



Victorian
Chamber of Commerce
and Industry



2020-21

STATE BUDGET SUBMISSION

Introduction

The Victorian Chamber of Commerce and Industry welcomes the opportunity to outline the priorities of Victorian business ahead of the 2020-21 State Budget.

Our submission has been directly informed by extensive consultation with members and includes industry wide recommendations as well as actions to support businesses that have been most materially affected by the pandemic.

Victoria is doing it tough. While Victoria's restrictions are finally easing, significant lockdown costs have mounted and will stay with business for some time. We can grow jobs and reclaim our global reputation by making it easier to grow a business – cut business costs, supercharge research and commercialisation, and target support.

All businesses, large and small, are looking to the Victorian Government to use the November Budget to:

1. **Protect and grow local businesses and jobs:** the best way to grow jobs is to grow business but that can only happen if it's not too hard or too costly. Victoria must become the best place to operate a business in the country. We must protect our local business, livelihoods and jobs and make it easier to start a business and grow. Appropriate incentives, tax reviews and red tape removal are essential, but we also need to assist businesses that have accumulated debt over this period before they collapse under the weight of it.
2. **Reclaim our global reputation:** let's take back our crown and re-establish our competitive advantage. We are an events mecca, culinary and fashion powerhouse, pure and trusted food producer and hi-tech manufacturing centre supported by hubs of knowledge and university-led research. Let's put our innovation capability on supercharge. We may have been on pause for the better part of a year but let's rebound stronger and better than before.
3. **Define and implement the next big build:** the current 'big build' will soon be complete. It's time to ask - what next? Planning for and building the infrastructure we will need in 2030 and beyond will make Victoria a better place to live and work, while stimulating jobs for local small and large businesses across the state.

Action to support these three, inter-connected themes are key to arresting the economic fallout caused by COVID-19, complement current efforts to re-open and restart the economy, and secure longer-term, sustainable prosperity.

While the state's economic and financial position has been hard hit by the pandemic, Victoria has been the engine room of the nation's economy over the past decade and can be again over the next. The foundations to build a lasting and prosperous recovery are solid.

We have a modern, diverse economy, a world class education and training system, well established infrastructure that connects business to markets and people to work, strong industry–research collaboration, resilient and vibrant regions, and renowned environmental credentials. Liveability is strong and growing.

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At the outset we wish to acknowledge the nearly \$6 billion in tax relief, cash grants and cashflow support that the Andrews Government has provided to business this year to help get through the pandemic. Coupled with the Federal Government's significant financial support, these measures have been critical to keeping hundreds of thousands of businesses afloat and Victorians connected to work.

The recent Federal Budget provided welcome further measures to support disposable incomes and help boost aggregate demand. The Victorian Budget needs to complement it with continuing government leadership and the right policies to give confidence and certainty to industry. We can leverage our competitive strengths to give Victoria, and Victorian business, the best chance of success in recovering even stronger than before.

The right policies are not limited to good economic and fiscal management. Lifting restrictions in a way that avoids a large spike in infections—and the need for a return to shutdowns—requires three essential components: a robust testing regime, significant contact tracing capacity and capabilities, and a concerted tracking effort to locate and manage virus hot spots.

Working closely with the private sector, the government can put strong safeguards in place, create incentives that encourage adoption of contact tracing apps, and take steps to ensure compliance with health directions and selective quarantine recommendations. Doing so will ensure workers and consumers feel safe and we can collectively revive our hard-hit economy, while protecting public health, individual liberties and privacy.

The extent to which the virus must be managed and contained in order to support recovery should not be understated. As the Reserve Bank Governor Philip Lowe recently noted; *"... there are likely to be large returns from public investments in first-class testing, contact tracing and quarantine arrangements. These are essential, not only to open up our economy successfully but to also build the confidence that is required for people to spend and invest"*.¹

¹ The Recovery from a Very Uneven Recession. Speech by Reserve Bank Governor Philip Lowe, Sydney, October 15, 2020.

The Victorian Chamber's priority recommendations

This section outlines our key priorities, which are drawn from the extensive list further into the document. This doesn't detract from the wider list below, moreover it just seeks to provide some guidance on what we believe the most pressing items are.

