

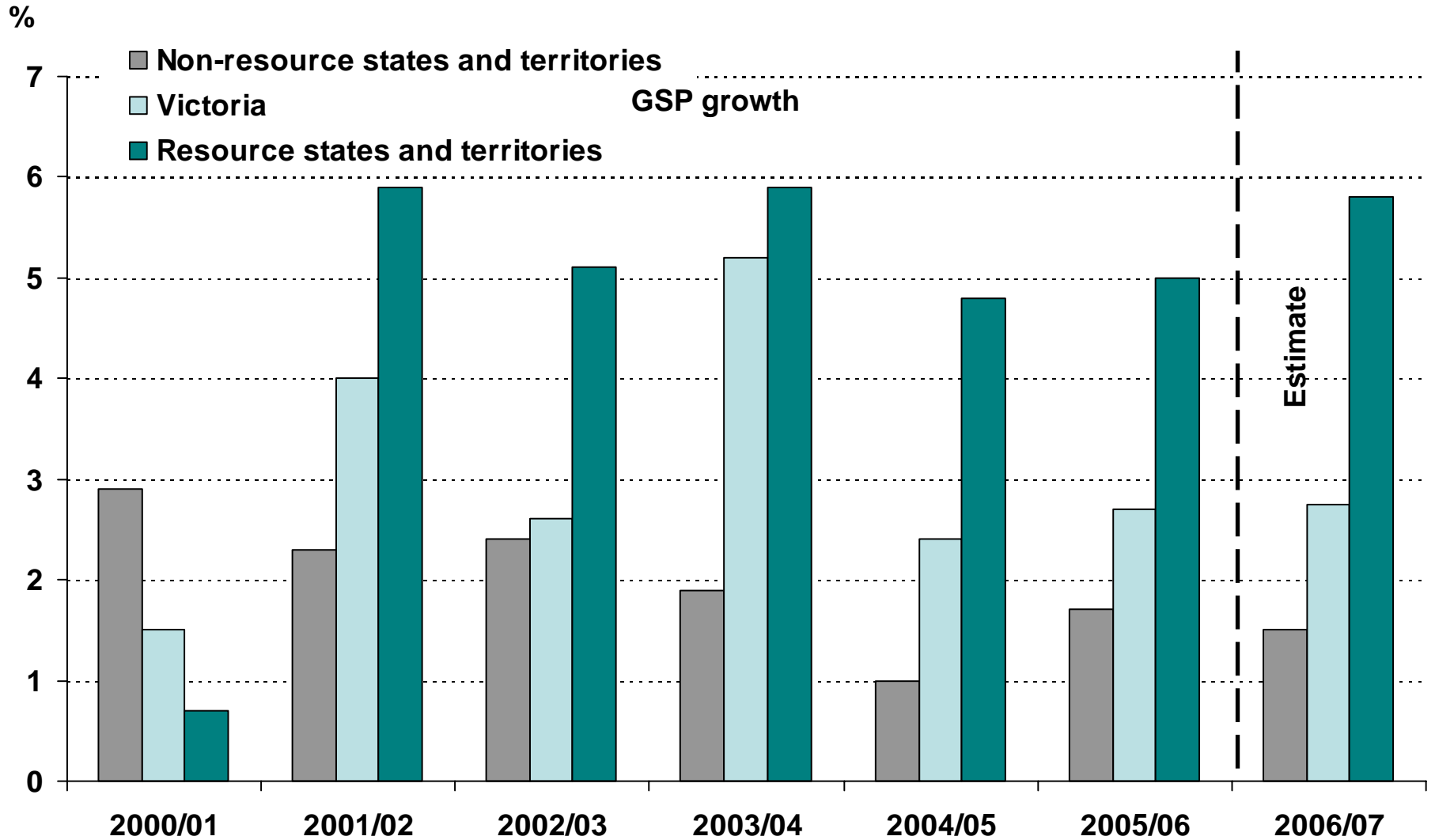
The state of the Victorian economy

A State of strong growth

Treasurer of Victoria
John Lenders MP

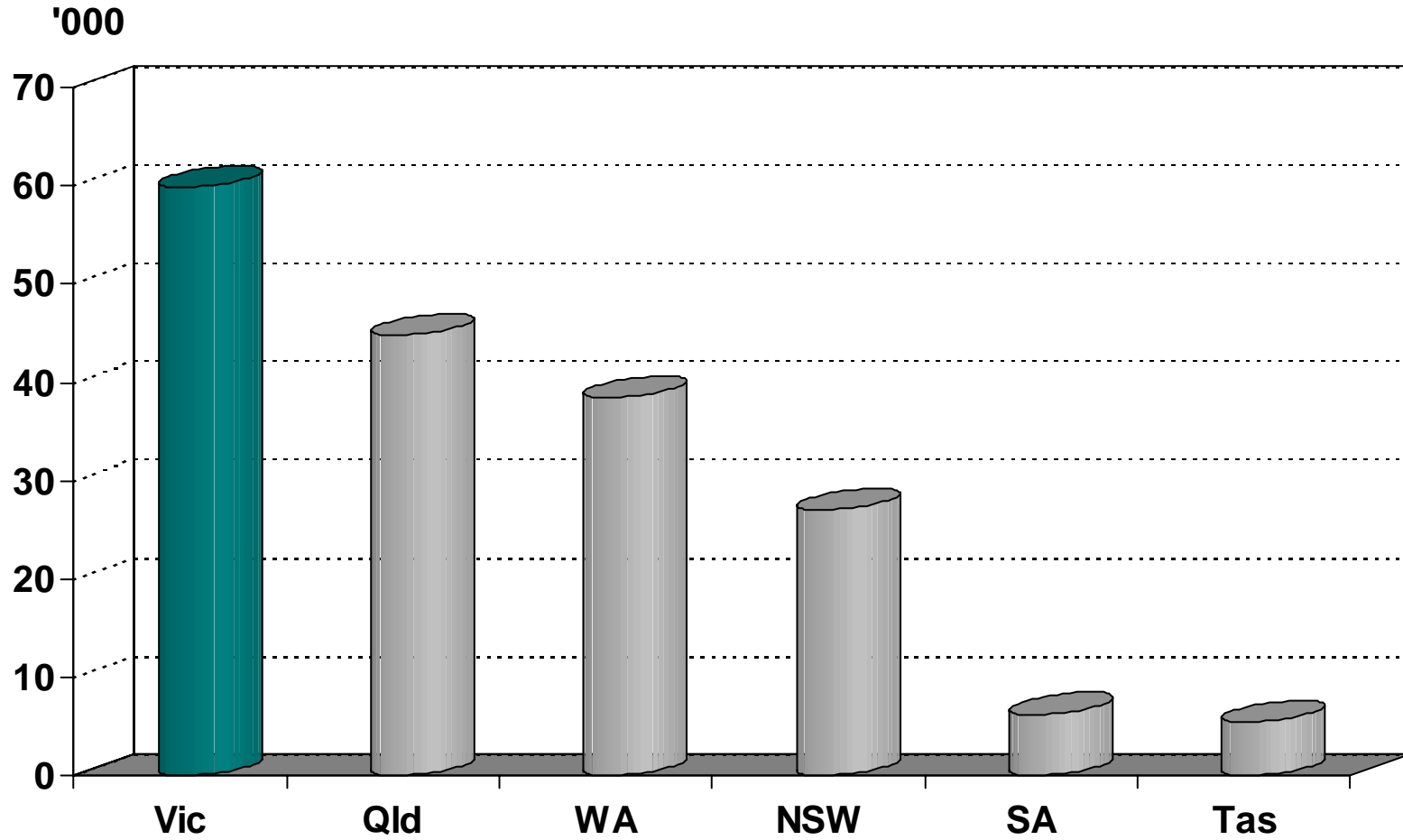
Presentation to CEDA
24 October 2007

Victoria's economy is strong



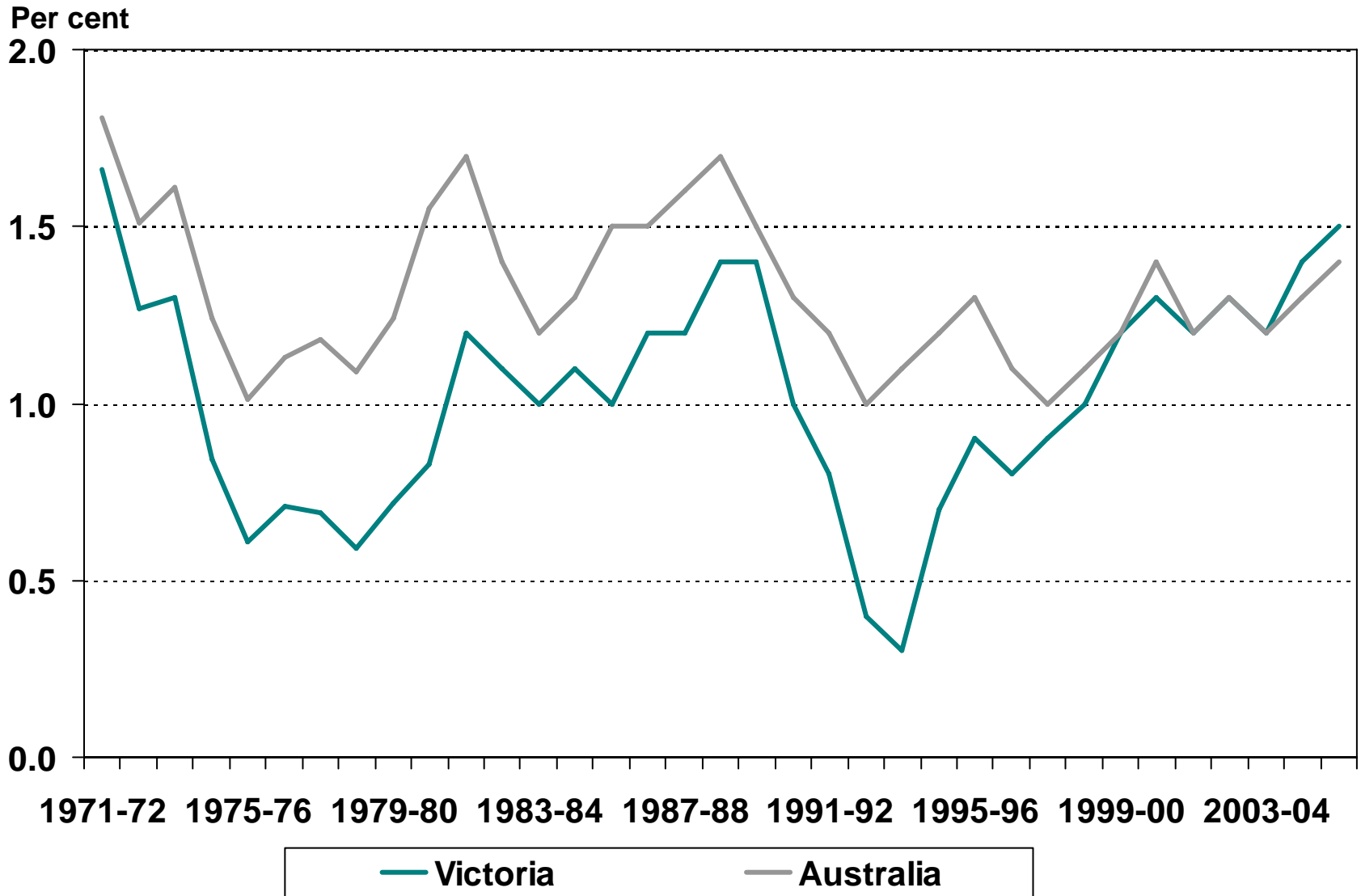
Strong employment growth

