slattery

State Budget VIC

Construction Market Considerations

May 2022

State Budget VIC
Construction Market Considerations

In this summary, Slattery provides an overview of the Victorian State Budget 2022/2023 and the onflow effect the budget will have on the construction industry.

Victorian State Budget 2022/2023

In the backdrop of a pandemic that wreaked havoc across Victoria's health system and economy, it was no surprise to see health form the centrepiece of the 2022/2023 State Budget.

With more than $12bn committed for more health professionals, services and infrastructure, the government aims to alleviate pressure on the system.

Currently, there are over 90,000 Victorians awaiting elective surgery, 000 calls are growing and there is increased demand for hospital beds across the state.

Asset Initiatives and Capital Projects

With net debt north of $120bn (23% of GSP) and rising, and aspirations of returning to a budget surplus within four years, it was no surprise to see capital investment in this years' budget remain below the heady pre-COVID days.

The 2022/23 budget allocates $6.7bn to asset initiatives (a 6% reduction from the previous budget), including $5.8bn for new capital projects. The table below identifies the past four budgets, broken down into the largest investment classes.

The 2022/23 budget allocates $3bn for health assets (44% of the total), up from previous years where investment in health infrastructure represented 5-25% of the total.

The much anticipated Melton Hospital ($1bn), Barwon Women's and Children's Hospital ($500m), and continued investment for Mental Health care ($500m) form the bedrock of the state's health commitment for the years ahead.

	2019-20 $ million	%	2020-21 $ million	%	2021-22 $ million	%	2022-23 $ million	%
Education and Training	1,746	5%	1,938	10%	1,581	22%	1,649	25%
Health (incl. Mental Health, Families, Fairness and Housing)	2,236	6%	5,132	26%	1,759	25%	2,967	44%
Transport	28,202	82%	4,692	24%	3,083	44%	1,738	26%
Other*	2,331	7%	7,990	40%	656	9%	331	5%
Total Asset Initiatives	**34,515**		**19,751**		**7,079**		**6,685**	

*Includes but not limited to DELWP, DJPR, DOJCS, DPC, DTF, Parliament, CSV

slattery

Market pressures, challenges, and opportunities

Well documented macro and micro economic challenges continue to put pressure on the construction industry in Victoria. Supply chain pressures are leading to rising commodity prices, and the skilled labour market is still feeling the pinch of 2 years of geographic immobility.

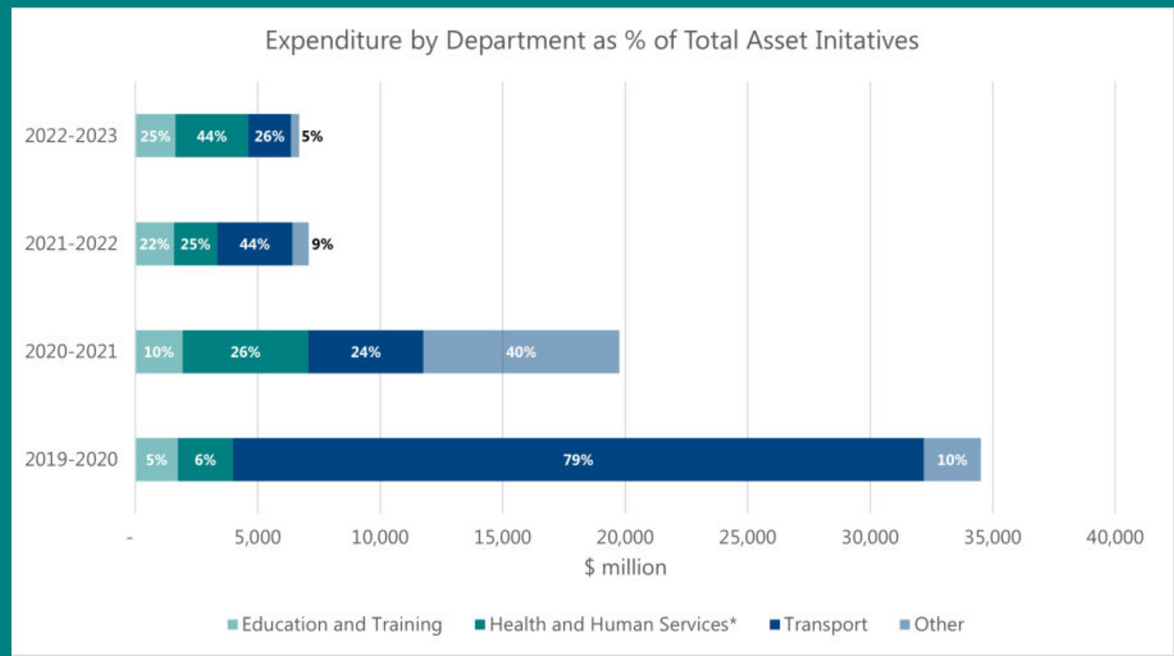
The $5.8bn commitment for new projects supplements the existing $58.7bn of existing project commitments, the majority of which are to be expended in the next 3 years. Questions are being asked about whether the market has the capacity to respond to record levels of public infrastructure investment, as well as a rebounding private sector and housing boom on the horizon.

With national tender prices rising sharply in the past 12 months', and continued volatility on the horizon, there remains a risk whether the significant investments in public infrastructure can be delivered within budget.

If cost pressures require scope review, it is important that true value management principles are adopted to ensure core services are still delivered to Victorians.

Recent high-profile contractor insolvencies have shown the fragility of the supply chain if risk transfer is not properly managed on projects. It is in everyone's interest to have a buoyant, solvent supply chain, so that the industry can continue to grow. Clients, main contractors and beyond have an opportunity through this pipeline of work to enter into sensible agreements, with risk apportioned equitably and expediting payments to improve liquidity throughout the industry.

For more information on the state of the market, be sure to read **Slattery's National Market Update due out May 2022.**



Graph 1
Expenditure by Department

slattery

Slattery Australia Pty Ltd
www.slattery.com.au

Melbourne
Naarm

Level 14, 160 Queen Street
Melbourne, VIC 3000

Phone +61 3 9602 1313
Email melbourne@slattery.com.au

Sydney
Cadi

Level 10, 14 Martin Place,
Sydney, NSW 2000

Phone +61 2 9423 8850
Email sydney@slattery.com.au

Brisbane
Meeanjin

Level 18, 239 George Street
Brisbane, QLD 4000

Phone +61 7 3041 7373
Email brisbane@slattery.com.au

Perth
Mooro

Level 32, 152 St Georges Terrace
Perth, WA 6000

Phone+61 8 9221 4444
Email perth@slattery.com.au