



**Victorian
Chamber of Commerce
and Industry**



2020-21

STATE BUDGET OVERVIEW

> 2020-2021 State Budget Overview



Victorian Treasurer Tim Pallas delivered the 2020-21 State Budget on Tuesday 24 November 2020.

Recognising the key role a business led recovery must play in steering Victoria towards growth into 2021 and beyond, the budget has a strong focus on growing jobs, stimulating trade and boosting innovation and investment across the state.

Measures to keep business direct and indirect costs low are a feature of the budget, as are measures to provide continuing support for our hardest hit industries and reskill and retrain workers.

Many of the budget measures are aligned to the Victorian Chamber of Commerce and Industry's advocacy on behalf of members.

In the wake of the devastating impact of COVID-19, the 2020-21 budget provides a major boost to Victorian business confidence and activity at a time when it is most needed.

However, not everything in the budget is welcome. The spending commitments will push net debt to almost \$155 billion by 2023-24. The Chamber has consistently supported spending but not where it compromises the state's Triple-A credit rating.

The domestic and international economic outlook also remains fragile. The Budget forecasts Victorian unemployment will increase to 7.75 per cent in 2020-21 and real GSP fall by 4.0 per cent this current financial.

The longer international borders remain closed, the longer net overseas migration, and international education and tourism exports, will remain very low.

Overview

The 2020-21 Victorian Budget provides a strong impetus for recovery with several initiatives to buoy business and consumer confidence, foster new investment and innovation, and grow jobs.

Victorian employment will be spurred with a Big Build training pathway program to improve the training of apprentices and trainees on major infrastructure projects and new reforms to improve vocational pathways among secondary school students.

The budget eases the cost of doing business by introducing a payroll tax credit of 10 cents for every dollar of wages paid in 2020-21 and 2021-22 above the previous year's wages (for employers with wages below \$10m), and a new regulatory reform package.

It also provides a much needed boost to industry research and innovation with a \$2b fund to drive investment in translational research, innovation, and commercialisation outcomes, funding for R&D cash flow loans for SMEs and the establishment of a Venture Growth Fund to inject more capital into the scaleup sector and support companies that do not meet the requirements of traditional lenders.

Infrastructure is a major focus of the budget which makes a significant investment in asset maintenance as well as new projects spanning sectors including transport (road and rail), health, social housing construction, energy, and schools.

Victorian manufacturers will benefit from a new Manufacturing and Industry Development Fund to build essential and sovereign manufacturing and industry capability.

All businesses will be able to benefit from a \$626m Digital Future Now package to support the transition to a digital economy.

Victorian agribusinesses will benefit from the Agriculture Technology Regional Innovation Network and a Pathways to Export program. There is also continuing funding for the Agriculture Energy Investment Plan and a new Food to Market Infrastructure Program.

Exporters will benefit from funding to help showcase their businesses to the world through Global Gateway vouchers and virtual trade missions.

Victoria's visitor economy will welcome funding to refresh iconic attractions and visitor facilities, support new events and encourage Victorians to travel within the state.

Business growth and emerging industries

A focus on growth and emerging sectors that leverage our strengths in technology and advanced manufacturing will help boost business confidence, entice private sector investment and new business development throughout our state. Support for small and medium sized businesses, which are the backbone of our economy and have particularly hard hit by COVID-19 restrictions, will also help boost resilience and sustainability.

Key budget measures

- \$60m for the new Manufacturing and Industry Development Fund to support essential and sovereign manufacturing and industry capability in Victoria.
- \$40m to establish the Industry Recovery and Growth Fund to facilitate private sector investment to unlock economic and job creation outcomes.
- \$65m to grow and modernise Victorian agribusiness. This includes establishing the Agriculture Technology Regional Innovation Network and a Pathways to Export program, as well as continuing the Agriculture Energy Investment Plan and delivering a new Food to Market Infrastructure Program.
- \$681.9m for projects to drive cheaper and cleaner energy, including progressing the Victoria to New South Wales Interconnector (VNI) West project, administering the Victorian Big Battery and funding to attract investment in innovative energy projects.
- \$12.2m to assist SMEs to digitise and innovate using Small Business Support Toolkits, and a Ready for Growth service to support businesses that have high-growth potential through masterclasses and personalised coaching including in advanced digital engagement and innovation.
- \$20m to establishment of the Australian MedTech Manufacturing Centre. Based in Melbourne, the Centre will gather and communicate information about MedTech opportunities and support local businesses to collaborate and pursue MedTech opportunities.
- \$321.7m for a circular economy policy and 10-year action plan to transform Victoria's recycling sector. In addition to an overall strengthening of Victoria's waste and recycling industry, key initiatives include introducing a four-bin waste and recycling system and a container deposit scheme.
- \$31.8m for an export recovery plan to help showcase Victorian businesses to the world and ensure an integrated approach to trade and export opportunities.
 - Global Gateway vouchers to support Victorian exporters to stabilise and pivot their business models for recovery
 - Pilot virtual trade mission
 - Establish a Freight Stabilisation Fund
- \$80m of funding for targeted financial incentives to attract business investment to Victoria in line with the Victorian Government's Foreign Direct Investment Strategy. Support will be provided to secure high-quality international business investment to support jobs growth, foster innovation and enhance Victoria's 'productivity growth.
- \$6m for a Defence Capture Plan to support Victorian businesses secure roles in delivering major defence contracts through advocacy, advisory and capability development activities, including through the Victorian Defence Industry Advocate. Targeted support for high-potential defence opportunities and a digital capability uplift program will also help to promote a competitive advanced manufacturing sector in Victoria.

