

CHAPTER 12: THRIVING ECONOMY

Key findings of the Committee:

- 12.1 The Victorian Government predicted that, in view of the world economy experiencing a synchronised recession with the advent of a severe financial crisis and a wide-spread loss of confidence, the economy will slow in 2009-10.
- 12.2 With economic activity slowing in response to lower external demand, falling asset prices, tighter credit conditions and lower business and consumer confidence, Victoria's economic projections were revised by the Government to reflect this weaker economic environment.
- 12.3 Economic projections used in the 2009-10 Budget included the following predictions for Victoria:
- real Gross State Product weakening dramatically in 2008-09, further contracting in 2009-10, before showing a strong recovery in 2010-11 through to 2012-13;
 - employment growth worsening from 0.25 per cent in 2008-09 to -1.0 per cent in 2009-10 before recovering to positive growth levels over the remaining years to 2012-13; and
 - unemployment rising sharply from 5.0 per cent in 2008-09 to 7.0 per cent in 2009-10 and 7.75 per cent over the remaining years to 2012-13.
- 12.4 Consistent with slowing economic activity, the Government predicted an easing in wage growth from 4.25 per cent in 2008-09 to 3.75 per cent and 3.25 per cent in 2009-10 and 2010-11 respectively, with an expected rise to 3.50 per cent growth in 2011-12 and 2012-13. The Government was of the view that a more modest wage growth commensurate with inflation (or slightly better than inflation) with an assurance of no retrenchments in order for budgets to balance is an appropriate policy setting to adopt given the current economic climate.
- 12.5 Given the volatility in the economic landscape, the Committee was advised in May 2009 by the Department of Treasury and Finance that the economic projections that underlie the Budget Estimates were marked by a greater than usual degree of uncertainty. The Committee heard that downside risks included:
- further deterioration of global growth;
 - a higher than envisaged unemployment rate; and
 - continuing financial volatility combined with lower confidence further restricting credit and business investment growth.
- 12.6 The Committee was told that it was difficult to quantify the impact of the risks on the economic forecasts as these risks were largely external and driven by factors outside Australia's control.

- 12.7 In view of the rapidly changing nature of the economic environment which is driving current economic volatility and uncertainty, the Committee is of the view that a broader sensitivity analysis could disclose the impact of lower than expected economic variables in those instances where possible financial effects are not symmetrical with the expected scenario presented in the Budget Papers.
- 12.8 Subsequent to the handing down of the 2009-10 Victorian Budget in May 2009, the Committee noted that according to forecasts prepared by Access Economics for the June 2009 quarter, the Australian economy is set to perform more strongly than envisaged by the Commonwealth Treasury's forecasts. For example, compared to the Commonwealth Government's forecast of negative growth of 0.5 per cent in Gross Domestic Product for 2009-10, Access Economics forecasts that the Australian economy will grow at 0.40 per cent over 2009-10 with a strong recovery of 2.40 per cent in 2010-11.
- 12.9 With the Victorian Government predicting that unemployment will reach an average level of 7.0 per cent during 2009-10, rising to 7.75 per cent over the forward estimates period to 2012-13, the Budget will fund up to 35,000 jobs during 2009-10 (that is, jobs that would not be available without action by gGovernment). This includes an estimated 25,000 people working on construction projects and related services, and up to 10,000 in other parts of the economy supplying materials, components and services for those projects.
- 12.10 As indicated by the Department of Treasury and Finance, apart from infrastructure enhancing productivity, in a period of economic downturn there is also a short-term benefit of sustaining or bringing forward construction as an offset to the fall in private construction activity, thereby helping to secure employment.
- 12.11 In terms of budget funding aimed at securing jobs and driving economic growth, the acceleration of Victoria's infrastructure program includes \$11.5 billion to be spent in 2009-10 on infrastructure projects through the combined investment of the State and Commonwealth Governments and state authorities (refer to Chapter 4 of this report for a breakdown of this funding).
- 12.12 Recognising that securing jobs now and into the future requires a skilled workforce, the Government announced in August 2008 the \$316 million *Securing Jobs for Your Future – Skills for Victoria* package, over the next four years these reforms will create up to 172,000 additional training places from July 2009.
- 12.13 In order to deliver on achieving the upper limit of its job target for 2009-10 (35,000 jobs to be secured), the Government will need to ensure that sound project management disciplines are adopted for undertaking the infrastructure program in a timely manner.
- 12.14 Given the economic landscape causing jobs to be under threat and the focus of the Budget on accelerating the infrastructure program for Victoria, the Committee maintains that the Budget Papers should include coverage of the extent of jobs secured as well as new jobs created in particular sectors. A sound methodology needs to be developed for measuring outcomes in this area. Disclosure of this nature is particularly relevant in view of the findings reached by Access Economics that the status of Victoria's manufacturing industry, the largest in Australia, has kept Victoria's employment levels stagnant since 2007 and the large fall in job advertisements suggest that employment may have fallen since then.

12.15 Released by the Government in December 2008, the Victorian Transport Plan (VTP) committed \$38 billion over 12 years to transform Victoria's transport system. In providing new transport connections, the Government expects that projects will generate up to 12,000 jobs a year during construction.

12.16 The specific section in the Budget Papers devoted to the VTP discloses a total VTP allocation of \$13.6 billion in terms of commitments and a TEI of projects amounting to \$4.5 billion that has been funded under the Budget. The Committee was advised by the Department of Treasury and Finance that in relation to VTP projects, the remaining State contributions for capital projects that will be sourced from Unallocated Capital of \$4.9 billion is not the difference between the total VTP allocation (\$13.6 billion) and the TEI of projects (\$4.5 billion) because:

- the total VTP allocation includes both capital and output expenditure; and
- both the total VTP allocation and the TEI of projects include Commonwealth funding.

12.1 Introduction to the Committee's examination of Budget-related issues relevant to the Government's Growing Victoria Together initiative

The continuation of the practice of reporting on issues connected with the Government's *Growing Victoria Together* (GVT) initiative has incorporated a new feature for reporting on the *2009-10 Budget Estimates* which involves drawing on linkages with the Government's *Annual Statement of Government Intentions*. This new feature provides an avenue to link stated government intentions with the GVT initiative and then the budget for selected areas covered in the Committee's chapters on the respective GVT visions of the Government. A matrix setting out the linkages is presented in Table 12.1. Figure 12.1 shows the relationship between policy formulation, funding through the budget, program implementation and reporting.

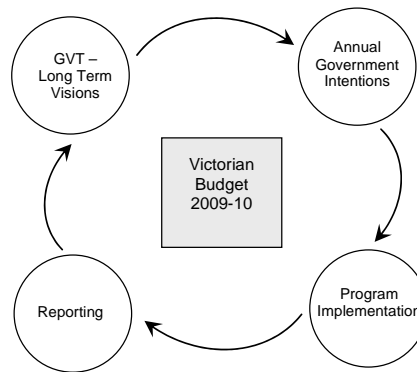
The Committee believes that transparency in reporting to Parliament would be enhanced if the *2010 Annual Statement of Government Intentions* provided similar linkages to the *Growing Victoria Together* statement as the Committee has provided in Table 12.1.

Table 12.1: Growing Victoria Together aligned with Statement of Government Intentions

Growing Victoria Together		Statement of Government Intentions	
Vision	Goals	Priority Areas	Actions
Thriving Economy	<ul style="list-style-type: none"> • More quality jobs and thriving, innovative industries across Victoria. • Growing and linking all of Victoria. 	Jobs – A Resilient Economy for Long Term Growth	<ul style="list-style-type: none"> • Jobs • Infrastructure • Accelerate development e.g. Transport and Planning • Regulation reform • Sound financial management
Quality Health and Education	<ul style="list-style-type: none"> • High quality, accessible health and community services. • High quality education and training for lifelong learning. 	Families – People who are Educated, Healthy and Involved	<ul style="list-style-type: none"> • Education and early childhood development • Skills • Healthcare • Workplace reforms • A Fairer Victoria e.g. mental health, people with a disability, child protection, Indigenous Victorians
Healthy Environment	<ul style="list-style-type: none"> • Protecting the environment for future generations. • Efficient use of natural resources. 	Environment – Climate Change, Water and the Natural Environment	<ul style="list-style-type: none"> • Climate Change • Energy • Water and Agriculture • Natural environment <ul style="list-style-type: none"> - national parks - land and biodiversity
Caring Communities	<ul style="list-style-type: none"> • Building friendly, confident and safe communities. • A fairer society that reduces disadvantage and respects diversity. 	Communities – Planned, Connected and Secure	<ul style="list-style-type: none"> • Alcohol • Volunteering • Housing • Urban planning • Victorian Transport Plan • Community Safety • Gaming and racing reform
Vibrant Democracy	<ul style="list-style-type: none"> • Greater public participation and more accountable government. • Sound financial management. 	Legislative and Regulatory Reform – Reducing Red Tape and Strengthening Accountability	<ul style="list-style-type: none"> • A decrease in regulatory burden by 15% • An increase in government and parliamentary accountability

Source: Table compiled by the Public Accounts and Estimates Committee

Figure 12.1: Relationship between policy formulation, funding, program delivery and reporting



Source: Figure compiled by the Public Accounts and Estimates Committee

In its analysis of the budget estimates, the Committee asked a total of 133 questions pertaining to the Thriving Economy vision of the GVT. This represented 27.7 per cent of all questions asked in the Budget Estimates hearings.