Increase over 2007

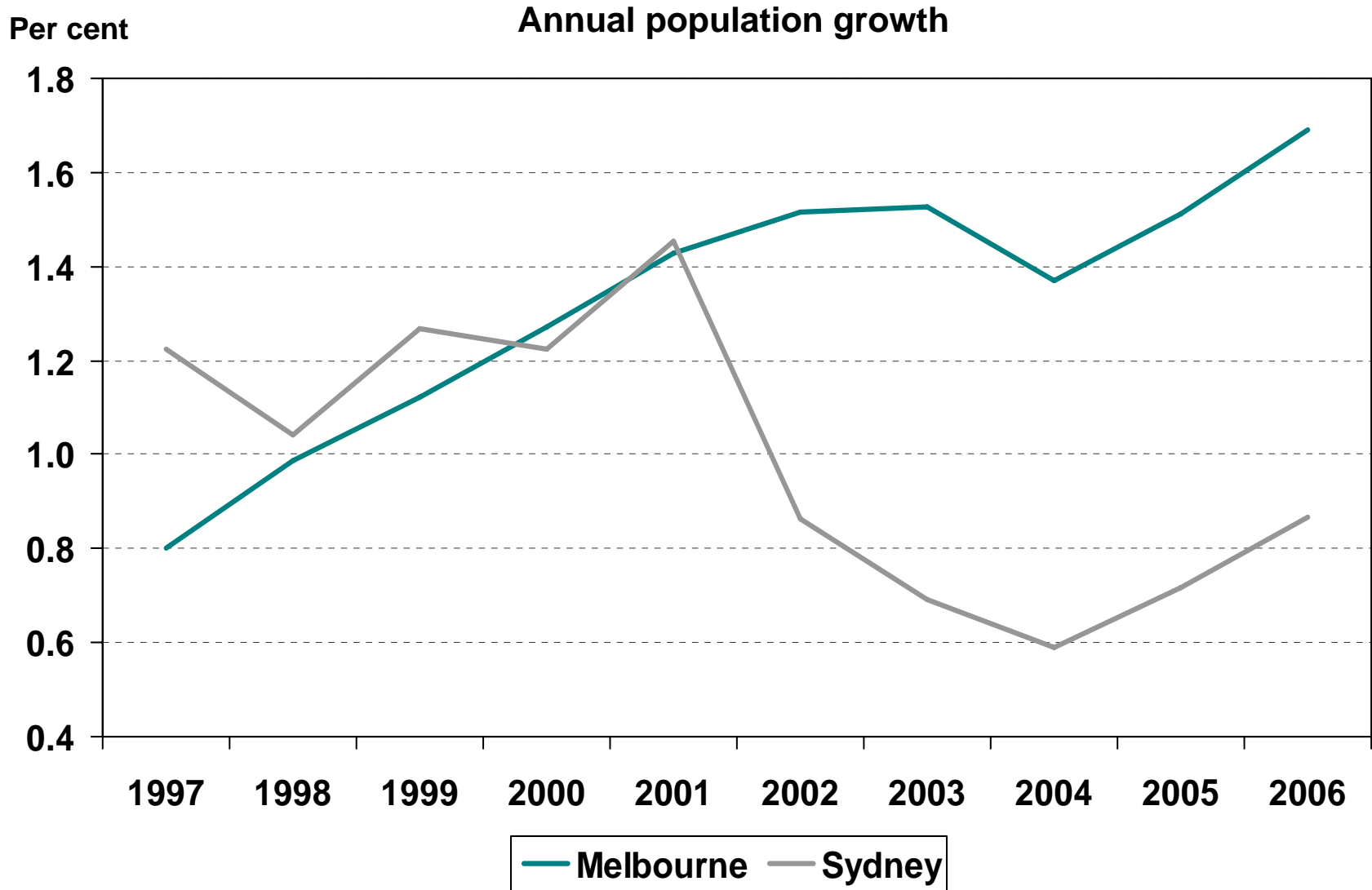


Source: Australian Bureau of Statistics

Strong population growth

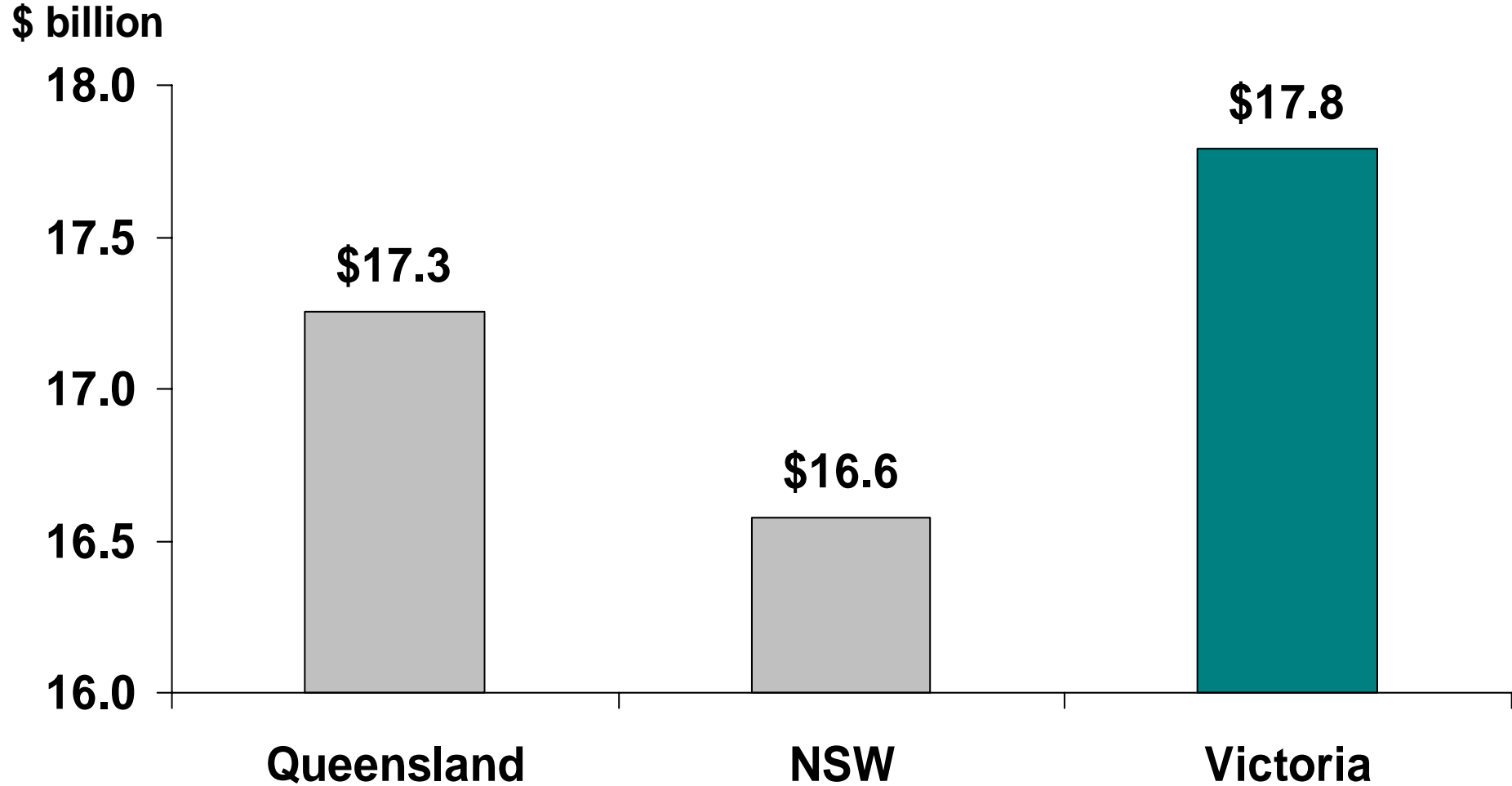


Melbourne's population is booming



Source: Australian Bureau of Statistics

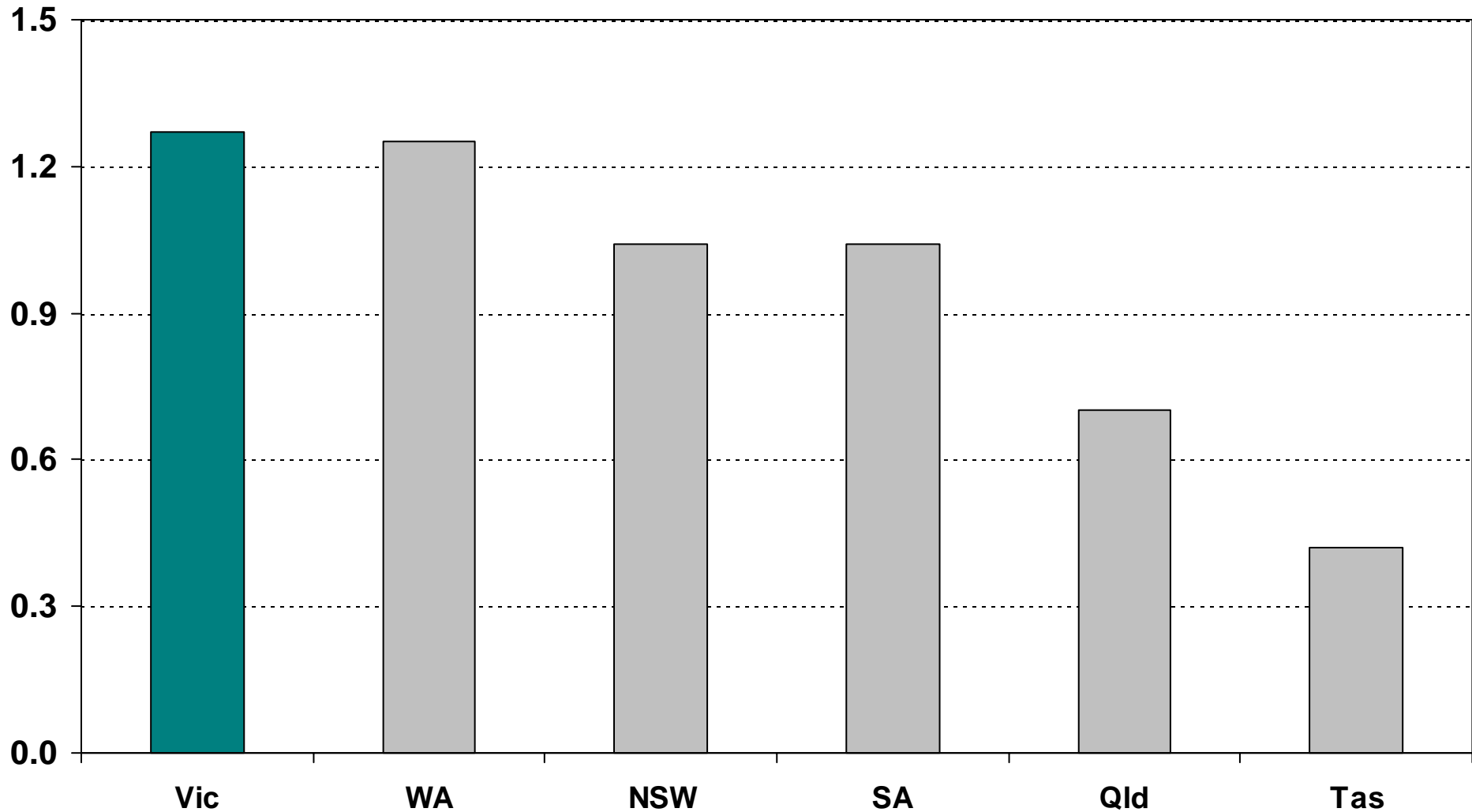
Highest building approvals in 2006-07



More R&D in Victoria

Business expenditure 2005-06 on R&D as a share of GSP

Per cent



Source: Australian Bureau Statistics

Strong economic performance

The Australian Financial Review
www.afr.com • Monday 24 September 2007

FEATURES

Businesslike Victoria leaves NSW in a state

The once pilloried Victorian economy is surging ahead of its old-time rival, write **Adrian Rollins** and **Alexander Symonds**.

For the past five years the massive resource-fuelled gains being made in the nation's north and west have relegated the rivalry between NSW and Victoria to the importance of a sideshow.

