

24 November 2020

State Government Budget 2020-21

Rebuilding Victoria's economy

The following is the Committee's for Melbourne's perspectives on the Victorian Budget 2020-21. This is a very important budget, and wide-ranging in scope.

The Committee offers some views on whether the budget addresses the critical sectors we have identified of strategic importance for Melbourne's future, including its COVID-19 Road to Recovery.

The Budget in brief

The Victorian Government Budget 2020-21 is one of the state's most important in modern times.

Following Melbourne and Victoria's pandemic-induced lockdown throughout much of 2020, the Andrews Government has provided its blueprint that aims to drive the state's recovery.

With a commitment to *putting people first*, this budget is designed to kickstart investment in jobs, infrastructure and services, and to lay the groundwork for renewed growth in coming decades.

Victoria will remain in deficit for some time. A forecast budget deficit of \$23.3 billion in 2020-21 is expected, with further operating deficits forecast over the forward estimates.

Tax revenue will decrease by 9.7 per cent compared with 2019-20, while total revenue is expected to be 4.2 per cent lower than 2018-19 levels.

With a focus on getting people back into employment, the government is taking advantage of historically low interest rates to repair the damage inflicted by COVID-19.

Victoria's debt will grow with total net debt forecast to rise from \$86.7 billion this financial year to \$154.8 billion by 2023-24.

Employment is expected to decrease by 3.25 per cent, with the unemployment rate expected to peak at 8.25 per cent in the December quarter 2020 and average 7.75 per cent over 2020-21.

Significant investment in social housing is a key feature of this budget with \$6 billion allocated for the construction of around 12,000 social and affordable homes over four years.

Investment in transport infrastructure is another prominent feature of this year's budget, with a focus on the Suburban Rail Loop, Melbourne Airport Link, Geelong Fast Rail, the regional rail network, trams and roads.

In a bid to continue to support Victorian businesses hit hard by the pandemic, an additional \$1.5 billion will be provided in the form of tax and fees relief.

The support package includes the New Jobs Tax Credit, which supports those small and medium businesses that rehire staff, restore hours or create new jobs.

The slump in economic activity combined with the rise in government spending means the budget position has deteriorated sharply. Victoria's fiscal aggregates and economic forecasts are summarised below.

Table 1: General government fiscal aggregates (\$ billion)

	2020-21 budget	2021-22 estimate	2022-23 estimate	2023-24 estimate
Net result from transactions	(23.3)	(13.1)	(6.7)	(5.9)
Net cash flows from operating activities	(21.8)	(4.0)	(2.6)	(1.8)
Government infrastructure investment	19.4	19.5	20.3	19.2
Net debt	86.7	109.7	132.9	154.8
Net debt to GSP (%)	19.5	22.5	26.0	28.9

Table 2: Victorian economic forecasts (% change)

	2020-21 forecast	2021-22 forecast	2022-23 projection	2023-24 projection
Real Gross State Product (GSP)	-4.00	7.75	3.25	3.00
Employment	-3.25	3.50	2.25	2.00
Unemployment Rate	7.75	7.00	6.25	5.75
Consumer Price Index	0.75	1.50	1.75	2.00
Wage Price Index	1.00	1.75	2.00	2.25
Population	0.20	0.40	1.10	1.70

The government is committed to supporting the economy in the short-to-medium term, with expenditure to taper as the economy recovers.

Committee for Melbourne perspectives on the budget

Committee for Melbourne (the Committee) has four key policy platforms; *Future Economy*, *Liveability*, *Urban Optimisation* and *Infrastructure*, and has convened a series of *Road to Recovery* working groups in response to the COVID-19 pandemic.

The Road to Recovery agenda covers various sectors including the visitor economy, arts and culture, not-for-profit, transport, housing, education and skills, and research and innovation.

Some of the key areas of the budget relating to our agenda are summarised below.

Housing

Social and affordable housing is one of the key platforms of this budget.

As part of the *Big Housing Build*, the Victorian Government will inject \$6 billion into constructing around 12,000 social and affordable homes.

In the largest single spend on social housing in Victoria's history, social and affordable houses will be built over four years in metropolitan and regional areas.

The additional stock of housing will be provided to people on low incomes, with those experiencing homelessness, mental health challenges or family violence given priority access.

The initiative will see 9300 new social housing homes constructed, including the replacement of 1100 public housing units.

2900 affordable homes will be constructed to allow low-to-moderate income earners to live closer to their place of work.