Innovation

Victoria has a strong culture of innovation and entrepreneurship with a healthy ecosystem of start-ups. However, there are significant barriers to commercialisation and technology adoption, preventing rapid scale-up and job creation. The budget's focus on support for early stage start-ups is well timed, helping propel Victorian innovation into national and global supply chains, boosting jobs and attracting talent and investment back to our state.

Key budget measures

- \$2b Breakthrough Victoria Fund to drive investment in translational research, innovation, and commercialisation outcomes to accelerate growth in key industry sectors and create jobs. The focus industries will include health and life-sciences; agri-food; advanced manufacturing; clean energy and digital technologies.
- \$525.9m for Victoria's Digital Future including
 - Establishing a digital and innovation hub in Cremorne to accelerate the development of one of Australia's leading urban technology precincts and deliver digital short courses and industry internships to improve digital capability.
 - Eradicate mobile blackspots and improve connectivity in regional Victoria.
 - Business-grade broadband to be delivered across suburbs and regional towns to enable businesses, employees and job seekers to fully participate in the emerging digital economy.
- \$60.5m to establish a start-up venture capital fund to leverage private capital to invest in Victorian start-ups.
- \$10m for investment support for innovative early-stage start-ups founded by women.
- \$40m for LaunchVic to provide support to high-potential start-ups and scaleups in priority sectors & harness the 'angel' and early-stage investor communities.
- \$25.8m to establish a Venture Growth Fund to inject more capital into the scaleup sector and support companies that do not meet the requirements of traditional lenders. Debt will be short to medium term in nature and will promote high value-added jobs growth for small and medium-sized enterprises and the start-up industry.
- \$12.9m providing R&D cash flow loans for SMEs to pay up to 80 per cent of their forecast refundable Federal Government Research and Development Tax Incentive offset. This will help Victorian businesses maintain cashflows to continue vital research and development work programs.

Business costs

The Victorian Chamber has long been an advocate for reforms to payroll tax that acts as a disincentive for business growth and job creation. It is pleasing to see the budget tackle this issue through the introduction of a payroll tax credit that will help businesses re-employ staff, restore staff hours and hire additional staff. While the benefits may not be immediately seen, the regulatory reform package will help businesses restructure their product and service offerings in the post COVID operating environment.

Key budget measures

- A payroll tax credit of 10 cents for every dollar of wages paid in 2020-21 and 2021-22 above the previous year's wages (for employers with wages below \$10m). This measure is expected to provide tax relief to 14,000 businesses in 2020-21 and 21,000 businesses in 2021-22.
- Regional employers worst-affected by the 2019-20 Victorian bushfires with a registered address in the East Gippsland, Mansfield, Wellington, Wangaratta, Towong and Alpine local government areas are eligible for a reduced payroll tax rate of 1.2125 per cent immediately, backdated to 1 July 2019.
- To support businesses to open, relocate or expand in areas worst affected by the 2019-20 Victorian bushfires, the 50% land transfer duty concession applies to contracts entered into from 27 January 2020 for eligible properties in the defined State of Disaster Local Government Areas.
- \$74.8m regulatory reform package including running a second round of the Better Approvals Program, establishing a Regulatory Reform Incentive Fund, an Incentive Based Regulation Unit, and a Fast Track Review Unit.
- \$45.9m to expand the solar panel rebate and loans scheme to small businesses to help them manage their energy costs. Targeted incentives will be provided to facilitate engagement in the Victorian Energy Upgrades program.
- \$95.4m for planning and building approvals reform through the Big Housing Build. Immediate legislative changes will be investigated including a review of the *Planning and Environment Act 1987*. Regional planning hubs will provide support to Councils on statutory approvals as well as strategic plans and assessments.