1. Protect and grow local businesses and jobs

- Increase the payroll tax threshold to \$1 million and reduce the payroll tax rate to four per cent for metropolitan Victorian employers and 1.75 percent for regional Victorian employers.
- Waive 2020-21 payroll tax liabilities for employers with Victorian payrolls up to \$10 million (based on their 2019-20 financial year annual reconciliation returns).
- Establish grants of \$5,000 to \$50,000 to help offset business costs to upgrade operating facilities to become COVID-safe.
- Provide an immediate \$1000 rebate for small businesses with an active electricity account that use less than 100,000 kilowatt hours of electricity per year.

2. Reclaim our global reputation

- Establish a \$10 billion industry growth fund, centred on a Special Economic Zone, to stimulate advanced manufacturing and innovation commercialisation across the state.
- Provide secure, long term funding to key demand-driving organisations (Visit Victoria and the Melbourne Convention Bureau) to support COVID-19 recovery tourism marketing and the attraction of new, world class major business events.
- Fast-track the return of international students and provide additional funding to the Higher Education State Investment Fund to help students suffering hardship, boost research and save jobs in the higher-education sector.
- Establish a technology commercialisation fund to provide small and medium sized businesses with grants of \$100,000 to \$250,000 to assist them to bring their product or service to market.

3. Define and implement the next big build

- Take advantage of current low interest rates with prudent increases in debt to invest in productivity -enhancing infrastructure, consistent with the State's triple-A credit rating.
- Reinstitute the Regional Tourism Infrastructure Fund to support a strong ongoing regional tourism pipeline and encourage private sector investment.
- Provide Parks Victoria with a significant increase in capital funding to build new assets and experiences that support the visitor economy, and replace infrastructure damaged by the Victorian bushfires, building back better with visitor facilities that support visitation outside of the traditional summer peak season.
- Leverage own source and Federal Government funding to support new strategic investments in energy, transport, telecommunications, tertiary education, public housing and health.

COVID-19 has damaged Victoria, making prospects for recovery difficult

Over the course of 2020, the multiple impacts of bushfires, COVID-19 and health restrictions have damaged Victoria and Victorian business. Both events have challenged our sense of safety and wellbeing. They have disrupted our everyday lives, social behaviour, connections with family and friends, and how we work, learn and do business.

Business understands that the lockdowns and restrictions on activity imposed throughout most of the year have been necessary to stop the spread of COVID-19. They have been unavoidable, but the impact has been devastating on Victorian business and jobs. More than 200,000 Victorians have lost their jobs since the start of the year and many others have only been able to stay connected to their employer due to state and federal government support.

The far-reaching impact of the pandemic has been compounded by reductions in international migration and visitation, slowing population growth, rising unemployment, business closures and weakening trade. It is a situation that has not been lost on the Victorian Government. As the Minister for the Coordination of Jobs, Precincts and Regions: COVID-19 has recently noted;

Victorian exports are forecast to fall by \$16.4 billion in 2020, while Victorian international education exports are estimated to decrease by \$5.8 billion in 2020. Visitor expenditure in Victoria is estimated to fall by \$23.3 billion in 2020, representing a 72 per cent decrease from 2019. The lack of travel has been highlighted by travel data, which shows that Melbourne Airport has seen a decline of 98 per cent on year on year international and domestic passengers.²

With the added need for vital and significant emergency funding support, it is not surprising that the government's budget position has come under pressure.

The impact of COVID-19 has not been lost on the Victorian Chamber. Feedback from our members shows the pain has been felt across the state. Sectors like tourism, hospitality and events have been especially hard hit, but the cuts in household discretionary spending as a result of large job losses and the loss of confidence have also dealt a severe blow to other important industries like retail, manufacturing, construction and transport.

Small and medium sized businesses and sole traders are telling us they are being stretched to breaking point by falling cash flows, difficulties obtaining additional finance and the challenges of ongoing financial commitments (employee wages, rent, insurance, electricity and utility charges).

The experience of the pandemic means it is possible that people and firms may become more risk averse, affecting their appetite to spend and invest. If this occurs, we are likely to see a period of heightened structural change in the economy with a rise in the number of business failures and households facing financial stress. How well we support those who are most affected, while at the same time capitalising on the new opportunities, will shape the recovery over the next few years.³

² Minister for the Coordination of Jobs, Precincts and Regions: COVID 19 — Hon. Martin Pakula, evidence provided to the Parliamentary Accounts and Estimates (PAEC) Inquiry into the Victorian Government's response to the COVID-19 pandemic

³ Philip Lowe, Op cit.

The Roadmap to Reopening has not been smooth for business

Following the Victorian Government's announcement of its *Roadmap for Reopening* in early September, we engaged widely with members through a series of sector specific roundtables to understand their experience in navigating the roadmap and what further action the Victorian Government needs to take to support business recovery.

