Victorian Budget
2023/24

COVID Debt Repayment Plan

Treasurer's Message

When the pandemic hit Victoria, we acted quickly and decisively to safeguard the economy – and to prevent economic scarring that would have left a generation out of work.

Acting on the advice of the Reserve Bank of Australia, we used the state budget to protect household budgets and businesses.

We had to borrow to pay for the tools we needed to confront the emergency. For things like hospital equipment, protective wear, testing centres, testing payments, vaccination centres and business support.

We had to borrow $31.5 billion to save jobs and save lives and to get through. We are not the only government in this position. But we're the only government with a plan to manage it with our *COVID Debt Repayment Plan*.

Since the pandemic, our state has bounced back. Economic output per person is expected to be 5 per cent higher in 2022-23 than it was in 2018-19, and unemployment is around its lowest level since the early 1970s. So now is the time to confront this situation squarely to repay the COVID debt that kept Victoria going during the pandemic.

We'll make sure the repayment plan is structured in a way that's reasonable and proportionate to ability to pay. The Government will also do its bit.

We know some did better out of the pandemic than others – and it is only fair that those that did well contribute to the repayment effort.

This will ensure we manage our finances responsibly – so we can keep investing in the health, education, cost of living relief, transport and infrastructure that matters to Victorians.

Tim Pallas
Treasurer of Victoria

Overview and context

Unprecedented impact of the pandemic

No matter where you lived in the world, 2020 was a year like no other.

At the start of the year, Victorians faced a devastating bushfire season. Weeks later, a global pandemic – a one -in-one-hundred-year event – arrived at our doorstep.

The pandemic sent shockwaves through economies big and small, right across the globe.

At home and abroad, economic activity fell – sharply. Millions of people lost their jobs. Borders closed, and international students, tourists and migrants stopped coming. Business and consumer confidence fell sharply. It was the biggest global recession since the Great Depression.

In Victoria, we experienced the first economic downturn in 28 years. Victorian state final demand fell by a record 8.2 per cent in the June quarter 2020, driven by an unprecedented 14.3 per cent fall in consumer spending. About 240 000 Victorians lost their jobs between March and September 2020. Young people were among the hardest hit, with employment for those under 30 falling by 15 per cent during that time.

Women and young workers faced significantly greater increases in unemployment, as they were more likely to work in industries that were hardest hit during the pandemic – such as accommodation and food services. On top of that, we know women were more likely to take on caring responsibilities during remote learning in 2020.

The pandemic also tested Victoria's health system like never before. COVID patients were just one part of the picture: the pandemic disrupted care, slowed down recovery times, and saw people putting off visits to their GPs. All of this put huge demand on our hospitals and healthcare professionals. We can never thank them enough for everything they did to protect Victorians, and to keep delivering the very best of care.

We knew that without record levels of support from government, these impacts would be far worse. And we knew we had to act – fast. That meant protecting and creating jobs. Looking after families. And taking care of Victorians' loved ones.

A position of strength to respond

Before the pandemic, Victoria's economy faced a very different scenario.

Economic growth and employment growth were particularly strong, averaging 3.3 per cent and 2.9 per cent a year, respectively, over the five years to 2018-19 – and the highest of all the states.

The unemployment rate had fallen to a 10-year low of 4.6 per cent in 2018-19.

The Victorian economy was experiencing an extended period of strong jobs growth, with over 468 000 new jobs created between November 2014 and March 2020 – more than any other state or territory.

Victoria's economic performance was the highest of the states.

It's no accident that Victoria's economy was so strong.

Before the pandemic, we were borrowing to build – within our means. And without the pandemic, we would have had surpluses every single year.

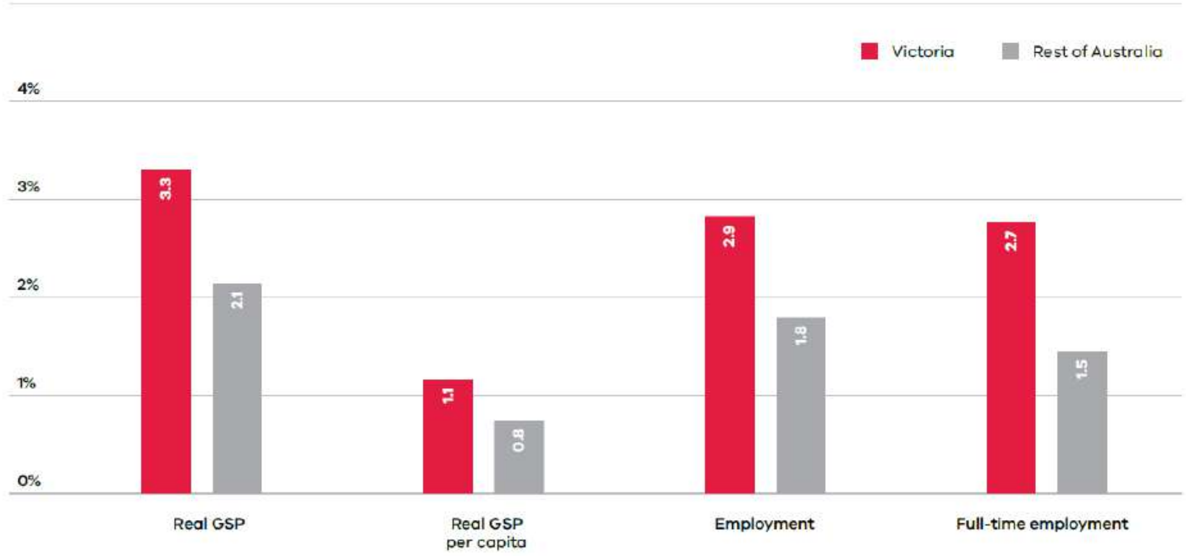
Key State Fiscal Performance from 2015-16 to 2018-19

- **Average net operating surpluses of $2.2 billion a year**

Indeed, in each budget before the pandemic, the Andrews Labor Government delivered consistent operating surpluses, while building the roads, rail, schools and hospitals that matter to Victorians.