The answers provided at the estimates hearings were recorded in Hansard and the transcripts of evidence were contained in Volume Two of the *Report on the 2009-10 Budget Estimates – Part One*.

It is the Committee's view that the deterioration in the global economic environment has meant that policy formulation, together with the development of responsive budget initiatives, have become crucial elements of government administration in such times.

In commenting on the global financial crisis, the Committee noted that according to the Commonwealth Government, the world was caught in the worst economic crisis since the Second World War, with the crisis delivering recessions in the United States, the United Kingdom, Japan and the Eurozone. The Commonwealth announced a \$42 billion *Nation Building and Jobs Plan* in early February 2009 to support jobs (up to 90,000 jobs in 2008-09 and 2009-10) and invest in future long-term economic growth. This Plan builds on the stimulus measures already in place which include:²⁵⁵

- the \$10.4 billion *Economic Security Strategy*;
- the \$300 million program to build local community infrastructure;
- the \$15.2 billion COAG funding package; and
- the *Nation Building Package* announced in December 2008.

²⁵⁵ The Hon. W Swan, MP, Treasurer of the Commonwealth of Australia, Joint Media Release with the Prime Minister, *\$42 billion Nation Building and Jobs Plan*, 3 February 2009, p.1

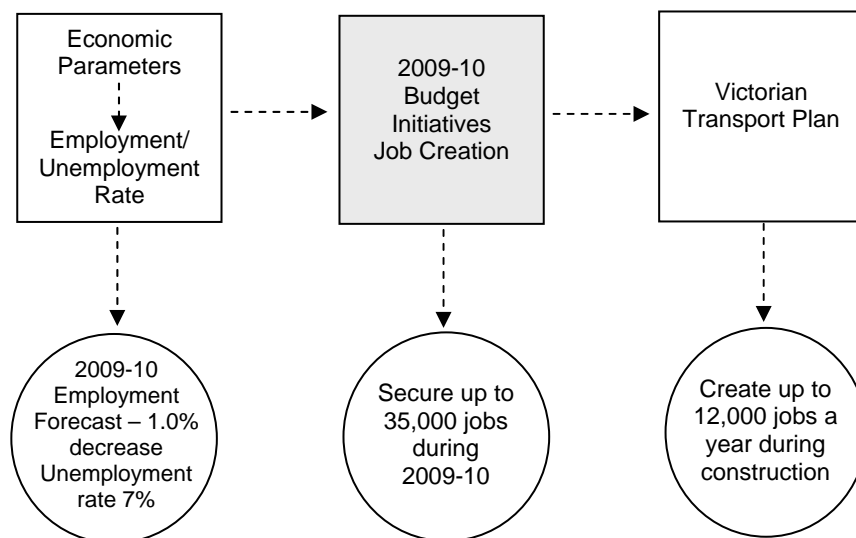
Mindful of these external events, the structure of this chapter (see Figure 12.2) covers issues relating to the Government’s strategies aimed at promoting a thriving and adaptive industry base and increasing economic growth with a view to creating jobs. Issues examined by the Committee relate to the following:

- the economic parameters contained in the Victorian 2009-10 Budget, including employment and unemployment forecasts;
- the Budget initiatives aimed at creating or securing jobs; and
- the implications of the Victorian Transport Plan (VTP) – one of the Government’s key policy platforms.

Various matters connected with the COAG Reform Agenda and Productivity in Victoria are contained in Chapter 5 of this report.

Several key issues canvassed by the Committee at the Budget Estimates hearings relating to the Thriving Economy vision of GVT are reported on in this chapter.

Figure 12.2: Relationship between economic projections and job creation initiatives



Source: Figure compiled by the Public Accounts and Estimates Committee

12.2 Economic parameters

12.2.1 Contextual background

In framing the 2009-10 Budget and the forward estimates, the Victorian economic projections underpinning the Budget have taken into account the deterioration in the economic outlook since the *2008-09 Budget Update*. With the advent of a severe financial crisis and a wide-spread loss of confidence, the Government has stated that in view of the world economy experiencing a synchronised recession, economic activity has slowed in response to lower external demand, falling asset prices, tighter credit conditions and lower business and consumer confidence. Victoria's economic projections have been revised to reflect this weaker economic environment.²⁵⁶ The Committee noted that the Budget Papers contain an overview of the international, national and Victorian economic conditions and outlook and a discussion of key issues and risks to the Victorian economic outlook.²⁵⁷

12.2.2 Victorian economic projections contained in the Victorian 2009-10 Budget

The economic projections used in the 2009-10 Budget are set out in Table 12.2. These projections assume constant exchange rates, and that oil prices follow the path implied by oil futures contracts.²⁵⁸

Table 12.2: Victorian economic projections ^(a)

	2007-08 Actual	2008-09 Forecast	2009-10 Forecast	2010-11 Forecast	2011-12 Forecast	2012-13 Forecast
Real Gross State Product	3.20	0.50	0.25	2.25	3.00	3.00
Employment	2.70	0.25	-1.00	0.50	1.50	1.50
Unemployment rate ^(b)	4.50	5.00	7.00	7.75	7.75	7.75
Consumer Price Index	3.60	3.25	2.00	2.25	2.50	2.50
Wage Price Index ^(c)	3.80	4.25	3.75	3.25	3.50	3.50
Population ^(d)	1.80	1.80	1.60	1.50	1.40	1.40

Notes: (a) Year-average per cent change on previous year unless otherwise indicated. All economic projections are rounded to the nearest 0.25 percentage point, except population projections which are rounded to the nearest 0.1 percentage point.

(b) Year-average level, per cent.

(c) Total hourly rate excluding bonuses.

(d) June quarter, per cent change on previous June quarter.

Sources: Department of Treasury and Finance, Budget Paper No. 2, 2009-10 Strategy and Outlook, p.21

²⁵⁶ Department of Treasury and Finance, Budget Paper No. 2, 2009-10 Strategy and Outlook, May 2009, p.20

²⁵⁷ *ibid.*, pp.20-34

²⁵⁸ *ibid.*, p.20

The Committee noted that at the Budget Estimates hearing, the Treasurer informed the Committee that in relation to the economic forecasts outlined in the Budget (refer to the Victorian economic projections shown in Table 12.2):²⁵⁹

...the key figure there [in Table 2.1 of Budget Paper No. 2] is that the economy will slow considerably in this financial year. In the following year it will also be very slow at a quarter of a per cent, and then it tapers up. Going through there we see employment and unemployment – it flows into all of those figures. Possibly the most significant figure on that line is the population growth down at the bottom [of the table], which is a higher forecast [of a 1.8 per cent change in 2008-09 and 1.6 per cent change in 2009-10] than was in the Budget Papers at this time last year [1.5 per cent for these years]. Victoria continues to grow, and this is one of the reasons why our economy is strong.

...we are starting to see the economic data commencing to bottom out, and it fits in with what the IMF is saying — that in the calendar year 2010 we will see the world economy starting to rise — and the data that we are starting to see here shows there is a cause for optimism, if you define ‘optimism’ as that it is bottoming out.

As can be seen from the economic forecasts contained in the Victorian Budget, the Government expects an accelerated level of growth in the key indicators relating to Gross State Product (GSP) and Employment in 2010-11.