Member feedback has highlighted both generic as well as sector specific concerns relating to the operation of restrictions on businesses and their workforces. Several common concerns include:

- The blanket approach to restricting most industries has little regard for the diverse nature of business operations and is not always proportionate to risk.
- The reputational damage Melbourne faces in lockdown grows while our interstate and international competitors open.
- Border restrictions and controls on people movement are amplifying skills shortages in some in-demand occupations.
- COVID-19 has exacerbated some regulatory barriers to new investment.
- Operators have invested heavily in transforming their operators to ensure they are COVID-safe.
- Business needs to be trusted to open safely and lead the recovery.

While restrictions have recently eased under Victoria's COVID-19 roadmap – and there is hope they can be eased further in November – the effects of COVID-19 will stay with us for some time. Forecasts from both ANZ and the NAB suggest the Victorian economy will this year suffer the single largest economic hit of any state or territory on record. ANZ believes the nation's second largest state economy will contract by 5 per cent, or by more than \$22 billion, this year after a flat 2019-20.⁴

Such a large fall in activity would result in the Victorian economy retreating to where it was in early 2016.

It is unlikely that economic recovery will be quick. Recent modelling by PricewaterhouseCoopers forecasts an annual average of up to 398,000 jobs could be lost in Victoria over the next five years because of the pandemic and requirement for public health measures to remain in place into 2021.⁵

Little relief can be expected on the international front. The global economy is continuing to experience a severe downturn as countries wrestle to contain COVID-19. There will be continuing near-term spill-over effects for Victoria in the face of weaker Chinese demand for our exports, ongoing disruption to supply chains and no respite for our tourism and international education sectors while restrictions remain in place on tourists and overseas students.

⁴ Victorian economy could lose four years of growth due to virus lockdown. The Age. August 26, 2020

⁵ Economic impacts of COVID-19 on the City of Melbourne. Final Report. City of Melbourne. August 20, 2020

The 2020-21 Budget can turn the immense challenge we face into an opportunity

With overwhelming support to look at new ways to run the economy⁶, this year's Budget provides the most significant, and necessary, opportunity to respond to disruption.

The crisis has demanded and been met with a significant response by governments to keep Victorians safe, and help arrest the damage to business and jobs. This approach needs to continue as the health crisis gradually abates, and we learn to live with COVID-19, but it also needs to turn to measures that trigger economic recovery that 'builds back better'. In other words, not only getting economies and livelihoods back on their feet quickly, but also safeguarding prosperity for the longer term.

This means triggering investments, structural and societal changes that will both reduce the likelihood of future shocks and improve our competitive position over the long term. Therefore, this year's State Budget needs to set out not only the vision for Victoria's economic restart and recovery in the short term, but the concrete steps to secure growth over the next decade and beyond.

We must not forget that the progression of the recovery will itself bring new risks and pressures to bear on Victoria. Spare capacity that currently exists will soon disappear. Skills shortfalls are likely to resurface and many existing infrastructure limitations will be exacerbated.

Therefore, it is vital that the 2020-21 Budget provides a strong focus on reducing business operating costs and improving competitiveness through stronger infrastructure investment and job creation.

Across all industries, we consider there are three key priorities to navigate emerging risks, re-ignite recovery and ensure Victoria rebounds strongly.

1. Protect and grow local businesses

The best way to grow jobs is to grow business but that can only happen if businesses are supported through COVID-related restrictions and it is not too hard or too costly. Throughout the COVID-19 crisis the Victorian Government has stepped up to assist. While not all businesses are happy with the way the health crisis has been handled and the level of assistance, overall, assistance has contributed to keeping businesses afloat.

Now, as we learn to live with the virus and look to the restart and recovery period, business is looking to the Victorian Government to work with and mirror the Federal Government in its approach, supporting and stimulating a strong private sector backed recovery and job growth effort.

Victoria must once again become the best place to operate a business in the country. We must protect our local business, livelihoods and jobs and make it easier to start a business and grow.

Immediate tax relief followed by meaningful tax reform must be the starting point to attract investment, grow jobs and keep Victorian business competitive.

The budget can put the first process in motion by providing payroll tax relief to spur recovery, business confidence and job creation. We need an 'employment friendly' payroll tax threshold that tackles the multiple pressures of high

⁶ Essential Report, 6 October 2020, <https://essentialvision.com.au/economy-revert-to-old-ways-vs-opportunity-for-change>

unemployment, above-average jobless rates in several parts of metropolitan and regional Victoria, and structural change affecting many goods producing and trade exposed industries.