As a result of the Government's strong financial management, Victoria had sound public finances coming into the pandemic. That provided significant scope to support Victorians when they needed it most. We were in a strong position to face this one-in-one-hundred-year crisis.

Selected economic indicators for Victoria and the rest of Australia, annual average growth, 2013-14 to 2018-19



Source: Australian Bureau of Statistics.

Pandemic expenditure by category

$21.2 BILLION spent on **business, economic and worker support** from 2019-20 to 2022-23 [(a)]

$16.3 BILLION spent on **equipping our health system** from 2019-20 to 2022-23

$2.6 BILLION spent on **household support** from 2019-20 to 2022-23

$40.1 BILLION total spent[(b)]

$8.7 BILLION in funding received from the Commonwealth Government

$31.5 BILLION borrowed by the state government

Source: Department of Treasury and Finance

Notes:

(a) Includes budget funding of $238.3 million in 2023-24 for COVID-19 impacts on the transport network, as published in Budget Paper 3, 2023-24 Budget*, Chapter 1.*

(b) Forecast expenditure for 2022-23.

Acting quickly to protect Victorians

As the pandemic hit Victoria, we borrowed billions of dollars to prevent economic scarring that would have left a generation out of work. We acted on the advice of the Reserve Bank of Australia – just like every other state and territory across the country – and borrowed to support our economy. Countries across the world did the same.

We used the state budget to protect household budgets and businesses. We directly invested almost $40.1 billion to keep Victorians safe from the virus, keep workers in jobs and businesses afloat, and support households. We provided rent relief so Victorians could keep a roof over their heads, helped people test and isolate, added extra mental health services and relieved the stress on businesses with direct financial support.

A resilient health and care system

As a government, we knew there would be no economic recovery without a health recovery first. That's why we moved swiftly to prepare our healthcare system as the pandemic reached our shores: procuring equipment and PPE supplies, providing dedicated spaces for patients, hiring thousands more healthcare workers and acquiring innovative technology to deal with the potential incoming demand.

Throughout the pandemic we acted decisively, putting in place vital public health measures that kept Victorians safe – and secured a stable foundation for recovery.

Our nurses, doctors, paramedics and allied healthcare workers set the most powerful examples of compassion and selflessness right throughout the pandemic. Across Victoria, they:

- Set up a network of more than 300 testing sites
- Administered more than 23 million PCR tests
- Delivered more than 17 million doses of vaccines
- Treated 42 319 COVID-19 patients
- Distributed more than 130 million rapid antigen tests
- Distributed more than 7 million single-use and reusable masks to Victoria's most vulnerable people including people with a disability and indigenous Victorians.

Between 2019-20 and 2022-23, we invested $16.3 billion in health-related services and programs. That investment funded more paramedics, triage care, and support staff in Ambulance Victoria, eased pressure on our busy emergency departments and delivered more hospital beds across the state.

We invested in extra personal protective equipment, testing outreach, drive-through testing sites, wastewater surveillance and new testing methods such as genomic sequencing. As Victorians banded together to get vaccinated in record numbers – which included hitting our 90 per cent double-dose target in November 2021 for adults – we protected the most vulnerable people in our community from COVID, and strengthened our defence against future pandemics.

Pandemic Repair Plan

In last year's Budget, we announced a plan for more staff, better hospitals and first-class care. This built on the $13.7 billion that had been spent on COVID-related health responses between 2019-20 and 2021-22.

As part of the *Pandemic Repair Plan*, we provided $12 billion over the period from 2019-20 to 2025-26, to give a much-needed boost to our health system, including:

- **Delivering record levels of surgical capacity across the state, to give Victorians the specialist care they need – before they end up in the emergency department**
- **Increased health services and new and improved health infrastructure, so all Victorians have access to high-quality healthcare, closer to home**
- **More nurses, doctors, paramedics, with training and hiring of up to 7 000 new healthcare workers, including 5 000 nurses**
- **Increased call-taking and dispatch capacity for our Triple Zero services including ambulances.**

This will mean improved healthcare over coming years for Victorians.

Supporting businesses and the economy

Our work to support economic recovery across the state allowed Victoria to recover rapidly once public health restrictions were eased, driving a surge in jobs growth.

To help Victorian businesses and their staff, we invested $21.2 billion in economic assistance, with more than $14 billion in business and economic support.

We provided small to medium-sized businesses with direct grant and non-grant support to help them retain their employees and get through the pandemic. In addition, we provided just under $1 billion in payroll tax relief to businesses by providing refunds and waivers for small and medium-sized businesses.

Our grants supported hospitality, entertainment and tourism businesses, non-essential local retail and other small businesses such as florists and garden supplies.

