

Master Builders Victoria: Exclusive member update: 2019/20 Victorian State Budget

28 May 2018

Treasurer Tim Pallas handed down the State Budget on Monday 27 May 2019.

This is the Andrews Government's fifth budget. The key themes included transport, infrastructure, health and schools and the overarching theme of the budget is "Delivering for all Victorians."

The Master Builders Victoria media release in response to the State Budget can be found here: "[State Budget Continues Big Infrastructure Push But Workforce Training Gap Remains.](#)"

The budgeted operating surplus sits at \$1.1 billion, and surpluses are set to average \$3.4 billion a year over the forward estimates. The Government plans to achieve this by collecting approximately \$71 billion in revenue and spending \$70 billion on service delivery. Revenue growth is expected to average 5 per cent a year over the next four years, exceeding average expense growth of 3.3 per cent a year.

This budget maintains Victoria's Triple A Credit Rating, with a net debt level of 5.1 per cent of GSP at June 2019, with net debt expected to reach 10 per cent of GSP by June 2023.

Figure 1: General government fiscal aggregates

	Unit of measure	2017-18 actual	2018-19 revised	2019-20 budget	2020-21 estimate	2021-22 estimate	2022-23 estimate
Net result from transactions	\$ billion	2.3	1.1	1.0	1.5	3.9	4.9
Government infrastructure investment ^{(b)(c)}	\$ billion	12.1	12.4	14.2	14.7	12.2	12.6
Net debt	\$ billion	20.0	22.8	39.0	46.9	51.1	54.9
Net debt to GSP ^(d)	per cent	4.6	5.1	8.3	9.5	9.8	10.0

Source: Department of Treasury and Finance

Notes:

- (a) The impact of accounting standards changes is shown from 2019-20. The step change increase in net debt includes the requirement to classify operating leases as debt and the treatment for service concession arrangements, including certain public private partnerships.
- (b) Includes general government net infrastructure investment and estimated construction costs for Partnerships Victoria projects.
- (c) Excludes the impact of the divestment of Victoria's share of Snowy Hydro Limited.
- (d) The ratios to GSP may vary from publications year to year due to revisions to the Australian Bureau of Statistics GSP data.

Source: Victorian Budget 2019/20, Budget Paper No. 2, p. 5

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1. Economic outlook

The Victorian labour market continues to outshine Australia’s other states and territories, with the unemployment rate falling to 4.6 per cent in March 2019. This is also reflected in regional Victoria, with the regional unemployment rate also falling to 4.6 per cent in March 2019.

Victoria’s economy grew by 3.5 per cent in 2017-18 and is the strongest of all the states and territories, taking it well above the national economic growth of 2.6 per cent over this period. It is forecast to moderate to 3 per cent in 2018-19 and 2.75 per cent over the forward estimates. Population growth and low interest rates, as well as stronger wages growth and low unemployment have fuelled investment and consumption.

Victoria’s population is growing faster than any other state or territory, increasing by 2.2 per cent in the year to September 2018 as a result of high levels of net overseas and interstate migration.

Figure 2: Victorian Economic Forecasts (per cent)

	2017-18 actual	2018-19 forecast	2019-20 forecast	2020-21 forecast	2021-22 projection	2022-23 projection
Real gross state product	3.5	3.00	2.75	2.75	2.75	2.75
Employment	2.8	3.25	2.00	1.75	1.75	1.75
Unemployment rate ^(b)	5.6	4.50	4.75	5.00	5.25	5.50
Consumer price index ^(c)	2.3	1.75	2.00	2.25	2.50	2.50
Wage price index ^(d)	2.3	2.75	3.00	3.25	3.50	3.50
Population ^(e)	2.2	2.10	2.00	1.90	1.90	1.80

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

Notes:

(a) Percentage change in year average terms compared with previous year, 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 2022-23 represent trend rates.

The key assumptions underlying the economic forecasts include: interest rates that follow movements in market expectations; an Australian dollar trade-weighted index of 62.0; and oil prices that follow the path suggested by oil futures.

(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 19/20, Budget Paper No. 2, p. 21

Master Builders Victoria notes that the Government continues to rely heavily on tax revenue relating to property. Revenue accumulated from this sector, from taxes such as land tax and land transfer duty, amount to approximately 45 per cent of the total taxation revenue. This is forecast to increase over coming years.

