Victorian Budget 2020/21

Putting People First

Strategy and Outlook

Budget Paper No. 2
Presented by Tim Pallas MP,
Treasurer of the State of Victoria

VICTORIA State Government

The Secretary
Department of Treasury and Finance
1 Treasury Place
Melbourne, Victoria, 3002
Australia
Tel: +61 3 9651 5111
Fax: +61 3 9651 2062
Website: budget.vic.gov.au

Authorised by the Victorian Government
1 Treasury Place, Melbourne, 3002

Printed by Doculink, Port Melbourne

This publication makes reference to the 2020/21 Budget paper set which includes:
Budget Paper No. 1 – Treasurer's Speech
Budget Paper No. 2 – Strategy and Outlook
Budget Paper No. 3 – Service Delivery
Budget Paper No. 4 – Statement of Finances
(incorporating Quarterly Financial Report No. 1)

ISSN 2204-9185 (print)
ISSN 2204-9177 (online)
Published November 2020

Strategy and Outlook

2020-21

Presented by

Tim Pallas MP

Treasurer of the State of Victoria

for the information of Honourable Members

Budget Paper No. 2

TABLE OF CONTENTS

Table of contents *(continued)*

CHAPTER 1 – ECONOMIC AND FISCAL OVERVIEW

The coronavirus (COVID-19) pandemic has resulted in the largest global recession since the Great Depression and is severely affecting the Australian and Victorian economies. In Victoria, employment fell by 180 000 between the March and September quarters 2020, while economic output is forecast to fall by 4.0 per cent in 2020-21.

Without record levels of government support these impacts would be far worse. Since the beginning of the coronavirus (COVID-19) pandemic, the Government has been supporting Victorians – delivering the health response, support for businesses and households, and protecting jobs. More than $13 billion has been committed to support workers and businesses through the coronavirus (COVID-19) pandemic.

This budget builds on that support and delivers new investments to drive economic recovery. The budget responds to the scale of the challenge presented by the coronavirus (COVID-19) pandemic with $29.2 billion over four years in output spending and $19.8 billion of investments in new and improved assets to create jobs, grow the economy, and continue delivering services and infrastructure. Three key principles have been applied:

- coronavirus (COVID-19) and economic recovery expenditure to focus on the short to medium term;
- growth in this expenditure to taper as the economy recovers; and
- infrastructure investment to support jobs and ensure Victoria has a pipeline of work to support business confidence.

Central to the *2020-21 Budget* is the *Jobs Plan*. This targeted, complementary set of initiatives will help protect and create new jobs and make the Victorian economy stronger and more resilient. The *Jobs Plan* gets Victorians back to work; builds our state as we rebuild our economy; leverages our strengths by supporting key industries; and ensures no community and no Victorian is left behind.

The Government is setting an ambitious Jobs Target – for employment to be 400 000 higher by 2025, with an interim milestone of 200 000 more people employed by 2022, compared with the trough in employment in 2020. The *Jobs Plan*, as well as other initiatives announced since the *2019-20 Budget Update*, will support around 125 000 jobs over the life of these initiatives. Deloitte Access Economics estimates that the Government's expenditure and revenue decisions will result in a cumulative $43.9 billion increase to gross state product (GSP) over the budget and forward estimates period.

The Government remains committed to a robust fiscal framework, but in the short-term is prioritising the use of its balance sheet to support employment, business and consumer confidence and household budgets, consistent with recent advice provided to the National Cabinet by the Governor of the Reserve Bank of Australia (RBA). The Government's plan for the medium term involves four steps:

- Step 1: creating jobs, reducing unemployment and restoring economic growth;
- Step 2: returning to an operating cash surplus;
- Step 3: returning to operating surpluses; and
- Step 4: stabilising debt levels.

This is appropriate given the unprecedented nature of the coronavirus (COVID-19) pandemic. This approach will have short-term costs to the State's financial position, but over the longer term will result in a quicker and stronger economic recovery. The Government will continue to review and refine its plan in light of the prevailing economic conditions.

CORONAVIRUS (COVID-19) AFFECTING VICTORIA'S ECONOMY

The coronavirus (COVID-19) pandemic has resulted in the largest global recession since the Great Depression and is severely affecting the Australian and Victorian economies. Globally and domestically, economic activity and employment have fallen sharply and unemployment has risen. The economic shock caused by the coronavirus (COVID-19) pandemic is forecast to cause Victorian economic output to fall by 4.0 per cent in 2020-21 following an estimated fall of 0.25 per cent in 2019-20. Without record levels of Victorian Government support these impacts would be far worse.

Prior to the coronavirus (COVID-19) pandemic, Victoria's economy had been performing well. Economic and employment growth was strong – averaging around 3.5 per cent a year over the three years to 2018-19 – and the economy had recorded 27 consecutive years of growth. The unemployment rate had fallen to an 11-year low of 4.6 per cent in 2018-19 and was low across the state. Meanwhile, strong economic activity had increased living standards, with real GSP per capita rising every year since 2013-14.

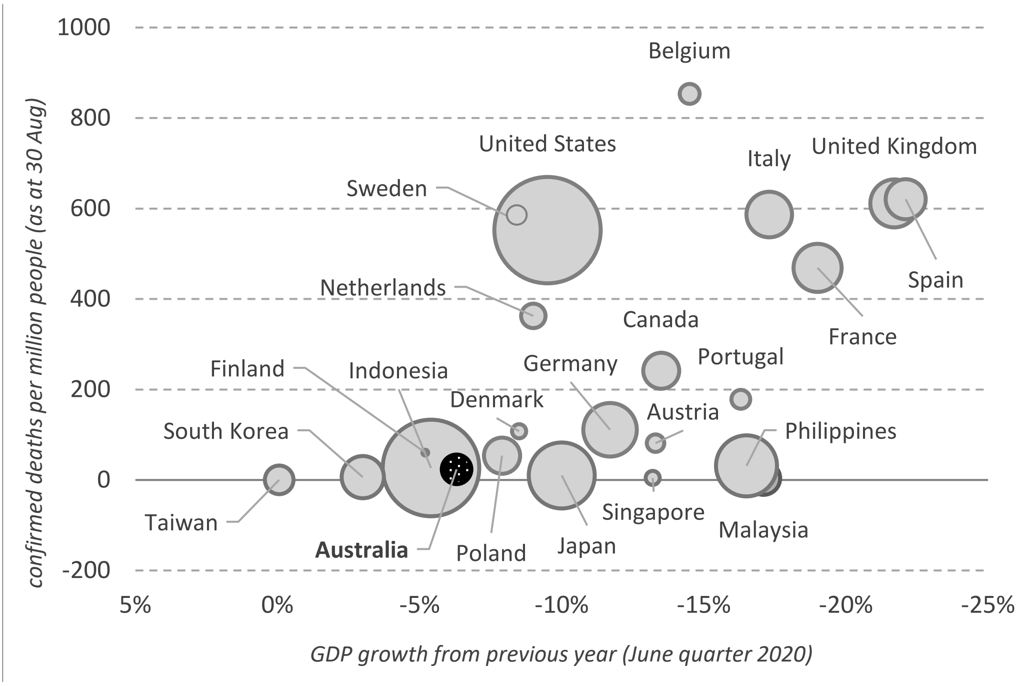
Across Australia, public health restrictions slowed the spread of coronavirus (COVID-19) but limited economic activity across a range of sectors in the June quarter 2020. Sharp falls in consumer and business confidence and the closure of national borders to international students, tourists, and migrants also lowered economic activity. These falls would have been far worse without record Victorian Government support – increasing GSP by $7.5 billion and helping to protect or create 81 000 full-time equivalent jobs in the June quarter alone.

Further public health restrictions were put in place from July and August, with restrictions gradually easing from mid-September. These restrictions were necessary to save lives, slow the spread of coronavirus (COVID-19) and enable sustained economic recovery, but in the short-term they extended the State's downturn into the second half of 2020.

Evidence from countries across the world is that the best way to protect the economy is to protect people's health and lives (see Chart 1.1). Slowing the spread of coronavirus (COVID-19) is necessary to protect lives and the key to sustained economic recovery.

The Victorian economy is forecast to recover over 2021, and the recovery is expected to gain traction as the year progresses, underpinned by strong government support and record low interest rates.

Chart 1.1: Economic outcomes and coronavirus (COVID-19) deaths [(a)]



Source: European Centre for Disease Prevention and Control; Eurostat; OECD; World Bank; Australian Bureau of Statistics and individual statistics agencies.

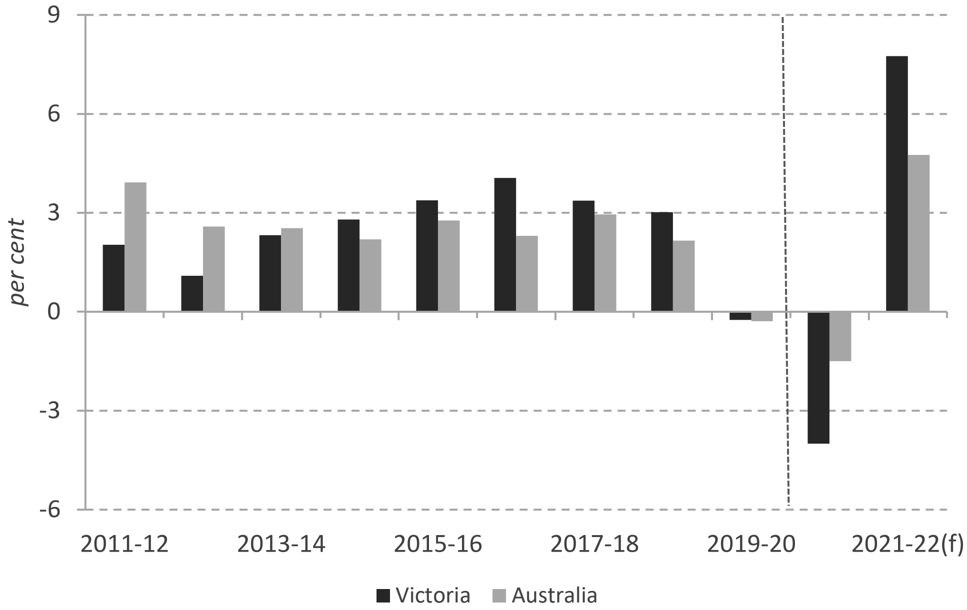
Note:
(a) Bubble size indicates population size.