A range of other support was provided to keep the state's economy and businesses afloat, including:

- Mental health and financial counselling support
- Grants to help businesses improve ventilation to protect health and safety of customers
- Solvency funding to keep our key arts and sporting institutions operating and ensure they remained viable
- Programs that provided incentives for Victorians to go to restaurants, cinemas and travel across our state when health restrictions eased.

Crucially, these measures ensured the Victorian economy could bounce back once the worst of the pandemic was over.

Supporting households and communities

Right across the state, communities showed incredible strength in adapting to different ways of working, living and staying connected through the pandemic. We invested $2.6 billion to make sure households and communities were supported during this challenging time, as we worked to stop the spread of the virus, and to avoid further damage to the economy.

This meant making sure schools and training providers could stay connected to students, and keep providing the vital education services they needed. It also meant ensuring eligible government school students could keep their school-owned computers to stop them from falling behind.

We invested to support safe and sustainable public transport and commercial passenger vehicle services, undertaking rigorous cleaning and passenger protection measures to slow the spread of COVID while maintaining services for the essential workers who needed them.

And we acted swiftly to help move 2 000 Victorians in need into short-term accommodation. To further prevent the spread of COVID, we provided tailored communications and engaged multicultural communities so that they could receive up to date advice on public health restrictions, health and safety requirements, and the support available to them.

Significant and swift response

Economic effects of the Government’s response

The Government moved quickly to support households, workers and businesses through the pandemic. The positive economic impact of our action has been significant.

The Victorian economy has well and truly bounced back: it’s strong, it’s growing, and it’s delivering record-breaking jobs performance.

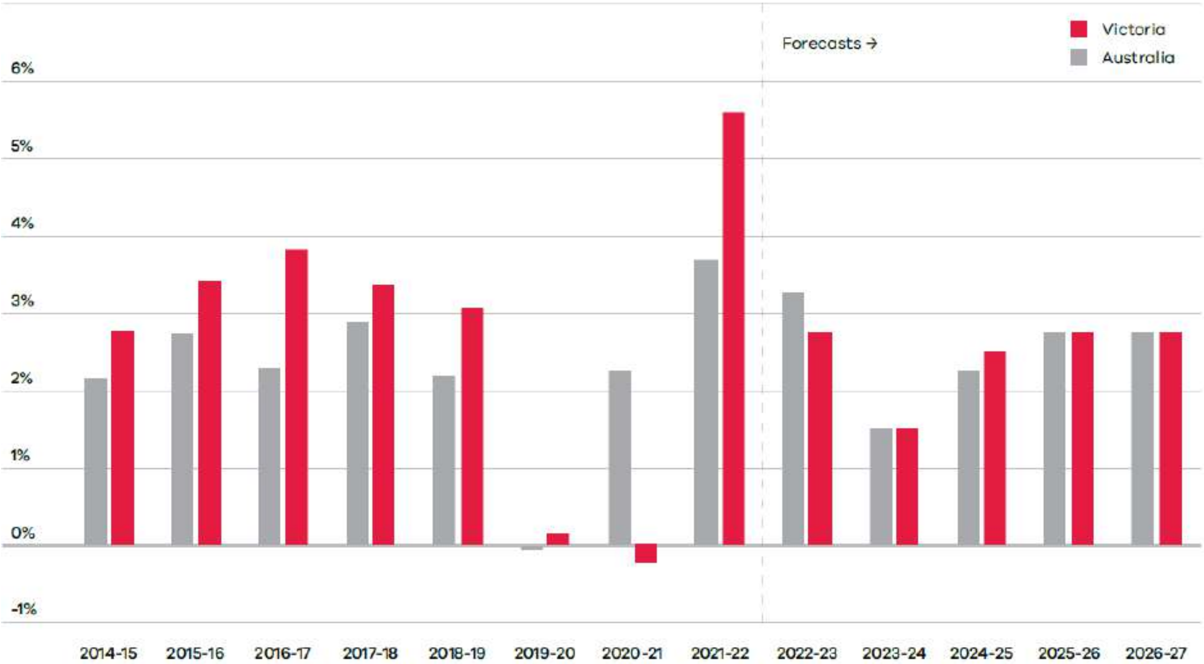
Economic activity is above pre-pandemic levels, and the labour market is even stronger than it was before the pandemic. Economic output per person is expected to be 5 per cent higher in 2022-23 than it was in 2018-19, the last full year before the pandemic. The rate of unemployment is around its lowest level since the early 1970s, underemployment is around a multi-decade low and the participation rate of 67.7 per cent at March 2023 is at a record high.

The economy is expected to remain healthy in 2022-23, with real economic growth of 2.75 per cent. This follows growth of 5.6 per cent in 2021-22, which was the highest of all the states and well above national growth.

Employment for those most affected by the pandemic, especially women and young people, recovered strongly. By early 2022 female employment had grown more than male employment, compared with March 2020 levels. Meanwhile, the proportion of young people in employment recovered to around pre-pandemic levels by early 2022.

Our economy is forecast to keep growing and creating jobs, even while weathering the current global challenges of high inflation and rising interest rates. Real GSP growth is expected to slow to 1.5 per cent in 2023-24, although unemployment is expected to remain low. In following years, economic growth is expected to strengthen as inflation eases and interest rates decline.