With property related taxes forming such a substantial part of the Government’s taxation revenue, it is vital that further support is provided to the building and construction sector for the betterment of the Victorian economy.

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Figure 3: Taxation Revenue (\$ million)

	2019-20 budget	2020-21 estimate	2021-22 estimate	2022-23 estimate
Taxes on employers' payroll and labour force	6 537	6 901	7 181	7 465
Taxes on immovable property				
Land tax	3 659	3 753	4 078	4 497
Fire Services Property Levy ^(a)	709	738	756	776
Congestion levy	101	101	100	100
Metropolitan improvement levy	183	187	191	195
Total taxes on property	4 653	4 778	5 125	5 568
Gambling taxes				
Public lotteries	444	443	445	451
Electronic gaming machines	1 140	1 158	1 172	1 240
Casino	238	246	252	260
Racing and other sports betting	140	143	147	151
Other	13	14	14	15
Financial and capital transactions				
Land transfer duty	5 896	6 245	6 612	7 029
Metropolitan planning levy	22	22	23	23
Financial accommodation levy	178	193	206	215
Growth areas infrastructure contributions	285	311	369	413
Levies on statutory corporations ^(b)	157
Taxes on insurance	1 479	1 570	1 667	1 769
Total taxes on the provision of goods and services	9 992	10 345	10 906	11 566
Motor vehicle taxes				
Vehicle registration fees	1 784	1 857	1 934	2 016
Duty on vehicle registrations and transfers	1 029	1 082	1 123	1 166
Liquor licence fees	26	27	28	30
Other	307	313	322	329
Total taxes on the use of goods and performance of activities	3 146	3 279	3 407	3 540
Total taxation revenue	24 328	25 303	26 620	28 140

Source: Department of Treasury and Finance

Notes:

(a) The Fire Services Property Levy was capped for 2017-18 and 2018-19. The 2018-19 revenue estimate was estimated to be \$17 million lower than the Government's cap of \$662 million (the amount collected in 2016-17), returning the over-collection from 2017-18. Levy rates for 2019-20 will be determined by the Treasurer by the end of May 2019.

(b) 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 19/20, Budget Paper No. 5, p. 21

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2. Summary of issues relevant to Master Builders Victoria

Taxation

The Budget included the increase of the payroll threshold to \$700,000 by 2022-23. In addition, there will be a further reduction in payroll tax for regional Victorian businesses - from 50 per cent to 25 per cent of the metropolitan rate by 2022-23. In other words, the payroll tax rate for regional Victorian businesses will be reduced from the current 2.425 per cent to 1.2125 per cent by 2022-23. This is great news for our members based across the state in regional areas.

Furthermore, there will be a 50 per cent discount on land transfer duty on regional commercial and industrial property transactions by 2023-24.

In addition, from the 2020 land tax year, land in metropolitan Melbourne that is contiguous with a principal place of residence but on a separate title and without a separate residence will no longer be exempt from land tax. Master Builders considers that this measure will discourage land banking and promote more building and construction.

Infrastructure funding

There will be further funding provided towards infrastructure investment for Victoria

Figure 4 below summarises the 2019-2020 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 Jun 2019</i>	<i>Estimated expenditure 2019-20</i>	<i>Remaining expenditure</i>
General government				
New projects	28 952 635	42 431	1 996 138	9 778 783
Existing projects	32 738 128	14 427 542	7 264 361	11 046 225
Public non-financial corporations				
New projects	10 290 797	39 963	1 232 086	8 768 748
Existing projects	35 249 209	14 354 614	5 871 058	15 023 537
Total new projects	39 243 432	82 394	3 228 224	18 547 531
Total existing projects	67 987 337	28 782 156	13 135 419	26 069 762
Total projects	107 230 769	28 864 550	16 363 643	44 617 293

Source: Department of Treasury and Finance

Note:

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

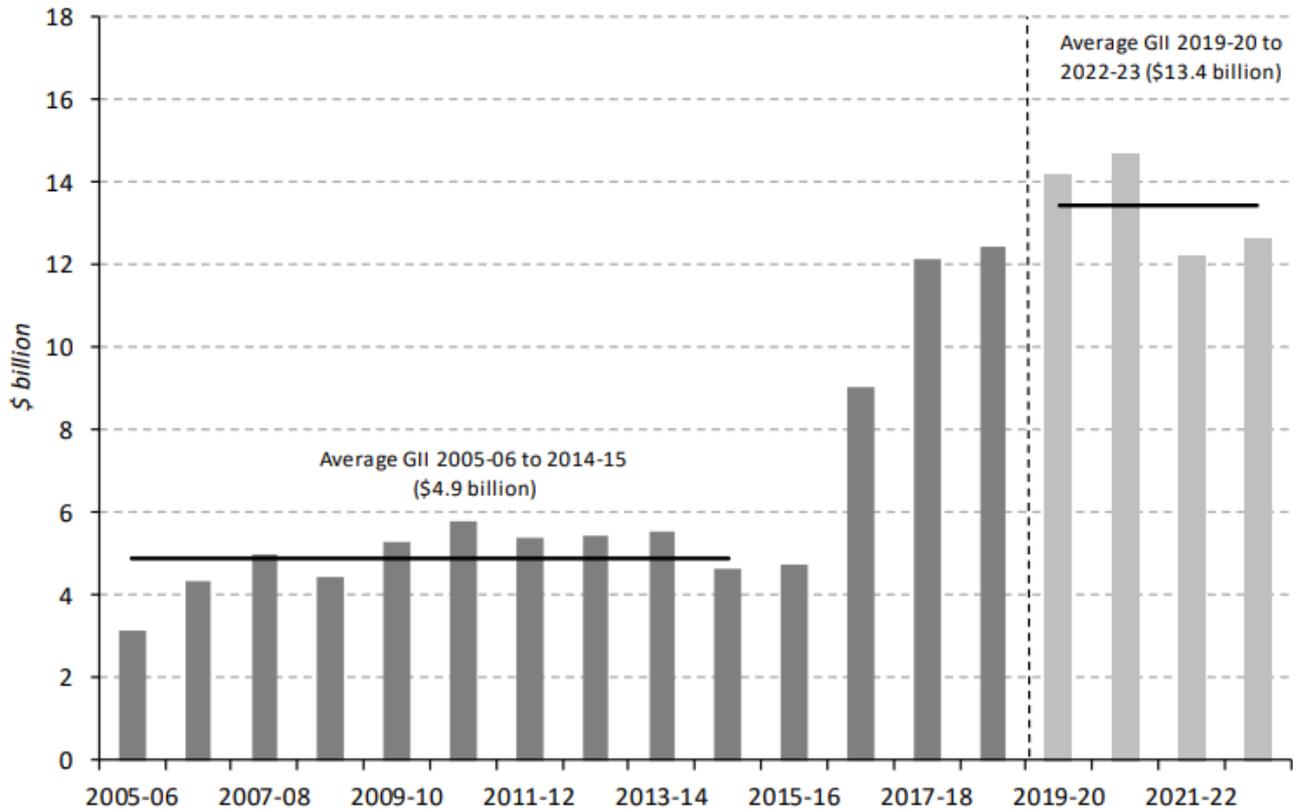
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Source: Victorian Budget 18/19, Budget Paper No. 4, p. 9

In addition, the government infrastructure investment is forecast to average \$13.4 billion a year over the budget and forward estimates. This significantly exceeds the average of \$4.9 billion a year from 2005-09 to 2014-15.

Figure 5: Government infrastructure investment



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

Infrastructure projects

Master Builders Victoria welcomes the Government’s Big Build initiative, especially as it provides opportunities for many of our members. Projects include:

\$15.8 billion to the North East Link

The Government has committed to fully fund this project, delivered as a Public Private Partnership (PPP). An environmental assessment and planning approvals process is currently underway.

\$1.5 billion for a new Footscray hospital

This will replace the ageing existing hospital in Gordan Street. The new Footscray hospital will also be delivered as a PPP and is expected to open in 2025. The tender process will commence in 2019.

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\$6.6 billion for level crossing removals

This investment will go towards the planning and delivery of an additional 25 level crossing removals by 2025.