In recent years, Victoria had been a major driver of Australia's economic growth, with growth in real GSP and employment outperforming the rest of the nation. In the three years to 2018-19, Victoria's real GSP and employment growth averaged 3.5 per cent and 3.4 per cent a year respectively, above the corresponding national growth rates of 2.5 per cent and 2.3 per cent. Economic activity was supported by high population growth, high labour force participation and elevated levels of public and private investment. Output growth had been strong across a wide range of services sector industries.

Due to the coronavirus (COVID-19) pandemic, Victoria's GSP is forecast to contract by 4.0 per cent in 2020-21, following a small decline in 2019-20. Employment is expected to fall by 3.25 per cent. The unemployment rate is forecast to rise to average 7.75 per cent in the year, with a quarterly peak of 8.25 per cent in the December quarter 2020.

Longer periods of public health restrictions are expected to contribute to weaker economic growth in Victoria in 2020-21 compared with Australia overall. However, in 2021-22 Victoria's economy is expected to expand more rapidly than Australia overall (see Chart 1.2).

Chart 1.2: Real economic growth, Victoria and Australia [(a)]



Source: Australian Bureau of Statistics, Department of Treasury and Finance; Commonwealth Treasury

Note:
(a) 2019-20 growth for Victoria is an estimate; Australia is an actual. Forecasts are rounded to the nearest 0.25 percentage points.

This strong rebound in Victoria's economic and employment growth rates is expected as restrictions ease, consumer and business confidence returns, businesses resume trading and affected employees return to work. The unemployment rate is expected to steadily decline over the forecast period. However, the coronavirus (COVID-19) pandemic means that the economic outlook is more uncertain than usual.

STRONG FINANCIAL MANAGEMENT

In each of its previous five budgets, the Government adhered to a clear and robust fiscal framework, enabling investments in services and infrastructure to meet the needs of a growing population, while maintaining net debt as a percentage of GSP at a sustainable level.

The Government remains committed to a robust fiscal framework. However, given the unprecedented coronavirus (COVID-19) pandemic (see Box 1.1) and consistent with recent advice provided to the National Cabinet by the Governor of the RBA, the Government is prioritising the use of its balance sheet in the short-term to support employment, confidence and household budgets through a targeted program directed at jobs and economic recovery.

It is also consistent with the approach endorsed by other state and territory governments in Australia. In October 2020, the Board of Treasurers released a statement on state spending and debt management. The statement highlighted that now is the right time for governments to deploy protective and stimulatory measures, supported by additional Commonwealth Government support and manageable increases in borrowings where necessary.

While this will have short-term costs to the State's financial position, over the longer term this approach is expected to result in a quicker and stronger economic recovery, ultimately protecting Victorians' living standards.

Box 1.1: The need for fiscal stimulus

The coronavirus (COVID-19) pandemic is severely affecting the Australian and Victorian economies. The need to implement restrictions on economic and social activities to slow the spread of coronavirus (COVID-19) and save lives has resulted in a sharp contraction in private sector activity and employment.

With interest rates already at historically low levels before the pandemic – in Australia and in most other advanced economies – fiscal policy has necessarily taken centre stage to respond to the economic crisis. With the official interest rate close to zero and conventional monetary policy therefore constrained in its ability to stimulate the economy, the Reserve Bank of Australia has itself encouraged significant fiscal stimulus.

Victoria's sound public finances heading into the coronavirus (COVID-19) pandemic have provided significant scope to support the community's economic wellbeing when and where it is most needed. Victoria's low debt and strong credit rating placed the State in a strong position to face this once-in-a-century crisis.

More than $13 billion has been committed to support workers and businesses through the coronavirus (COVID-19) pandemic, including grants for business, tax and fee relief, additional health spending and increased investment in schools, TAFEs and hospitals. These have complemented the Commonwealth Government's substantial fiscal response.

The measures announced by the Victorian and Commonwealth Governments have helped mitigate the impact of the coronavirus (COVID-19) pandemic on health and economic outcomes and will continue to support the economic recovery.

There have been similar fiscal stimulus measures globally. The International Monetary Fund has welcomed the global economic policy response, which it has characterised as massive and swift, and much larger than during the global financial crisis.

The economic shock caused by the coronavirus (COVID-19) pandemic is forecast to cause Victorian economic output to fall by 4.0 per cent in 2020-21 and the unemployment rate to peak at 8.25 per cent. Without record levels of State and Commonwealth Government support the likely economic outcomes would be far worse.

The Victorian economy experienced an extended period of strong jobs growth before the coronavirus (COVID-19) pandemic, with 523 000 new jobs created between November 2014 and March 2020. Victoria created more jobs in this period than any other state or territory.

The consequences of the coronavirus (COVID-19) pandemic led to a fall in employment of 180 000 between the March and September quarters 2020.

This budget provides the foundations for economic recovery, reflected in the Government's ambitious Jobs Target – for employment to be 400 000 higher by 2025, with an interim milestone of 200 000 more people employed by 2022.

The *Jobs Plan*, as well as other initiatives announced since the *2019-20 Budget Update*, will support around 125 000 jobs over the life of these initiatives. The *Jobs Plan* has been designed to provide the greatest level of support to the Victorian labour market at the time when it is most needed, while support from the Commonwealth Government tapers.

Deloitte Access Economics estimates that the Government's expenditure and revenue decisions will result in a cumulative $43.9 billion increase to GSP over the budget and forward estimates period.

Balancing sound fiscal management with supporting the economic recovery

Government responses to the coronavirus (COVID-19) pandemic, not only in Australia, but around the world, have seen significant deficits and increasing debt levels. The International Monetary Fund (IMF) has indicated that in 2020, government deficits around the world are set to increase significantly, and global public debt is projected to reach a record high.

Sound fiscal management in the medium term requires the realignment of revenues and expenditure, coupled with a strategy to fund the Government's infrastructure program.

This remains a key priority; however, the timing needs to be balanced against the important role government has in supporting the economic recovery. The Government's focus on supporting the economic recovery will, in the longer term, also help support a return to a stronger fiscal position.

The Government's plan for the medium term involves four steps:

- Step 1: creating jobs, reducing unemployment and restoring economic growth;
- Step 2: returning to an operating cash surplus;
- Step 3: returning to operating surpluses; and
- Step 4: stabilising debt levels.

The current forecast operating deficits account for the Government providing targeted economic stimulus to support economic activity and employment, help private businesses employ and invest, and recover broader economic activity.

The Government's *Jobs Plan* sets out the strategy for economic recovery. It provides targeted investments to protect and create Victorian jobs, with an emphasis on supporting those in the sectors most heavily affected during the coronavirus (COVID-19) pandemic, including tourism, trade, international education and creative industries.

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 general government operating cash deficit is forecast to be $21.8 billion in 2020-21, reducing to an average of $2.8 billion a year over the forward estimates.

In 2020-21, total revenue is expected to be 4.2 per cent lower than 2018-19 levels. While revenue will remain lower than forecast in the *2019-20 Budget Update* across the forward estimates, it is expected to grow as the economy recovers, reaching $81.4 billion in 2023-24.

Table 1.1: General government fiscal aggregates [(a)]

	Unit of measure	2019-20 actual	2020-21 budget	2021-22 estimate	2022-23 estimate	2023-24 estimate
Net result from transactions	$ billion	(6.5)	(23.3)	(13.1)	(6.7)	(5.9)
Net cash flows from operating activities	$ billion	(2.9)	(21.8)	(4.0)	(2.6)	(1.8)
Government infrastructure investment [(b)]	$ billion	12.0	19.4	19.5	20.3	19.2
Net debt	$ billion	44.3	86.7	109.7	132.9	154.8
Net debt to GSP [(c)]	per cent	9.6	19.5	22.5	26.0	28.9

Source: Department of Treasury and Finance

Notes:

(a) Includes the impact of accounting standards changes that require the classification of most operating leases as debt and the progressive recognition during construction of capital expenditure and related debt associated with financial service concession arrangements, including certain public private partnership projects.

(b) Includes general government net infrastructure investment and estimated construction costs for public private partnership projects.

(c) The GSP figure for 2019-20 is an estimate. The ratios to GSP may vary from publications year to year due to revisions to the Australian Bureau of Statistics GSP data.

As the State is currently in an operating deficit, the first step, when conditions allow, is to return to an operating cash surplus, as this will mean the State is generating sufficient revenues to offset its cash outflows on operating activities.

An operating cash surplus/deficit is a different concept to an operating surplus as it measures the cash the Government generates over a period and excludes accounting concepts such as depreciation. This budget commences the path to a balanced operating cash position.

In the *2019-20 Budget*, the Government identified the need to respond to changing economic conditions by progressively realigning expenditure to target key priority areas, including by implementing savings and efficiencies to improve the effectiveness of departmental spending, and by rebalancing wages policy parameters.