Real economic growth, actual and forecast – Victoria vs Australia



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

Key elements of our *Jobs Plan*

1. **Victorians at work – getting Victorians back to work**
2. **Building opportunity – building our state as we rebuild our economy**
3. **Supporting industry and growth – support for industries and leveraging our strengths**
4. **Supporting every corner of our state – ensuring no community and no Victorian is left behind.**

Success of the Government's *Jobs Plan*

A decent job is worth more than just a pay cheque. It's about creating security, dignity and certainty for you and the people you love the most. We knew that as we started to rebuild from the pandemic, we needed to support Victorians to train, retrain and find new opportunities.

We needed to help those hardest hit by the pandemic to find work – ensuring not only a job, but certainty and security. And we needed to make sure we were creating strong, secure and decent jobs for the future – and for our future generations.

Our *Jobs Plan*, announced in the *Victorian Budget 2020/21*, was our strategy to protect the economy and create jobs – putting job creation at the heart of our economic recovery.

The *Jobs Plan* was also designed to provide the greatest level of support to the Victorian labour market at the time when it was needed most, while support from the Commonwealth Government dropped off.

Our record investments during the pandemic delivered the jobs we needed in the short term, and they're supporting our growing state into the future. As part of our *Jobs Plan*, we:

1. Launched the $6 billion Big Housing Build – including $5.3 billion to build more than 12 000 new social and affordable homes, and $678 million to make housing more accessible and affordable for Victorians, supporting thousands of jobs
2. Invested $1.9 billion to upgrade 162 schools, building one new school and four additional stages at recently built schools
3. Introduced a transformational $1.6 billion investment to improve energy efficiency in Victorian homes and accelerate clean energy investment, while supporting thousands of new Victorian jobs
4. Invested $1.6 billion to transform our city's Arts Precinct – attracting visitors from interstate and overseas, supporting local jobs and giving everyone a new public place to enjoy and explore
5. Provided $1.1 billion in cash grants to support small and medium-sized businesses, including $822 million for the third round of the Business Support Fund, $251 million for a dedicated Licenced Venue Fund, and $44 million to equip businesses to thrive in post-pandemic conditions
6. Provided $1 billion in TAFE and training to give Victorians the skills to get back to work
7. Provided just under $1 billion for the New jobs tax credit to encourage small and medium businesses to increase employment by re-hiring staff, restoring staff hours or supporting new jobs as they recovered from the effects of the pandemic
8. Provided $626 million for the Digital Future Now package to remove more blackspots, digitally connect regional communities and allowing unemployed Victorians to undertake digital skills training or take part in a digital internship
9. Provided a $619 million investment in Jobs for Victoria services to help Victorians into work
10. Established a $465 million Victorian Tourism Recovery Package to support and restart the sector
11. Invested $235 million to build our Recovery Workforce to create jobs across mental health, family violence, health and child protection
12. Funded $156 million for local priorities, businesses and recovery investment for our regions.

In guiding Victoria's recovery, the *Jobs Plan* played to our strengths, advancing opportunities for growth in new innovative industries, and fundamentally, getting more Victorians back into work.

Achieving our *Jobs Plan*

Our *Jobs Plan* had a target to create 400 000 new jobs by 2025.

We've met our *Jobs Plan* target more than two years early, with almost 440 000 jobs created since the trough in employment in September 2020. The total number of Victorians with a job has increased to more than 3.6 million.

Underpinning it all – a strong economy that works for working people.

Leveraging our balance sheet

Our approach during the pandemic was to protect Victorians and to prevent a long-term economic downturn.

What we did in Victoria was undertaken by governments right across the globe, reinforced by institutions like the International Monetary Fund.

Inevitably, this approach led to a necessary increase in operating deficits as we borrowed to protect Victorians, and our economy.

Our net operating deficits followed a similar trend to the Commonwealth and New South Wales governments, with broadly comparable levels as a proportion of state and national economies.

Comparison of net operating positions as a % of GSP and GDP between Victorian, New South Wales and Commonwealth governments (2015-16 to 2025-26)[a][b]

Source: Department of Treasury and Finance. Commonwealth 2023-24 Budget and NSW 2022-23 Mid-Year Budget.

Notes:

(a) 2015-16 to 2021-22 represent actual net operating positionss as a proportion of GSP or GDP.

(b) GSP refers to gross state product. GDP refers to gross domestic product.

A four-step fiscal strategy

At the start of the pandemic, we set out a responsible and clear four-step fiscal strategy to restore the state's finances over the medium term. This strategy not only improves the state's financial position, but also helps guard against future financial shocks. This strategy involves:

- Step one: Creating jobs, reducing unemployment and restoring economic growth
- Step two: Returning to an operating cash surplus
- Step three: Returning to operating surpluses
- Step four: Stabilising debt levels.

Our plan is working. We've kept working to create the jobs that underpin our state's economic growth, while returning to operating cash surpluses and operating surpluses.

And in this Budget, we're taking the targeted and responsible actions we need to, so we can achieve step four in the medium term. All of this means we can keep investing in health, education and infrastructure – while also managing our finances responsibly.

We've invested $1.5 billion in early interventions to change the trajectory of people's lives, with decisions over three budgets generating at least $1.8 billion of benefits over the next decade. Benefits include avoided costs from state services, higher labour productivity, lower welfare payments and less out-of-pocket health costs to those needing care.

