

# Overview: A summary of the 2018/19 Victorian State Budget

May 2018

Treasurer Tim Pallas handed down his third State Budget on Tuesday 1 May, 2018.

This is the Andrews Government's fourth budget. The key themes are skills and training, infrastructure, and mental health and the overarching theme of the budget is "Getting Things Done."

The Master Builders media release in response to the State Budget is titled "Big investment, only part of the solution."

The budgeted operating surplus sits at \$1.4 billion, and surpluses are set to average \$2.5 billion a year over the forward estimates. The government plans to achieve this by collecting \$69.5 billion in revenue and spending \$68.1 billion on service delivery. Revenue growth is expected to average 4 per cent a year over the next four years, exceeding average expense growth of 3.9 per cent a year.

This budget maintains Victoria's Triple A Credit Rating, with the net debt level of 4.6 per cent of GSP at June 2018, with net debt expected to reach 6 per cent of GSP by June 2021 and maintained till 2021-27.

**Figure 1: General government fiscal aggregates**

	<i>Unit of measure</i>	<i>2016-17 actual</i>	<i>2017-18 revised</i>	<i>2018-19 budget</i>	<i>2019-20 estimate</i>	<i>2020-21 estimate</i>	<i>2021-22 estimate</i>
Net result from transactions	\$ billion	2.7	2.0	1.4	2.0	2.7	2.9
Government infrastructure investment	\$ billion	9.1	11.6	13.7	10.0	8.9	7.6
Net debt	\$ billion	15.8	19.6	24.3	28.0	29.8	31.4
Net debt to GSP	per cent	3.9	4.6	5.4	5.9	6.0	6.0

Source: Department of Treasury and Finance

Note:

(a) Refer to Budget Paper No. 2, Chapter 4, Table 4.1 for notes on interpretation of key aggregates.

Source: Victorian Budget 2018/19, Budget Paper No. 2, p. 4

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## Economic outlook

Employment in Victoria has grown strongly – in the year to September 2017, average employment grew by 3.2 per cent. This is well above trend and just below growth of almost 4 per cent over the year to May 2017. Regional labour market grew by an average of 3.1 per cent in 2017.

Victoria's economy grew by 3.3 per cent in 2016-17 and is the strongest of all the states and is significantly above the national average of 2 per cent over the same period. This is supported by population growth and low interest rates that have aided household consumption and dwelling investment.

Victoria's population is growing faster than any other state or territory, increasing by 2.4 per cent year to September 2017.

**Figure 2: Victorian Economic Forecasts (per cent)**

	2016-17 actual	2017-18 forecast	2018-19 forecast	2019-20 forecast	2020-21 projection	2021-22 projection
Real gross state product	3.3	3.00	2.75	2.75	2.75	2.75
Employment	3.9	2.75	2.00	1.75	1.75	1.75
Unemployment rate <sup>(b)</sup>	5.9	5.75	5.75	5.50	5.50	5.50
Consumer price index <sup>(c)</sup>	1.9	2.00	2.25	2.50	2.50	2.50
Wage price index <sup>(d)</sup>	2.0	2.25	2.50	2.75	3.00	3.25
Population <sup>(e)</sup>	2.3	2.30	2.20	2.10	2.00	2.00

Sources: Department of Treasury and Finance; Australian Bureau of Statistics.

**Notes:**

(a) Year average growth, except for the unemployment rate (see note (b)) and population (see note (e)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (e)).

Projections for 2020-21 and 2021-22 represent long run average growth rates, except for the wage price index, which remains below trend by 2021-22, and population growth, which remains above trend by 2021-22.

The key assumptions underlying the economic forecasts include: interest rates are reflective of movements in market expectations; an Australian dollar trade-weighted index of 64.3; and oil prices that follow the path suggested by the futures market.

(b) Year average.

(c) Melbourne consumer price index.

(d) Wage price index, Victoria (based on total hourly rates of pay, excluding bonuses).

(e) Percentage change over the year to 30 June. Forecasts are rounded to the nearest 0.1 percentage point.