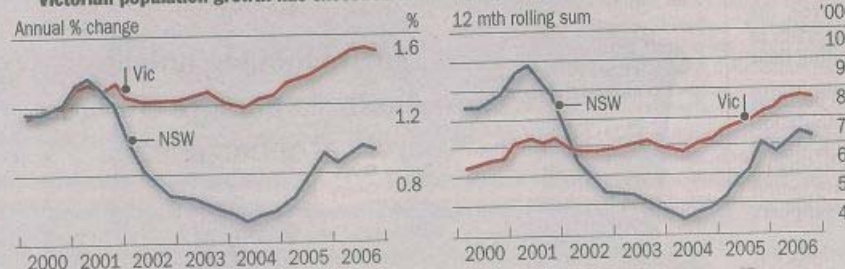
While Queensland and Western Australia have been expanding at an annual rate of almost 5 per cent, the growth pace of the two most populous states has been much more pedestrian, as the impact of the drought and tough conditions in sectors such as manufacturing have conspired to keep their gains modest.

But, despite similarities in circumstances and industry structure, the economic performance of the two big south-eastern states has been diverging.

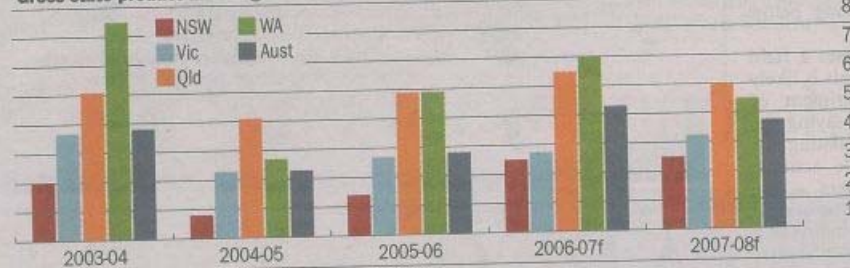
For the past four years Victoria has been growing at close to the national average, comfortably outstripping NSW, which for much of that time has been expanding at the slowest pace of any of the states.

VICTORIA BEATS NSW

Victorian population growth has exceeded that of NSW in both percentage and absolute terms



Gross state product annual growth %



SYDNEY



MELBOURNE

Source: Austr

Short-term risks

- + Strong growth in emerging economies
- + Slowdown in the US economy
- + Inflation (oil prices, wage pressures)
- + Interest rates and housing affordability
- + Agricultural conditions

Longer-term challenges

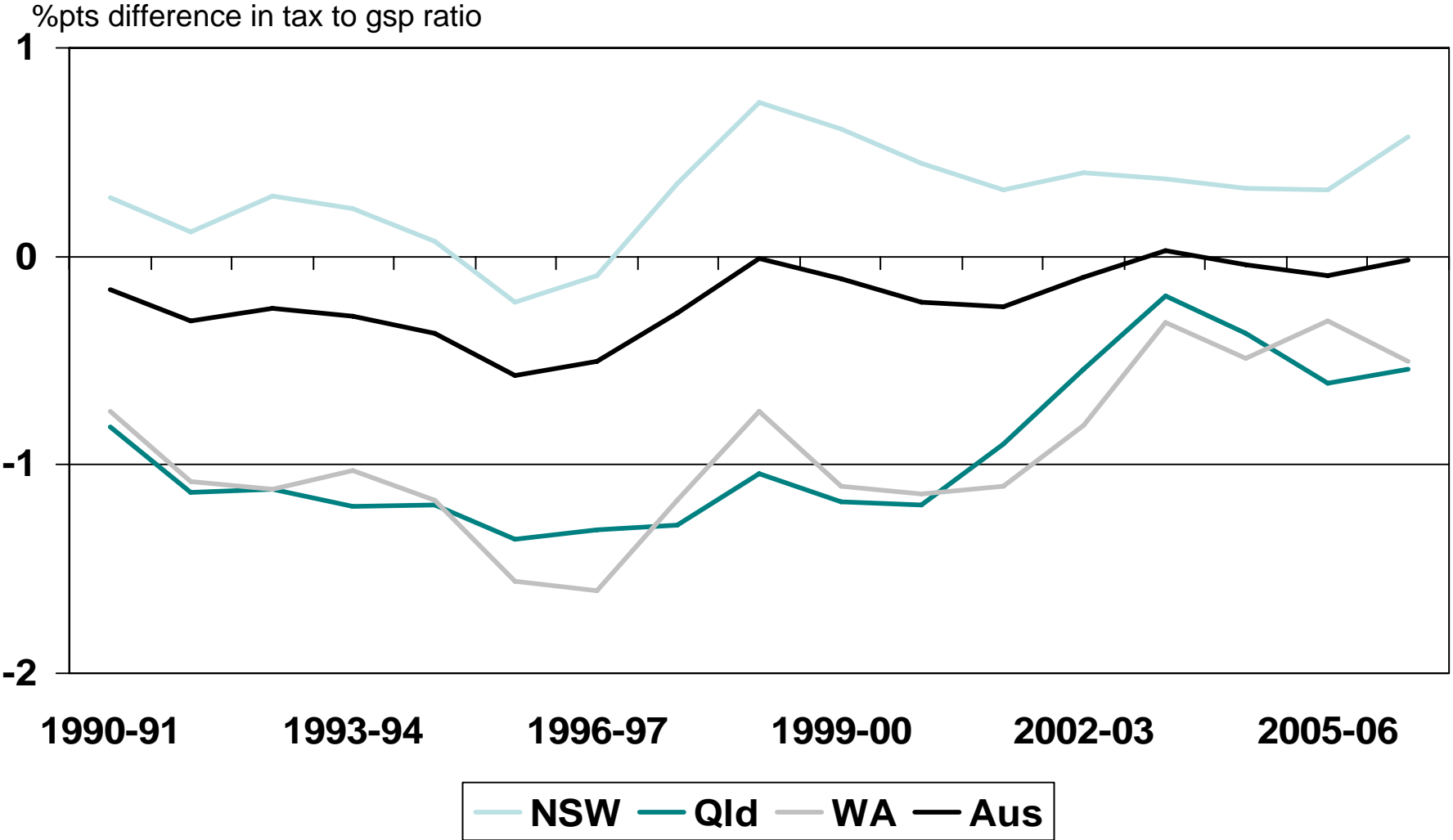
- + **Managing Victoria's growth**
 - Melbourne 2030
 - Promoting Provincial Victoria as a place to live, work and raise a family
- + **Dealing with an ageing population**
- + **Boosting productivity and participation**
- + **Minimising impact of climate change / carbon constrained economy**