Visitor economy, events, and creative industries

With international travel some way off due to the COVID-19 pandemic, this year's budget has a strong focus on encouraging Victorians to travel locally and support Victoria's regional and coastal communities. It also builds on supporting the continued recovery of regional areas impacted by the 2019-20 Victorian bushfires.

The Victorian Government's Regional Tourism Investment and Infrastructure funds respond to the findings of the Regional Tourism Review and focus on increasing visitation, leveraging private sector investment to develop new attractions and improve the experience of visitors to the states regions.

Key budget measures

- \$106.5m industry support for Victoria's visitor economy. Funding provided to support the recovery of Victoria's visitor economy, with a focus in regional areas, from the impact of the 2019-20 Victorian bushfires and coronavirus (COVID-19) pandemic. The funding will support strategic destination planning to identify priority regional tourism initiatives; business case development for new tourism products, events and experiences; targeted intrastate, interstate and overseas marketing campaigns to attract visitors to our regions; capacity and skills development for tourism businesses; and continued support to Regional Tourism Boards.
- \$152m for the Major Events Fund promoting the State's calendar of events and strengthening Victoria's position as a leading location for major events.
- \$120.6m Regional Tourism Investment Fund. Funding is provided to deliver projects in line with the findings from the Regional Tourism Review to increase visitation, align with visitor demand and leverage major private sector investment in order to develop new attractions and create higher service levels.
- \$150m Regional Tourism Infrastructure Fund. A budget commitment provided for a range of regional tourism infrastructure projects to support jobs and local communities, including investment in:
 - > Wilsons Promontory Revitalisation, including new visitor centre, accommodation, and a predator-proof fence
 - > Great Ocean Road Revitalisation, including toilets, car parks and viewing platforms.
 - > Falls to Hotham Alpine Crossing trail – stage 1
 - > Gippsland Tourism Recovery Package
- \$27.9m for the Victorian Regional Travel Voucher Scheme. Funding provided for 120,000 vouchers to encourage Victorian residents to travel within Victoria, aiming to provide an immediate stimulus for businesses and the tourism sector.
- \$21m for a Creative State Screen Industry Recovery Package.
- \$20m Regional Events Fund. Funding is provided in the budget to continue to attract a strong pipeline of regional events through the 2020/21 year both from Melbourne and Interstate.
- \$49.9m for Parks Victoria to maintain and upgrade a range of visitor facilities across Victoria.

Infrastructure

Significant investment in infrastructure maintenance as well as new projects is a key feature of this year's budget. The government's budget infrastructure initiatives span across several sectors including transport (road and rail), health, social housing construction, energy, and schools.

As COVID-19 government restrictions begin to ease, government-funded transport and infrastructure projects will provide both employment and commercial stimulation to help stem the pandemic's economic impact.

The Victorian Chamber in its Budget Submission called for a greater level of infrastructure spending for Victoria to recover and grow the state's competitive and liveability credentials through investment in 'hard' infrastructure like transport, hospitals, and schools.

Key budget measures

- \$2.2b for the Suburban Rail Loop. Central to the government's infrastructure spend is a commitment to commence construction of the Suburban Rail Loop project, a 90 kilometre loop that will link existing major rail lines from the Frankston to the Werribee line, better connecting services and forecast to generate more than 20,000 jobs during construction and up to 2,000 apprenticeships.
- \$2b for stage 1 of the Geelong Fast Rail. The Geelong Fast Rail will cater for growing commuter numbers from Victoria's largest and fastest growing regional city. The Victorian Government's contribution is on top of a \$2b Federal Government commitment.
- Funding for 100 Next Generation Trams and a new tram maintenance facility. The Government will purchase 100 *Next Generation Trams* to commence the retirement of the high floor tram fleet that will be manufactured in Victoria. A new tram maintenance facility will be built in Melbourne's North West to support the deployment of the fleet.
- \$10m for the Redevelopment of the Royal Melbourne Hospital (RMH) and planning money to support the phased build of the Arden Street Hospital, that will take on several services from the existing RMH and Royal Women's hospital.
- \$5.3b for Social Housing build more than 12,000 new dwellings. This will support upwards of 10,000 construction jobs and increase Victoria's social housing supply.
- \$108.7m for a road maintenance blitz across the state. Additional funding allocated for road maintenance and pavement works across metropolitan and regional Victoria. Scope of works include, routine maintenance, road surface replacement works, bridge strengthening works, and replacing intelligent transport systems such as traffic signals and electronic speed signs.
- \$892.2m to upgrade 123 schools across the state and \$122.4m for new school construction. This budget initiative is in line with the Government's commitment to open 100 new schools across the state by 2026.
- \$13.7m to streamline and simplify procurement. Funding is provided for a reform program to streamline and simplify procurement for both buyers and suppliers, improving procurement technology and leveraging the government procurement spend to achieve greater value.
- \$120m for Regional Health Infrastructure Fund. This initiative will improve the quality and amenity of infrastructure across a range of rural and regional health services. This funding will allow health services to respond to local priorities and maintain and enhance their service delivery capacity.
- \$200m for Metropolitan Health Infrastructure Fund. Funding is provided for metropolitan health services and agencies to provide acute and sub-acute services to address infrastructure risks, reconfigure assets or expand to meet service demand. The funding will sustain and improve equipment and existing infrastructure.

