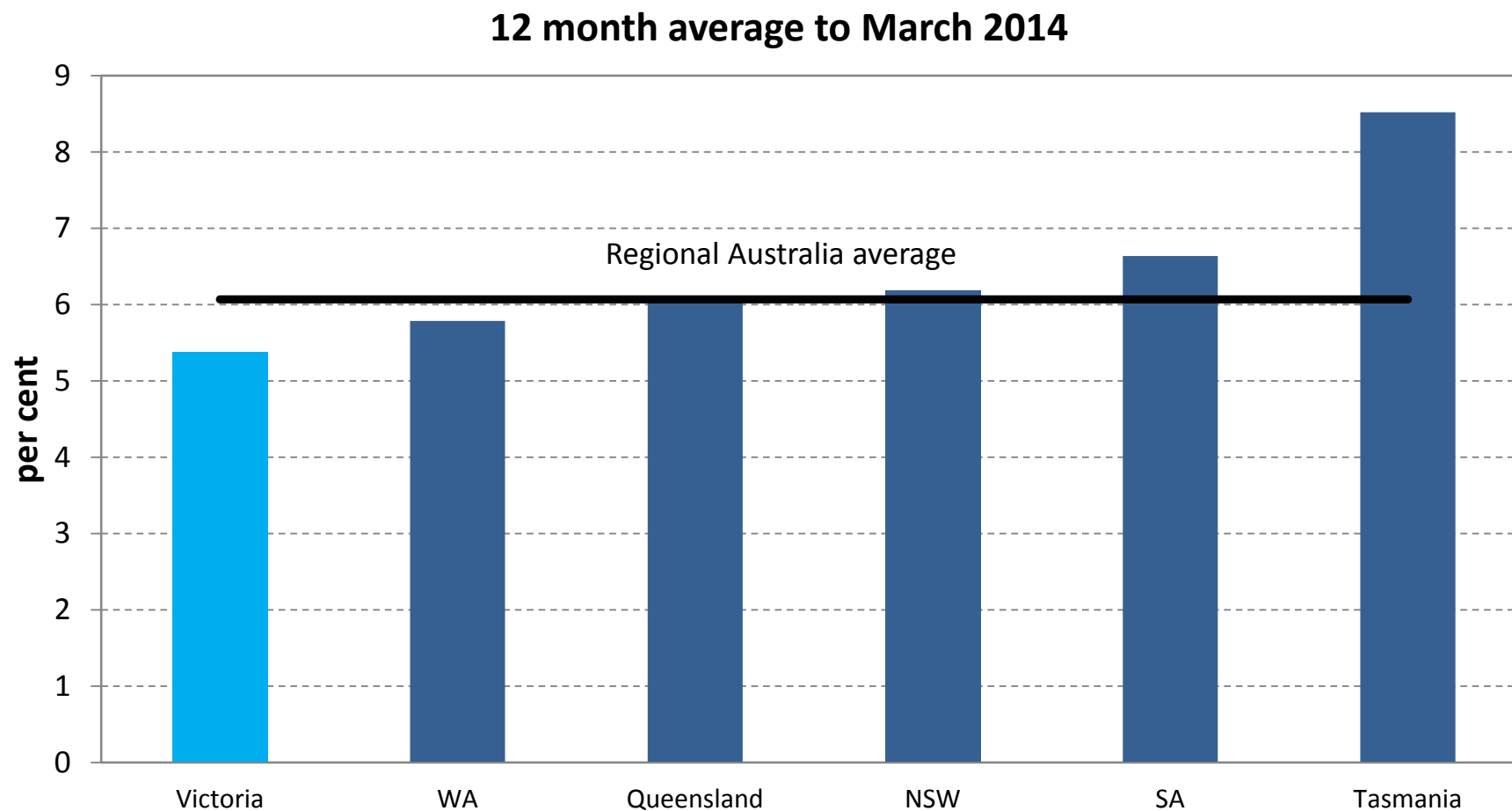
Source: Department of Treasury and Finance

Regional Victoria initiatives

- \$211m for 12 new schools across the State
- \$28m for Barwon Health-North Facility
- \$86m Calder Highway redevelopment
- \$50m Great Ocean Road upgrade
- \$30m Ballarat West Employment Zone
- \$73m Shepparton Law Courts