The Government remains committed to the efficiency and effectiveness of government services. However, given the current priority on response to the coronavirus (COVID-19) pandemic and the economic recovery, the Government has revised its approach by deferring the implementation of a range of efficiency measures.

In the 2021-22 budget, the Government will continue to review its path to ensure fiscal sustainability, including providing strategies for the realignment of revenue and expenditure trajectories and steps to a more balanced operating environment.

DEBT MANAGEMENT STRATEGY

In *Labor's Financial Statement 2018*, the Government committed to stabilising net debt at 12 per cent of GSP over the medium term, for the purpose of delivering three major productivity-enhancing infrastructure projects – North East Link, Melbourne Airport Rail, and 25 additional level crossing removals. This commitment also took into account changes in accounting standards from 2019-20.

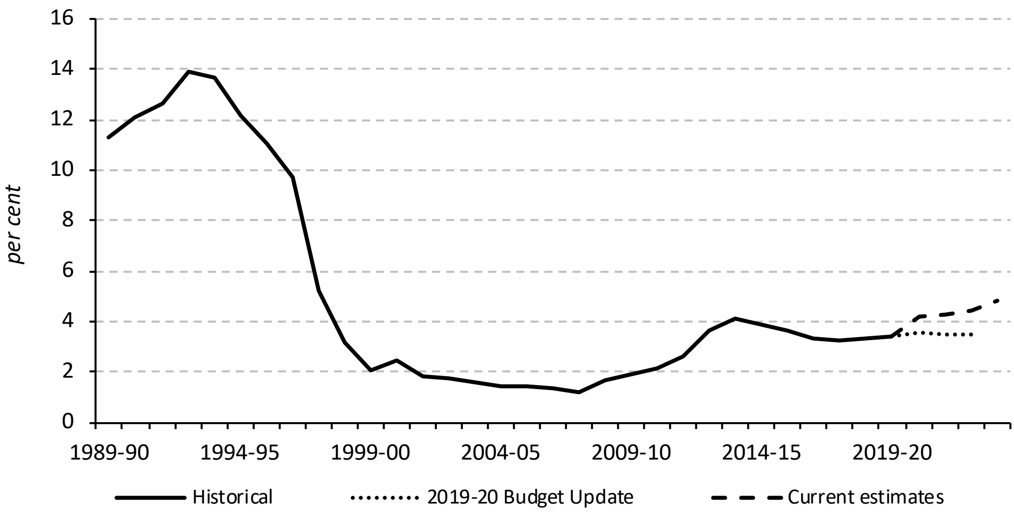
The Government's substantial response to the coronavirus (COVID-19) pandemic and the impact of the economic downturn on the State's revenue base means that net debt will exceed this level. Net debt to GSP was 9.6 per cent at June 2020 and is forecast to increase by around 19 percentage points over the budget and forward estimates.

Borrowings will continue to grow until there is an alignment of revenues with expenses. However, the cost of borrowing is at historically low rates, and expected to be lower than the economic growth rate.

Indeed, governments have been encouraged to borrow to fund essential services. The IMF has noted that borrowing costs are expected to remain low in advanced economies and has cautioned against the premature scaling back of coronavirus (COVID-19) pandemic response measures. The Governor of the RBA has made similar observations, including suggesting that 'the Australian and state governments will be able to finance themselves at extraordinarily low interest rates for a long period of time'.[1]

This means that the impact of the large increase in borrowings can be managed without significantly increasing the proportion of budget revenues that need to be applied to interest expense as highlighted in Chart 1.3 below.

Chart 1.3: Interest expense to revenue ratio [(a)]



Source: Department of Treasury and Finance

Note:

(a) Interest expense to revenue ratio prior to 1996-97 has been calculated on a cash basis, as accrual accounting was implemented from 1996-97 onwards.

[1] Official Committee Hansard. (2020, August 14). Reserve Bank of Australia annual report 2019. *House of Representatives Standing Committee on Economics*, 21.

Box 1.2: Sustainability of higher debt levels

The Victorian Government, like most governments around the world, is providing substantial fiscal stimulus to support the economy during the coronavirus (COVID-19) pandemic. This stimulus, coupled with lower revenue, will raise Victoria's debt levels significantly in coming years.

The increase in debt is manageable. Victoria's debt was relatively low heading into the coronavirus (COVID-19) pandemic and interest rates are at historically low levels. Further, borrowing costs are expected to remain low for an extended period. The RBA recently stated it does not expect to increase the cash rate for at least three years, while government bond yields – a better reflection of the Government's borrowing costs – are also at record lows (see Chart 1.4).

Chart 1.4: 10-year Victorian government bond yields

Source: Treasury Corporation of Victoria

The impact of the RBA maintaining a low interest rate policy over the medium term, combined with the significant fiscal support provided by all governments will support nominal economic growth over the next decade. This economic growth rate is likely to be above the cost of long-term borrowings.

2020-21 Budget principles

The Government is committed to ensuring expenditure is targeted to key priority areas in order to deliver the greatest possible economic and social benefits for Victorians.

Three key principles have been applied to *2020-21 Budget* decisions:

- coronavirus (COVID-19) and economic recovery expenditure to focus on the short to medium term;
- growth in this expenditure to taper as the economy recovers; and
- infrastructure investment to support jobs and ensure Victoria has a pipeline of work to support business confidence.

Expenditure that responds to coronavirus (COVID-19) is focused on the short to medium term. This allows the Government to provide the required response to the coronavirus (COVID-19) pandemic, without compromising its ability to return the budget to a more sustainable fiscal position over the coming years. As the economy recovers, growth in the Government's stimulus expenditure will taper. Consistent with the principles of sound financial management, this will allow revenue and expenditure to be gradually realigned and will assist the Government in continuing to prudently manage financial risks faced by the State.

This approach is also aligned with rating agency expectations. In its May 2020 update on the State's credit rating, Standard & Poor's noted 'we expect the state's budgetary performance and debt burden will weaken during the next few years, before improving in fiscal 2022'. Moody's Investors Service highlighted the State's 'mature and stable institutional framework' in its April 2020 credit opinion as underpinning fiscal strength and flexibility.

The *2020-21 Budget* reflects the Government's long-term financial management objectives as set out in Table 1.2. These have been updated to reflect the current economic environment and the Government's focus on jobs to support sound longer-term fiscal management. The Government will further refine its objectives in future budgets, to the extent necessary to help guide Government decision-making and to deliver the best outcomes for Victorians.

Table 1.2: Long-term financial management objectives

Priority	*Objective*
Sound financial management	Victoria's finances will be managed in a responsible manner to provide capacity to fund services and infrastructure and support households and businesses in the economic recovery at levels consistent with sound financial management.
Improved services	Public services will improve over time.
Building infrastructure	Public infrastructure will grow steadily over time to meet the needs of a growing population.
Efficient use of public resources	Public sector resources will be invested in services and infrastructure to maximise the economic, social and environmental benefits.
A resilient economy	Increase economic resilience by supporting an innovative and diversified economy that will unlock employment growth, long-term economic growth and productivity in Victoria.

Progress toward these long-term financial management objectives is supported by the measures and targets in Table 1.3. These measures and targets have also been updated to better reflect the current economic and fiscal conditions.

Table 1.3: Financial measures and targets for the *2020-21 Budget*

Financial measures	*Target*
Net debt to GSP	General government net debt as a percentage of GSP to stabilise in the medium term.
Interest expense to revenue	General government interest expense as a percentage of revenue to stabilise in the medium term.
Superannuation liabilities	Fully fund the unfunded superannuation liability by 2035.
Operating cash surplus	A net operating cash surplus consistent with maintaining general government net debt at a sustainable level after the economy has recovered from the coronavirus (COVID-19) pandemic.

Due to the comprehensive economic, fiscal and policy information set out in this *2020-21 Budget* and the proximity of its release date to the due date for the annual budget update under the *Financial Management Act 1994*, the 2020-21 budget update will consist of a statement of material changes (if any) from the *2020-21 Budget* and be transmitted to Parliament immediately after the release of this budget.

SUMMARY OF INITIATIVES

Since the beginning of the coronavirus (COVID-19) pandemic, the Government has supported Victorians – with more than $13 billion committed to deliver the health response, supporting businesses and households, and protecting jobs.

This budget builds on and extends that support to drive economic recovery. The budget responds to the scale of the challenge presented by the coronavirus (COVID-19) pandemic with $29.2 billion over four years in output spending and $19.8 billion of investments in new and improved assets to create jobs, grow the economy, continue delivering services and infrastructure, and ensure no worker, sector or community is left behind.

Rebuilding Victoria's economy

The *2020-21 Budget* funds a targeted, complementary set of initiatives that together form the *Jobs Plan.*

These initiatives are based on the guiding principles of getting Victorians back to work; building our state as we rebuild our economy; support for industries and leveraging our strengths; and ensuring no community and no Victorian is left behind.

The *Jobs Plan* prioritises an inclusive and fair recovery. Victorian workers without a job, without the hours they need or who have left the labour force will be supported to play a role in the recovery. Further detail is provided in Chapter 3 *The Jobs Plan.*

Significant new investments in labour market programs and training for relevant skills are funded in the budget. Jobs for Victoria will support jobseekers and businesses with $619 million for enhanced and expanded Jobs Victoria services and wage subsidies. The Government will help businesses create secure jobs through a six-month wage subsidy to support permanent jobs with a focus on women.