Further improvement in the state's fiscal aggregates in the *2023/24 Victorian Budget*

- **Our net cash flows from operating activities is forecast to be $1.2 billion greater or 23 per cent higher in 2025-26 compared to the Pre-Election Budget Update (PEBU)**
- **Our operating result is expected to be in surplus by $1.2 billion in 2026-27 – representing an improvement of $15 billion in the operating result since 2021-22**
- **Net debt will reduce by $3.7 billion in 2025-26, compared to the same year in PEBU**
- **The Victorian Budget 2020/21 forecast net debt to hit 28.9 per cent by 2023-24, compared to 22.6 per cent outlined in this budget, rising only to 24.5 per cent by 2026-27**

Strengthening our finances

Covid debt

Of the state's total net debt, a significant subset was accumulated by incurring one-off expenditure and cutting taxes to directly respond to the pandemic. In other words, our direct COVID debt.

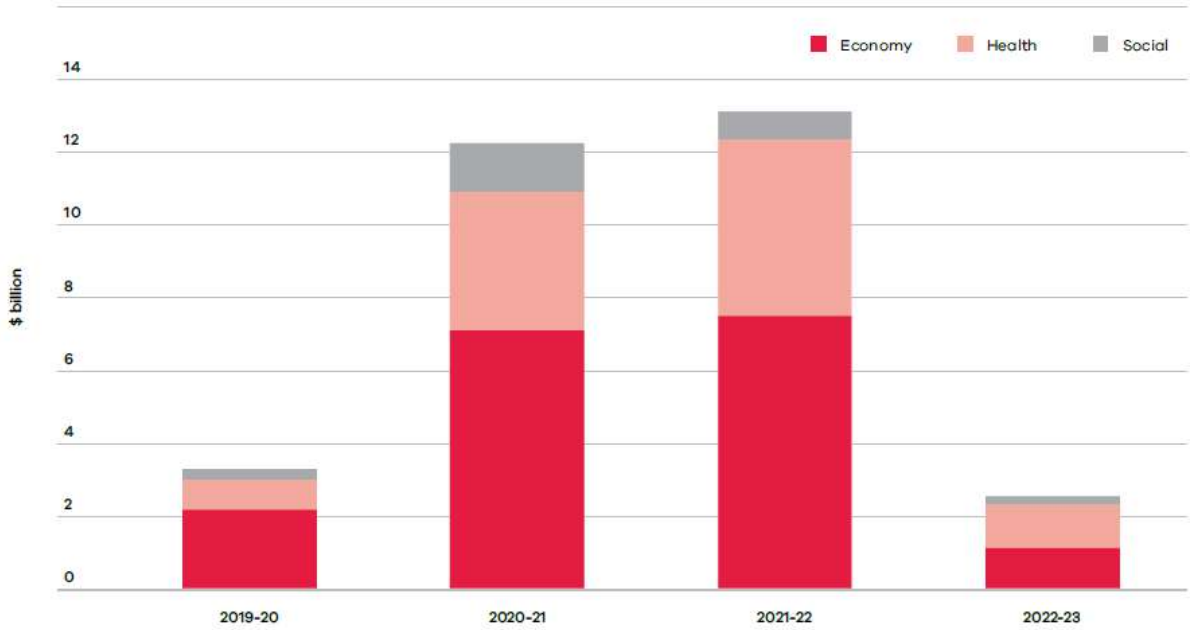
The value of this COVID debt is estimated to total around $31.5 billion in expenditure incurred and revenue forgone by the state, net of Commonwealth Government co-contributions, for activities primarily delivered between 2019-20 and 2022-23.

The Government has a bold infrastructure agenda, designed to support thousands of jobs across Victoria while delivering the everyday services Victorians rely on – especially as our state continues to grow.

Unlike our significant infrastructure program – which contributes to the long-term productive capacity of the state's economy – our COVID debt relates to one-off investments designed to protect Victorians and Victorian businesses throughout the pandemic, and set the state up for recovery on the other side.

Our strong action to protect the health and livelihood of all Victorians helped shield our state from the very worst of this one-in-one-hundred-year event. As the state's economic position is now sound, now is the time to pay off the debt and the accumulating interest incurred as a direct result of the pandemic.

COVID debt expenditure by category from 2019-20 to 2022-23[a][b][c]



Source: Department of Treasury and Finance.

Notes:

(a) *Forecast expenditure for 2022-23.*

(b) *Excludes budget funding of $238.3 million in 2023-24 for COVID impacts on the transport network as published in Budget Paper No. 3,* 2023-24 Budget*, Chapter 1.*

(c) *Excludes expenditure associated with Commonwealth Government co-contributions to represent expenditure incurred by the State contributing to COVID debt.*

Different borrowings for different purposes

Victorians use different types of debt in their household budgets as well.

People often borrow to invest in assets like the family home, which then accumulates wealth as the value of the asset grows over time. In contrast, the credit card is used for emergencies that require significant and time critical action with less long-term wealth creation benefit.

Much like a home loan, we borrowed to fund a range of infrastructure projects that create significant long-term economic and social benefits such as major road and rail projects, and new and upgraded hospitals and schools. This is productive capacity infrastructure that creates jobs, helps our state function, and makes the economy bigger. This increases budget revenues which in turn provides the capacity to make interest payments and repay the debt over time.

Then the pandemic came along posing a global emergency, requiring significant spending on largely operational activities in a short time frame. We had to access emergency borrowings to save jobs and save lives.

There's now a $31.5 billion balance from those emergency borrowings.