Premier's seven priorities

1. Education, skills and lifelong learning – including early childhood development
2. Making Government more accountable and the Executive more accessible
3. Accelerating public transport improvements
4. Improving urban development and planning – particularly in the outer suburbs
5. Tackling cancer and the epidemic of preventable chronic disease, such as diabetes
6. Strengthening the delivery of major projects
7. Delivering improved services to our farmers as they recover from drought and bushfires

Tax competitiveness

Tax burden differential between Victoria and other jurisdictions



Source: Australian Bureau of Statistics, Budget papers, AFR

Payroll tax rates compared

- Reduces payroll tax rate to 5% over next two financial years – cuts costs by \$533 million for over 20,000 businesses



Reducing the Regulatory Burden

Three elements:

1. Commitment to cut the existing administrative burden by 15% over 3 years and 25% over 5 years.
2. Ensuring the administrative burden of any new regulation is met by an 'offsetting simplification' in the same area.
3. Targeting hot-spots through a program of reviews and incentives

Savings over 3 and 5 years

- + 15 per cent net reduction by end of 3 years (July 2009) = \$154 million per annum
- + 25 per cent net reduction by end of 5 years (July 2011) = \$256 million per annum
- + 0.44 per cent boost to Victoria's GSP will inject around \$750 million per year into the economy, by July 2011

Highest infrastructure spend ever recorded

\$3.6 billion infrastructure spend in 2007-08

\$ million



Source: Victorian Budget Papers

Government projects in the pipeline

+ ***Meeting Our Transport Challenges***

- Port of Melbourne Channel Deepening
- Geelong Bypass

+ ***Our Water, Our Future***

- Bendigo pipeline
- Foodbowl,
- Desalination Plant
- Gippsland Water Factory

+ ***Schools***

- modernisation and regeneration

+ ***Health and Community Services***

- Royal Children's Hospital redevelopment
- 2350 Housing units – new or upgraded

+ ***Cultural***

- Melbourne Convention Centre
- Rectangular Sports Stadium
- Melbourne Recital Centre and MTC

Leadership on PPPs

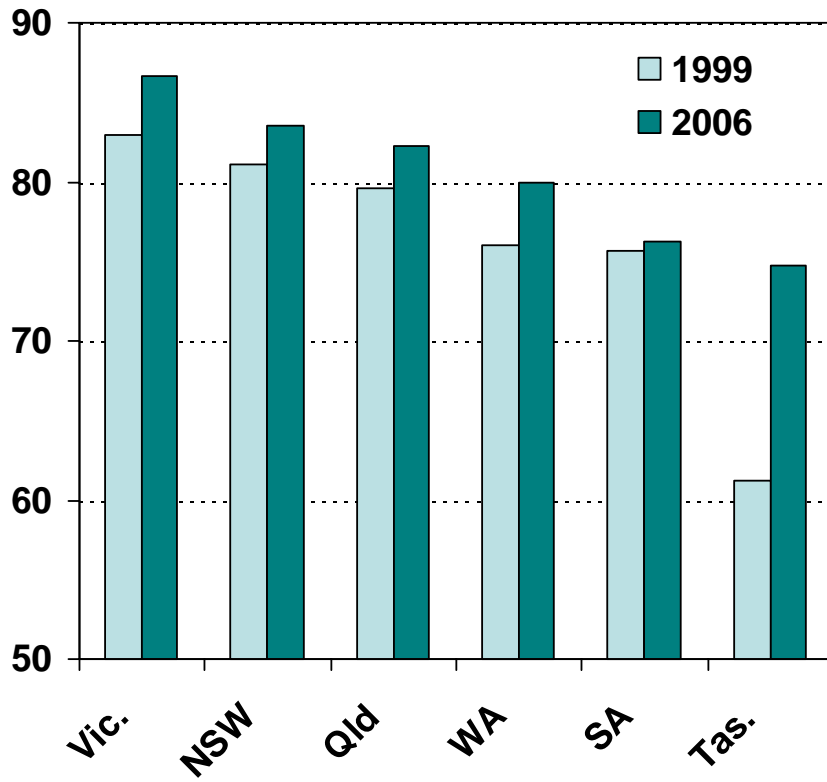
- + First Australian Government to develop a policy framework for PPPs
- + First in Australia to develop detailed guidelines for PPPs
- + First to develop Standard Commercial Principles for PPPs
- + Victoria's model and guidelines followed by other States, other countries and the World Bank
- + 16 contracted *Partnerships Victoria* projects worth around \$4.5 billion

PPPs and education: better schools, better schooling

- + Better designed, modern schools, leading to best practice educational outcomes by effective use of technology and flexibility in teaching approaches.
- + Allows Principals to focus more on teaching and leadership – and less on administration and maintenance.
- + Delivers high quality schools on time and on budget to communities in need.
- + Extends access to school facilities to the broader community outside of school hours

