

Victorian Government Budget 2021-22

The big-spending recovery

The Victorian Government is spending big as it attempts to lead the state to greener pastures.

Major investments in mental health, skills and education, and infrastructure, including construction of new schools and hospitals, form the backbone of the 2021-22 State Budget (the budget).

Significant new tax hikes come as a surprise to business and investors, which it is assumed will help fund investments, as well as public sector wage increases and transport infrastructure costs.

The economy appears to be recovering strongly. Gross state product is expected to increase by 6.5 per cent this financial year with the budget deficit forecast to reach \$17.4 billion, which is \$23.3 billion lower than previously forecast. Net debt is expected to reach \$156.3 billion by June 2025.

Victoria's fiscal aggregates and economic forecasts are summarised below.

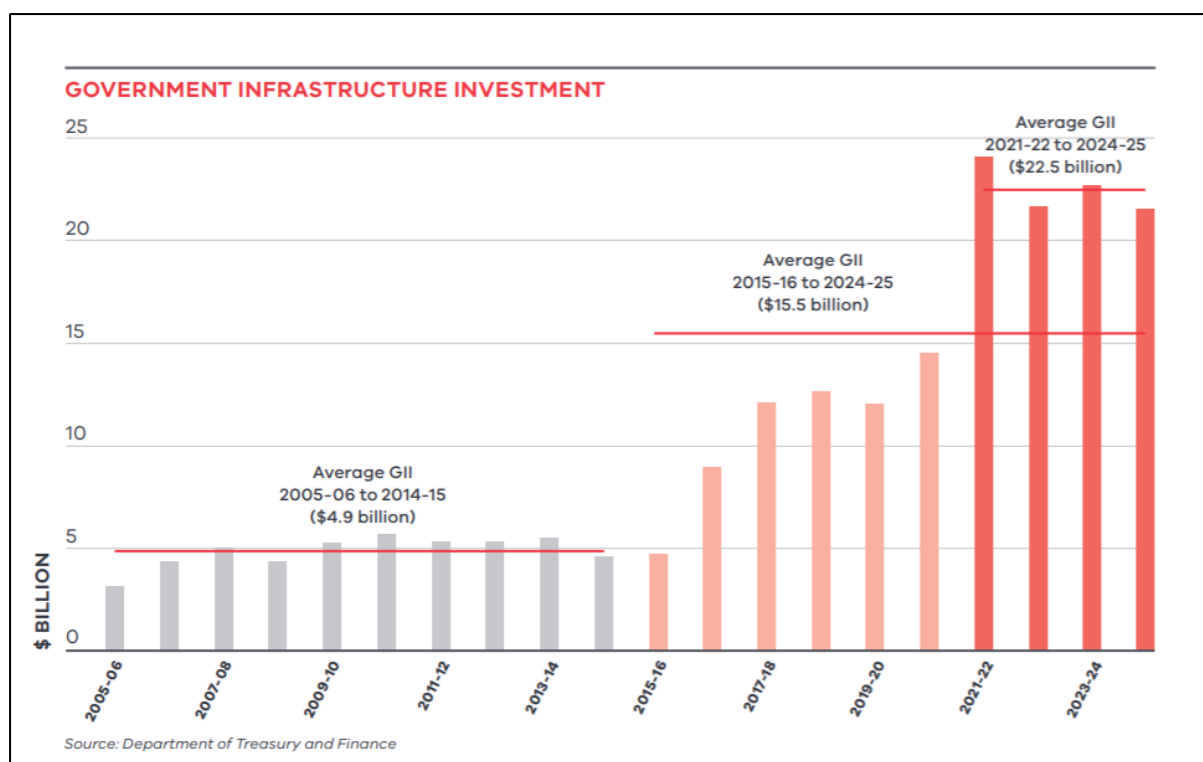
Table 1: General government fiscal aggregates (\$ billion)

	2021-22 budget	2022-23 estimate	2023-24 estimate	2024-25 estimate
Net result from transactions	(11.6)	(3.8)	(2.1)	(2.1)
Net cash flows from operating activities	(2.0)	1.1	2.4	3.0
Government infrastructure investment	24.2	21.7	22.7	21.6
Net debt	102.1	120.0	138.3	156.3
Net debt to GSP (%)	20.3	22.7	24.9	26.8

Table 2: Victorian economic forecasts (% change)

	2021-22 forecast	2022-23 forecast	2023-24 projection	2024-25 projection
Real Gross State Product (GSP)	6.50	3.25	2.75	2.75
Employment	2.50	1.25	1.75	1.75
Unemployment Rate	5.75	5.50	5.25	5.25
Consumer Price Index	1.50	1.75	2.0	2.25
Wage Price Index	1.75	2.0	2.25	2.50
Population	.30	1.20	1.70	1.70

Victorian Government infrastructure investment has increased considerably over recent years. While many investments have been necessary to accommodate a burgeoning population, the state's capacity to deliver these projects will be tested, with skills shortages and cost overruns already a feature prior to this budget.