This initiative will create thousands of construction jobs, with \$6.7 billion in economic activity forecast.

The Committee welcomes the announcement and has been calling for greater investment in social and affordable housing to accommodate vulnerable individuals and key workers.

This investment in social housing is overdue. Victoria has the lowest proportion of social housing in Australia, with only 3.2 per cent of housing stock being social housing, compared to the national average of 4.2 per cent.

While the announcement is welcome, there remains much work to do. In 2016, as part of its 30-Year Infrastructure Strategy, Infrastructure Victoria identified building approximately 30,000 new social and affordable dwellings was needed in 10 years, while recognising it would not fully meet demand.

The anticipated and ongoing repercussions of the pandemic will likely fuel demand for social and affordable housing given job losses and wage reductions.

The Committee's Housing Mix Taskforce will release an affordable housing report, which articulates the policy options that could increase the supply of social and affordable housing, including taxation and planning policies. Focus on these areas would likely facilitate greater private sector investment into the sector.

The Committee welcomes the Government's recognition and \$111 million investment to streamline planning approvals processes.

Reducing costs and delays of construction is vital to secure jobs and investment in major developments in Victoria. Amongst the initiatives, the budget includes:

- \$38 million to improve planning processes (as recommended by the Commissioner for Better Regulation)
- development of a new simpler and quicker assessment model for development proposals greater than \$50 million.
- \$3.86 million to streamline the approval pathway for social and affordable housing.

Investments in digital capability and online services for planning, as well as funding for the Victorian Planning Authority, also feature in the budget.

Melbourne Airport Rail Link

On 21 November, the Victorian Government announced that construction of the Melbourne Airport Rail Link (MARL) will begin in 2022, with completion anticipated for 2029.

An above-ground line from Tullamarine to Sunshine will be constructed, with trains to be linked with the Melbourne Metro Tunnel.

Both the federal and state governments have committed \$5 billion each to the project.

The Committee welcomes the announcement and has long advocated for the construction of a MARL.

In January 2018, the Committee articulated five guiding principles required for a successful service, including the need for an integrated and holistic perspective, and customer-centricity.

A MARL that offers a maximum 20-minute service between Melbourne Airport and the CBD, with Sunshine as its sole stop, would achieve these aims.

Such a proposal would require a tunnel between Sunshine and the CBD, which would allow dedicated airport trains to run on dedicated tracks; enabling improved services for Melbourne's fast-growing west and the regions.

Whilst the MARL announced this month deviates from the Committee's preferred model, the Committee looks forward to working with the Victorian and Federal governments on delivering a MARL that is efficient and able to provide the connectivity that Melbourne and Victoria need.

Transport Infrastructure

Investment in transport infrastructure is a priority for the Victorian Government as it looks to make commuting more efficient while simultaneously providing stimulus to the economy.

The government has provided \$2.2 billion for initial and early works on Stage One of the Suburban Rail Loop (SRL), which will run between Cheltenham and Box Hill.

The funding will enable the purchase of land, upgrading of roads and power supply, relocating and protecting key utilities as well as other initiatives to prepare for construction; scheduled to begin in 2022.

The Committee recognizes that the SRL is a city-shaping project with the potential to improve connectivity, as well as unlocking many economic and social opportunities.

However, greater transparency surrounding this project would be welcome. The government's investment in this project comes despite the lack of an independently verified business case.

The budget commits \$2 billion towards Geelong Fast Rail, which matches the Federal Government's contribution to the project. No business case has been completed for this project.

Another \$20 million will be invested in a state-wide, three-year trial to investigate ways of achieving a zero-emission bus fleet, with various technologies to be used.

Further investments have been made to build better regional rail, improve Melbourne's tram network, as well as the state's road network, including:

- \$450 million: road maintenance blitz
- \$255 million: Great Ocean Road upgrades
- \$241 million: Princes Highway East duplication (Stage 3)
- \$117 million: Metropolitan road and intersection upgrades

The Committee notes the absence of an investment in public transport to better connect Fisherman's Bend. Given the imperative for greater connectivity to Fisherman's Bend to foster investment and development of the precinct, transparent plans concerning its connectivity would be welcome.

In July, the Committee released its report *Transporting Melbourne: A call for an integrated transport plan for Melbourne*; a culmination of work by the Committee's Transport Taskforce Steering Committee.