This will not happen while Victoria's payroll tax-free threshold of \$650,000 remains below levels existing in other states. The New South Wales Government will lift the payroll tax threshold to \$1 million by 2021-22. In Queensland the current threshold is already \$1.3 million. In Western Australia the annual threshold will rise to \$1 million from January 2021.

Accelerating and raising Victoria's existing payroll tax threshold schedule should therefore be a priority.

While the inefficiencies of our state tax system are well known, the rise in government debt and significant economic contraction provides a compelling opportunity to overhaul state taxes and enact change. The Budget can also start this process by announcing the Government will develop a Green Paper that:

- Outlines options for shifting the state's revenue base toward more efficient, productivity enhancing taxes
- Explains the benefits and costs of reforming state taxes and charges
- Sets out a timetable for state taxation reform.

While we acknowledge that the magnitude of the response to COVID-19 may necessitate additional short-term revenue generation to ensure future generations are not burdened with excessive debt, the tax reform process should not lead to outcomes that increase the overall tax burden faced by Victorian business over the long term. The best way to rebuild our fiscal buffers is through economic growth.

Energy bills continue to feature heavily in the operating costs of many Victorian businesses, especially those in trade exposed industries. Unfortunately, current government support is limited, fragmented and hard for business to access. The coming budget provides an opportunity to provide immediate relief to lower the energy bills of small business and deliver a meaningful business energy support package encompassing:

- Energy efficiency and capital upgrades (modelled on the NSW Government's Manufacturing Efficiency Program)
- Support for business investment in onsite solar, cogeneration and storage.

These measures need to be accompanied by investment to modernise the energy system, including support to build more large scale disaggregated clean energy and storage, like South Australia is doing. Such investment will create jobs, help improve Victoria's energy security and make a meaningful contribution to lowering carbon emissions.

Regulatory costs have also continued to mount on business throughout the pandemic so it is important that policy makers do what they can to reduce non-tax costs to drive improved business confidence and performance.

Before the onset of COVID-19, projects such as the Small Business Regulation Review (SBRR) and Better Approvals Project (BAP) had shown good progress in helping lower costs and improve investment certainty. They need to be revisited and expanded to cover all local government approvals required to start or expand a business, and the activities of all major Victorian business regulators.

COVID-19 and the interplay of border restrictions have exacerbated the cost and delays associated with cross border regulatory inconsistencies. These must not be allowed to hold businesses back in their efforts to recover. We urge the government to use the budget to drive new red tape reduction initiatives in areas like transport, health, agribusiness, waste and building standards.

Recommendations to ensure businesses survive restrictions

- Extend all existing deferrals and reductions in state business taxes, fees and charges (Workcover premiums, stamp duty on commercial and industrial property sales, and other regulatory costs) to 30 June 2021. This should include the waiver of various licensing fees and charges for small businesses including tourism operators, bars, cafes, restaurants and self-employed tradespersons.
- Establish grants of \$5,000 to \$50,000 to help offset the costs of businesses upgrading their operating facilities to become COVID-safe. For example, the instillation of automatic doors, the construction of outdoor break-out facilities, or the purchase of staff and customer tracking applications.
- Establish a vendor portal for products and services that assist businesses operate a COVID-safe workplace. It could operate similarly to the PPE and face mask vendor portal already established and will reduce the search costs for businesses and averts the need to undertake costly in-house product development.
- Provide one-off grants of up to \$20,000 to sole traders who have been significantly impacted by industry restrictions and can demonstrate ongoing operating expenses (e.g. insurance, digital platform subscriptions and asset maintenance).
- Waive the congestion levy for public and private carparking within the CBD until June 2021 and provide a 50 per cent reduction in 2021-22. This will encourage visitation back to the CBD and support the safe use of public transport.
- Establish a buy local initiative for Victorian manufactured products. The resurgence in consumer interest in Australian made products provides a springboard for the industry. However, they need better platforms to get their products to market.
- Address the unprecedented decline in apprenticeship and traineeship commencements and completions by introducing a payroll tax exemption for apprentices and trainees.
- Provide an immediate \$1000 rebate for small businesses with an active electricity account that use less than 100,000 kilowatt hours of electricity per year. Sole traders, sporting clubs, community organisations and charities would all be eligible if they meet this criterion.
- Extend the Commercial Tenancy Relief Scheme until the end of June 2021.
- Allow school camps to resume for those students allowed to return to their classroom learning. With outdoor sport now allowed at school, outdoor education incursions, excursions and activities (orienteering, cycle training, etc) should also be allowed to run.
- Abandon plans to introduce a Fair Jobs Code for large government grants and procurement opportunities. The proposed Code will add red tape, complexity and cost to small business and act as a major disincentive to growing SME participation in government contracts.