12.2.3 Economic parameters contained in the 2009-10 Commonwealth Budget

A review of selected key economic parameters contained in the 2009-10 Commonwealth Budget, brought down after the State Budget, is set out in Table 12.3.

Table 12.3: Commonwealth Government selected macroeconomic forecasts 2009-10 and 2010-11 ^(a)

	2007-08	2008-09	2009-10	2010-11
	Outcomes ^(b)	Estimates	Forecast	Forecast
Gross Domestic Product	3.60	0.00	-0.50	2.25
Household consumption	3.70	1.00	-0.25	1.75
Employment ^(c)	2.40	-0.25	-1.50	0.50
Unemployment rate (per cent) ^(d)	4.20	6.00	8.25	8.50
Consumer Price Index ^(e)	4.50	1.75	1.75	1.50
Wage Price Index ^(e)	4.10	4.25	3.25	3.25

Notes: (a) Percentage change on previous year unless otherwise indicated.

(b) Calculated using original data.

(c) Through the year growth rate to the June quarter.

(d) Estimate for the June quarter.

(e) Through the year growth rate to the June quarter.

Source: Commonwealth Government of Australia, Australian Government Budget 2009-10, Overview, Appendix H

²⁵⁹ Mr J Lenders MLC, Treasurer, 2009-10 Budget Estimates hearing, transcript of evidence, 12 May 2009, pp.3-4

Comparing Table 12.2 and Table 12.3, the Committee notes trends in movements in Victoria are expected to generally mirror those at the Commonwealth level, with the Commonwealth being slightly more negative on all indicators for 2009-10 except the Wage Price Index.

12.2.4 Analysis of economic forecasts

In analysing the economic forecasts for Victoria, the Committee was interested in firstly examining trends in the economic indicators as well as how they compared to the indicators at a national level.

Gross State Product /Gross Domestic Product

Table 12.2 and Table 12.3 show that GSP and Gross Domestic Product (GDP) are expected to weaken significantly in 2008-09 with a further contraction in 2009-10, albeit at a much lower rate. In 2010-11, the economic projections show a marked recovery which will be sustained over the remainder of the forward estimates to 2012-13 in Victoria. The Committee was interested to observe that at the Commonwealth level, GDP is expected to slow from an average of zero per cent in 2008-09 to a negative growth rate of -0.5 per cent in 2009-10, whereas Victoria's growth in GSP is expected to remain in the positive although reducing from 0.5 per cent to 0.25 per cent over this period.

In terms of an expected significant recovery, the Committee noted that between 2009-10 and 2010-11, GSP is anticipated to grow from 0.25 per cent to 2.25 per cent in Victoria (at the Commonwealth level, -0.50 per cent to 2.25 per cent growth in GDP).

Employment

Employment growth in Victoria is expected to worsen to -1.0 per cent in 2009-10 (from 0.25 per cent in 2008-09) and then return to positive growth of 0.50 per cent and 1.50 per cent in 2011-12 and 2012-13 respectively. Similarly at the Commonwealth level, negative employment growth of -1.50 per cent is forecast to occur in 2009-10 with an improvement to 0.50 per cent in 2010-11.

Unemployment rate

The Committee noted that Victoria's unemployment rate is predicted to be at levels lower than those expected to be experienced at the Commonwealth level. However, similar to the Commonwealth figures, unemployment is expected to rise sharply in Victoria from 5.00 per cent in 2008-09 to 7.00 per cent during 2009-10, compared to a rise from 6.00 per cent to 8.25 per cent nationally. Unemployment in Victoria is then expected to increase to 7.75 per cent in 2010-11 and plateau at this level over the remaining two years of the forward estimates to 2012-13 (Commonwealth, 8.50 per cent for 2010-11).

Consumer Price Index

Forecasted consumer price inflation for Victoria is characterised by a considerable reduction in the Consumer Price Index from 3.25 per cent in 2008-09 to 2.00 per cent in 2009-10 with a marginal increase to 2.25 per cent in 2010-11, before returning to trend at 2.50 per cent over each of the following two years to 2012-13.

According to the Government, a sharp decline in fuel costs and lower costs of financial and insurance services have contributed to the easing of inflation, although underlying inflation is still relatively high.²⁶⁰ In comparison, the Committee noted that inflation is expected to remain steady at 1.75 per cent nationally in 2009-10.

Wage Price Index

Consistent with slowing economic activity, the Government predicts an easing in wage growth from 4.25 per cent in 2008-09 to 3.75 per cent and 3.25 per cent in 2009-10 and 2010-11 respectively, which is then expected to rise to 3.50 per cent growth in 2011-12 and 2012-13. At the Commonwealth level, wage growth is expected to ease from 4.25 per cent in 2008-09 to 3.25 per cent over each of the following two years.

At the Budget Estimates hearing dealing with the Treasury portfolio, the Committee asked the Treasurer to explain how the changes to wages policy will impact on the budget position by reference to sensitivity analysis undertaken by the Government. The Treasurer advised the Committee that:²⁶¹

...So if you are talking of a wages bill in total approaching the \$20 billion mark, and you are talking of a change to wages policy where the base rate is 3.25 per cent down to 2.5 per cent, over a figure of that size that is \$150 million a year in rough terms. Then over a four year forward estimate that becomes \$150 million the first, \$300 million the second, \$450 million the third, \$600 million for the fourth before we even do adjustments to adjustments on that. That is a significant thing on a sensitivity analysis as to where the budget is going forward. Certainly in a particularly difficult financial cycle, which the state itself faces, it plays a significant role in to keeping revenue coming in higher than expenses over that period of time.

...The importance, I guess, in more than just where the sensitivity analysis goes to is also the policy issues for government. There are many governments at the moment and many companies that are actually retrenching people to balance their budgets and that is something that we, as a Labor government, are extraordinarily reluctant to be part of. We had the dialogue with our own public sector workforce where we are saying these are the stark choices we face at a time of significant revenue drop, at a time of global recession.

We have put forward the case that a more modest wage growth commensurate with inflation or slightly better than inflation, and a guarantee of no retrenchments to make budgets balance, is an appropriate policy setting to do in here. So you correctly identify in the sensitivity analysis what the effect on the budget bottom line is of this, but wages are the single largest component of our budget and we think it is a fair balance.

²⁶⁰ Department of Treasury and Finance, Budget Paper No. 2, 2009-10 Strategy and Outlook, May 2009, p.30

²⁶¹ Mr J Lenders MLC, Treasurer, 2009-10 Budget Estimates hearing, transcript of evidence, 12 May 2009, p.13

12.2.5 Impact of economic parameters on the Budget

The way economic parameters impact on the budget is described in Table 12.4.

Table 12.4: Impact of selected economic parameters on the budget

Selected economic indicators	Description of impact
Economic growth	Gross State Product has an impact on revenue, principally from Goods and Services Tax (GST), grant revenue and taxation revenue from related consumption taxes. This also leads to increased sales of goods and services leading to an increase in expenses.
Employment	Employment results in payroll tax revenue and contributes to consumer spending and GST receipts.
Consumer prices	This item affects Commonwealth-sourced revenue and revenue from the sale of goods and services, as well as GST and taxation revenue. Revenue is partly offset by the cost of supplies and services. Consumer prices also impact on outlays connected with grants and transfers and the superannuation liability.
Average weekly earnings	This item impacts on payroll tax revenue. Where there is an impact on Commonwealth sourced revenue due to indexation arrangements, there is a proportional impact on expenses.
Property prices	Property prices impact on the level of stamp duty collections and land transfer revenue.
Interest rates	Interest rates impact on the valuation of long-term liabilities of the public financial corporations and income tax equivalent payments made to the General Government Sector by these corporations. Other items affected relate to the level of dividends and income tax equivalent payments paid by public non-financial corporations and the level of borrowing costs of the General Government Sector. The level of interest rates also affects the value of the superannuation liability and the annual interest expense on the liability.

Source: *Committee's analysis of the Department of Treasury and Finance, Budget Paper No. 2, 2009-10 Strategy and Outlook, pp.96-98*

12.2.6 Key risks

Given that the economic landscape has been very volatile in the past six to nine months, the Committee was informed by the Department of Treasury and Finance in May 2009 that the economic projections that underlie the Budget Estimates were marked by a greater-than-usual degree of uncertainty. The key downside risks included:

- further deterioration of global growth;
- a higher-than-envisaged unemployment rate; and
- continuing financial volatility combined with lower confidence further restricting credit and business investment growth.