The report calls on the Victorian Government to design, publish and implement a comprehensive integrated transport plan for Greater Melbourne, which incorporates land-use and economic development planning.

Given the range of transport projects announced in this budget, a publicly available integrated plan would ensure greater transparency and certainty regarding the direction of Melbourne. Furthermore, it would allow for project business cases to be developed and scrutinised before construction begins.

Health

Improving Victoria's healthcare system is a priority for the government.

\$869 million is allocated for mental health services, of which \$492 million will be used for 120 mental health beds in Geelong, Epping, Sunshine and Melbourne.

In a boost for Melbourne's world-class biomedical precinct in Parkville, the Australian Institute for Infectious Disease will be established to prepare for future pandemics.

The Victorian Government will invest \$155 million towards the \$550 million institute, with remaining funds to be provided by the University of Melbourne, its partners and the Commonwealth Government.

The Institute's construction is expected to create 350 jobs and once operational, is anticipated to support up to 5,000 jobs, including up to 850 jobs at the Institute itself.

A further \$2 billion will be invested in new hospitals and upgrading existing ones.

The Committee welcomes the investment into the state's health system, particularly greater investment into Melbourne's world-leading Parkville Precinct, as well as the mental health support services required to meet the needs of Victorians after months of lockdown.

Manufacturing

Melbourne and Victoria's manufacturing sector will be revived and become more globally competitive.

The government's *Jobs Plan* includes a \$60 million Manufacturing and Industry Development Fund, which is designed to support essential manufacturing and industry capability in Victoria.

The Committee welcomes this announcement and would welcome greater funding of Victorian manufacturing in the years ahead. We must prioritise integrating more locally manufactured goods into global supply chains.

This announcement builds on the more than \$1 billion in grant funding to the manufacturing sector, announced by the Morrison Government in the Federal Budget 2020-2021.

Melbourne is home to a network of advanced manufacturing organisations, which service a range of industries including aerospace, defence, medical devices and pharmaceuticals.

The Committee welcomes the renewed focus on manufacturing, which will support job creation and enhance the state's supply chain resilience.

Skills

Skill acquisition and deployment will underpin Melbourne and Victoria's post-COVID economic recovery.

The budget includes a \$1 billion investment in TAFE and training, including up to 80,000 new Free TAFE and subsidised training places.

\$57 million will be allocated to the delivery of accredited short courses and a workforce skill set pilot program to help unemployed Victorians reskill.

The Committee welcomes this investment in skills and has been a strong advocate for the implementation and recognition of micro-credential qualifications.

The accessibility of micro-credential qualifications, which will develop peoples' 'essential skills', including innovation, creativity, problem solving and digital skills, will ease transitions across the workforce and help strengthen the economy in the post-pandemic period.

Tourism

Regional tourism will receive a major boost following the bushfire and COVID-19 crises.

The Budget includes a \$465 million *Victorian Tourism Recovery Package*. This package comprises \$149 million for new visitor accommodation and improvements to major tourist trails across 10 iconic tourist locations, including the Surf Coast and Gippsland.

Up to 120,000 vouchers valued at \$200 each will be made available to people to encourage them to visit and stay in regional Victoria.

Having formed the Visitor Economy Reference Group, featuring diverse visitor economy representatives committed to helping rebuild the sector, the Committee welcomes the government's support of the local tourism industry.

While recognising the importance of regional tourism, the government should also consider providing support to Greater Melbourne's visitor economy.

Given the co-dependency between Greater Melbourne and the regions, and that Melbourne acts as a gateway to the regions, the development of a tourism strategy that includes promotion of attractions in Greater Melbourne would be welcome.

A reciprocal voucher program encouraging regional Victorians to visit and spend in Melbourne could have been implemented. This presents a lost opportunity to reinvigorate Melbourne's visitor economy.

The Committee encourages the government to consider opening a formal dialogue with local visitor economy groups to determine a *road to recovery* strategy that will encompass a connected plan for Greater Melbourne and regional tourism.

Energy

Clean energy is a feature of this budget.

A \$1.6 billion investment in Victoria's clean energy future has been made, including \$682 million to develop Victoria's Renewable Energy Zones to unlock renewable energy.

To reduce the amount Victorian households spend on energy, \$448 million will be invested to cover the cost of power bills for low income households, as well as making homes more energy efficient.

The Solar Homes program will be expanded with a \$191 million investment, with another \$50 million to be spent on clean energy transition initiatives.

The investments will help reduce greenhouse gas emissions and create thousands of jobs.