Recommendations to cut the cost of doing business

- Increase the payroll tax threshold to \$1 million and reduce the payroll tax rate to four per cent for metropolitan Victorian employers, and 1.75 percent for regional Victorian employers.
- Waive 2020-21 payroll tax liabilities for employers with Victorian payrolls up to \$10 million (based on their 2019-20 financial year annual reconciliation returns). This will provide relief for employers in 2021-22 who would otherwise face a financial hurdle in meeting their 2020-21 payroll tax liabilities, which for now have only been deferred.
- Consider establishing a Victorian Government backed equivalent to the Commonwealth Government's Coronavirus SME Guarantee Scheme that would provide a guarantee of 50 per cent to small and medium enterprise (SME) lenders for new unsecured loans to be used for working capital. This would help SMEs access additional funding to support them through the upcoming months.
- Conduct a review of state taxes, including the release of a Green Paper that identifies the costs and benefits of state tax reform.
- Reduce the average WorkCover premium rate to 1.20 per cent of payroll. This will keep Victoria competitive against states like Queensland which has an average premium rate of 1.20 per cent. The government's commitment to keep industry premiums unchanged during 2020-21 has helped keep costs at bay while employers grapple with the pandemic. Employers typically pay premiums for the current policy year based on the remuneration paid to workers declared in previous years. However, since June this year many businesses have made significant reductions in remuneration due to cuts in staffing levels or the number of hours worked due to COVID-19 restrictions.
- Reinvigorate efforts to rationalise the operation and administration of the state tax system, for example, by introducing a single payment return that includes most State financial obligations (e.g. payroll tax and land tax payments, WorkCover payments and TAC premiums).
- Ensure adequate resourcing is available to support the Red Tape Commissioner in progressing the red tape reduction task, noting the Victorian Chamber and its members are actively contributing ideas and experience to the development of regulatory reform solutions. Reform priority areas should include environmental regulation, planning, government purchasing and heavily regulated sectors like transport and logistics, and food processing.
- Undertake a comprehensive independent review of the number, size, purpose and effectiveness of Victorian regulators that commonly interface with business.

2. Reclaim our global reputation

The Victorian economy has long been the envy of other Australian states. We are known as an events mecca, culinary and fashion powerhouse, pure and trusted food producer, and hi-tech manufacturing center supported by hubs of knowledge, innovation, and university-led research.

Our regions showcase natural beauty, fresh produce, and collaborative communities. Until the onset of COVID-19 and border restrictions, international visitation had been growing strongly and our major events calendar was the envy of the world, attracting world-leading business events and conferences.

Sadly, Victoria's events sector has effectively been closed for 12 months. Without international visitation and most Victorians having been confined to a 5km radius for months, our once innovative and buoyant visitor economy has come to a stand-still.

Our state's biggest export, international education has been indefinitely put on pause with little indication from Victorian policy makers as to how and when it will restart while places like NSW and the Northern Territory are advancing plans to open borders to international students through a quarantine regime at the start of 2021.

While the Victorian Government's \$350 million Higher Education State Investment Fund has played an important role helping students suffering hardship, boosting research and saving jobs in the higher education sector, more support is urgently needed to ensure our universities are better placed to recover, and help with the recovery effort.

Liveability is core to what makes Victoria a vibrant visitor destination and a great place to live, work and do business. Melbourne is known as one of the world's most liveable cities, with an outstanding arts, food, and wine offering, Australia's best shopping, and diverse sporting and leisure opportunities.

The important connection between liveability and economic recovery means policy makers must support the efforts of industry to regain our reputation and competitive position. This can be done by leveraging the many characteristics that make Victoria a great place to live, work and visit and by continuing to invest in our skilled workforce, infrastructure, services and natural assets.