Education and employment

Education and employment initiatives will provide much needed funding to strengthen and support apprenticeships and trainees, deliver digital learning opportunities and rapidly retrain Victorians. The Victorian Chamber has long advocated for an overhaul of the education and training sector and is pleased to see the budget take steps to improve training quality and outcomes in line with industry needs.

Key budget measures

- \$33.1m to establish the Big Build program to oversee and coordinate the employment and training of apprentices and trainees on major infrastructure projects. Funding will enhance the impact of the Major Project Skills Guarantee which ensures Victorian apprentices, trainees and cadets are employed on major infrastructure projects.
- \$250m to support businesses to hire at least 10,000 Victorians through a six-month wage subsidy. These positions will be for Victorians hardest hit by this pandemic, including young people, retrenched workers and people who have been long-term unemployed. At least \$150m of subsidy support will go towards getting women back in work, with around a third of such placements being provided to women over 45.
- \$38m to develop a new vocational pathway within the Victorian Certificate of Education (VCE), including Jobs, Skills and Pathways Coordinators in government secondary schools to support students with vocational and applied learning transitions, and Jobs, Skills and Pathways Managers to support schools and facilitate industry engagement.
- \$19.3m for the Apprenticeships Growth Strategy, including funding for the Apprenticeship Support Officer program, an Apprenticeship Innovation Fund and the Supporting More Women into Trade program.
- \$74.8m to rapidly retrain Victorians for high-priority industries, including the establishment of a new Victorian Funded Skill Set List and a Clean Economy Skills and Jobs Taskforce and Workforce Development Strategy.
- \$155.5m for TAFE programs to reskill and upskill women, young people, migrants, vulnerable Victorians, and retrenched workers, including \$5m to provide highly developed learning and assessment materials to support online or remote learning.
- \$631.5m to meet anticipated demand for eligible students to undertake training to enhance their skills and employment opportunities, including for Victorians impacted during the coronavirus (COVID-19) pandemic. Support for subsidised training places and Free TAFE in priority areas will be boosted, as well as additional places for accredited short courses and skill sets in construction.
- \$11.6m for the Building Better TAFEs Fund which will see funding provided to ensure campuses and facilities are improved and maintained.

> 2020-2021 State Budget Overview



Fiscal and economic outlook

The combined impact of reductions in revenue as a result of the global recession and increases in expenditure to deal with the impacts of coronavirus (COVID 19) has resulted in an operating deficit of \$6.5 billion in 2019/20 and a forecast deficit of \$23.3 billion in 2020/21. Further operating deficits are forecast over the forward estimates.

The Government's substantial response to the coronavirus (COVID 19) pandemic and the impact of the economic downturn on the State's revenue base means that net debt will rise from 9.6 per cent of GSP at June 2020 to 28.9 per cent by 2023/24

The budget's economic forecasts point to a strong rebound in Victoria's economic and employment growth rates as restrictions ease and consumers become more confident, allowing businesses to resume trading and more employees to return to work. This rebound is expected to continue across 2021/22.

However, some constraints on recovery will remain over the coming year. National borders are likely to remain closed to migrants and tourists until at least mid-2021, the global economy will likely remain weak, and some consumers and businesses are expected to remain cautious.

Victorian economic forecast (%)	2019-20 forecast	2020-21 forecast	2021-22 forecast	2022-23 projection	2023-24 projections
Gross State Product	-0.25	-4.0	7.75	3.25	3
Employment	1.2	-3.25	3.50	2.25	2.0
Unemployment rate	5.4	7.75	7.0	6.25	5.75
Consumer price index	1.7	0.75	1.5	1.75	2.0
Wage price index	2.4	1.0	1.75	2.0	2.25
Net debt to GSP	9.6	19.5	22.5	26.0	28.9

Source: Strategy and Outlook 2020-21, Budget Paper Number 2.

© The Victorian Chamber of Commerce and Industry 2020. This paper was prepared by the Victorian Chamber of Commerce and Industry. While the Victorian Chamber has endeavored to provide accurate and reliable research and analysis, it will not be held liable for any claim by any party utilising this information.

The Victorian Chamber of Commerce and Industry, 150 Collins Street, Melbourne, Victoria 3000, (03) 8662 5333, victorianchamber.com.au, November 2020