Economic stimulus will create new jobs and opportunities for Victorian business. The Government will provide $836 million in tax credits over the next two years to encourage small and medium businesses to increase employment by re-hiring staff, restoring staff hours and creating new jobs as they recover from the effects of the coronavirus (COVID-19) pandemic.

The *Jobs Plan* supports heavily affected sectors as Victoria emerges from the coronavirus (COVID-19) pandemic, including tourism, trade, international education and creative industries, among others.

To maintain Melbourne's position as the cultural capital of Australia, the Government will commence Phase One of the Melbourne Arts Precinct Transformation with $1.4 billion for a new standalone National Gallery of Victoria Contemporary and new and renewed public spaces to better connect the arts institutions with each other and critical maintenance for the Arts Centre Melbourne. The *2020-21 Budget* also provides $196 million in further support to the creative sector, including a $21 million screen industry recovery plan as well as $35 million for regional creative infrastructure projects.

Tourism has been among the hardest hit sectors during the coronavirus (COVID-19) pandemic, which is why this budget provides a four-year $107 million Visitor Economy: Industry Support package to support Victoria's thousands of tourism workers and businesses.

The Government is providing $59 million for targeted planning system reforms, which will have a critical role in unlocking private sector investment and supporting Government initiatives, and $9 million to clear the Victorian Civil and Administrative Tribunal's planning and environment backlog so that construction and development can bounce back quickly once it is safe to do so. In addition, a regulatory reform package will improve Victoria's regulatory system, and enable firms to innovate and reduce the cost of doing business.

To make businesses more competitive and reduce the cost of living, the Government is investing $682 million in cheaper cleaner energy to drive economic recovery, including transmission network upgrades and new clean energy generation projects. In addition, energy efficiency upgrades for homes will benefit 250 000 low income households and over 35 000 social housing properties. A one-off $250 Power Saving Bonus will be available to households with at least one concession card holder, such as a JobSeeker or Youth Allowance recipient or pensioner, if they use the Victorian Energy Compare website to search for a better electricity deal. The Government will provide $38 million to enable 15 000 small businesses to access cheaper energy through Solar Victoria and $152 million to deliver cheaper energy to households by increasing the number of rebates for solar panels and battery storage systems under the existing Solar Homes program.

This budget leverages Victoria's key strengths by growing its health and life-sciences; agri-food; advanced manufacturing; clean energy and digital technology sectors. A $2 billion Breakthrough Victoria Fund will drive investment in translational research, innovation and commercialisation outcomes in these sectors. The fund is expected to catalyse significant investment from other industry, university and government sources and is expected to support 15 700 jobs over 10 years.

One of the keys to the recovery will be unlocking private sector growth. This budget commits $1.1 billion to developing businesses skills, encouraging start-ups, providing access to finance and attracting investment. The Digital Future Now package will eradicate mobile blackspots in regional Victoria, provide digital short courses and industry internships to improve digital literacy, further supporting public safety, digital connectivity, jobs and growth.

The coronavirus (COVID-19) pandemic has demonstrated the importance of a diverse economy and a strong manufacturing sector. To support the manufacturing sector and encourage high-quality jobs, this budget provides $60 million to establish the Manufacturing and Industry Development Fund to support essential and sovereign manufacturing and capability in Victoria.

Support is also provided to ensure there can be a region by region approach to recovery, supporting local communities across metropolitan and regional and rural Victoria, responding specifically to their needs and priorities.

The Government is investing $301 million in the Regional Development portfolio to ensure Victoria has the most vibrant and economically successful regions in Australia. This includes $156 million to continue the Regional Jobs and Infrastructure Fund and $10 million for a short-term regional recovery fund, which will support job creation and address urgent economic recovery needs.

A resilient health and care system

The coronavirus (COVID-19) pandemic has tested Victoria's health system like never before, and the Government has invested to control the spread of coronavirus (COVID-19) and equip health, ambulance and hospital services to care for Victorians. Since March 2020, Victoria has mobilised to deliver over 3 million tests. The Government has also invested in extra personal protective equipment, testing outreach, drive-through testing sites, wastewater surveillance and innovative testing methods such as genomic sequencing.

This budget provides a further $9.0 billion to health services and infrastructure. This includes $2.8 billion to maintain hospital capacity and $121 million for Better at Home which will deliver more healthcare in patients' homes. The budget also provides $33 million for Improving Cancer Outcomes, giving Victorians access to the latest cancer treatments.

The *2020-21 Budget* builds on this Government's record of mental health reform with a further $869 million investment into Victoria's mental health system. The Government will spend $605 million to begin implementing recommendations from the Royal Commission into Victoria's Mental Health System. This includes providing 155 public mental health beds across Victoria.

Education and training for all

The *2020-21 Budget* continues to build on the Education State vision of excellence, equity and inclusion. It commits $5.6 billion to schools and early childhood education to ensure the opportunities of all Victorian students are strengthened, not hindered, as the economy rebuilds.

At the centre of this vision is an investment of $1.6 billion in an unprecedented, multi-year reform to improve support for students with disability in government schools. A new funding and support model will introduce an inclusive and strengths-based approach to responding to the needs of students and invest in the capability of the education workforce. The reform will support improved outcomes for students with disability and position Victoria as an international leader in inclusive education.

Investment of $250 million will ensure government and non-government schools can employ tutors to support students who need it, to address the impact of interrupted face to face schooling on their learning. The Government is also continuing the historic roll-out of universal three-year-old kinder across Victoria, providing an additional $302 million to continue expansion and meet demand.

Maintaining and growing Victoria's skills base is crucial to economic recovery and getting Victorians into secure work. A $1.0 billion investment in TAFE and training will give Victorians the skills to get back to work, driving immediate recovery and supporting resilient and emerging industries. It includes up to 80 000 new subsidised training and Free TAFE places and up to 52 000 new training places in skill sets, with expanded access for those most affected by economic disruption. The Government is also transforming its approach to supporting apprentices and trainees through its new Big Build apprenticeship pathway and Apprenticeship growth strategy.

Strong and safe communities

The Government is working to make secure, affordable housing more accessible for all. Early in the coronavirus (COVID-19) pandemic, the Government acted swiftly to support 2 000 Victorians in need into short-term accommodation. The $151 million From Homelessness to a Home package extends this temporary accommodation and support to access stable housing.

The Government recognises that the foundation for long term homelessness solutions is increasing social and affordable housing. Victoria's Big Housing Build package will invest $6 billion to expand and diversify social and affordable housing across the State, and make housing more accessible and affordable for Victorians, improving the lives of thousands of Victorian families. This package includes $5.3 billion to build more than 12 000 new social and affordable homes and funding to accelerate the public housing capital upgrade program, including the enhanced gas heater servicing and replacement programs.

This budget provides $1.3 billion for child protection initiatives. This includes extending the Better Futures: Home Stretch pilot to provide support for care leavers until they reach 21 years of age, additional support for early intervention to help families stay together and continued support for vulnerable children who are unable to live safely with their families.

The Government continues to implement the recommendations of the Royal Commission into Family Violence. Some $238 million is provided to continue delivering on these recommendations, including multi-agency information sharing and perpetrator accountability programs.

The Government is committed to protecting and empowering Victorians with disability. It will invest over $288 million into disability services including a Disability Worker Regulation Scheme and ensuring Victorians with disability who are ineligible to access the National Disability Insurance Scheme continue to receive the support they need.

The 2019-2020 Victorian bushfires inflicted catastrophic damage on communities, properties and wildlife. The budget provides $483 million for bushfire support, including $124 million for Bushfire Recovery Victoria, a new agency working with bushfire-affected communities on clean-up assistance, rebuilding and personal support.

This budget provides $357 million to support Aboriginal Victorians, including backing the Government's commitment to Aboriginal self-determination with $40 million for Aboriginal Community Controlled Organisations, and $20 million to continue the operations of the First People's Assembly and advance the treaty process between Aboriginal Victorians and the Government. In addition, $13 million in funding will be provided to implement the *Gender Equality Act 2020* and $17 million will be provided to deliver Gender Equality Programs.

This budget recognises the importance of promoting job readiness among multicultural young people and providing places for multicultural groups to feel safe, with $34 million for economic recovery support for Victoria's multicultural communities and young people.

Continuing Victoria's big build and local infrastructure stimulus

The *2020-21 Budget* builds on the Government's record investment in Victoria's transport infrastructure and services, with over $10 billion for building and improving roads, public transport, infrastructure and many local projects that will mobilise quickly and stimulate the economy.

The Government has committed over $87 billion since 2014 to delivering transport infrastructure and services. It continues its overhaul of Victoria's public transport system and will support local manufacturing through an investment of $1.5 billion in Next Generation Trams and associated infrastructure.

Work will ramp up on the Suburban Rail Loop, with $2.2 billion allocated for initial and early works. The Suburban Rail Loop will better connect Victorians to jobs, retail, education, health services and each other.

The Government is investing in regional rail upgrades and services, including $2.0 billion for Geelong Fast Rail to provide faster, more frequent and more reliable services.

This budget also provides $1.6 billion for road network and infrastructure initiatives, including over $850 million for regional road maintenance and upgrades.