Recommendations to re-establish Victoria as Australia's most liveable state

- Provide a long term (minimum of four years) funding stream to support Visit Victoria's important work in executing demand-driving marketing and visitor attraction campaigns across intrastate, interstate and international markets.
- Ensure long term (minimum of four years) funding is made available to enable strategic bidding of major business events to Melbourne. A thriving pipeline of conferences and business events is key to rebuilding our reputation and the Melbourne Convention Bureau must be able to confidently and capably bid for events in the competitive global marketplace.
- Grow regional Victoria's share of the meetings, conference and events market by maintaining strong funding support for Business Events Victoria (BEV). Return its operating functions to Visit Victoria to ensure BEV has the people, processes and systems needed to deliver services that are relevant and accessible to members.
- Reassess restrictions on tourism development on public land and land surrounding areas of high tourism potential to encourage private investment in Victoria's nature-based tourism.

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- Invest in regional transport (road, rail and regional airports) and other tourism infrastructure (e.g. national parks, public lands, waterways, visitor facilities, and mobile and broadband connectivity) to convert the proximity of Victoria's regions into a strong competitive advantage for the visitor economy.
- Fast-track plans to support the return of international students and provide additional funding to the Higher Education State Investment Fund to help students suffering hardship, boost research and save jobs in the higher education sector. This support is urgently needed to ensure our universities are better placed to recover and help with the recovery effort.
- Provide tailored, digital upskilling for the retail, hospitality, manufacturing and visitor economy sectors. To stay profitable, smart retailers are focusing on markets outside Victoria and Australia using digital platforms and advanced marketing solutions. However, many smaller sized enterprises do not have the skills or capabilities to adopt and leverage these technologies. This program would complement the Small Business Digital Adaptation Program.
- Provide grants for businesses holding events to help offset the significant OH&S costs associated with ensuring the event is COVID-safe.
- Waive motor vehicle registration costs for events industry sole traders and contractors.
- Suspend council administered Food Act Registration renewal costs for hospitality businesses in impacted Local Government Areas.
- Modify clearway times around local shopping strips to increase parking options for patrons collecting take-away food or beverages.
- Work with all councils to remove and fast-track license and permit approvals to allow the re-purposing of large spaces to hold large scale events.
- Support the exemption of small businesses with a turnover of less than \$2 million from Fringe Benefits Tax (FBT), recognising that having meals which are genuinely for business purposes attract FBT and unfairly penalise hospitality operators and small café and restaurant businesses.
- Waive gaming taxes for clubs, pubs and hotels for six months, conditional on these funds being used to retain staff.
- Advocate that the Federal Government expand apprenticeship and traineeship eligibility to casual hospitality and events industry workers who work a minimum number of hours per week (e.g. 13 hours) and provide funding for employers to take them on.
- Extend the land tax deferral to eligible hospitality and events industry landowners (taxable landholdings below \$1 million) until 30 June 2021.

Victoria has traditionally had a strong and diversified economy. It has been built on a foundation of a world-class higher education system and research capabilities. Our advanced manufacturing, food and agribusiness, construction and medical technologies sectors were singled out as world leading. At the beginning of the year, we were in the middle of one of the largest investments in public infrastructure our state has ever seen. However, with a lack of business confidence, we are already seeing private investment and talent moving to other states in droves.

With the right policy settings and business support, the 2020-21 Budget and pathway to recovery is an opportunity for Victorian businesses to rebound stronger than before.

To do this, we must leverage and embrace our knowledge economy, and support and cultivate innovation, collaboration and commercialisation. Many Victorian businesses will have limited cash flow to invest in demand driving technologies, yet now more than ever, innovation and technology must be embraced in order to overcome the physical distancing challenges a COVID-safe operating environment demands.

Priority actions in the 2020-21 Budget must therefore include specific measures to encourage business commercialisation, encourage investment in workforce development, entice private sector investment and new business development, improve our transport infrastructure and revitalise regional Victoria.

Recommendations to incentivise the establishment and growth of knowledge intensive, internationally focussed businesses throughout Victoria

- Establish a \$10 billion industry growth fund, centred on a Special Economic Zone, to stimulate advanced manufacturing and innovation commercialisation across the state. This would encourage the establishment and growth of knowledge intensive businesses throughout our state. Eligible businesses would have access to:
 - Significant payroll tax and land tax concessions, including no land tax obligations for the construction of greenfield advanced manufacturing facilities throughout Victoria. This would not only encourage business investment and job creation but stimulate construction activity.
 - Direct grants to support investments, projects and activities that support industry development, capability building and strategic export development
 - Access to land or facilities
 - Concierge services and streamlined and fast-tracked application processes for Local Council permits and building approvals.

The fund would focus on:

- Growing existing businesses – with a focus on business competitiveness and innovation, including a focus on the small to medium business sector (SME's) and supply chains.
- Investment attraction – helping new businesses to locate in Victoria, including MNEs that can utilise Melbourne as a springboard into Asia.
- Market access – growing the capability and identifying new global markets for products and services.