Source: Department of Treasury and Finance

Regional unemployment rates



Source: Australian Bureau of Statistics

Revenue initiatives

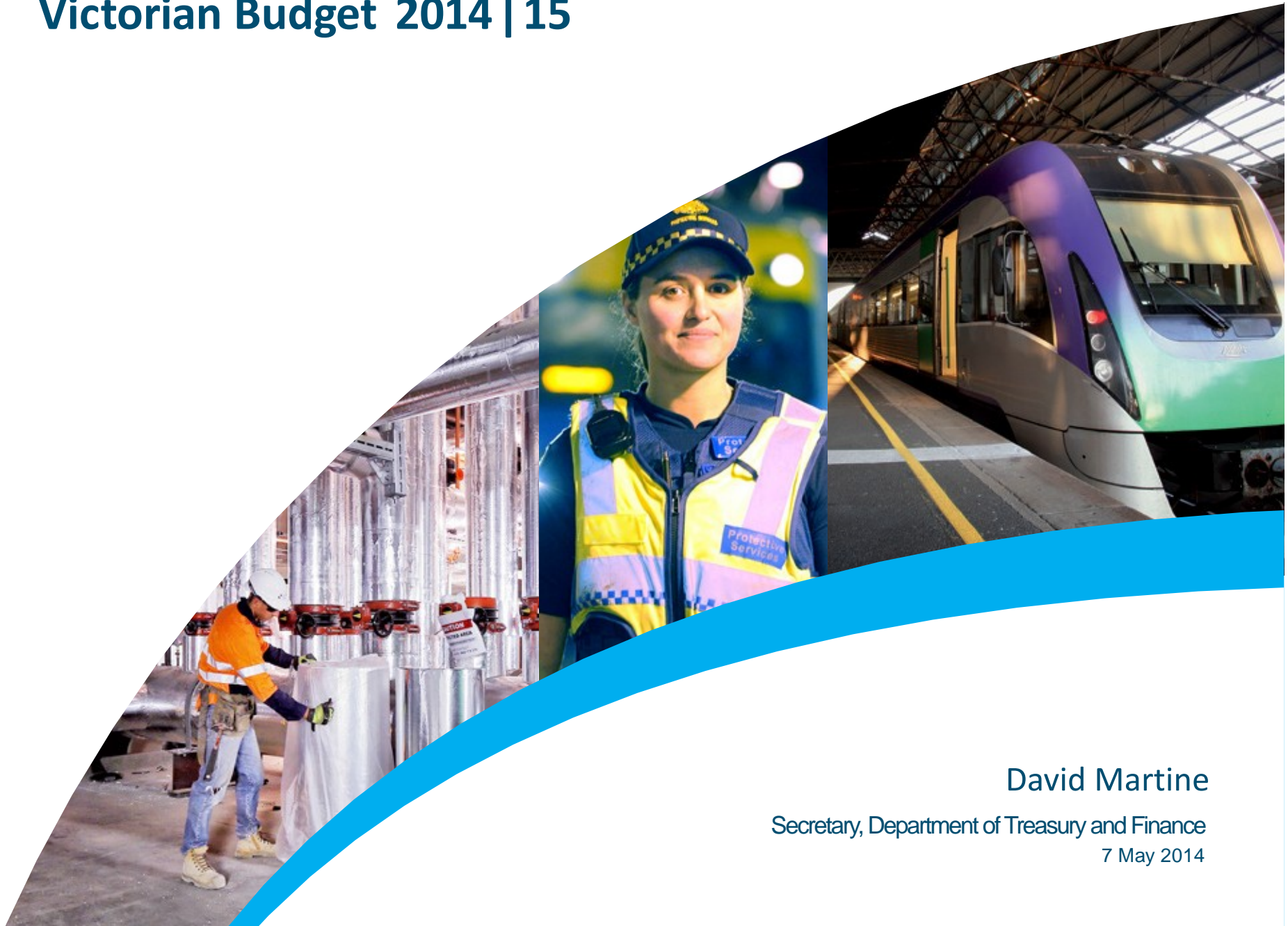
- Cut payroll tax rate to 4.85 per cent from 1 July 2014, benefitting 39 000 employers
- Lowest payroll tax in Australia for businesses with payrolls from \$4.7m to \$26.7m
- Duty on life insurance also abolished from 1 July 2014

Source: Department of Treasury and Finance

2014-15 Budget Papers

- Budget papers this year are structured along the same lines as last year
- Some incremental refinements to the presentation of content, including:
 - additional clarification relating to the completion of capital projects
 - continuous improvement to the defining of key terms used in budget papers

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