

Hawker Britton

Government Relations Strategy

Victorian 2015-16 Budget Update

November 2015

On Friday 27 November 2015, Victorian Treasurer the Hon Tim Pallas released Victoria's 2015-16 Budget Update.

The 2015-16 Budget Update provides revised estimated financial statements relative to the first Budget handed down by the Andrews Labor Government on 5 May 2015.

The Budget Update also includes the projected outcome for the end of the current financial year and revised estimates for the forward years.

Budget Position and Outlook

The Budget Update shows that Victoria's predicted surplus has increased to \$1.7 billion - a \$493 million increase compared with the 2015-16 Budget estimate of \$1.2 billion.

Growth in the Victorian economy is expected to remain at 2.5 per cent in 2015-16, consistent with the 2015-16 Budget estimate. This is largely due to an increase in land transfer duty forecasts and higher than expected GST receipts.

In line with estimates published in the 2015-16 Budget, net debt is expected to decline at a minimal rate and as a percentage of Gross State Product (GSP) from its June 2015 level of \$22.3 billion (6.2 per cent of GSP) to \$19.6 billion (4.4 per cent of GSP) by June 2019.

Net financial liabilities are projected to increase from \$50.8 billion at June 2016 to \$51.3 billion by June 2019. As a proportion of GSP, net financial liabilities are expected to be 13.4 per cent at June 2016, before decreasing to 11.5 per cent by June 2019.

Victoria has continued to record the highest population growth among the states, in line with 2015-16 Budget forecasts.

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Revenue Outlook

Forecasts reveal Victoria is expected to collect \$56 billion in total revenue in 2015-16, with revenue growth averaging 3.2 per cent over the Budget and forward estimates. This figure is below the projected growth of 3.4 per cent in the 2015-16 Budget. The reason for this decline in projected growth is largely due to the removal of the \$1.5 billion in previously expected Commonwealth grants for the former East West Link that the 2015-16 Commonwealth Budget - handed down after the Victorian Budget - indicated would not be provided.

However, the Victorian Budget Update indicates the initial \$1.5 billion already provided by the Commonwealth in 2013-14 for the former East West Link project will be retained and allocated to Victorian infrastructure projects.

Table 3.2: Summary operating statement for the general government sector ^(a)

	(\$ million)			
	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Revenue				
Taxation	19 436	20 025	20 547	21 442
Dividends, TER and interest ^(b)	1 927	1 782	1 802	1 711
Sales of goods and services	6 809	6 897	6 969	7 021
Grant revenue	25 455	26 010	27 822	28 358
Other current revenue	2 440	2 522	2 462	2 465
Total revenue	56 066	57 236	59 601	60 998
% change ^(c)	4.3	2.1	4.1	2.3
Expenses				
Employee expenses	20 069	20 768	21 696	22 588
Superannuation ^(d)	2 927	2 909	2 909	2 942
Depreciation	2 510	2 657	2 820	3 070
Interest expense	2 132	2 108	2 167	2 160
Other operating expenses	18 271	18 080	18 664	18 917
Grants and other transfers	8 446	9 170	9 499	9 767
Total expenses	54 355	55 691	57 756	59 443
% change ^(c)	3.4	2.5	3.7	2.9
Net result from transactions	1 712	1 544	1 845	1 555
Total other economic flows included in net result	3 479	(239)	(238)	(280)
Net result	5 191	1 306	1 608	1 275

Source: Department of Treasury and Finance

Notes:

- (a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.
 (b) Comprises dividends, income tax and rate equivalent revenue and interest revenue.
 (c) 2015-16 revised per cent change figures refer to 2014-15 actual figures.
 (d) Comprises superannuation interest expense and other superannuation expenses.

Taxation

State taxation revenue is expected to grow by 6.0 per cent in 2015-16 to \$19.4 billion, and average 3.3 per cent a year over the forward estimates.

Dividends, income tax equivalent and interest

Dividend and income tax equivalent revenue is projected to increase by 0.7 per cent in 2015-16 to \$1.1 billion. It is expected these revenues will decrease in 2016-17 by 13.5 per cent, and decrease by 9.5 per cent between 2017-18 and 2018-19. This drop will largely be due to lower investment returns forecast and higher revaluation of liabilities on the projected profitability of the Transport Accident Commission and WorkSafe Victoria. The Government will not be taking a dividend from WorkSafe Victoria across the budget and forward estimates. Accumulated surpluses from WorkSafe will be used to provide benefits for injured workers, lower WorkCover premiums for Victorian businesses and programs relating to workplace health and safety.