The fund would adopt a range of finance mechanisms, including discounted loans, grants, equity, fee and charge waivers and deferrals.

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- Boost Melbourne's status and capabilities as a major hub for freight and passenger travel that supports local, national and regional economies. Work with airline operators to support airline hub growth by securing additional freight flights to Melbourne, supporting key industries like pharmaceuticals and agribusiness.
- Overhaul Victoria's local content policies to stimulate Victorian manufacturing. The current local content requirements are complicated, confusing and resource intensive, instead acting as a barrier to boosting local content. As a priority, health sector procurement should be de-mystified and opened to create more opportunities for small local suppliers to tender for contracts.
- Strengthen Victoria's innovation system with more comprehensive support to connect Victorian business and researchers, streamlining and accelerating the collaboration process and boosting Victoria's innovation performance.
- Establish a technology commercialisation fund to provide small and medium sized businesses with grants of \$100,000 to \$250,000 to assist them bring their product or service to market. Funding can cover the cost of market research, proof of technical feasibility, skills development, access to specialised equipment or gain regulatory approval.
- Refocus attention on Victoria's Circular Economy and the implementation of the State Government's 10-year Recycling Victoria Strategic Action Plan, with a focus on new job generation and product innovation.

3. Define and implement the next big build

Significant investment in a body of major projects across the state including hospitals, schools, public transport, roads, rail and airfreight, tourism and events assets, communication, health, education, water and energy have been key to Victoria's economic growth over the past two decades.

In more recent years Melbourne's Big Build of 119 major road and rail projects has created tens of thousands of jobs across all types of sectors, from construction and engineering, to human resources and administration.

Across the state there are now more than \$70 billion in transport projects underway, including the regional rail revival program, the Monash Freeway upgrade, the Hurstbridge Line upgrade, the Western Roads upgrade, the Metro Tunnel and the M80 upgrade.

The major pipeline of planned infrastructure has provided a silver lining for those parts of the construction industry permitted to provide critical and essential infrastructure, albeit at reduced capacity levels in order to keep workplaces safe.

Last year's budget focused on ensuring the state's project pipeline remains strong with significant infrastructure commitments towards the North East Link, the removal of an additional 25 level crossings, the upgrade of the Sunbury Line and funding for the new Footscray Hospital public private partnership.

However, the current infrastructure pipeline will not last forever. The value of the total prospective pipeline is now dwarfed by projects already announced or under procurement. Similarly, while prospective road and rail pipelines remain strong, they are much less so in areas like energy, water and sewerage and social infrastructure.⁷ This is despite the existence of several credibly proposed greenfield projects, including:

- The Victoria to NSW Interconnector West
- Victorian Big Battery
- Hurstbridge Line Upgrade Stage 2
- Australian Paper Energy from Waste Facility
- Palmers Road Corridor
- Melbourne container terminal capacity and land transport access
- Public transport access to Fishermans Bend
- Public transport connectivity improvements to, and through, Frankston
- Melbourne Airport Third Runway.

⁷ Infrastructure Partnerships Australia. Overview of the Infrastructure Pipeline by Project Status. October 2020

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This year's budget provides a chance to shift up a gear in terms of the scope and size of our infrastructure commitments. Some of this can and should be underpinned by government capital expenditure. While state debt levels have increased as a result of the need for emergency funding support to counter COVID-19, debt and debt servicing ratios remain within prudential limits. With historically low interest rates the government can leverage additional borrowing without the risk of a rating downgrade.

While public funding is key to the infrastructure task, the government can continue to play an important role in encouraging unsolicited proposals that capture value and explore unique and innovative ideas from industry that provide real and tangible benefits to Victorians.

The government can also help unlock private sector investment by exploring innovative models and products that minimise the risks of projects for long-term-capital providers. These include credit-support instruments (such as political-risk, demand, and stop-loss guarantees) and underwriting risks that long-term-capital providers may not accept.

The Victorian Government can also strategically target economic and social infrastructure investments that traditionally benefit from shared funding support from the Commonwealth, such as aviation services, telecommunications and postal services, as well as tertiary education, public housing and health.

There are already several smaller-scale projects where federal money is already on the table, such as light rail to Doncaster, electrifying trains past Frankston to Baxter and duplicating tracks in Waurn Ponds, Geelong.