**Source: Victorian Budget 18/19, Budget Paper No. 2, p. 17**

Master Builders continues to note that the Government is relying heavily on income relating to land transfers to fund new initiatives. As seen in the table below, taxes related to the property sector such as land transfer duty and land tax amount to approximately 48 per cent of the total taxation revenue. This is forecasted to increase over coming years.

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The increase in the portion of property taxes as part of total revenue is indicative of the strength of the sector. Nonetheless, the heavily reliance on the sector for revenue means that it is important that this sector is safeguarded for the future.

**Figure 3: Taxation Revenue (\$ million)**

	2018-19 budget	2019-20 estimate	2020-21 estimate	2021-22 estimate
<b>Taxes on employers' payroll and labour force</b>	6 193	6 532	6 831	7 239
<b>Taxes on immovable property</b>				
Land tax	3 093	3 386	3 506	3 871
Fire Services Property Levy <sup>(a)</sup>	642	698	719	738
Congestion levy	122	124	125	127
Metropolitan improvement levy	169	174	178	182
<b>Total taxes on property</b>	<b>4 026</b>	<b>4 381</b>	<b>4 528</b>	<b>4 918</b>
<b>Gambling taxes</b>				
Public lotteries	418	423	425	426
Electronic gaming machines	1 119	1 139	1 159	1 179
Casino	237	245	253	260
Racing	70	67	63	59
Other	32	36	39	43
<b>Financial and capital transactions <sup>(b)</sup></b>				
Land transfer duty	7 067	7 212	7 463	7 773
Metropolitan Planning Levy	26	26	27	28
Financial accommodation levy	174	192	208	224
Growth areas infrastructure contributions	238	272	304	335
<b>Levies on statutory corporations <sup>(c)</sup></b>	<b>157</b>	<b>157</b>	<b>..</b>	<b>..</b>
<b>Taxes on insurance</b>	<b>1 367</b>	<b>1 463</b>	<b>1 553</b>	<b>1 648</b>
<b>Total taxes on the provision of goods and services</b>	<b>10 904</b>	<b>11 230</b>	<b>11 495</b>	<b>11 976</b>
<b>Motor vehicle taxes</b>				
Vehicle registration fees	1 676	1 786	1 866	1 956
Duty on vehicle registrations and transfers	975	1 010	1 046	1 083
<b>Liquor licence fees</b>	<b>24</b>	<b>24</b>	<b>25</b>	<b>25</b>
<b>Other</b>	<b>283</b>	<b>281</b>	<b>284</b>	<b>286</b>
<b>Total taxes on the use of goods and performance of activities</b>	<b>2 957</b>	<b>3 101</b>	<b>3 220</b>	<b>3 350</b>
<b>Total taxation revenue</b>	<b>24 081</b>	<b>25 245</b>	<b>26 074</b>	<b>27 483</b>

Source: Department of Treasury and Finance

Notes:

- (a) The 2018-19 revenue estimate is \$20 million lower than the 2017-18 Budget Update due to the Government's decision to cap the levy collection for 2017-18 and 2018-19 at \$662 million, the amount collected in 2016-17. This will result in returning the 2017-18 over-collection through reduced rates for the 2018-19 levy year. From 2019-20 the forecasts assume that revenue will be collected as per the provisions of the Fire Services Property Levy Act 2012. Levy rates for 2019-20 will be determined by the Treasurer in May 2019.
- (b) Financial and capital transactions have been reclassified from 'taxes on property' to 'taxes on the provision of goods and services' consistent with the classification required under the new 2015 ABS GFS manual. This has been implemented for the first time in the 2018-19 Budget.
- (c) The fourth tranche of the environmental contribution levy commenced on 1 July 2016 for a period of four years concluding on 30 June 2020.

Source: Victorian Budget 18/19, Budget Paper No. 5, p. 19

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## Summary of issues relevant to Master Builders Association of Victoria

### Taxation

This Budget reiterated that the payroll threshold will be increased to \$650,000 from 1 July 2018, which will benefit more than 36,000 Victorian businesses.