The Department also pointed out, however, that the recovery in economic activity, domestically and abroad, could be much faster than expected and that there was also the risk that monetary and fiscal policy, which had been eased significantly, could stimulate demand and activity by more than anticipated.

With this uncertainty, the Committee was advised by the Department that it was difficult to quantify the impact of these risks on the economic forecasts as these risks were largely external and driven by factors outside Australia's control.²⁶² Similarly, at the Budget Estimates hearing, the Committee was also informed by the Premier that it was difficult to quantify the impact of the risks on the economic forecasts as these risks were largely external and driven by factors outside Australia's control.²⁶³

It was not surprising to hear from the Department of Treasury and Finance that the high level of uncertainty about the economic outlook had ramifications for Victoria's fiscal outlook. Changes in economic conditions from those projected would also alter the State's taxation revenue estimates. Some State taxes, such as stamp duty on land transfer, were particularly volatile and subject to substantial annual variation. The level of GST grants was also affected by economic activity, with any changes to economic conditions having a direct impact on the amount of GST revenue to be distributed among the states.²⁶⁴

There were also risks to the expenditure outlook, such as unexpected rates of growth in the demand for government services as a result of the economic downturn.²⁶⁵

In inquiring into difficulties encountered in developing fiscal forecasts, the Committee learnt that the current economic volatility and uncertainty had introduced a consistent bias to forecasts generated from structural models. The bias reflected the fact that, while structural models were generally driven by internal equilibrium or trend growth, the recent economic downturn was quite unusual. Also, due to Australia's long expansion, some of the key indicators (such as the Wage Price Index) did not have a sufficient history that covered full business cycles. Rapid changes in the policy environment (such as monetary stance and fiscal stimulus) had also affected economic behaviour which made model-based parameter estimates less reliable.²⁶⁶

As a result of these model limitations, greater reliance has been placed on judgement. There has also been a need to obtain more timely data, which has been sourced through liaison with industry bodies, private sector economists and other public sector economists.²⁶⁷

The Committee also learnt that the cut to the Australian Bureau of Statistics (ABS) work program had also affected the availability and quality of economic data. The reduction in sample size has meant that there was greater volatility in labour force statistics which has made data interpretation more difficult. According to the Department of Treasury and Finance, the discontinuation of the job vacancies survey had removed a valuable leading indicator of the labour market.²⁶⁸

In cases where recent economic uncertainty and financial volatility has introduced large swings in the recent data, the Department indicated that a degree of judgement had been applied.²⁶⁹

²⁶² Department of Treasury and Finance, response to the Committee's 2009-10 Budget Estimates questionnaire, May 2009, p.2

²⁶³ Hon. J Brumby MLA, Premier, 2009-10 Budget Estimates hearing, transcript of evidence, 11 May 2009, p.33

²⁶⁴ Department of Treasury and Finance, response to the Committee's 2009-10 Budget Estimates questionnaire, p.2

²⁶⁵ *ibid.*

²⁶⁶ *ibid.*, p.4

²⁶⁷ *ibid.*, p.5

²⁶⁸ *ibid.*, p.5

²⁶⁹ *ibid.*, p.5

As in previous years, the Victorian Auditor-General's Office reviewed the methodology used to determine the economic assumptions used in the Budget. The Department of Treasury and Finance also consulted other state and treasuries on approaches to forecasting, which provides a useful peer review. Academics are also engaged to provide training on forecasting techniques (e.g. time series forecasting, economic modelling) to ensure staff have the requisite technical skills. According to the Department, its internal review of its forecasting models over the past 12 to 18 months is to be completed by the end of June 2009, at which time the Department will assess further action to be taken.²⁷⁰

12.2.7 Impact of variations to forecasts on the Budget

The Committee noted that the Budget Papers include a sensitivity analysis that estimates the impact on income, expenses and the net result from transactions associated with variations to forecasts of selected economic and financial variables. In assessing sensitivity to change, the Government has assumed that the level of economic variables in each case is to be 1 per cent higher than expected in the budget year, before continuing to grow at the previously forecast rate. In citing one economic indicator as an example, the Committee noted that, if Victoria's GSP was 1 per cent higher than expected in 2009-10, this would result in an estimated increase in the 'net result from transactions' of \$124 million in 2009-10.²⁷¹ Unlike the practice of reverting to the previous forecast rate for the subsequent three years that follow the budget year, for interest rates, it is assumed that they are one percentage point higher than assumed in the budget year and remain one percentage point above the budget assumption in subsequent years.²⁷²

Another important area where, in the opinion of the Committee, care needs to be exercised when interpreting the information disclosed in the sensitivity analysis relates to the assumption adopted by the Government that, during the analysis of each variable, all other variables follow their forecast growth. This means that the analysis captures the effect of changing only one variable at a time and, accordingly, does not allow for the likelihood that other variables would also change. As an example, the budget cites an increase in consumer prices could be expected to affect interest rates, wage claims and other economic variables.²⁷³

On the assumption that a lower than expected result may occur, in assessing the impact of the sensitivity from a 1 per cent lower than expected outcome of an economic variable, the Budget Papers disclose that the sensitivity would, in most instances, simply be the opposite of the impact shown in the table in the Budget Papers if fiscal results were to be 1 per cent higher than expected. However, for some results, the Government reveals that the impacts of changes are not symmetrical and therefore care should be exercised when using the table to estimate the impact of lower than expected economic variables.²⁷⁴

The Committee maintains that, in view of the deep global economic downturn that is affecting the Australian economy²⁷⁵ and the rapidly changing nature of the economic environment which is driving current economic volatility and uncertainty,²⁷⁶ there is a need for the Budget Papers to be made more transparent in relation to the economic parameters. This could be achieved by the Department of Treasury and Finance explaining the impact of lower than expected economic variables in those instances where the financial effect is not symmetrical with the scenario presented in the Budget Papers.

²⁷⁰ Department of Treasury and Finance, response to the Committee's 2009-10 Budget Estimates questionnaire, pp.4-5

²⁷¹ Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.94

²⁷² *ibid.*, p.93

²⁷³ *ibid.*

²⁷⁴ *ibid.*, p.95

²⁷⁵ Department of Treasury and Finance, *Victorian Budget 2009-10 Overview*, May 2009, p.11

²⁷⁶ Department of Treasury and Finance, response to the Committee 2009-10 Budget Estimates questionnaire, pp.3-4

Recommendation 24: **The Department of Treasury and Finance expand the sensitivity analysis contained in the Budget Papers to quantify the impact on the general government fiscal results of selected indicators being 1 per cent lower than expected, if the financial effect is not symmetrical with the scenario presented in the Budget Papers.**

12.2.8 Economic forecasts subsequent to the handing down of the 2009-10 Victorian budget

The Committee noted that according to forecasts prepared by Access Economics for the June 2009 quarter, the Australian economy is set to perform more strongly than envisaged by the Commonwealth Government's forecasts. Some salient features of the economic analysis undertaken by Access Economics are set out below:²⁷⁷

- unemployment is expected to peak at 7.50 per cent in 2010-11 compared to the Commonwealth Government forecast of 8.50 per cent;
- compared to the Commonwealth Government's forecast of negative growth of 0.50 per cent in GDP for 2009-10, Access Economics forecasts that the Australian economy will grow at 0.40 per cent over 2009-10 with a strong recovery of 2.40 per cent in 2010-11; and
- in comparison to the Victorian Treasury's forecast for GSP to grow by 2.25 per cent in 2010-11, Access Economics expects growth of 3.30 per cent to occur in that year.

If the projections prepared by Access Economics prove to be correct, this will mean that the number of people expected to lose their jobs in Victoria will be lower than originally forecast.

12.3 Job Creation

12.3.1 February 2009 Annual Statement of Government Intentions

Of the four major themes earmarked by the Government to achieve its goal to make Victoria the best place to live, work, invest and raise a family, the topic of 'jobs' is one of the four priority areas identified for action to take place. The Government has introduced reforms that are aimed at directly creating new job opportunities, including a major skills package that will create 172,000 new training places as well as Industry and Innovation Statements to secure existing jobs and create the jobs of the future.²⁷⁸

In terms of moving forward, key priorities for the Victorian economy include creating new jobs, maintaining businesses and consumer confidence, fast-tracking public and private infrastructure investment and supporting jobs in those sectors most sensitive to the economic downturn.