We have to get that balance back down to zero. Unlike our other productive capacity infrastructure investments, this debt does not accumulate wealth to the state in the form of long-term economic or social benefits.

Paying down covid debt

Just like anyone with a mortgage, an increase in the cost of borrowing for the state is having real impacts on our financial capacity.

For example, the *Victorian Budget 2020/21* forecast interest expense at $3.9 billion in 2023-24 on $173.4 billion of general government sector borrowings – while this Budget forecasts interest expense at $5.6 billion in 2023-24. This is an increase of 43 per cent in interest expense, despite borrowings being lower.

We are not the only government in Australia that built up debt during the pandemic to support households and businesses. But we are the only government with a plan to manage it.

This Budget takes further steps towards stabilising net debt levels.

To help pay off the debt and accumulating interest incurred as a direct result of the pandemic, we're introducing a new *COVID Debt Repayment Plan*. It builds on the work of the Victorian Future Fund (VFF), introduced in last year's Budget, to help manage the COVID debt. The Plan is temporary, targeted and above all, responsible. It will raise an equivalent amount of funds, including covering interest, to pay down $31.5 billion of COVID debt over the next 10 years.

As part of the Plan, we'll introduce a temporary levy to help pay off the debt incurred during this one-in-one-hundred-year event.

The COVID Debt Levy won't apply to everyone. It will apply to big businesses, investors and those who pay land tax. And we're making sure the repayment plan is structured in a way that's reasonable and proportionate to ability to pay.

We know some did better out of the pandemic than others – and it is only fair that those that did better contribute the most to the repayment effort.

At the same time, the Government is doing its share, undertaking a range of balanced savings measures in this year's Budget. We'll rebalance our public service – bringing it back towards pre-pandemic levels – while maintaining the frontline services that matter to Victorians.

And importantly, we'll also use the growing VFF balance to help manage the COVID debt as part of this plan.

Victorian Future Fund

In the *Victorian Budget 2022/23*, we established the Victorian Future Fund (VFF) to manage the fiscal impact of the pandemic and reduce the debt burden on future generations. This was our first step towards managing the state's debt levels.

The VFF was established using proceeds from the VicRoads Modernisation Joint Venture. Further investments will be made in the future into the VFF through proceeds

from designated government land sales. Investment returns from the VFF are quarantined and returned to the Fund so that its balance will grow over time to manage the borrowings.

The VFF is managed by the Victorian Funds Management Corporation (VFMC) which is implementing a diversified investment strategy designed to deliver the best possible returns.

COVID debt profile over 10 years following COVID Debt Repayment Plan[a]

Source: Department of Treasury and Finance.

Notes:

(a) *COVID debt represents the closing balance including the impact of revenue raising measures, savings initiatives and interest expenditure associated with the debt in that financial year. Revenue and savings initiatives are those announced in Budget Paper 3,* 2023-24 Budget*, Chapter 1. The Victorian Future Fund refers to its balance, after accounting for additional contributions, income, capital gains and interest costs associated with contributions to the Fund.*

* *Financial years denote the position as of the end of June of that financial year.*

Revenue and savings measures

The *COVID Debt Repayment Plan* includes a range of fair and balanced revenue and savings measures to help pay down COVID debt, including:

- A range of savings and efficiencies to be implemented across government, totalling $2.1 billion over four years. This includes reductions in corporate and back-office functions, reductions in labour hire and consultancy expenditure, and efficiencies across public non-financial corporations and public financial corporations. These savings are designed to make government more efficient, while maintaining the frontline services that matter to Victorians.
- From 1 July 2023, large businesses with national payrolls above $10 million a year will temporarily pay additional payroll tax. A rate of 0.5 per cent will apply for businesses with national payrolls above $10 million, and businesses with national payrolls above $100 million will pay an additional 0.5 per cent. The additional rates will be paid on the Victorian share of wages above the relevant threshold and are estimated to raise $3.9 billion to repay COVID Debt over four years.
- From 1 January 2024, the tax-free threshold for general land tax rates will temporarily decrease from $300 000 to $50 000. The family home will remain exempt from land tax. Those who pay land tax will attract a temporary additional fixed charge starting at $500 for landholdings between $50 000 and $100 000. There will be a $975 fixed charge for landholdings above $100 000 and the tax rates will temporarily increase by 0.1 per cent for both general and trust taxpayers with holdings above $300 000 and $250 000 respectively. These changes are estimated to raise $4.7 billion to repay COVID debt over four years.

It is expected these tax changes will apply until 30 June 2033.

The measures we take now will mean we can keep investing in the health, education and infrastructure Victorians rely on – while also managing our finances responsibly.

Tax concessions that will continue

PAYROLL TAX

A wide range of payroll tax exemptions will continue to apply for those that need it most, such as hospitals, charities, local councils, and wages paid for parental and volunteer leave. Further, businesses with payrolls under $10 million per annum will not be subject to the levy.

LAND TAX

The existing land tax exemptions will continue to apply. This includes exemptions on the primary place of residence, primary production land, land used by charities and residential care facilities.

The way forward

The *COVID Debt Repayment Plan* will balance the necessary public spending with appropriate fiscal restraint. Through our steady pipeline of initiatives delivered through this Budget and building on our earlier investments, we will continue to support the healthcare system, households and businesses that underpin the Victorian economy.