The Committee welcomes this initiative to improve energy efficiency and increase the state's mix of renewable energy. It will create jobs and stimulate the state's economy, as well as help address our long-term response to the climate crisis.

Arts & Culture

Melbourne's Arts & Culture sector is among the hardest hit by COVID-19.

To help in the recovery, \$1.4 billion will be spent to transform Melbourne's Arts Precinct, which will include a new stand-alone National Gallery of Victoria Contemporary focusing on contemporary art and design.

An additional \$220 million will be available to support the creative sector, including a \$21 million screen industry recovery plan.

The *Creative Workers in Schools* program will offer artists, designers, musicians, filmmakers and writers the opportunity to work in government schools across the state.

More than 150 jobs will be available to creative industry workers, which will simultaneously offer new learning opportunities to students and teachers in 2021.

Other major investments in Melbourne's and regional events, sports and arts sectors include:

- \$152 million: attract more major events.
- \$100 million: amount by which the Major Events Fund's capacity will increase by per annum.
- \$20 million: continue supporting regional events as part of the Regional Events Fund.
- \$9.7 million: contribution to the Business Events Program, assisting the Melbourne Convention Bureau to attract visitors to its business and convention events.

The Committee has been advocating for various initiatives to aid the sector's recovery:

- Financial support for artists currently unable able to utilise their skills, which will help ensure many remain in Melbourne.

- Government procurement policies mandating the use of creative industries.
- Underwriting tickets for audiences where full capacity cannot be achieved.

While the announcements in the budget are welcome, the Committee believes there are more opportunities to support Melbourne's Arts and Culture sector beyond this budget and will continue to advocate for reforms that will support the sector.

Not-For-Profit

NFP organisations that provide services in the areas of mental health, aged care, domestic violence, indigenous wellbeing, drug and alcohol addiction and other vital health services, are recognised in this budget.

A \$235 million Recovery Workforce program will be established to create new jobs across mental health, family violence and child protection.

The budget includes \$40 million to train more nurses and personal care workers in Victoria's private aged care facilities.

Committed to supporting individuals as they look to rebuild their lives, \$21 million is allocated to deliver the statewide expansion of the Hospital Outreach Post-Suicidal Engagement service.

Prior to COVID-19 and as documented by the Committee, Melbourne's charitable sector was challenged in terms of receipt of funding and volunteer hours. Such challenges have been exacerbated by the pandemic. Greater private sector involvement in addressing social issues will be required in the post-pandemic period.

International Education

Victoria depends on international education more than any other state in Australia, having earned \$12 billion in export income for Victoria in 2019.

The Committee noted that there does not appear to be major initiatives concerning international education and to lay the groundwork for the return of international students in 2021.

Given the importance of international education to the state, Victoria needs a current international student strategy and decisive action to ensure Melbourne remains one of the world's great international student cities.

The Committee has established an International Student Advisory Network to advocate for initiatives that helps ensure Melbourne provides a great experience for international students in the post-pandemic period.

Innovation & Technology

The Victorian Government is investing in the state's research and innovation capabilities.

The \$2 billion Breakthrough Victorian Fund is designed to drive investment in translational research, innovation and commercialisation outcomes to accelerate growth in key industry sectors.

The focus industries will include health and life sciences, agri-food, advanced manufacturing, clean energy and digital technologies.

The budget includes the Gigabit State program; a \$250 million investment to co-fund business-grade broadband connectivity for suburbs and regional towns.

Designed to address gaps in the availability of high-speed optic fibre and wireless broadband for business users, *Gigabit State* will target communities that will benefit most from the program.

The Committee notes that there did not appear to be any direct funding allocated for research and development related to Artificial Intelligence (AI).

Victoria should aspire to be at the forefront of the research, development, adoption and deployment of AI. Without significant government investment, this will not be achieved.

Melbourne's economic prosperity hinges on the continued success of key sectors including healthcare, advanced manufacturing, education, creative industries and the experience economy – all of which can be underpinned by effective use of AI.

The establishment of an AI hub would enable greater networks and collaboration across Greater Melbourne and potentially facilitate pilot programs to test and implement AI-backed initiatives.

The Committee also recommends that The Victorian All-Party Parliamentary Group on AI be reconvened in 2021.

The Committee's AI Taskforce will release a report in mid-December identifying key stakeholder collaboration mechanisms and governance frameworks that can drive the ethical development, adoption and deployment of AI.