Not all projects need to be mega-level or new builds. Replacing or refurbishing assets is important to extend their life and improve efficiency. Also important are improvements to transport networks to reduce congestion, and reforms to state and regional (and national) connectivity to support the movement of people, goods and services. Steps must also be taken to preserve corridors of land needed for future industry and trade growth.

Our ability to recover and grow the state's competitive and liveability credentials will depend not only on continuing to invest in and refresh important 'hard' infrastructure, like transport, hospitals and schools, but in 'soft' infrastructure areas like the arts and creative industries, recreation and the environment.

It is just as important that we continue to support our most vulnerable individuals and communities through improved multicultural community infrastructure to help them get through coronavirus, build social and cultural connections, strengthen community partnerships and increase labour force participation.

Because COVID-19 has been a catalyst for some changes that may become permanent, for example commuters are less inclined to travel on overcrowded trains and more people may work from home, putting less strain on transport, it is important that we think carefully about what projects the state truly needs in 2022-21 and beyond.

Recommendations to secure the infrastructure we will need in 2030 and beyond

- Critically review Infrastructure Victoria's and Infrastructure Australia's infrastructure priority lists to identify Victorian investments that can be reordered from medium term (5-10 years) to near term (0-5 years) projects. Assess whether delivery timeframes can be brought forward on priority projects and initiatives already underway.
- Take advantage of current low interest rates with prudent increases in debt to invest in productivity-enhancing infrastructure, consistent with maintaining the State's triple-A credit rating.
- Reinstitute the Regional Tourism Infrastructure Fund to support a strong ongoing regional tourism pipeline and encourage private sector investment in innovation and infrastructure. Such investment is crucial to regional Victoria being able to deliver the quality experiences that are expected from today's global consumers.
- Provide Parks Victoria with a significant increase in capital funding to build new assets and experiences that support the visitor economy, and replace infrastructure damaged by the Victorian bushfires, building back better with visitor facilities that support visitation outside of the traditional summer peak season. Funding should include delivery of the Regional Tourism Review recommendations and the implementation of a new nature-based visitor economy strategy and plan.
- Bring forward road and other infrastructure and social infrastructure upgrades, and any planned procurement across the public service and related organisations, that can leverage local content and skills (where health and other government directions permit).
- Fast-track and award tenders for critical projects such as the Frankston Hospital redevelopment, the Ballarat Base Hospital redevelopment, and the new Melton Hospital to ensure, designer, architects, engineers and draftsmen capabilities and capacities remain in Melbourne and Australia.
- Amend the Infrastructure Victoria Act 2015 to require Infrastructure Victoria to identify land use and infrastructure corridors that should be reserved to meet future transport, industrial and commercial needs.
- Build an East West Link as well as the North East Link and ensure existing major infrastructure projects are delivered on time and on budget, including:
 - An airport rail link incorporating fast trains to Geelong and Ballarat
 - The suburban rail loop
 - The level crossings removal program.
- Extend funding for the Mode Shift Incentive Scheme for another four years to ensure the continued removal of trucks off major regional and metropolitan roads and onto our rail networks (current funding will conclude on 30 June 2021). With Victorian freight volumes set to nearly triple by 2051, it is vital rail takes up a greater share of the growing freight movement across the state.
- Accelerate peri-urban and regional infrastructure planning needs to support population growth and jobs in the state's interface corridors and regions.

- Invest in new technologies to improve transport system efficiency, reliability and safety, including high capacity signalling across Victoria's transport network, upgrades to arterial roads traffic signal efficiency and accelerated trials of connected and automated vehicles (CAV).
- Support the development of an integrated national energy policy as well as individual projects that have the potential to provide new sources of energy supply, such as the Crib Point gas import jetty and gas pipeline project. New investment to modernise the energy system, including support to build more large scale disaggregated clean energy and storage, needs to be a priority. Such investment will create jobs, help improve Victoria's energy security and make a meaningful contribution to lowering carbon emissions.
- Waive Development Contribution Plan (DCP) levies to incentivise landowners and developers to bring forward new investment in urban renewal Greenfields. With cashflows under pressure, this will help get new developments off the ground.
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- Identify and pursue further opportunities for asset recycling.
- Fight for a fairer share of Federal infrastructure funding for Victoria.

Concluding comments

With its close connection to business and policy makers, the Victorian Chamber has welcomed the opportunity to inform and shape many of the measures introduced to keep businesses afloat and workforces employed during the pandemic.

We will continue to work with the Andrews Government to support the steps needed to build a lasting and prosperous recovery from it, now and into the next decade.