Importantly, by implementing this plan over 10 years, we will ensure we don't place a heavier burden on Victorian households and businesses through the post-pandemic recovery period. Deeper cuts and steeper tax increases might pay down COVID debt faster, but would come at the cost of weaker household and business balance sheets – and ultimately endanger the recovery.

The measures in this Budget are being implemented in a balanced and fair way. Revenue measures are aligned to the relative size of businesses by payroll and land owned by commercial, industrial and other investors.

We won't compromise Victoria's economic growth and recovery from the pandemic. The important contributions that households and small businesses make to driving the state's economy and jobs growth are critical – and will remain so as the economy navigates global challenges of high inflation and rising interest rates.

Rebalancing the size of the public service

The Andrews Labor Government is doing what matters for Victorians, and delivering every election commitment we made in 2022. We will do this while ensuring our operations are as efficient as possible, including the size of the Victorian public service (VPS).

In the *Victorian Budget 2021/22*, we started the process of bringing the VPS back towards pre-pandemic levels, announcing $3.6 billion in savings and efficiencies as part of our fiscal plan to return to an operating surplus.

To build on that work, our savings program will reduce our VPS levels by 3 000 to 4 000 roles in 2023-24, across corporate and back-office functions. Further savings will be achieved through reductions in labour hire and consultancy expenditure. These savings are designed to make government more efficient, and will not affect frontline services.

Key benefits and opportunities

With this Budget, we're delivering on every commitment we made to Victorians at the last election.

Building on the investments we've made over the past eight years, this Budget will keep investing in the things that matter to Victorians: a strong healthcare system, cleaner and cheaper renewable energy, high-quality road and rail, the best start in life for our kids – and an economy that works for working people.

We expect Victoria's economy to grow steadily as we emerge from the current national and global economic challenges.

This will be bolstered by our strong pipeline of public construction projects, along with a recovery in population growth.

- Productive, long-term investment in infrastructure continues to be a priority, with government infrastructure investment projected to average $19.6 billion a year over the budget and forward estimates, which is significantly more than the 10-year average to 2014-15 of $4.9 billion.
- Population growth is forecast to be above its long-term trend rate from 2022-23 to 2024-25, and then settle at 1.7 per cent over the remainder of the forward estimates.

Our prudent financial management will also ensure Victoria can navigate current challenges and global volatility, while still building on our advantages as a high-skill and high-value economy.

Future directions

Victoria's capacity to pay down our COVID debt and further strengthen our finances is constrained. We raise only half the revenue we need for the services we deliver to Victorians, and as a result, the Commonwealth Government grants we receive are critical.

Victoria consistently receives less than our population share in areas including GST revenues and infrastructure – and that has been the case for many years. Further, under the National Health Reform Funding Agreement, costs were subject to a reduced Commonwealth contribution of 45 per cent compared to 50 per cent.

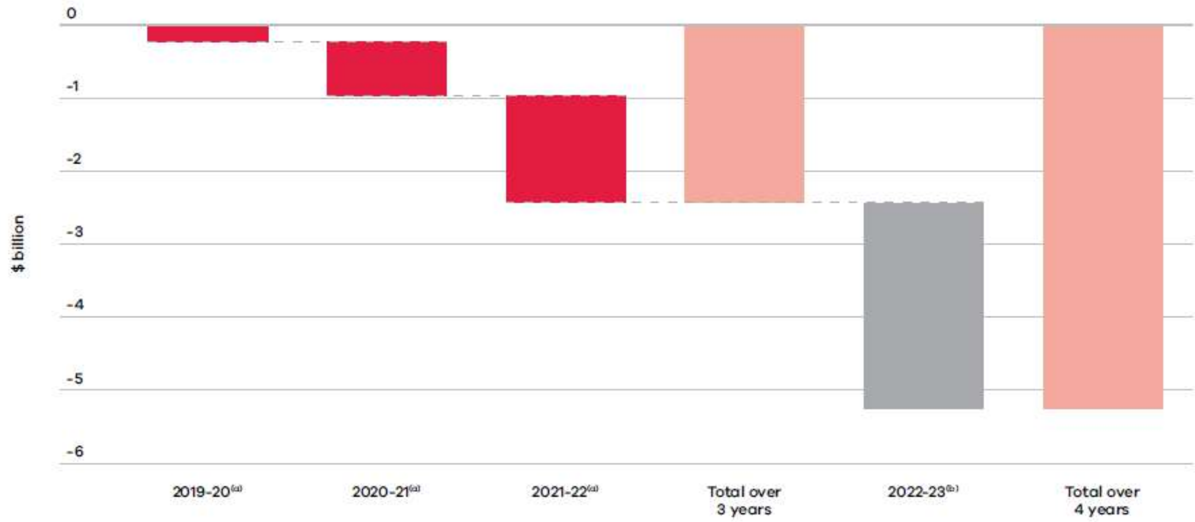
Since the pandemic began, Victoria has received almost $2.5 billion less in GST grant revenue from the Commonwealth Government compared to its population share between 2019-20 and 2021-22. Had we received this additional revenue from the Commonwealth, it would have provided Victoria with greater budget capacity and flexibility.

Victoria has had to borrow more to finance the same level of necessary expenditure over the period, since the pandemic began. This is despite the state having significantly higher real economic growth in 2021-22 – and contributing to higher levels of GST revenue collected by the Commonwealth Government.