In addition to this, this Budget will further reduce payroll tax for regional Victorian businesses from 3.65 per cent to 2.425 per cent, making it the lowest payroll tax rate in Australia. This will apply to businesses with payrolls that consist of at least 85 per cent regional employees.

### Infrastructure

Further funding has been announced towards greater infrastructure investment for Victoria.

Figure 4 below summarises the 2017-18 Victorian Sector Capital Program (excluding PPPs).

**Figure 4: Infrastructure investment by total estimated investment – summary (\$ thousand)**

<i>Sector</i>	<i>Total estimated investment</i>	<i>Estimated expenditure to 30.06.18</i>	<i>Estimated expenditure 2018-19</i>	<i>Remaining expenditure</i>
<b>General government</b>				
New projects	7 924 476	125 531	1 537 726	6 261 219
Existing projects	28 327 174	10 176 333	5 060 314	13 090 527
<b>Public non-financial corporations</b>				
New projects	4 778 017	143 886	1 294 816	3 339 315
Existing projects	37 843 682	11 513 939	4 636 661	21 693 082
<b>Total new projects</b>	<b>12 702 493</b>	<b>269 417</b>	<b>2 832 542</b>	<b>9 600 534</b>
<b>Total existing projects</b>	<b>66 170 856</b>	<b>21 690 272</b>	<b>9 696 975</b>	<b>34 783 609</b>
<b>Total projects</b>	<b>78 873 349</b>	<b>21 959 689</b>	<b>12 529 517</b>	<b>44 384 143</b>

Source: Department of Treasury and Finance

Note:

(a) Totals do not include expenditure for projects with 'tbc' cash flows.

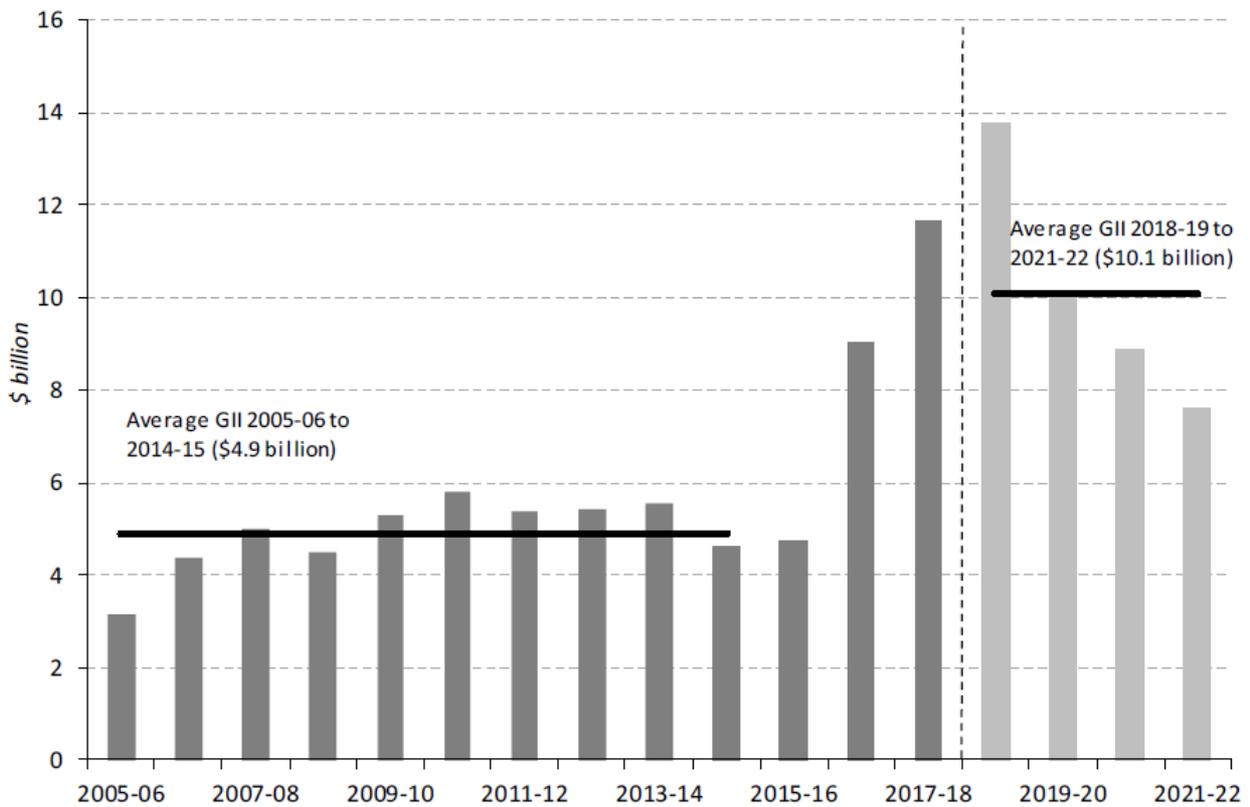
Source: Victorian Budget 18/19, Budget Paper No. 4, p. 6