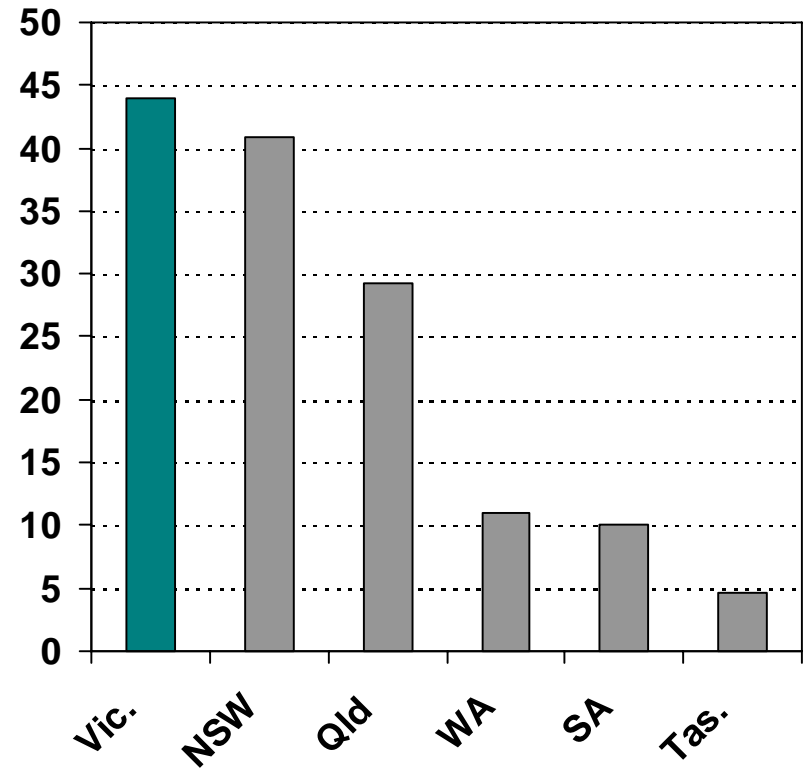
Paying dividends: schools and skills

Proportion of 20-24 year olds who have completed Year 12 or equivalent



Source: Unpublished ABS data

Apprentice and trainee completions over twelve months to March 2007



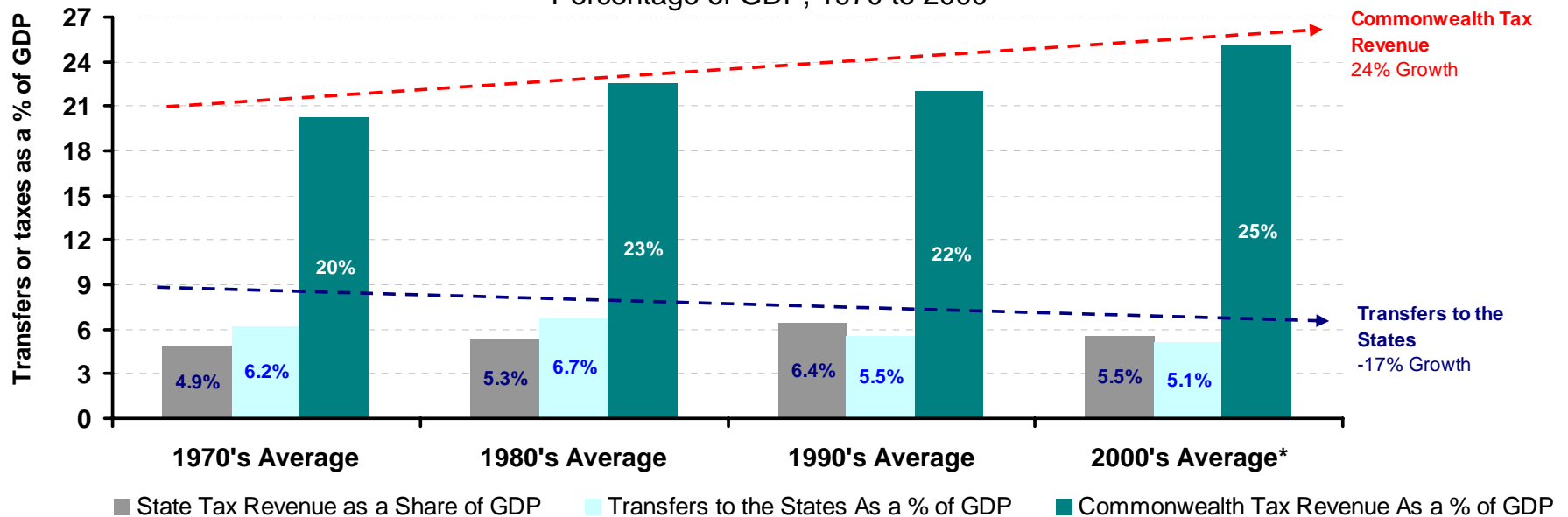
Source: National Centre for Vocational Education Research

Action on climate change

- + Support for a National Emissions Trading Scheme (NETS)
- + Victorian Renewable Energy Target (VRET) scheme to support wind power and other low emissions generation
- + Energy Technology Innovation Strategy (ETIS) to fund research into low emissions technologies
- + Energy efficiency programs aimed at households and home builders, including the proposed Victorian Energy Efficiency Target (VEET) scheme
- + Commitment to reduce or offset emissions from government energy and vehicle use

The Commonwealth raises more revenue, but grants to the States remain stagnant

State Tax Revenue, Commonwealth Transfers to the States and Commonwealth Tax Revenue
Percentage of GDP, 1970 to 2000