As a result, the revenue measures included in the *COVID Debt Repayment Plan* have drawn heavily on Victoria's limited taxation sources, while other spending measures continue to facilitate Victoria's economic growth and recovery from the pandemic.

The Andrews Labor Government will continue to seek Victoria's fair share in Commonwealth Government funding towards future actions that progress the Government's staged approach to its four-step fiscal plan in a careful and prudent manner.

Commonwealth Government GST grant revenue to Victoria foregone from lower than per capita share distributions



Source: Department of Treasury and Finance, Commonwealth Government Final Budget Outcomes (2019-20 to 2021-22) and 2023-24 Commonwealth Budget.

Notes:

Includes General Revenue Assistance payments from the Commonwealth which are sourced from the GST, including payments made under the no-worse-off guarantee.

(a) Represents actual revenue received.

(b) Represents estimated Commonwealth transfers for 2022-23.

Missed opportunity for Commonwealth GST adjustments

The Commonwealth Government could have allowed a change to the method for distributing the GST during the pandemic to account for the significant economic disruption and financial impacts to our state.

While we support the Commonwealth Government’s aim of distributing GST revenues to help states with greater fiscal burdens, this was not the case through the pandemic for Victoria. The then Commonwealth Treasurer restrained the Commonwealth Grants Commission (CGC), the independent umpire, from being flexible and adjusting its calculations in this unprecedented period of economic and financial instability.

The CGC confirmed that its current method does not account for the pressures COVID-19 placed on states, particularly Victoria. The extra spending by Victoria on health and business support during the pandemic has resulted in around $880 million less GST funding to Victoria in 2023-24.

Furthermore, when Victoria provided $21.2 billion in business and economic support, the Commonwealth only provided a $3.1 billion contribution towards Victoria's business support programs. And then once JobKeeper concluded in 2021, the Commonwealth walked away from directly providing any further meaningful business and economic assistance to Victoria.

Strengthening our community and economy

In this Budget, the Andrews Labor Government is strengthening Victoria's health system, creating thousands of local jobs including by reviving the State Electricity Commission (SEC), building the Education State, growing and improving our road and transport networks, providing cost of living relief to families and supporting communities across the state.

Cost of living relief for families

While we think it's only fair that those who did better out of the pandemic than others contribute the most to the repayment effort, the Andrews Labor Government also recognises that high inflation and interest rate hikes are raising the cost of living for many in our community.

We know Victorians are paying more at the bowser and the supermarket, to get where they need to go, and for their electricity bills.

That's why we've been getting on with delivering programs that help to drive down the cost of living for families across the state. We've made kinder free, delivered three rounds of the Power Saving Bonus, implemented the Solar Homes Program, delivered free Ls and Ps, set rate caps for all Victorian councils, and introduced the Victorian Default Offer.

In this Budget we're going even further by funding more initiatives that provide relief in energy, transport and everyday living expenses:

- $400 million for the fourth round of the hugely popular Power Saving Bonus, providing another $250 to households that use the Victorian Energy Compare website to search for the cheapest electricity deal
- $373 million for Free Kinder to give Victorian parents – especially mums – the choice to return to work if they want to and provide savings to families each year, up to $2 500 in 2023
- $190 million for fairer public transport fares for regional Victorians – capping regional public transport fares at the metro rate to make it easier for families and commuters in regional Victoria to leave the car at home and get around by train and bus
- $141 million to install air conditioners across more than 40 high-rise public housing towers, keeping homes cool for more than 13 000 Victorians
- $50 million to enable more Victorian families to access public fertility care, with up to 3 375 treatment cycles funded each year

- $42 million to install 100 neighbourhood batteries across the state at targeted locations to drive down power bills even more – increasing the number of homes with access to a battery and providing crucial extra storage capacity for local communities
- $42 million to recognise the service of Victorian veterans and their families and helping them with the cost of living. This includes introducing the Victorian Veterans Card, which will entitle veterans to a $100 discount on the registration of one vehicle, free public transport on Anzac Day and Remembrance Day, free trailer and caravan registration and free fishing and boating licences
- $23 million to provide free period products in public places across the state. We'll install up to 1 500 free pad and tampon machines at up to 700 public sites including courts, TAFEs, public libraries, train stations and major cultural institutions like the State Library of Victoria and the Melbourne Museum, so women can access period products where and when they need them
- $17 million over four years to continue our Baby Bundle program – supporting new mums and dads across Victoria as they transition into parenthood and help them give their babies the very best start in life
- $17 million to expand the Smile Squad free dental program to low-fee independent and Catholic schools from 2026 – saving parents time and money on trips to the dentist
- $16 million for Solar Victoria to provide interest-free loans to eligible households to install solar battery storage systems in their home
- $16 million to keep providing pads and tampons in every government school free of charge. We'll also develop resources and education materials and deliver pelvic pain education programs to 100 government schools each year – because we're working to normalise periods so that every girl feels comfortable managing their menstrual cycle
- $10 million to deliver free car rego for our hardworking trade apprentices. Eligible bricklayers, carpenters, joiners, electricians, plumbers and other apprentices who rely on their vehicle for work will benefit from the saving – worth up to $865 every year.

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Budget Paper No. 1 – Treasurer's Speech
Budget Paper No. 2 – Strategy and Outlook
Budget Paper No. 3 – Service Delivery
Budget Paper No. 4 – State Capital Program
Budget Paper No. 5 – Statement of Finances (incorporating Quarterly Financial Report No. 3)

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