The Committee made a pre-budget submission to the Victorian Government, which centred on key areas of our agenda:

- Housing
- Education
- Transport
- Innovation & Technology
- Arts, Culture & Tourism
- Energy

Each agenda item will be addressed below, as well as the Committee's view on the announcement of new and increased taxes.

New taxes

To raise much-needed revenue following the protracted COVID-induced lockdown in 2020, the Victorian Government will implement new land and property taxes, which will increase revenue by an estimated \$2.7 billion over the next four years.

Surprise taxes include an increase to stamp duty and land taxes on properties worth more than \$2m and \$1.8m respectively accompanied by a new "windfall gains" tax of up to 50 per cent of profits gained from rezoning decisions. Additionally, mental health spending will be funded by a new Mental Health and Wellbeing Levy, imposed upon businesses that pay more than \$10 million in wages nationally from 1 January 2022.

The increased holding and purchasing costs will see home ownership become even more expensive when house prices have soared and Melbourne's median house price has reached \$1 million. Business owners deciding where to invest and locate their offices will compare leasing and other business costs.

The sovereign risk of this announcement, made without notice or consultation, is considerable. In a state where brand stability has been significantly affected by the harshest lockdown in Australia,

shock policy announcements that detrimentally impact business and ordinary Victorians, sends a signal of ongoing policy uncertainty.

In its pre-budget submission to the Victorian Government, the Committee called for an ambitious and visionary budget that would lay the foundations for a prosperous future for Victoria. These surprise announcements represent a lost opportunity for structural reform that would recognise the benefit that business provides on the economic road to recovery.

Housing

The social housing sector will receive a boost with 619 new social housing dwellings to be built as part of a new project to build 1100 new homes. The project involves the government leasing land in Brighton, Flemington and Prahran to a consortium to build, operate and maintain housing on the sites for 40 years. At the end of the lease, the land and all 1,110 dwellings will be managed by Homes Victoria.

This is on the back of last year's budget for the *Big Housing Build*, where the Victorian Government injected \$5.3 billion into constructing around 12,000 social and affordable homes over four years. The Committee welcomes these initiatives but considers that affordable housing is an issue that needs structural and systemic reform.

The lack of supply of social and affordable housing has reached crisis levels across Australia, including Melbourne. Whilst these initiatives go some way towards delivering supply of social and affordable housing, it falls short of the infrastructure spending required, particularly across the spectrum of types of affordable housing needed (including for key workers).

Without a significant increase in housing stock there is a risk that housing will become more expensive and homelessness will worsen. In its April 2021 [report](#), *Delivering Affordable Housing*, the Committee made recommendations to the Victorian Government's development of a 10-yr social and affordable housing strategy in Victoria. The Committee's recommendations were aimed at support for those in need, including key workers and that a 40-yr strategy would be appropriate.

Amongst the recommendations, it was recognised that sufficient funds need to be collected on an ongoing basis if we are to ensure adequate housing supply across the spectrum of housing needs. Consideration of a housing levy or a Housing Australia Future Fund (Federal Labor policy), should be undertaken to determine an appropriate initiative that would deliver funding at scale and into perpetuity. However, given the property taxes that have been announced, then a full taxation reform strategy will be needed. Whatever the mechanism, action is urgently required.

The Committee looks forward to continued dialogue and consultation on the Victorian Government's Social and Affordable Housing strategy, prior to its planned release before the end of 2021.

Education

International Education

The Committee has been calling for the prioritisation of a robust, dedicated quarantine system for all international travellers, including students. The Victorian Government proposals, to establish a dedicated quarantine hotel for international students, as well as a 500-bed quarantine accommodation hub in Mickleham for all inbound travellers, were welcome signals.

Disappointingly, there is no ambition to fast-track the return of international students this year. No additional funds were allocated in the budget for the Mickleham facility, with the government looking to the Commonwealth for funding. The Victorian Government has allocated \$15 million for planning the facility. Collaboration between both parties is necessary for timely implementation.

The budget included \$51 million for the Higher Education Fund, which is designed to support universities with capital works, as well as applied research and research partnerships. The government works with the universities on the allocation of funding. There was no support for the 120,000 international students who stayed in Victoria last year.

As Victoria's largest services export, the international education sector has not received the necessary support required to prevent job losses and brand damage.

Skills

The budget includes \$85.3 million to establish a new Victorian Skills Authority, and a further \$89 million over four years to subsidise 12,200 new places in the TAFE network.

It is important that the government consults with industry about the skills needed for Victoria's recovery – which includes not only STEM jobs of the future but plugging the gaps in some of the skills impacted by COVID, including the tourism, arts & culture sectors.