\$1.4 billion for new schools and upgrades for existing schools

This investment will fund the construction of 13 new schools to open in 2021, with another four opening in 2022. A further 109 schools will receive funding for major upgrades, and an additional 44 schools will be funded to begin planning for other refurbishments.

\$402 million will also be allocated to non-government schools for school infrastructure.

This will provide for the construction, expansion and renovation of non-government schools in Victoria. It will also include the removal of asbestos and cladding.

\$2.2 billion for the Suburban Roads Upgrade – Northern Roads Upgrade and South Eastern Roads Upgrade

The Government is currently tendering two packages of arterial road upgrades in the northern and south-eastern suburbs of Melbourne. Each package combines high-priority road upgrades and maintenance for these growing outer-suburban communities. The packages will be procured as PPPs. The Northern and South Eastern Road upgrades will be constructed over the next five years, with the maintenance and rehabilitation contracts continuing for a further 20 years.

\$209 million for public housing

Funding will be provided to deliver 160 dwellings of the 1,000 new homes to fight homelessness in 2019-20.

Regional investment

The Government has allocated investment to further boost regional Victoria as part of its 'Delivering for Regional and Rural Victoria Program.' Key investments include:

- \$152.4 million to build a "court of the future" in Bendigo
- \$128 million for the final stage of the Geelong Performing Arts Centre
- \$59.5 million for a new rehabilitation centre at Bendigo Hospital
- \$58.6 million to upgrade intersections in Ballarat
- \$49.6 million to construct three new train stations in and around Bendigo
- \$30.3 million for two major intersection upgrades in Gisborne as well as other pedestrian safety and amenity upgrades
- \$7 million to plan the redevelopment and expansion of Latrobe Regional Hospital
- \$2.3 million to begin the planning for the fifth and final stage of the redevelopment of Kardinia Park Stadium, Geelong

Building and planning

\$4.6 million for Better Apartments program

More funding will be provided to extend the Better Apartments program to Melbourne's suburbs.

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\$165.3 million for Cladding Rectification program

Funding will be provided over the next four years to continue the Victorian Government's rectification program for government buildings. In addition, further funding has been provided to the VBA for ongoing work in identifying and undertaking risk assessments of private buildings impacted by combustibile cladding.

\$5 million to support the planning system to manage and capitalise on Victoria's growth

Funding will be provided for continued capacity within the planning system to enable it to manage the increasing demands on critical land uses as a result of the State's unprecedented population growth.

Skills and workforce

\$42.2 million for free TAFE for priority courses

Additional funding will be provided due to strong demand for this initiative.

\$5.6 million for higher apprenticeships

This will develop a suite of higher apprenticeships to provide Victorians with new opportunities to 'earn while they learn' at higher qualification levels, such as vocational advanced diplomas and higher education associate degrees.

Part of this \$5.6 million will fund Victoria's 'Big Build' higher apprenticeships to support the roll-out of Victoria's major infrastructure program and provide higher apprentices with the opportunity to rotate across a range of projects, such as the West Gate Tunnel, North East Link and the Suburban Rail Loop.

\$57 million for a new Building Better TAFEs fund for metropolitan TAFEs

Funding will be provided to upgrade and redevelop the Box Hill Institute Lilydale Campus – Integrated Centre for Sustainable Construction Technologies through the initial round of the Building Better TAFEs Fund.

Funding will also be provided for high-level planning and concept design work relating to Melbourne's Polytechnic's Collingwood campus modernization and Chisholm Institute's Frankston campus.

\$4.7 million in Apprenticeship Support Officers

Funding will be provided to aid apprentices with advice and assistance to improve apprenticeship retention and completion across regional Victoria and metropolitan Melbourne.

3. Additional areas of interest for the building and construction industry:

- Investing \$545 million over five years to expand the Solar Homes Program, totalling \$1.3 billion over the next 10 years where from 1 July 2019, rebates will be available for solar panels, hot water systems, batteries and zero-interest loans.
- \$16.6 million to fund the expansion of the specialist capacity of WorkSafe inspectors
- \$15 million allocated to the Environment Protection Authority to strengthen compliance, support the delivery of accurate and timely information, and better respond to pollution and emergency incidents.
- \$13.2 million to identify and secure the extraction of raw materials for Victoria's infrastructure pipeline

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