CHAPTER 2 – ECONOMIC CONTEXT

- The economic shock caused by the coronavirus (COVID-19) pandemic has resulted in the largest global downturn since the Great Depression. It has severely affected the global, Australian and Victorian economies. Economic activity and employment have fallen sharply, unemployment has risen and trade and population flows have been disrupted.
- Heading into the coronavirus (COVID-19) pandemic, Victoria's economy had been performing well, with strong employment growth, low unemployment across the state and high levels of investment. Economic and employment growth had been strong for several years.
- Due to the effects of the coronavirus (COVID-19) pandemic, Victoria's gross state product (GSP) is forecast to contract by 4.0 per cent in 2020-21, following a small fall in 2019-20. The unemployment rate is expected to peak at 8.25 per cent in the December quarter 2020. Without record levels of government support these impacts would be far worse.
- As public health restrictions ease and Victoria safely progresses to COVID Normal, a strong rebound in Victoria's economic and employment growth rates is forecast, particularly in 2021-22, aided by strong government support and record low interest rates.
- Risks to the economic outlook are much greater than normal, and mainly relate to the coronavirus (COVID-19) pandemic and related policy responses, both domestically and globally.

VICTORIAN ECONOMIC CONDITIONS AND OUTLOOK

The coronavirus (COVID-19) pandemic has resulted in the largest global recession since the Great Depression and is severely affecting the Australian and Victorian economies.

Globally and domestically there have been record falls in economic activity so far in 2020 and sharp falls in employment, as governments impose necessary restrictions on economic and social activities to slow the spread of coronavirus (COVID-19) and save lives. At the same time, governments and central banks have enacted a series of policy responses to support their economies and communities. Despite this, it will likely take a number of years for economies to recover, and recent renewed outbreaks in some countries, for example parts of Europe, highlight the ongoing risks in the absence of an effective treatment or vaccine.

In Victoria and Australia – as in most advanced economies – public health restrictions slowed the spread of coronavirus (COVID-19) but limited economic activity across a range of sectors in the June quarter. Sharp falls in consumer and business confidence lowered economic activity, as did closing national borders to international students, tourists and migrants.

Despite significant economic policy support from the Victorian and Commonwealth Governments, and the Reserve Bank of Australia (RBA), there is expected to be a record fall in Victorian economic output in 2020-21 and the unemployment rate is forecast to rise to its highest level since 1997-98.

Heading into the coronavirus (COVID-19) pandemic, Victoria's economy was performing well, notwithstanding the impact of the 2019-2020 Victorian bushfires. Private and public capital investment were at elevated levels, population and employment growth were strong, and unemployment was low across the State. The economy was on track to its 28th year of consecutive growth in 2019-20.

Victoria recorded its first case of coronavirus (COVID-19) on 25 January 2020. The World Health Organization declared a pandemic in early March 2020. As coronavirus (COVID-19) spread widely and rapidly in parts of the world, financial markets experienced a period of intense upheaval between mid-February and mid-March. Major global equity indices dropped by a third, key interest rate markets briefly seized up, and the Australian dollar fell to an 18-year low.

Australia closed its borders to foreign travellers on 20 March 2020 and, to contain the spread of coronavirus (COVID-19), Victoria and other Australian states enacted public health restrictions from late March. These public health measures closed or restricted many consumer-oriented sectors of the economy.

This first phase of public health restrictions, and elevated consumer caution, led to a sharp fall in economic activity in the June quarter in Victoria and nationally, led by a record decline in consumer spending. Spending on services, such as transport and hotels, cafes and restaurants, was hit particularly hard. Groceries and household goods were notable exceptions to the widespread falls in consumer spending. Household purchasing of essential goods significantly exceeded expectations, with many preparing to work and spend more time at home.

Service exports also fell sharply in the June quarter. Service exports, which include education and tourism, account for almost 6 per cent of Victoria's economy, higher than any Australian state other than New South Wales. The most immediate impact was in tourism, with overseas arrivals falling to virtually zero after the border closure in late March.

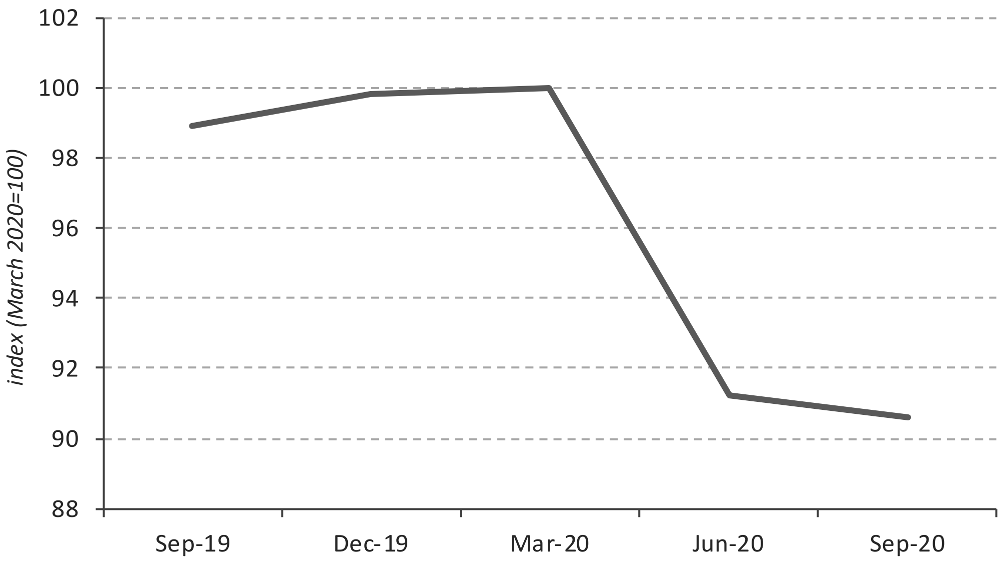
In total, Victorian consumer spending fell by a record 13.7 per cent in the June quarter. Along with falls in business and dwelling investment, state final demand fell by a record 8.5 per cent. Meanwhile, the Australian economy contracted by 7.0 per cent in the quarter, following a small decline in the March quarter. For 2019-20 overall, the Australian economy contracted by 0.3 per cent and the Victorian economy is estimated to have contracted by 0.25 per cent, the first annual fall in Victoria's real GSP since 1991-92.

These falls would have been dramatically worse without record government intervention. The Victorian Government's economic support in the June quarter is estimated to have increased GSP by $7.5 billion and helped protect or create 81 000 full-time equivalent jobs. Commonwealth Government initiatives such as the JobKeeper wage subsidy program also provided considerable support.

After partly easing restrictions in May, rising coronavirus (COVID-19) case numbers in Victoria led to a second phase of public health restrictions from early July. These restrictions began gradually easing from mid-September, supporting progressive resumption of economic activity through the December quarter.

The second phase of restrictions in the September quarter, including tighter restrictions in Melbourne from early August, had a broadly similar aggregate impact on the Victorian economy compared with the June quarter. Total hours worked in the Victorian economy, for example, were only 0.7 per cent lower in the September quarter compared with the June quarter, even with tighter restrictions in place (see Chart 2.1). This may partly reflect consumers and businesses adapting to restrictions in the second phase, including through greater use of online retailing. Continued Victorian and Commonwealth Government support also helped during this period.

Chart 2.1: Victorian hours worked, quarterly



Source: Australian Bureau of Statistics

Evidence from countries across the world shows that getting coronavirus (COVID-19) under control is not just key to protecting lives but also to sustained economic recovery. Countries that have achieved better public health outcomes have also generally experienced smaller declines in economic activity.

Nonetheless, public health restrictions, weaker global demand and a drop in consumer and business confidence have left the Victorian economy starting the 2020-21 financial year from a weakened position. GSP is forecast to contract by 4.0 per cent in 2020-21. Employment is expected to fall by 3.25 per cent, while the unemployment rate reaches a quarterly peak of 8.25 per cent, a level last reached in late 1997, before gradually improving (see Chart 2.2).

Chart 2.2: Victorian unemployment rate, actual and forecast

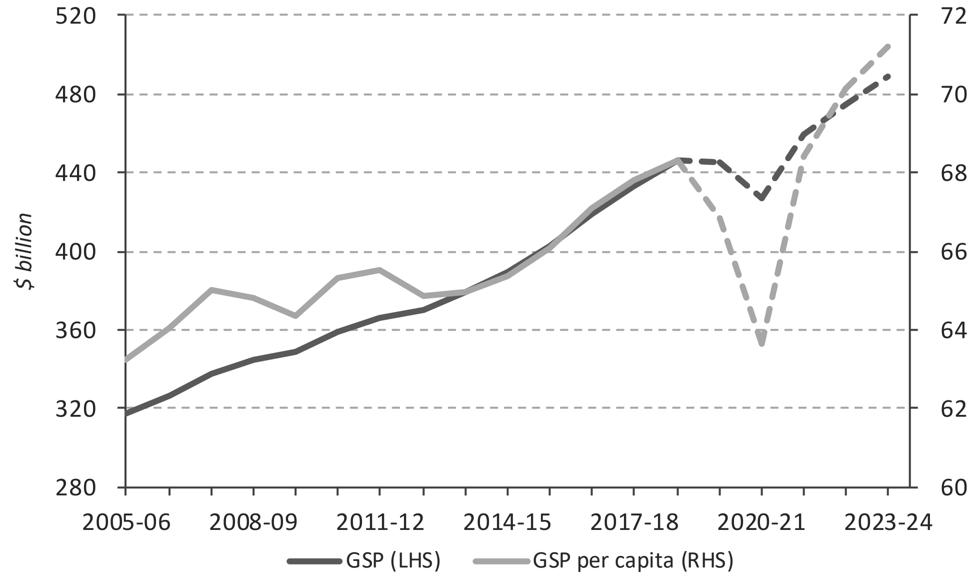
Sources: Australian Bureau of Statistics; Department of Treasury and Finance

A strong rebound in Victoria's economic and employment growth rates is expected 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, underpinned by high levels of government support, and the RBA's commitment to maintaining historically low interest rates – through an ongoing low cash rate and its program of quantitative easing announced in November 2020.