²⁷⁷ Access Economics, *business outlook*, June 2009, pp.31,86, 100

²⁷⁸ Hon. J Brumby MP, *February 2009 Annual Statement of Government Intentions*, pp.1, 11

In terms of Victoria's plan for creating jobs and business opportunities, the 2009 statement of intent describes a wide range of policies and funding initiatives which fall under various categories listed below:²⁷⁹

- Infrastructure
- Skills
- Innovation
- Support for Farmers and Drought Relief
- Industry and Manufacturing
- Streamline Business Regulation
- Research and Development
- Investment Attraction
- Major Events
- Green Jobs

With regard to past funding, the statement mentions that in 2008, the Victorian Government announced over \$6 billion of initiatives in addition to the \$38 billion Victorian Transport Plan (refer to comments later in this chapter). Initiatives include:²⁸⁰

- \$3.3 billion in new capital expenditure;
- over \$400 million in V/Line carriages and freight;
- \$316 million for skills reform;
- \$300 million for innovation;
- \$205 million for farmers and \$115 million for drought relief;
- over \$200 million to support industry and manufacturing; and
- \$1.4 billion in tax and business cost cuts.

12.3.2 Budget direction

The budget sets out a description of the economic horizon and the likely impact on private business investment and unemployment. The deterioration in the economic outlook in the face of the global financial crisis, with large falls in financial asset prices nationally and internationally, has reduced household wealth and consumer confidence which has led to weakness in consumer spending. According to the Government, a decrease in business confidence and tightening credit conditions are likely to lead to large declines in private business investment. With a softening in the Victorian labour market, the unemployment rate increased sharply over the year to 5.7 per cent in March 2009 compared with just above 4 per cent a year earlier.²⁸¹ The Budget forecasts that unemployment will reach an average level 7.0 per cent during 2009-10, rising to 7.75 per cent over the forward estimates period to 2012-13.²⁸²

²⁷⁹ *ibid.*, pp.14-38

²⁸⁰ *ibid.*, p.14

²⁸¹ Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.4

²⁸² *ibid.*, p.21

In experiencing the worst global economic downturn since the Second World War, the budget is aimed at securing up to 35,000 jobs during 2009-10 (that is, jobs that would not be available without action by government).²⁸³ This includes an estimated 25,000 people working on construction projects²⁸⁴ and related services and up to 10,000 in other parts of the economy supplying materials, components and services for those projects.²⁸⁵ In creating more opportunities for Victorian workers to skill-up and re-train, this strategy is aimed at ensuring that Victoria's industries have a skilled workforce to resource jobs for the future. The Government has indicated that the Budget is about making Victoria 'recovery ready' for when the global economic recovery eventuates by delivering projects and infrastructure for securing jobs in the short-term.²⁸⁶ Infrastructure investment also provides longer-term productivity benefits.²⁸⁷

As indicated in a technical paper prepared by the Department of Treasury and Finance:²⁸⁸

Infrastructure, by its nature, complements and supports economic activity, removing bottlenecks and congestion and providing the basic services and networks required by a modern economy, thereby enhancing productivity. In addition, in a period of economic downturn, there is also the short-term benefit of sustaining or bringing forward construction as an offset to the fall in private construction activity, thereby helping to secure employment.

In terms of budget funding aimed at securing jobs and driving economic growth, Victoria plans to accelerate its infrastructure program as part of the Commonwealth Government's *Nation Building – Economic Stimulus Plan*. This includes \$11.5 billion to be spent in 2009-10 on infrastructure projects in Victoria through the combined investment of the State and Commonwealth governments and state authorities. Covering a range of economic, social and environmental infrastructure Victoria will need over the ensuing years, this investment includes water and sewerage projects, capital grants for government and non-government schools and projects associated with transport and the health sector.²⁸⁹ More specific comments about jobs created as a result of the implementation of major water projects and the VTP are mentioned later in this chapter. Further comments by the Committee regarding the infrastructure spend planned by the Government are included in Chapter 4 of this report.

²⁸³ Department of Treasury and Finance, Budget Paper No.1, *2009-10 Treasurer's Speech*, May 2009, p.1

²⁸⁴ Based on an estimated total construction spend in 2009-10 of \$8.5 billion relating to net infrastructure investment by the General Government Sector, investment funded by grants to the non-government sector, major public private partnerships, major water projects and Commonwealth Nation Building Funds. Using ABS data to estimate direct employment on construction projects, the Department of Treasury and Finance has estimated that there are approximately 2.9 FTE jobs directly associated with each \$1 million of activity in the construction sector in Australia. Department of Treasury and Finance, Technical Paper, *Employment and public infrastructure: An estimation framework*, 11 May 2009, pp.5-7, 11

²⁸⁵ In estimating supply chain employment, the Department of Treasury and Finance included only first-order or direct supply chain employment for project types avoiding the calculation of multipliers. Estimates were made using project expenditures on goods and services and the ABS input-output matrix for Australia (Department of Treasury and Finance, Technical Paper, *Employment and public infrastructure: An estimation framework*, 11 May 2009, pp.11-13).

²⁸⁶ Department of Treasury and Finance, Budget Paper No.1, *2009-10 Treasurer's Speech*, May 2009, p.1

²⁸⁷ Website of the Department of Treasury and Finance, www.dtf.vic.gov.au, accessed 29 June 2009

²⁸⁸ Department of Treasury and Finance, Technical Paper, *Employment and public infrastructure: An estimation framework*, 11 May 2009, p.1

²⁸⁹ Department of Treasury and Finance, Budget Paper No.1, *2009-10 Treasurer's Speech*, May 2009, p.5

At the Budget Estimates hearing covering the Treasury portfolio, the Committee was interested in understanding how the Government could be confident in securing jobs in this State and whether these jobs represented new jobs or existing jobs. Among other things, the Treasurer stated that:²⁹⁰

... we are talking in the budget paper of 35,000 jobs being secured that otherwise would not be if this infrastructure expenditure was not there ... Yes, that is new jobs. If you go from \$4 billion to \$8 billion in investment there are new jobs. There is also the securing of existing jobs...

With regard to the finding of Access Economics in June 2009 that Victoria's '*construction pipeline is now fading fast – not only is recent construction work falling away faster in Victoria than it is Australia-wide, but that is even more marked for the pipeline of work remaining to be done*',²⁹¹ the Committee believes that strategies contained in policy formulation and budget initiatives should be effective in alleviating this problem.

12.3.3 Target setting

The Committee noted that in terms of defining policy announcements connected with job creation in the United States for the purpose of confronting the economic crisis, President Obama stated that '*the recovery plan will save or create about 3.5 million jobs while investing in priorities that create sustainable economic growth for the future*'.²⁹²

The Committee formed the view that in terms of framing the Victorian budget for 2009-10 with regard to jobs:

- the wording of a target to '*secure up to 35,000 jobs*' could have been made in a more definitive manner in terms of a specific target;
- as the concept of securing or in other words saving/retaining existing jobs should not be confused with creating new jobs, the Committee is of the view that greater clarity in policy formulation could have been achieved had the target clearly distinguished between safeguarding existing jobs during the economic downturn as distinct from creating new jobs; and
- the estimated number of jobs to be secured in particular sectors, particularly those sectors most sensitive to the economic slowdown, could have been specified in greater detail in the budget where known.

The Committee maintains that when a target associated with a major policy initiative is set as part of the budget, it is essential that it be outlined in specific terms so that it is unambiguous and measurable from an accountability perspective.

The Committee also believes that for the Government to be effective in striving to achieve its upper limit of jobs to be secured in 2009-10 (i.e. 35,000 jobs), it will be important that sound project management disciplines are followed in the delivery of construction projects on time. The Committee notes that in order to secure jobs, be they existing or new ones, there has to be a focus on projects that can start quickly.²⁹³

It will also be essential that, given the emphasis in the budget on securing jobs during 2009-10, the section of the Budget Papers that sets out an overview of the Government's cumulative service delivery achievements in the last decade for reporting on progress towards achieving the GVT

²⁹⁰ Mr J Lenders MLC, Treasurer, 2009-10 Budget Estimates hearing, transcript of evidence, 12 May 2009, pp.18-21

²⁹¹ Access Economics, *business outlook*, June 2009, p.98

²⁹² www.whitehouse.gov/issues/economy/ accessed 30 June 2009

²⁹³ Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.5

goals should be expanded to include coverage of the extent of jobs secured as well as the new jobs created in particular sectors e.g. residential, non-residential (including engineering) and construction trade. In the interests of ensuring that reliable information is reported, a sound methodology needs to be developed for measuring outcomes in this area.