In addition, government infrastructure investment is forecast to average \$10.1 billion a year over the budget and forward estimates. This is more than double the average of \$4.9 billion a year from 2005-06 to 2014-15.

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**Figure 5: Government infrastructure investment**



Source: Victorian Budget 18/19, Budget Paper No. 2, p. 5

## Planning

Smart Planning program has been given more funding focused on local planning schemes and digitisation, but we hope that more fulsome reform will come out of this extension of the program, with certain types of buildings needed to be included in the codified planning application regime, such as secondary dwellings and small apartment blocks.

Funding for increasing the capacity for local councils to make planning decisions is also allocated, but more radical reform of planning decisions is needed – and if that requires codified systems, then we urge the Government to move forward with these initiatives quickly.

Allocation of \$4million to Fishermans Bend to finish the planning process – we consider is something that should have been done earlier to avoid the actions such as removing the 26 apartments from the Fisherman’s Bend planning process and delivering uncertainty to those projects.

Funding for the development of new exterior apartment design standards (following from the Better Apartments Design Standards) is a new initiative – given we have already seen major planning, apartment design and building

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regulatory changes over the last couple of years, Master Builders questions whether we should be proceeding with yet another area of design reform at this stage.

The VPA will receive around \$2million under the Streamlining for Growth initiative to accelerate the sub-division of land for sale including reducing the delays associated with utility approvals.

## **Metropolitan infrastructure**

### **\$2.2 billion in the Suburban Roads Upgrade**

Building on the Western Roads Upgrade, the Government has announced two additional packages of arterial road upgrades in Melbourne's northern and south-eastern suburbs.

### **\$110 million for the North-West Link**

This will fast track the completion of detailed design and planning for the North East Link.

The North East Link will provide much needed congestion relief across the network, and will reduce travel times on key routes.

### **\$75 million for the Mordialloc Bypass**

This will build a four-lane freeway connection between the Mornington Peninsula Freeway at Springvale Road and the Dingly Bypass to reduce average travel time and congestion along the route and other arterial roads in the South East of Melbourne.

### **\$712 million for the Monash Freeway upgrade – Stage 2**

The second stage of the Monash Freeway upgrade project will expand the Monash Freeway with additional lanes between Warrigal Road and EastLink, and between Clyde Road and Cardinia Road, reducing congestion and improving travel times for more drivers in Melbourne's south-east.

## **Regional infrastructure**

\$941 million for Victoria's regional road network which will include:

- \$433 million for regional road restoration, including \$100 million for the Fixing Country Roads fund
- \$261 million for road upgrades in regional Victoria
- \$229 million for Continuing Towards Zero, providing safety upgrades to Victoria's regional road network
- \$17.4 million to establish Regional Roads Victoria

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## Regional Victoria

The regions have obtained significant investments in this State Budget, including infrastructure, buildings, roads, schools and other major building projects as well as in jobs, health, education and services. For example:

- The Government has committed to new government procurement offices in Ballarat, Bendigo, Geelong and Shepparton
- Regional payroll tax rate will be lowered to 2.425 per cent
- The Government has committed to \$760 million for local priorities identified by their Regional Partnerships including \$16 million for the Bendigo GovHub aimed at bringing government jobs to Bendigo.