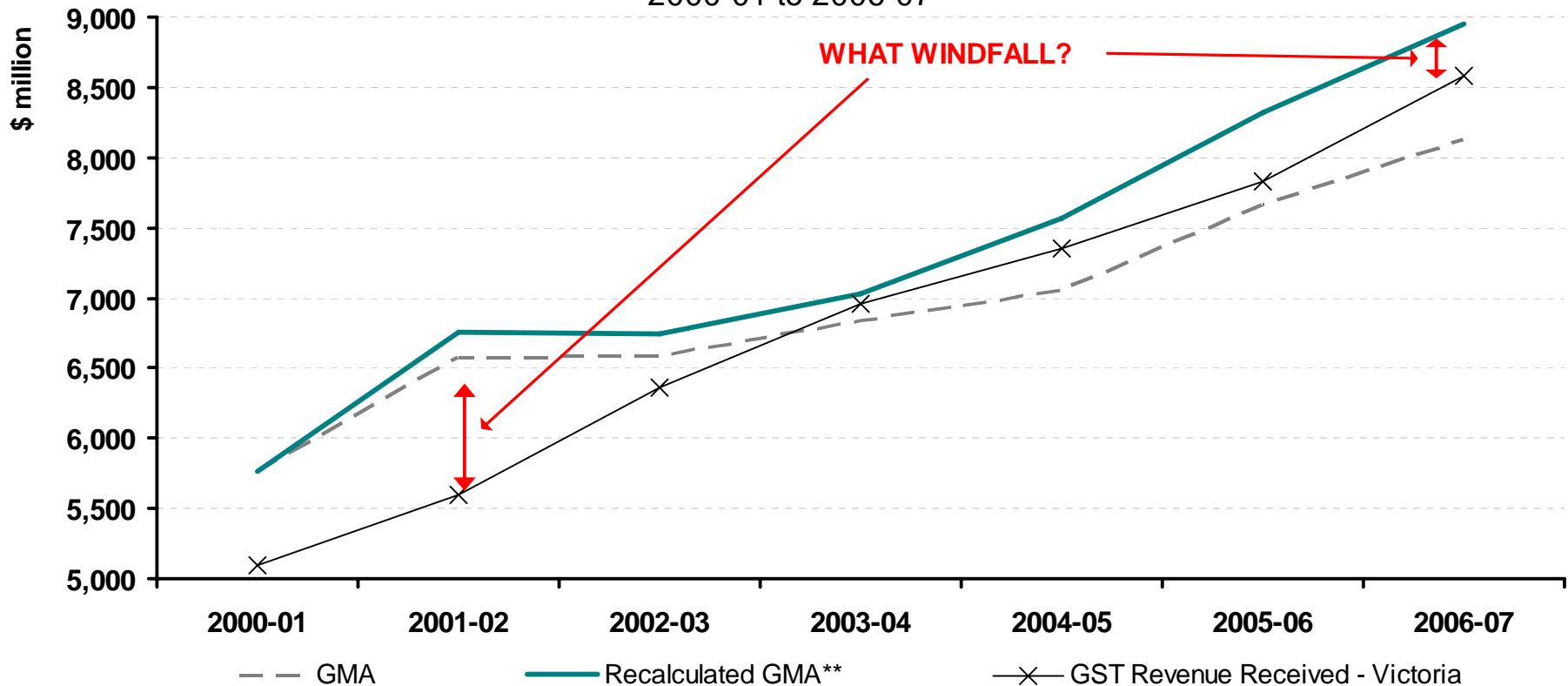


* Grants net of State taxes abolished.

Sources: Australian Bureau of Statistics, Cat No: 5206 and Commonwealth 2007-08 Mid Year Fiscal and Economic

The myth that we're better off under the GST

GST Revenue Received Compared with the Guaranteed Minimum Amount
2000-01 to 2006-07



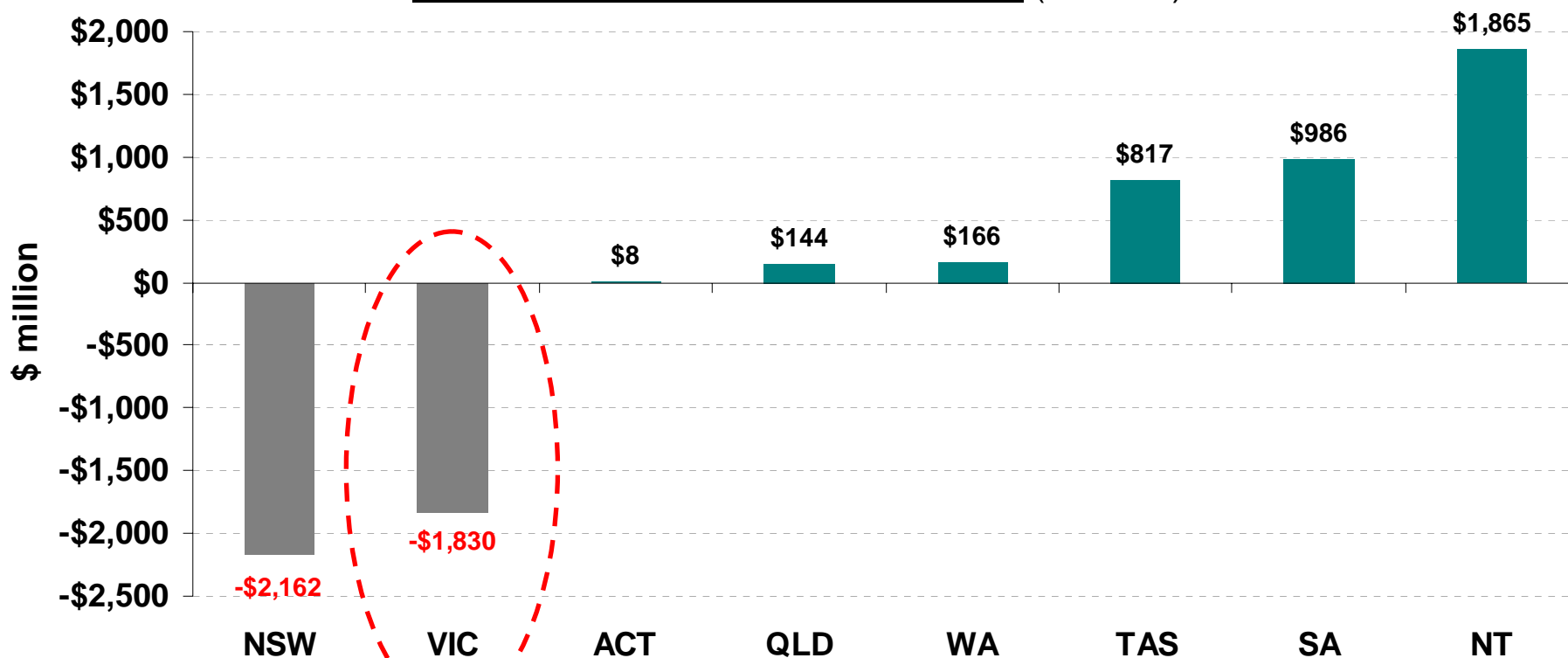
Source: Commonwealth Government Budget 2007-08 and Final Budget Outcomes 2001 to 2005

* Estimates

** Includes value of taxes already abolished by Victoria, but yet to be abolished in some other States. The recalculated GMA does not include a re-estimate of financial assistance grants and revenue replacement payments

Victoria's GST and SPP shortfall continues

Redistribution of Commonwealth Grants* to the States
compared to Equal Per Capita shares (2007-08)



* GST and Specific Purpose Payments

Sources: Commonwealth Government 2007-08 Mid-Year Economic and Financial Outlook, and Commonwealth Grants Commission 2007 Update relativities.

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Future policy directions

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