The Committee will be interested in reviewing the response by the Government to its earlier recommendation made in its *Report on the 2007-08 Financial and Performance Outcomes* for the Department of Innovation, Industry and Regional Development to gather information covering the small business sector which stratifies the number of jobs created by firm size and per sector/industry in each year.²⁹⁴

With regard to the financial services sector, Victoria’s third largest industry directly providing more than 90,000 jobs,²⁹⁵ the Committee ascertained that, while the Department of Innovation, Industry and Regional Development has a target of \$1.6 billion of new investments to be facilitated in 2009-10 and 5,000 new jobs per annum for all industry development, no specific jobs targets have been set for the financial services sector over the next four years.²⁹⁶ The Committee noted from its review of the output initiatives contained in the Budget Papers for Innovation, Industry and Regional Development, \$1.2 million has been provided for the *Financial Services Initiative* over 4 years.²⁹⁷ As this initiative contributes to the department’s Sector Development output, which is connected with contributing to the provision of more quality jobs, the Committee maintains that greater transparency would have been achieved had a target been set for the number of jobs to be generated from this funding.

Recommendation 25: **In order for the target of up to 35,000 jobs to be secured in 2009-10, the Government ensure that sound project management disciplines are followed in the delivery of construction projects on time.**

Recommendation 26: **The Department of Treasury and Finance include outcomes reporting of the extent of jobs secured as well as the new jobs created in particular sectors.**

12.3.4 Uptake of apprentices and trainees

Recognising that securing jobs now and into the future requires a skilled workforce, the Government announced in August 2008 the \$316 million *Securing Jobs for Your Future – Skills for Victoria* package. In line with the Government’s stated intentions released in February 2009, the 2009-10 Budget announced that these reforms will create up to 172,000 additional training places from July 2009.²⁹⁸ It is expected that these additional training places will be generated over the next four years.²⁹⁹

²⁹⁴ Public Accounts and Estimates Committee, *Report on the 2007-08 Financial and Performance Outcomes*, May 2009, p.311

²⁹⁵ Mr J Lenders MLC, Minister for Financial Services, 2009-10 Budget Estimates hearing, transcript of evidence, 12 May 2009, p.2

²⁹⁶ Mr J Lenders MLC, Minister for Financial Services, response to the Committee’s questions on notice, 15 June 2009, p.2

²⁹⁷ Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, p.326

²⁹⁸ Department of Treasury and Finance, Budget Paper No.1, *2009-10 Treasurer’s Speech*, May 2009, p.8

²⁹⁹ Hon. J Brumby MP, Premier, *February 2009 Annual statement of Government Intentions*, p.36

The Committee noted that the 2009-10 Budget provided \$141 million over five years for additional investment in skills related initiatives which included:³⁰⁰

- \$14 million over two years for the Skills to Transition program which will create over 6,000 training places in 2010 for targeted groups at Certificate I to IV levels; and
- \$50 million over three years for an additional 15,000 vocational education and training places under the *Productivity Places Program* which will help meet an expected increase in demand for training places during a period of slower economic growth.

In terms of funding, the Committee observed that with regard to the *Skills* output, funding in the budget increased from \$1.6 billion in 2008-09 to \$1.8 billion in 2009-10.³⁰¹

The Committee is of the view that, as it is important for individuals and businesses to be able to access a skills system that responds to their needs and recognising that people with the required skills drive the performance of industry sectors and businesses, it will be essential that government subsidised training places are targeted at those areas where there are critical skill shortage areas.

The Committee, in supporting the concept of individuals being provided with the opportunity to gain the necessary skills to access jobs into the future, believes that accountability would be enhanced if the Department of Innovation, Industry and Regional Development reported on a progressive basis, the take up of government subsidised training places in areas of skill shortage according to key industry sectors.

Recommendation 27: **The Department of Innovation, Industry and Regional Development report on a progressive basis and, according to key industry sectors, the take up of government subsidised training places in areas of skill shortage.**

12.3.5 Jobs created as a result of major water projects

At the Budget Estimates hearing, the Committee asked a number of probing questions about the extent of jobs to be created from the Government embarking on major water projects for the State. As advised by the Minister for Water, more than 2,300 jobs will be secured in 2009-10 to help deliver key infrastructure to secure Victoria's water supply. Job creation is expected to occur from the following projects:³⁰²

- the Desalination Project is expected to create 1,700 direct jobs and 3,050 indirect jobs over two years of construction, while around 50 direct jobs and 100 indirect jobs are to be created when the plant is operational at the end of 2011;
- the Northern Victoria Irrigation Renewal Project will create up to 680 new jobs during Stage 1 construction works, injecting around \$381 million into the local economy, with the second year of irrigation modernisation works estimated to create more than 200 additional jobs in the region; and
- the Sugarloaf Pipeline is estimated to inject \$229 million into the region between 2008 and 2020 creating more than 1,000 extra jobs; 1,200 people are currently working on the project.

³⁰⁰ Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, pp.14-15

³⁰¹ *ibid.*, p.135

³⁰² Hon. T Holding, MP, Minister for Water, response to questions on notice, received 24 August 2009

The Minister also indicated that other projects have also generated regional employment which include the Goldfields Superpipe (now completed), the Wimmera-Mallee Pipeline, the reconnection of the Tarago reservoir and the Gippsland Water Factory.³⁰³

12.3.6 Job losses in the manufacturing sector

The Committee noted that Access Economics reported in June 2009 that last year saw at a national level, manufacturing output decline by 9 per cent with a fall in manufacturing employment by 11 per cent. Job losses have occurred in each of food, wood and paper, plastics, building products and metal manufacturing as well as car making.

Given that Victoria is Australia's largest manufacturing state, Access Economics has concluded that the status of the manufacturing industry has kept Victoria's employment levels stagnant since late 2007 and that a large fall in job advertisements suggests that employment may fall further from here.³⁰⁴

The Committee acknowledges that in addition to public infrastructure projects being built in partnership with the private sector, the Government has been active in terms of policy development in this area, which has included the announcement of the following policies in 2008:³⁰⁵

- the \$245 million *Building our Industries for the Future – Action Plans for Victorian Industry and Manufacturing*;
- the \$300 million *Innovation: Victoria's Future Statement*; and
- the \$316 million *Securing Jobs for Your Future – Skills for Victoria Statement*.

12.4 Victoria's Transport Plan

12.4.1 February 2009 Statement of Government Intentions

Released by the Government in December 2008, the VTP committed \$38 billion over 12 years to transform Victoria's transport system. In providing new transport connections, the Government expects that projects will generate up to 12,000 jobs a year during construction.

The Plan includes, among other things, funding for new metropolitan trains, new V/Line carriages, new generation trains and trams and new buses. The Government aims to achieve 40 per cent local content on a whole-of-life basis for train purchases.³⁰⁶

³⁰³ *ibid.*

³⁰⁴ Access Economics, *business outlook*, June 2009, p.98

³⁰⁵ Hon. J Brumby MP, *February 2009 Annual Statement of Government Intentions*, pp.14-15

³⁰⁶ *ibid.*, pp.16-17

12.4.2 Select Committee on Train Services

The Committee noted that on 11 March 2009, the Legislative Council established a seven Member Select Committee on Train Services with the terms of reference being ‘to inquire into the factors leading to and causes of failures in the provision of metropolitan and V/Line train services’.³⁰⁷

In discussing the purpose of the inquiry, matters canvassed centred on finding answers to issues such as train cancellations, delays, service failures, overcrowding, meeting disability discrimination targets, ticketing, the purchase of more trains, rail infrastructure and responsibilities for running a train system.³⁰⁸

With a final report to be presented to the Legislative Council by March 2010, the Public Accounts and Estimates Committee will consider the findings when preparing its report on the 2008-09 Financial and Performance Outcomes, especially with regard to the delivery of actions outlined in the VTP and budget initiatives.³⁰⁹

12.4.3 Victorian Auditor-General’s Annual Plan 2009-10

The Committee noted the Auditor-General’s annual plan includes a prospective area of audit interest for 2009-10 which deals with the management of major rail projects, including project outcomes. The Committee agrees with the view expressed by the Auditor-General in the plan that completing major rail capital projects under the VTP on time is critical to achieving the VTP’s objectives. In discussing this area of interest to audit, the Auditor-General drew on the findings of previous audits of *Regional Fast Rail*, *Rail Gauge Standardisation* and the *Restoration of Country Rail Passenger Services* which highlighted areas for improvement in the management and delivery of rail projects.