Transport

There were necessary and modest investments in Victoria's rail network, including \$986 million allocated for the production of 25 new trains for the Craigieburn, Upfield and Frankston lines. Production will begin in 2022, with their rollout expected by 2026. The trains will increase capacity from 760 passengers per train to 1,200 per train.

The Victorian Government intends to offer up to \$3000 for Victorians who purchase a zero-emission vehicle (ZEV) and for 50 per cent of all new car sales in Victoria to be ZEVs by 2030. This is an ambitious and welcome target but to succeed, major investments in infrastructure, particularly charging infrastructure which is supported by a stable and increasingly *green* electricity grid, is required.

Major investments and incentives related to ZEV technologies will help the Victorian Government achieve its targets set out in its new Climate Change Strategy. They include emissions reduction targets of 28-33 per cent by 2025 and 45-50 per cent by 2030. These are ambitious targets but must be backed up with decisive action.

The budget has allocated \$6.6 million to update *Plan Melbourne* – the metropolitan planning strategy – with consideration for the impacts of COVID-19 on working arrangements and changing lifestyle priorities.

Plan Melbourne has merit. However, it does not offer a comprehensive, detailed, strategic framework outlining how Melbourne will grow in the long-term. Greater Melbourne requires a strategic plan with greater depth and clarity. The Committee's *Transporting Melbourne* [report](#) has called for the design and implementation of a comprehensive, integrated transport plan, which considers land use and economic development, and which includes targets, timeframes and accountabilities.

The budget did not include additional funding for the Suburban Rail Loop (SRL), which will apparently be addressed later this year. The Victorian Government indicated that it had requested the Commonwealth to assist with funding the SRL in the Federal Budget. This funding support was not forthcoming as the businesses case has still not been developed and released to the public.

Despite an uptick in active transport during the pandemic, there were no additional major upgrades for cycling and pedestrian infrastructure.

Innovation & technology

To help position Victoria at the forefront of advanced manufacturing, engineering and design, the budget includes \$179.4 million to deliver the first stage of the transformation of the former General Motors Holden site at Fishermans Bend.

Given that the University of Melbourne's School of Engineering is supposed to be situated there from 2024, this highlights the need for adequate transport infrastructure and development planning, to entice further investment.

\$245 million will be spent on the development of the Australian Institute of Infectious Disease at Parkville. This funding is in addition to the \$155 million spent on the precinct in last year's budget. The Committee welcomes the development of this facility and the commitment to research demonstrated by this investment.

The Committee notes that there did not appear to be any direct funding allocated 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 re-convened in 2021. The Committee's AI Taskforce has released a [report](#) identifying key stakeholder collaboration mechanisms and governance frameworks that can drive the ethical development, adoption and deployment of AI.

Arts, Culture & Tourism

Committee for Melbourne (the Committee) welcomes the investments made to help revitalise Melbourne's CBD, with \$200 million allocated for the Melbourne City Revitalisation Fund. It includes a voucher scheme to support cultural activities, stamp duty concessions for new dwellings and extending the vacant residential land tax exemption.

There are some welcome spending commitments which will impact the arts, culture and tourism sectors. In addition to the CBD revitalisation commitments, a \$288 million creative economy funding package is designed to support Victoria's arts sector. This includes \$120.7 million for the state's screen industry and \$79 million for a creative industries support and recovery package. This is on top of the \$1.46 billion investment in last year's State Budget for the transformation of the Melbourne Art Precinct.

Events and particularly business events have been particularly hard hit by COVID. This budget provides support for business events including a four-year funding commitment to Melbourne Convention Bureau (MCB) and Business Events Victoria.

Energy

The Victorian Government has strengthened the \$1.6 billion energy investment made in last year's budget, which focused on improving grid infrastructure and energy efficiency within buildings and homes, as well as the creation of renewable energy zones.

In this budget, \$110.4 million has been added to the Clean Energy Package, \$62.9 million will help maintain essential energy functions and another \$46 million will fund the \$3000 subsidy for Victorians who purchase a Zero Emission Vehicle (ZEV).

These are sensible investments. In its pre-budget submission, the Committee called for incentives which encourage greater private uptake of Electric Vehicles (EVs) given their comparatively higher purchase costs of internal combustion engine vehicles. Ensuring an adequate *green* electricity grid and charging infrastructure complements this uptake in EVs will be key.

The Committee called for additional measures by the Victorian Government, including:

- Greater investment in transmission infrastructure linking major population centres, particularly Melbourne, to renewable energy zones.
- Renewed focus on ensuring adequate grid access for national and foreign investors.
- Accelerating its commitment to investing in "precinct-scale" energy storage demonstration projects across Victoria.

- Devising a long-term, strategic plan to manage the state's transition away from its heavy reliance on natural gas.
- Career transition support services for workers made redundant from coal-fired power plants.

With the assistance and drive of our membership base, the Committee will continue to advocate for these initiatives as the state strives for a clean energy future.