Sales of goods and services

Revenue from the sales of goods and services is expected to increase by 5.0 per cent to \$6.8 billion in 2015-16.

Grant Revenue

Total grants revenue is expected to grow by 3.9 per cent to \$25 billion in 2015-16. It is then expected to grow by 3.7 per cent a year on average to \$28 billion in 2018-19.

Commonwealth grants for specific policy purposes, such as health, education, disability and major infrastructure investment, are expected to be \$12.5 billion a year on average across the Budget and forward estimates.

Expenses Outlook

It is expected the Victorian Government will spend \$54 billion in 2015-16 across service provision to the community. Total expenses are expected to grow by 3.1 per cent a year on average over the Budget and forward estimates to \$59 billion in 2018-19. Expenses include:

Grants and other transfer expenses: This includes funding provided to non-government schools, VicTrack and V/Line for operational costs incurred in the provision of transport services, and local governments. Expenditure is forecast to decrease by 1.0 per cent to \$8.5 billion in 2015-16, largely due to the early receipt of Commonwealth grants for on-passing to local governments in 2014-15.

Various other expenses: Other operating expenses include the purchase of supplies and services in the human services, health and transport sectors, and maintenance expenses. Other operating expenses are expected to increase by 3.5 per cent in 2015-16 and increase by an average of 1.2 per cent a year to \$19 billion in 2018-19.

Reconciliation of estimates to the 2015-16 Budget

The net result from transactions has been revised to an increased average of \$374 million a year from 2015-16 to 2017-18. This figure however, decreases by \$274 million in 2018-19.

Table 3.3: Reconciliation of estimates to the 2015-16 Budget ^(a)

	(\$ million)			
	2015-16 revised	2016-17 estimate	2017-18 estimate	2018-19 estimate
Net result from transactions: 2015-16 Budget	1 219	1 397	1 366	1 828
Policy decision variations				
Revenue policy decision variations
Output policy decision variations ^(b)	(88)	(58)	(24)	(13)
	(88)	(58)	(24)	(13)
Economic/demographic variations				
Taxation	411	221	144	103
Investment income ^(c)	(24)	(19)	(32)	(166)
	388	202	112	(63)
Commonwealth grant variations				
General purpose grants	243	308	108	59
Specific purpose grants ^(d)	(179)	(427)	212	(283)
	65	(118)	320	(224)
Administrative changes				
Contingency offset for new policy ^(e)	96
Other administrative variations	33	122	72	26
	129	122	72	26
Total variation since 2015-16 Budget	493	148	480	(274)
Net result from transactions: 2015-16 Budget Update	1 712	1 544	1 845	1 555

Source: Department of Treasury and Finance

Notes:

- (a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.
- (b) This is represented in Appendix A Specific policy initiatives affecting the budget position.
- (c) Investment income includes dividends and income tax and rate equivalent revenue.
- (d) Reflects the change in grant revenue as per Chapter 4 Note 5 Grant revenue less associated expense movements.
- (e) Represents release of funding not allocated to specific purposes contingencies associated with demand for government services.

Background: the 2015–16 Victorian Budget

The 2015-16 Victorian Budget was handed down by Victorian Treasurer the Hon Tim Pallas on 5 May 2015.

The main themes of the Budget were:

- employment and business growth opportunities through the Back to Work Plan and the Premier’s Jobs and Investment Fund;
- investment in schools, health care and community safety; and
- providing transport infrastructure to link Victorians to jobs.



The Treasurer has said key projects, including level crossing removals and the Melbourne Metro Rail Project, will be underpinned by disciplined financial management to support the State's triple-A credit rating and deliver continued strong surpluses forecast over the budget and forward estimates.

The Budget Update comes on the back of ABS State Accounts recently released, revealing Victoria's real GSP growth of 2.5 per cent is now the highest of Australia's non-mining states, behind only Western Australia, and above Australian real GDP growth of 2.3 per cent.

Further information:

The full 2015-16 Victorian Budget Update is available [here](#).

The Victorian Treasurer's Budget Update Media Release is available [here](#).

Hawker Britton's Occasional Paper on the Victoria 2015-16 Budget is available [here](#).