The Auditor-General also referred in the plan to a finding contained in a 2008 Commonwealth Government report that over half of all injuries at Australian level crossings between 2001 and 2006 occurred in Victoria. An area of performance audit for 2009-10 linked to this finding covers the issue of rail safety. The audit involves examining the management of safety risks at railway crossings, the prioritisation of works and the impact on reducing the incidence of railway crossing accidents. In identifying this project, the Auditor-General drew attention to the VTP which includes \$540 million to make level crossings safer across the State.³¹⁰ Connected with this matter, the Committee observed that the Road Safety Committee, in completing its *Inquiry into Improving Safety at Level Crossings*, recommended in December 2008 that the Auditor-General undertakes a review of the cost-efficiency of the Level Crossing Upgrade Program. The Committee noted the Road Safety Committee’s finding that:³¹¹

Clearly there would be safety benefits to the State if it were found that the level crossing upgrade program could be delivered in a more efficient and cost-effective manner resulting in the upgrading of more crossings.

³⁰⁷ Parliament of Victoria, Legislative Council Select Committee on Train Services (website), accessed 17 July 2009, www.parliament.vic.gov.au/council/trainservices/

³⁰⁸ Parliament of Victoria, Legislative Council Select Committee on Train Services (website), accessed 17 July 2009, www.parliament.vic.gov.au/council/trainservices/debate

³⁰⁹ Parliament of Victoria, Legislative Council Select Committee on Train Services (website), accessed 17 July 2009, www.parliament.vic.gov.au/council/trainservices/

³¹⁰ Victorian Auditor-General’s Office, *Annual Plan*, 2009-10, p.8

³¹¹ Road Safety Committee, *Inquiry into Improving Safety at Level Crossings*, December 2008, p.15

12.4.4 Budget direction

Delivering funding commitments under the first tranche of initiatives under the VTP, the 2009-10 Budget provides \$4.9 billion in partnership with the Commonwealth Government for new services and infrastructure to transform Victoria's transport system³¹² (total TEI of \$4.5 billion with \$433 million in output funding across the forward estimates).³¹³

The Committee noted that the Government has devoted a specific section in the Budget Papers to the VTP, which discloses commitments under the Plan that have been funded as part of the budget across the forward estimates. Of the total VTP capital allocation over the budget and forward estimates period amounting to \$13.6 billion, \$4.5 billion has been specifically funded under the Budget, while the remaining State contributions for capital contributions for capital projects will be sourced from Unallocated Capital (refer to Table 12.5).³¹⁴

To build on this initiative, the Committee believes that because of the significance and long-term nature of the VTP, the inclusion of a progress report in the Budget Papers in terms of future planned or revised outcomes as the Plan unfolds would constitute a logical extension in terms of disclosure. Actual performance should be fully accounted for in appropriate annual reports, including the impact that key projects funded under the VTP have had in terms of creating or securing jobs and improving service delivery.

Recommendation 28: **As the Victorian Transport Plan unfolds, the Department of Treasury and Finance include a progress report in the Budget Papers disclosing future planned or revised outcomes.**

Of the 34 VTP initiatives funded under the Budget, the largest State Prioritised Projects and Nation Building Projects according to capital funding provided in the Budget across the budget and forward estimates period are set out in Table 12.5, together with timelines for completion.

³¹² Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.12

³¹³ Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, pp.479-81

³¹⁴ *ibid.*, pp.479-81

Table 12.5: Victorian Transport Plan major asset initiatives according to allocated capital funding 2009-10 Budget

Projects	VTP allocation (\$ million) ^(a)	TEI ^(c) (\$ million)	Timeline for delivery ^(d)
State Prioritised Projects			
New X'trapolis Trains	650	609.5	Staged roll-out from late 2009 to 2011
South Morang Rail Extension	650	559.1	Start 2010 End 2013
Sunbury Electrification	270	194.5	Start 2010 Metro trains to run from Sunbury in 2012
New Stations in Growth Areas	220	150.8	Start 2010 Caroline Springs (short-term) Lynbrook (End 2012-13) Williams Landing (short-term)
Improving Train Operations – Rail Service Efficiencies	200	111.6	Short-term
Better Roads – Regional Victoria Development	1,200	102.4	85% of expenditure to occur in 2010-11 and 2011-2012
Nation Building Projects			
Nation Building Program (AusLink II – Road and Rail) ^(b)	4,000	1,890.6	Various e.g. Western Ring Road upgrade: Start early 2009, End 2014
Peninsula Link	750	354.3	Construction to begin in December 2009 with the connection open to traffic in early 2013
Separating Road and Rail Lines	440	142.0	The removal of the Springvale Road level crossing in Nunawading in a grade separation to be completed by 2010
Remaining VTP asset initiatives	5,224	350.1	
Total Capital initiatives	13,604	4,464.9	

- Notes:
- (a) *The Committee was advised by the Department of Treasury and Finance that in relation to VTP projects, the remaining State contributions for capital projects that will be sourced from Unallocated Capital of \$4.9 billion is not the difference between the total VTP allocation (\$13.6 billion) and the total TEI of projects (\$4.5 billion) because:*
- *the total VTP allocation includes both capital and output expenditure; and*
 - *both the total VTP allocation and the total TEI of projects include Commonwealth funding*
- (b) *This item combines the Nation Building Program (AusLink II)- Altona/Laverton Intermodal Terminal (\$40 million over four years to 2012-13) and Nation Building Program (AusLink II)- Roads initiatives (\$1.8 billion which includes funding of \$171.8 million beyond 2012-13)*
- (c) *Total capital funding over the budget and forward estimates includes certain funding beyond 2012-13*
- (d) *Compiled by the Committee from information contained in the Victorian Transport Plan and the Department of Transport's website*

Source: *Department of Treasury and Finance, Budget Paper No. 3, 2009-10 Service Delivery, pp.361-2 and 480-1*

12.4.5 New X'trapolis Trains

This initiative will purchase a further 20 new X'trapolis trains for the metropolitan network to cater for increasing demand. Funding has also been provided to construct new maintenance and stabling facilities to accommodate the new trains.³¹⁵

In view of the intention of the Government to achieve 40 per cent local content on a whole-of-life basis for train purchases, the Committee maintains that it will be important that the Government works with industry to maximise local content and job creation within Victoria.

The Committee will monitor whether the target of achieving 40 per cent local content of the total contract for the acquisition of both trains and trams is met and holds the view that reporting of outcomes on this issue should occur at regular intervals, including in annual reports.

Recommendation 29: **The Department of Transport report at regular intervals on progress made in achieving 40 per cent local content on a whole-of-life basis for train purchases.**

12.4.6 South Morang Rail Extension

According to material contained in the Budget Papers, activities to be undertaken in 2009-10 that are to be measured relate to the seeking of tenders for work packages (second quarter of 2009-10) and the awarding of the contract for work packages (fourth quarter of 2009-10).³¹⁶

The Premier advised in early May 2009:³¹⁷

The South Morang Rail Extension is about putting the infrastructure in place to cater for the 90,000 people expected to settle in the Plenty Valley growth area and importantly, it will deliver jobs now, securing up to 460 jobs during construction.

The new rail extension will give people living and working in the outer north better access to employment opportunities by providing a direct link to the recently completed redevelopment of the Plenty Town Centre...

The South Morang Rail Extension project is due for completion in 2013.

At the Budget Estimates hearing, the Committee was interested in hearing from the Minister for Public Transport about what this project will include and how it will benefit the community of the northern suburbs.

³¹⁵ Department of Treasury and Finance, Budget Paper No. 3, 2009-10 Service Delivery, May 2009, p.357

³¹⁶ *ibid.*, p.244

³¹⁷ Premier of Victoria, Media Release, *State Budget to commit \$562.3 million for South Morang Rail Extension*, 1 May 2009

The Minister brought to the Committee's notice that:³¹⁸

- the South Morang project was a complicated and extensive project to undertake;
- the project involves, not only the extension from Epping to South Morang which is 3.5 kilometres of track, but also five kilometres of track to be duplicated between Keon Park and Epping which is at present single track;
- due to the duplication of the track, a second platform is to be established at Thomastown;
- in addition to the new grade-separated 3.5 kilometre track between Epping and South Morang, there is to be a new premium station at South Morang, which will include an intermodal change for bus interchange with provision for car and bicycle parking as well as pedestrian facilities;
- Dalton Road, Pindari Avenue and Civic Drive will have grade separations incorporated into the project;
- grade separations are costly, however will improve the amenity and traffic flows around those areas; and
- removing the bottleneck at Clifton Hill was important before proceeding with this project.