## Skills and workforce

### **\$172 million for free TAFE for priority courses**

To encourage Victorians to train in skills for the future, free TAFE will be provided for students in key areas of skills needs. From 1 January 2019, students will pay no course tuition fees for 30 priority non-apprenticeship courses and 18 Apprenticeship Pathway courses (pre-apprenticeships).

However, the continued focus on funding TAFEs in priority to industry RTOs is a major concern.

Master Builders will engage with Government over the next few days to ensure that industry RTOs will not be disadvantaged or affected detrimentally.

### **\$120 million for TAFE facilities**

Funding will be provided for three TAFE refurbishments and development projects at Bendigo Kangan Institute McRae St Campus, Federation Training Morwell Campus, and Federation Training Port of Sales Campus.

### **\$304 million for subsidised training places**

This funding responds to Victorian jobs growth with more training places for courses on the funded course list

### **\$109 million for career education**

This will be allocated over four years to reform career education in Victorian government schools.

### **\$49.8 million to pilot Head Start Apprenticeships and Traineeships and \$26 million for Vocational Education and Training in Schools (VETiS)**

\$49.8 million investment in the Head Start Apprenticeships and Traineeships program allows young tradies to stay in school an extra year and to finish school and their training.

This funding will enable the program to be implemented in 100 secondary schools, creating up to 1,700 new Head Start Apprenticeships and Traineeships in priority industries, which includes construction technologies.

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Whether this will enable those graduates to be “*ready to work in a high-demand*” industry is questionable. Master Builders considers that on-the-job training is an essential component of an apprenticeship and should continue to be a significant part of any apprenticeship training program. We will look to work with the government to ensure that this continues.

### **Further Apprenticeship Reform**

Quality Standards for apprenticeships and traineeships will include the introduction of independent assessment, updated learning materials and reintroduction of trade papers. Master Builders looks forward to working with the Government to assist to make this a quality program.

## **Education**

This Budget will provide nearly \$1.3 billion in school infrastructure funding to build or plan 28 new schools and upgrade more than 130. This will be done through:

- \$272 million to purchase land for new school sites
- \$353 million in investment for new and planned school projects
- \$483 million to upgrade existing schools

## **Hospitals**

\$1.2 billion to build and expand hospitals across the state. This will include:

- Upgrading the Alfred Hospital
- Delivering electronic medical records to the Parkville Precinct
- Funding an expansion of the Sunshine Hospital emergency department
- Building Australia’s first specialist standalone heart hospital at Monash University Clayton

For regional Victoria, this will include:

- \$462 million to redevelop the Ballarat Base Hospital
- \$115 million to redevelop Wonthaggi Hospital

## **Justice**

- \$129 million to introduce a new Bail and Remand Court in the Magistrates’ Court
- \$689 million to develop a 700-bed expansion at the Lara Prison precinct to construct a new maximum security facility for men.
- \$160 million to increase the number of secure custodial beds at the Malmsbury and Parkville Youth Justice Centres

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## Additional areas of interest for our building and construction industry:

- The Government supports Master Builders' continuing provision of safety training initiatives through an allocation of funding over the next four years.
- The allocation of funds to support a structured program to increase the proportion of women working in the construction industry is welcomed and Master Builders will work with the program in conjunction with Building Industry Consultative Council to assist.
- The Domestic Building Dispute Resolution Victoria (DBDRV) resolved 6,750 disputes in 2017-18. This is significantly higher than their target of 3,000 for 2017-18. It is forecast that the DBDRV will resolve 6,000 disputes for 2018-19.
- The total revenue collected for the Growth Areas Infrastructure Contribution (GAIC) for 2018-19 is expected to reach \$238 million in 2018-19 and is forecast to grow on average by an annual rate of 12.1 per cent in the next few years.

For a full list of budget measures and initiatives, go to [www.budget.vic.gov.au](http://www.budget.vic.gov.au)

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