However, some constraints on recovery will remain over the coming year or so. 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.

Over the longer term, lower population growth will have an enduring effect on the size of the Victorian economy. Population growth has been an important driver of Victorian and Australian economic growth in recent years, led by high levels of net overseas migration. Border closures will lead to net overseas migration falling sharply in 2020-21, and migration levels are likely to be lower for some time. This will leave the size of the Victorian population lower than would otherwise have been expected over the forecast period. GSP per person, though, is expected to catch up over several years to where it would have been in the absence of coronavirus (COVID-19) (see Chart 2.3).

Chart 2.3: Real GSP and GSP per capita, actual and forecast



Sources: Australian Bureau of Statistics; Department of Treasury and Finance

Table 2.1 sets out the economic forecasts for the *2020-21 Budget*, while Box 2.1 outlines the key assumptions underpinning the forecasts and Box 2.2 provides the quarterly breakdown of the annual GSP growth rates for 2020-21 and 2021-22. The nature of the coronavirus (COVID-19) pandemic means that the economic forecasts are subject to a much higher degree of uncertainty than usual. Key risks to the outlook are discussed later in this chapter.

Table 2.1: Victorian economic forecasts [(a)] (per cent)

	2018-19 actual	*2019-20 forecast*	*2020-21 forecast*	*2021-22 forecast*	*2022-23 projection*	*2023-24 projection*
Real gross state product	3.0	–0.25	–4.00	7.75	3.25	3.00
Employment	3.4	1.2 [(b)]	–3.25	3.50	2.25	2.00
Unemployment rate [(c)]	4.6	5.4 [(b)]	7.75	7.00	6.25	5.75
Consumer price index [(d)]	1.7	1.7 [(b)]	0.75	1.50	1.75	2.00
Wage price index [(e)]	2.7	2.4 [(b)]	1.00	1.75	2.00	2.25
Population [(f)]	2.1	1.60	0.20	0.40	1.10	1.70

Sources: Australian Bureau of Statistics; Department of Treasury and Finance

Notes:

(a) Percentage change in year average terms compared with the previous year, except for the unemployment rate (see note (c)) and population (see note (f)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (f)).
The key assumptions underlying the economic forecasts include interest rates that follow movements in market expectations; an Australian dollar trade-weighted index of 61.7; and oil prices that follow the path suggested by oil futures.

(b) Actuals.

(c) Year average.

(d) Melbourne consumer price index.

(e) Wage price index, Victoria (based on total hourly rates of pay, excluding bonuses).

(f) Percentage change over the year to 30 June. Forecasts are rounded to the nearest 0.1 percentage point.

Box 2.1: Key assumptions

The economic forecasts presented in this chapter depend on underlying assumptions about how the coronavirus (COVID-19) pandemic will evolve, among other factors.

The nature of the coronavirus (COVID-19) pandemic means that the economic forecasts are subject to a greater degree of uncertainty than usual. For example, there is naturally a high degree of uncertainty around the spread of coronavirus (COVID-19), the timing of any potential vaccines and treatments, and timelines around when the economy and international borders can fully reopen.

The key assumptions that underpin the economic forecasts are:

- Victorian public health restrictions continue to ease over the remainder of 2020, to be at COVID Normal by the end of 2020.
- Any further localised outbreaks, in Victoria and nationally, are contained and do not lead to any further city or statewide restrictions.
- Australian borders remain closed to most major markets, and international travel remains at current low levels, until at least mid-2021.
- There is a gradual return of international students and overseas migrants as borders reopen. A significant return of international students does not occur until the 2022 academic year.

Other factors that may affect the forecasts are discussed in the risks section in this chapter.

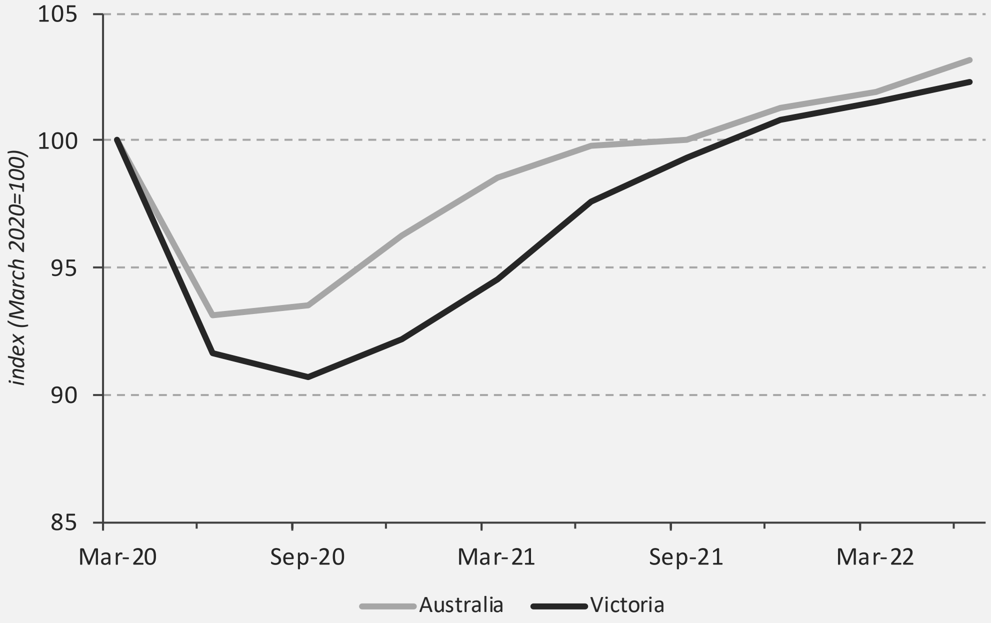
Box 2.2: Gross state product, quarterly and annual growth forecasts

The scale of the economic downturn (and hence also the scale of the subsequent recovery) means that annual growth rates can be more difficult to interpret than in more normal times.

Reference to the level of GSP can be more informative in this circumstance. The quarterly Victorian GSP forecasts are shown in Chart 2.4 and Table 2.2.

Nationwide public health restrictions were introduced in late March 2020, contributing to a record 7 per cent fall in Australian gross domestic product (GDP) in the June quarter. Public health restrictions and elevated consumer caution meant that Victoria's economy also contracted sharply in the June quarter, with restrictions eased in mid-May. Victorian GSP is estimated to have fallen moderately further than the national average. This larger impact is likely due to the State economy's larger share of consumer services. Victoria experienced the second largest fall in state final demand of the states in the June quarter, only behind New South Wales.

Chart 2.4: Quarterly real Victorian GSP and Australian GDP levels, forecast



Sources: Commonwealth 2020-21 Budget; Department of Treasury and Finance

Table 2.2: Quarterly Victorian GSP growth forecasts [(a)] (per cent)

Jun 2020	*Sep 2020*	*Dec 2020*	*Mar 2021*	*Jun 2021*	*Sep 2021*	*Dec 2021*	*Mar 2022*	*Jun 2022*
-8.50	-1.00	1.50	2.50	3.25	1.75	1.50	0.75	0.75

Source: Department of Treasury and Finance

Note:
(a) Forecasts are rounded to the nearest 0.25 percentage points.

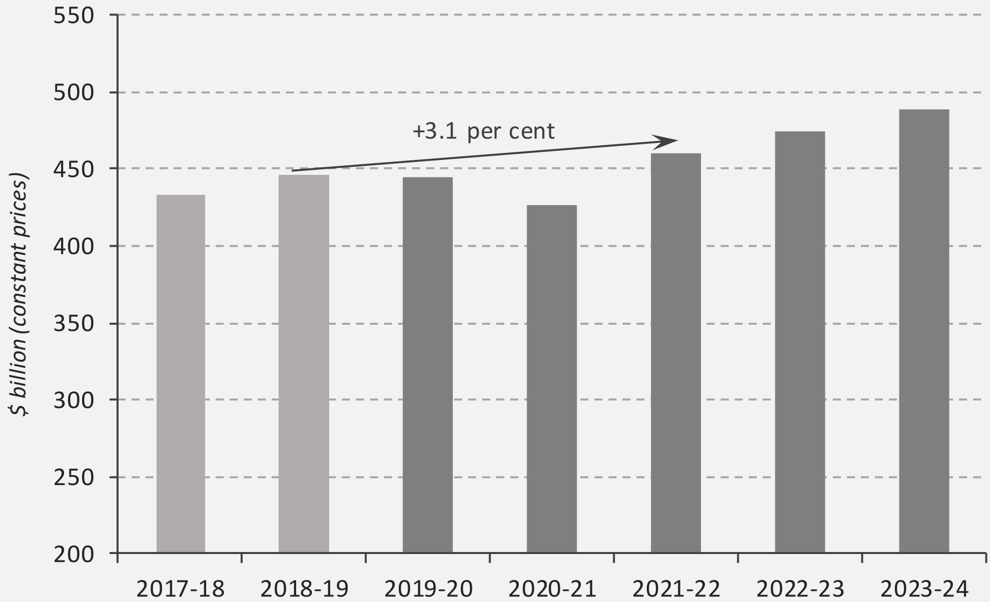
During the September quarter, restrictions were introduced in Victoria for a second time, with the peak level of restrictions in Melbourne tighter than during the June quarter. Despite this, GSP is estimated to have been only modestly lower compared with the June quarter (see Chart 2.4). In the rest of Australia restrictions had eased and the overall Australian economy was recovering.

Restrictions have been gradually easing in Victoria but some have remained in place in the December quarter. The level of Victoria's GSP is expected to be somewhat higher than in the September quarter, supported by these eased restrictions and higher business and consumer confidence, but remain low.