In terms of the possibility of extending the rail line further than South Morang, although population levels are expected to rise significantly in Mernda with a projected increase in households for Mernda/Doreen from 1,098, 4,052, 7,520 and 10,717 in 2006, 2011, 2016 and 2021 respectively,³¹⁹ the Committee noted that a line to Mernda remains scheduled for 2027.³²⁰ In bringing forward the completion date of the South Morang rail extension from 2021 to 2013,³²¹ the Government indicated that it will have the option of extending the track to Mernda once the South Morang project is completed.³²²

The Committee maintains that for complicated and extensive projects that involve features such as grade separations that are costly to provide, there is a continued need for the Government to demonstrate that rail extensions are undertaken in a cost-effective manner. Where demographic factors in growth corridors suggest there may be a case for grouping projects, feasibility studies should be undertaken in a timely manner.

Recommendation 30:

When embarking on major rail extensions, the Department of Transport ensure that:

- (a) **when features such as grade separations are involved that are costly to provide, every effort be made to ensure that projects are undertaken in a cost effective manner; and**
- (b) **in the event that demographic factors in growth corridors suggest that the grouping of projects may be appropriate, feasibility studies be undertaken in a timely manner to justify proceeding with priority projects.**

³¹⁸ Hon. L Kosky MLA, Minister for Public Transport, 2009-10 Budget Estimates hearing, transcript of evidence, 13 May 2009, p.12

³¹⁹ City of Whittlesea, Investor Information provided by OHL Group, *Doreen/Mernda Suburb Profile*, June 2009

³²⁰ Whittlesea Leader, *State Government forks out \$562m for South Morang rail extension*, 6 May 2009

³²¹ Hon. L Kosky MLA, Minister for Public Transport, media release, *Metro train network extended to South Morang, Sunbury, Melton and Cranbourne East*, 8 December 2008

³²² Whittlesea Leader, *State Government forks out \$562m for South Morang rail extension*, 6 May 2009

12.4.7 Sunbury rail line electrification

The Budget Papers show that activities to be undertaken in 2009-10 that are to be measured relate to the seeking of tenders for work packages (second quarter of 2009-10) and the awarding of the contract for work packages (fourth quarter of 2009-10).³²³

The Committee was interested in gaining an understanding from the Minister for Public Transport how the residents on the Sunbury – Sydenham corridor would benefit from electrification of the Sunbury line.

As the Minister explained, at present the V/Line trains that operate from Sunbury to the Melbourne Central Business District carry around 360 passengers whereas, in comparison, the metropolitan trains that have to run on an electrified line can carry in excess of 800 passengers per train. In the peak period, that makes a significant difference in terms of the number of passengers that can be transported along the whole Sydenham corridor, where patronage has grown by 55 per cent over the last three years.

The electrification of the 15 kilometres of rail infrastructure, due for completion in 2012, is to include stabling facilities for five trains at Sunbury and additional car parking space which will include 500 spaces at Diggers Rest railway station and 100 at Sunbury.³²⁴ The electrification of the track between Watergardens and Sunbury will, according to the Government, enable approximately 1,800 more people each hour to commute along the Sunbury rail corridor³²⁵ and secure 240 jobs in construction.³²⁶

The Committee is of the view that, while it is clear that the provision of high frequency electric train services to Sunbury will encourage higher rates of public transport use in Melbourne's north west and will be very important for Sunbury as a growth area, it will be essential that a high standard of service aimed at service improvement, particularly with regard to cleanliness and punctuality, is provided on the metropolitan trains running on the electrified system.

Recommendation 31: **For the Sunbury rail line electrification project, the Department of Transport should continue to place an emphasis on providing a high standard of service in relation to the metropolitan trains running on the electrified system, particularly with regard to cleanliness and punctuality.**

12.4.8 New stations in growth areas

Under this initiative, funding is provided to construct and operate new stations at Williams Landing, Lynbrook and Caroline Springs,³²⁷ which will secure up to 210 jobs in construction.³²⁸

³²³ Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, p.244

³²⁴ Hon. L Kosky MLA, Minister for Public Transport, 2009-10 Budget Estimates hearing, transcript of evidence, 13 May 2009, pp.23-24

³²⁵ Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, p.359

³²⁶ www.vline.com.au/media/news/Media Releases - Premier of Victoria, *\$2.07 billion boost to Victoria's train, tram and bus networks – and jobs*, 5 May 2009, accessed 23 July 2009

³²⁷ Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, p.357

³²⁸ www.vline.com.au/media/news/Media Releases - Premier of Victoria, *\$2.07 billion boost to Victoria's train, tram and bus networks – and jobs*, 5 May 2009, accessed 23 July 2009

12.4.9 Improving train operations – rail service efficiencies

Funding in the budget is provided for a program to continuously improve the reliability and capacity of rail services across Melbourne, including the upgrading of train and tram control and monitoring systems.³²⁹

The Committee will be interested in examining the findings that emerge from the Select Committee's inquiry into the factors leading to and causes of failures in the provision of metropolitan and V/Line train services and the implications of the Government response in terms of budget formulation.

12.4.10 Better Roads – Regional Victoria Development

Funding is provided to improve road conditions and capacity in regional Victoria.³³⁰ The Committee noted that of the \$102.4 million allocated over the forward estimates, the vast majority of the capital expenditure will occur in 2010-11 (\$29.9 million or 29.2 per cent) and 2011-12 (\$57.5 million or 56.2 per cent).³³¹

12.4.11 Nation Building Program

Under this program, funding is allocated to road projects of national importance that are part funded by the Commonwealth Government.³³² In this regard, the Minister for Roads and Ports advised the Committee that the State is contributing \$390.1 million to the \$1.9 billion in the Nation Building Program (AusLink 11) road projects being delivered in partnership with the Commonwealth Government.³³³

Of the new projects, the Committee noted that the largest project in terms of Commonwealth Government funding related to the upgrade of the Western Ring Road. With an estimated project cost of \$1.2 billion, Commonwealth Government funding is capped at \$900 million within the five year period and is provided on the basis that the Commonwealth Government will provide 75 per cent of project costs subject to Victoria providing 25 per cent of costs within this period. Additional funding will be considered in future budgets.³³⁴

12.4.12 Peninsula Link

The construction of a 25 kilometre four-lane connection between EastLink at Carrum Downs to the Mornington Peninsula Freeway at Mount Martha is intended to unblock congestion in the Frankston area, while reducing the amount of traffic that needs to travel through Frankston City and other Peninsula towns.³³⁵

The Committee noted that an estimated 4,000 jobs in construction will be secured for the life of this project.³³⁶

³²⁹ Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, p.356

³³⁰ *ibid.*, p.355

³³¹ *ibid.*, p.480

³³² *ibid.*, p.357

³³³ Mr. T Pallas, MP, Minister for Roads and Ports, 2009-10 Budget Estimates hearing, transcript of evidence, 15 May 2009, p.4

³³⁴ www.nationbuildingprogram.gov.au/funding/projects, accessed 23 July 2009

³³⁵ Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, p.358

³³⁶ Mr. T Pallas, MP, Minister for Roads and Ports, 2009-10 Budget Estimates hearing, transcript of evidence, 15 May 2009, p.4

12.4.13 Separating road and rail lines

In partnership with the Commonwealth, funding is provided to lower the railway line and build a new road crossing over it to allow the smooth flow of traffic and trains at Springvale Road Nunawading, where 50,000 vehicles and 218 trains cross every day. While construction of a new railway station at Nunawading will replace the existing station, funding will also be provided for the planning of future grade separation projects.³³⁷

The elimination of the level crossing at Springvale Road, Nunawading is expected to secure 220 jobs in construction.³³⁸

³³⁷ Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, p.359
³³⁸ [www.vline.com.au/media/news/Media Releases](http://www.vline.com.au/media/news/Media_Releases) - Premier of Victoria, *\$2.07 billion boost to Victoria's train, tram and bus networks – and jobs*, 5 May 2009, accessed 23 July 2009