

Victoria prepares for cuts as the Premier and Treasurer get ready to unveil the state budget

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Premier Daniel Andrews has given multiple warnings about a tough budget this year.

(ABC News: Danielle Bonica)

Jobs cut. Taxes hiked. Programs slashed. Skyrocketing debt. Cost blowouts.

These are some of the headlines you might see after Tim Pallas hands down his ninth budget on Tuesday.

It will be by far the toughest budget the Andrews government has delivered since it defeated Denis Naphine in 2014.

Until now, Labor has been willing to spend and borrow to build projects, hire extra staff and fund programs.

But that is about to change.

Premier Daniel Andrews has been preparing Victorians for the horror for weeks, saying the huge debt incurred during the COVID-19 pandemic has to be repaid.

"And that does involve some difficult choices, but it is the right thing to do," Mr Andrews said on Thursday.

"It's a very challenging budget."

MPs and ministers have privately complained that there is not enough money for their projects or communities. Election commitments will be honoured.

All are bracing for a tough period. The traditional post-budget drinks around Parliament for MPs have also been canned for the year because it would be a bad look.



The Victorian government has had to deal with cost blowouts for some of its major projects. (AAP: James Ross)

The premier is a master of political messaging, and he has been laying the groundwork for pain. He's blamed the Reserve Bank for telling the state, and households, that it was safe to borrow because interest rates wouldn't be going up.

Andrews has also blamed the pandemic for the state's soaring debt, saying Victoria had to borrow tens of billions of dollars to get through the COVID-19 chaos.

Net debt is already more than \$116 billion, and Tuesday's budget will reveal the full picture of just how high it has soared. The pre-election budget update estimated that net debt for 2023-24 would rise to \$134.4 billion.

But blaming COVID-19 and the RBA is only part the story.

Fighting a budget battle on several fronts

Under Andrews, Labor has been borrowing tens of billions of dollars to pay for its infrastructure agenda.

Debt was already at \$44.3 billion before COVID-19 smashed the state. Labor proudly boasted how it was borrowing against the state's AAA credit rating in order to build economy-enhancing infrastructure.

The Premier says the state has two types of debt: the "economy-growing" debt to build for projects – which he likens to a household mortgage – and COVID-19 debt which must be repaid quickly.

"Unless we get the credit card, the COVID credit card, balance back down to zero, if something else confronts us we won't have capacity to do what we did last time," Andrews said.



Victorian Treasurer Tim Pallas has kept a low profile in the lead up to the state budget.

(AAP: James Ross)

The state has also massively expanded the public sector. The wage bill in Labor's first budget after winning back office in 2015 was \$18.4 billion. The pre-2022 election budget update showed the wages bill was now \$37.6 billion due to the pandemic and increases in the health workforce.

"Average growth over the forward estimates of 2.1 per cent a year is forecast, consistent with service delivery requirements and enterprise bargaining agreements."

Financial experts have consistently warned about the pressure wages put on state budgets. And the government knows its unsustainable. Earlier this year it asked department secretaries to shave 10 per cent of their workforces.

There has been a nervousness in the public sector and its union allies are furious with the Labor government.

The cost of major projects, which is the backbone of Labor's successful re-election pitches, has blown out.

Rising labour costs, and the soaring cost of materials is putting pressure on the Big Build Agenda. The federal government is also reviewing projects committed to by the Morrison government, including the Airport Rail Link.

Infrastructure Minister Jacinta Allan this week announced that the state has paused contract talks for the next suite of works on the multi-billion and long-awaited Airport Rail Link.

So don't expect to see any new infrastructure projects in the budget, or any major spending at all – unless it was promised at the election.

The government says it will deliver a cash surplus in the forward estimates, just not this year.

Victoria's debt under scrutiny

Victoria's credit rating is AA, down from the coveted AAA rating a few years ago.

S&P Global Ratings analyst Anthony Walker said sustained fiscal discipline would be key if the state was to regain a higher rating.

"Victoria's budget will need to improve substantially to reverse its debt trajectory before we consider raising the rating," he said.

"Victoria's budget outlook is very weak compared to other states. Its large infrastructure program ensures the budget will remain in large cash deficit, even if the government delays major projects in next week's budget."

Mr Walker said S&P had forecast Victoria's debt to reach 210 per cent of operating revenues in 2025.

"This is the highest among Australian states. By 2025, debt will be triple the level Victoria had at the commencement of the pandemic," he said.

"Despite the weak fiscal outlook, we believe Victoria maintains strong access to global capital markets. This will allow the government to fund its budget and avoid a major stress scenario."

Opposition struggling to cut through with voters

The opposition has been raising concerns about the parlous state of the budget for several years, but has failed to cut through with voters who have been distracted by the party's well-documented internal woes.

Even the most partisan of Labor types, including MPs, concede that a weak opposition is bad for democracy and good government because it means poor decision making goes unchecked.

Shadow Treasurer Brad Rowsell says the opposition will be closely watching Victoria's net debt and the daily interest rate repayments in Tuesday's budget.

Opposition leader John Pesutto has been dealing with internal party issues that have detracted from scrutiny of the government. *(ABC News: Danielle Bonica)*

"I'll be keeping a really close eye on Labor's tax take, because that is what is going to hurt Victorians the most," Mr Rowsell told the ABC.

"Andrews has built a reputation on not squibbing responsibility, but when it comes to the state budget he has been at pains to blame everyone else. He has not taken responsibility for decisions he's made."

"Labor say time and time again they're about fairness. But how is it fair that Victorians are paying more tax per person than other any state in the nation but they are getting less for it. Victorians don't like being ripped off."

Normally by this time of the budget cycle the government has drip fed big announcements and the treasurer has given interviews about the budget strategy.

But this is not a normal budget. Pallas has barely been seen in the media and the run of "announceables" have been notably absent.

It all points to one thing: this budget is going to make for some tough reading.