By the end of 2020, most domestic restrictions are assumed to be eased with Victoria reaching COVID Normal; the March quarter 2021 is assumed to be the first full quarter of COVID Normal conditions. At this time Victoria's economic recovery is expected to gather pace. By about the second half of calendar 2021, Victoria's economy is anticipated to have returned to around its level before the coronavirus (COVID-19) pandemic – consistent with overall output across the Australian economy. The economy will then continue to grow at an above-trend pace over the rest of the forecast period as remaining spare capacity in the economy is further absorbed.

This quarterly GSP profile leads to the annual growth rate projections shown in Table 2.1. With economic activity at very low levels in late 2019-20 and the first half of 2020-21, the projected growth of 7.75 per cent in 2021-22 reflects the initial recovery in activity from this low level. This reflects modest growth in overall economic capacity compared with pre-coronavirus (COVID-19) pandemic levels, with the economy in 2021-22 forecast to be 3.1 per cent larger than it was three years prior, in 2018-19 (see Chart 2.5).

Chart 2.5: Annual real Victorian GSP



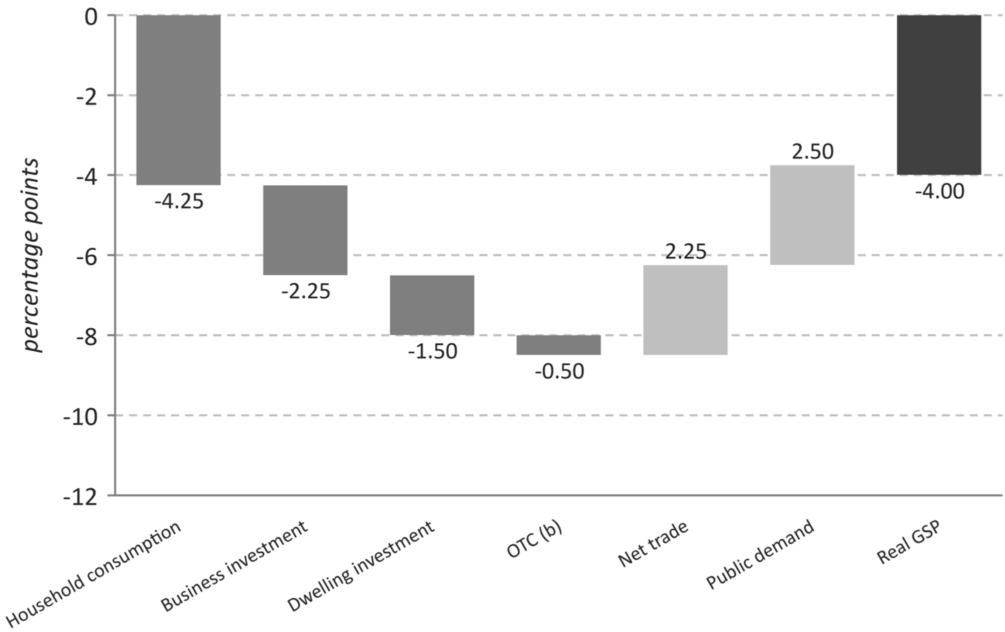
Sources: Australian Bureau of Statistics; Department of Treasury and Finance

Gross state product

Victorian GSP is forecast to decline by 4.0 per cent in 2020-21, following a small fall in 2019-20. In quarterly terms, the June, September and December quarters in 2020 are expected to be the periods of greatest weakness for the economy. A rebound is expected from early 2021 as most domestic public health restrictions are unwound and consumer confidence rises, and this recovery will gain traction over the course of 2021.

Of the major components of GSP, all categories of private demand are forecast to detract from growth in 2020-21 in year-average terms, while public demand and net trade are forecast to make sizeable contributions to GSP growth (see Chart 2.6).

Chart 2.6: Forecast contributions to real 2020-21 GSP growth [(a)]



Source: Department of Treasury and Finance

Notes:

(a) Rounded to nearest 0.25 percentage points. Totals may not sum due to rounding.
(b) Ownership transfer costs.

Household consumption is expected to remain weak in the first half of 2020-21, following a sharp fall in the final quarter of 2019-20. This is due to the impact of public health restrictions in the September and December quarters, which are being unwound gradually, and ongoing consumer caution. Spending is expected to rebound over 2021 as restrictions are eased further and the labour market improves. Despite this, household consumption is forecast to detract from growth in 2020-21 as a whole.

The outlook for household spending is more uncertain than usual. Much will depend on how confident consumers feel, which will depend heavily on the spread of coronavirus (COVID-19) and the reopening of the Victorian economy. In aggregate, household income and cash flow have held up well so far due to increased government income support payments, early superannuation withdrawals and mortgage repayment holidays. These have helped offset weakness in income from employment. However, these supports are starting to taper, which will weigh on household incomes and spending. There has also been a modest decline in household wealth, due to lower house prices as well as equity market values, which are still mostly below their February 2020 peak.

Household savings increased strongly in the June quarter. While households have spent some of the additional income and cash from government support and superannuation withdrawals, they have saved much of it. If households feel confident enough to draw down on some of these recently accumulated savings, this should support spending over the first half of 2021.

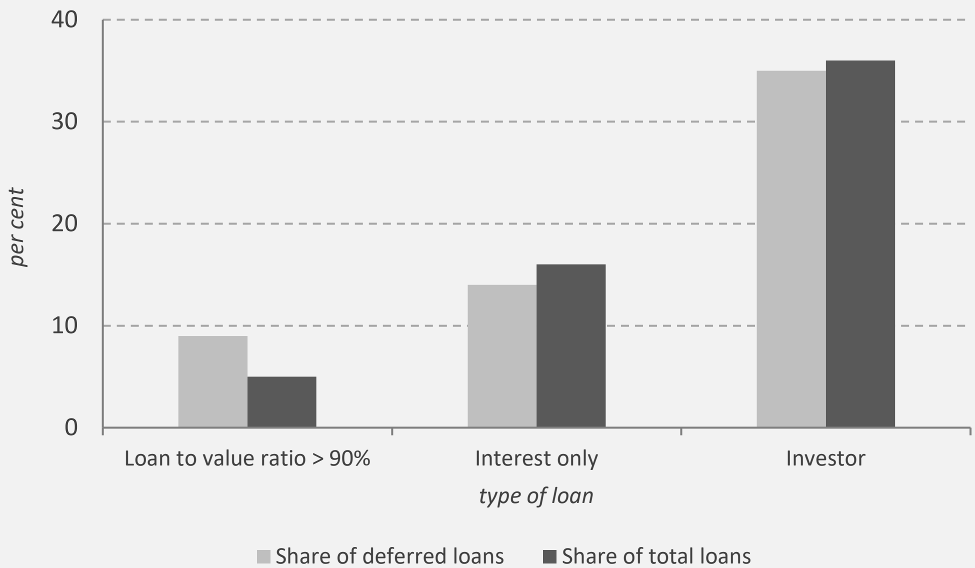
Dwelling investment is forecast to weigh on GSP growth in 2020-21. Dwelling investment had softened in 2019-20 from historically elevated levels before public health restrictions were introduced in response to coronavirus (COVID-19). Construction is expected to weaken further. While there was a small pick-up in dwelling approvals in early 2020, the impacts of closed national borders, Victorian restrictions and lower confidence on house prices are expected to cause approvals to weaken and the construction pipeline to continue to decline. Substantially lower near-term population growth will also weigh on approvals. Dwelling investment is expected to contribute to growth from 2022-23 as house prices recover and population growth picks up.

Box 2.3: Housing-related policy support and risks

The property market has so far proved relatively resilient to the economic downturn. Dwelling prices have fallen, but the rates of decline have been modest to date, relative to the scale of the downturn. This likely reflects the range of polices that have supported household incomes and cash flows. These include the JobSeeker supplement, JobKeeper program, early superannuation withdrawals, Victorian Government support to business, households and workers, as well as record low interest rates. However, transaction volumes are low and so it has been harder to read underlying market conditions.

Significant support is also being provided by mortgage repayment holidays offered by financial institutions. According to data from the Australian Prudential Regulation Authority, $160 billion of Australian mortgages were subject to a repayment holiday in August 2020, equivalent to 9 per cent of total housing loans. Of those mortgagees opting to defer their repayments, however, around 20 per cent were still making either a full or partial repayment. The August total of $160 billion of loans subject to a repayment holiday is down from a peak of $192 billion, or 11 per cent of loans, in May. This decline is likely to reflect the improvement in the national labour market over this period.

Chart 2.7: Risk profile of deferred housing loans (August 2020)



Source: Australian Prudential Regulation Authority

The deferrals were initially due to expire across September and October. However, they have been extended for another four months on a case-by-case basis. It is likely that Victorian households will represent a larger share of these cases in late 2020 and early 2021. For those households needing to extend, the revised expiry date will coincide with a further tapering of other support measures, notably the JobKeeper program and the Coronavirus Supplement for income support recipients.

This points to an increased risk of loan defaults and forced sales, especially among borrowers who are more heavily geared. For example, mortgagees with housing equity less than 10 per cent of the value of their asset (i.e. a loan-to-value ratio greater than 90 per cent) account for 5 per cent of total loans but nearly double the share of deferred loans (Chart 2.7). This suggests such mortgagees are finding it more difficult to meet loan repayments. The scale of this risk remains very uncertain and it will partly depend on the extent of the labour market recovery over this period.

The investor market represents another risk, given its large share of both total and deferred housing loans. The closure of Australia's border has contributed to an increase in rental vacancy rates, especially in some locations such as the Melbourne central business district. The prolonged absence of international arrivals will continue to put a strain on some investors' cash flows.

To the extent there is a rise in distressed sales as existing housing supports unwind, and the border remains closed, this is likely to put further downward pressure on Victorian house prices.

The outlook for business investment in 2020-21 is weak. Surveys indicate firms have reduced their capital investment plans since the onset of the coronavirus (COVID-19) pandemic, as uncertainty about the economic outlook and financial pressures weigh. Many businesses, especially smaller firms, deferred loan repayments and renegotiated lease agreements during the coronavirus (COVID-19) pandemic. The majority of loan deferral arrangements were due to end in September and October.

The longer-term outlook for business investment is further clouded by potential structural changes to the way people work and shop following the coronavirus (COVID-19) pandemic. These dynamics will take time for individuals and businesses to adapt to.

In Victoria, investment in new non-residential building (such as offices, retail and industrial premises) was at a record high in the June quarter 2020. This strength reflects past investment decisions. The impact of the coronavirus (COVID-19) pandemic on non-residential building is likely to take some time to flow through due to the long lead times for these projects. By contrast, investment in machinery and equipment and intellectual property products (such as computer software) fell sharply in the June quarter and further weakness is forecast.

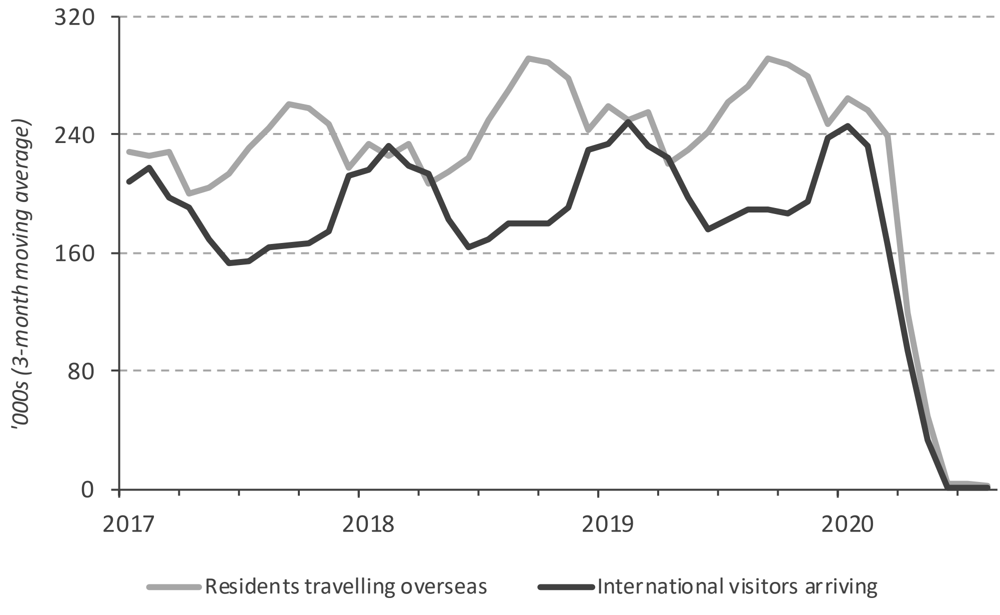
Investment in machinery and equipment is expected to be weak in 2020-21. Investment is anticipated to pick up in 2021-22, supported by the rebound in economic activity, Victorian government investment and Commonwealth tax incentives.

Public demand is forecast to be the major source of positive support to economic activity in 2020-21. Public demand rose strongly in recent years, due to an increase in spending on government services and infrastructure to support Victoria's rapidly growing population. In 2020-21, there is expected to be a further increase in public consumption, as spending by both the Victorian and Commonwealth Governments rises further to respond to the coronavirus (COVID-19) pandemic. The Victorian Government's pipeline of transport infrastructure projects, and investment in schools and social housing, will continue to underpin high levels of public investment.

Exports and imports of goods and services are forecast to decline in 2020-21. Closed national borders will constrain enrolment of international students, while both inbound and outbound international tourism will remain curtailed. Victoria's goods exports are expected to face weaker global demand and imports of goods are likely to fall sharply due to much lower domestic consumer spending and business investment. The fall in imports is expected to more than offset the fall in exports, leading to a large contribution to growth from net trade in 2020-21.

Services trade has been heavily affected by Australia's border closure, with large falls in both imports (overseas travel) and exports (international education and tourism). Victoria's service exports held up reasonably well in the first half of 2020, as many students either made it into the country before the borders closed or are still studying at Victorian universities remotely, while overseas. A large fall in service exports is expected in 2020-21, as student numbers fall further in the second half of 2020 and tourism exports remain virtually non-existent until international borders re-open (see Chart 2.8). Service imports are also forecast to be weak in 2020-21, as closed national borders similarly mean that overseas travel by Victorians (which accounts for half of Victoria's service imports) remains negligible.

Chart 2.8: Short-term overseas arrivals and departures, Victoria [(a)]



Source: Australian Bureau of Statistics

Note:
(a) Residents travelling overseas are Victorian residents returning from overseas from trips of less than 12 months duration.

Imports of merchandise goods are expected to fall sharply in 2020-21, with the weakness concentrated in the first half of the financial year. The fall in consumer spending is expected to weigh heavily on the imports of consumer goods, while low business investment will drag down capital goods imports.

Goods exports are also forecast to decline as overseas demand remains subdued, which is likely to affect some of Victoria's major exports such as wool. Herd and flock rebuilding, following an extended period of drought in some parts of the state, is expected to result in lower meat exports after solid growth in recent years. The Australian dollar has risen strongly from its March lows, to be around an 18-month high, which will also dampen export growth.

OTHER ECONOMIC INDICATORS

The labour market

The Victorian labour market had experienced strong momentum prior to the coronavirus (COVID-19) pandemic. Employment growth averaged more than 3 per cent a year over the five years to 2018-19, the unemployment rate had fallen to an 11-year low of 4.6 per cent in 2018-19 and the labour force participation rate was at a record high level. In the first six months of 2019-20, employment grew at an annualised rate of 2.6 per cent and the unemployment rate was still low at 4.8 per cent. Unemployment in regional Victoria was also low, averaging a record low rate of just 3.5 per cent in the three months to August 2019, and 3.7 per cent in the first six months of 2019-20.

The coronavirus (COVID-19) pandemic, the accompanying public health restrictions and low consumer confidence have had a severe impact on the labour market. While policy responses have helped to cushion the impact, employment losses have still been significant. For Victoria, this has occurred in two phases. In the first phase in April and May 2020, employment fell by almost 200 000 persons (5.7 per cent), as nationwide restrictions and consumer caution curbed economic activity. Nationally, employment fell by more than 870 000 (6.7 per cent) over the same period. As restrictions were gradually eased, around a quarter of Victorian employment losses over April and May were recovered in June and July.

The second phase of restrictions from July produced a further, but smaller, fall in employment. Employment fell by a cumulative 73 000 persons over August and September, bringing it below its May trough.

The impact on Victorian employment has been uneven across industries. Customer-facing industries that were most directly affected by public health restrictions, like accommodation and food services, and arts and recreation, have been disproportionately affected. Most of the job losses so far have been casual and part-time roles, which are more prevalent in the most heavily-affected industries. These industries also predominantly employ women and young people, and generally in lower-skilled jobs. These cohorts have therefore been most affected by job losses during the coronavirus (COVID-19) pandemic (see Chapter 3 *The Jobs Plan*).

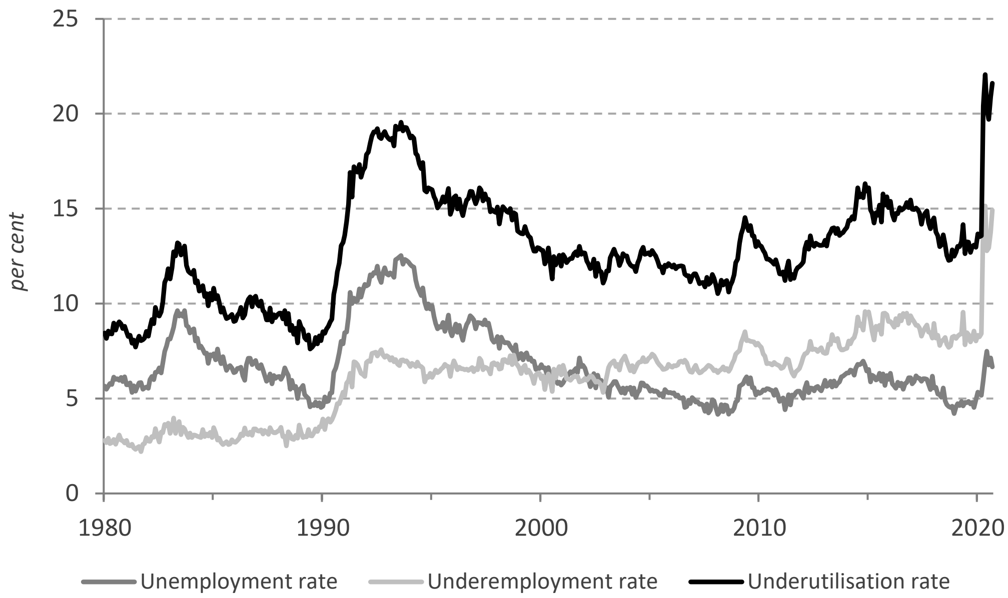
Unemployment has risen sharply during the coronavirus (COVID-19) pandemic. In the March quarter 2020 it stood at 5.3 per cent; it was 6.9 per cent in the September quarter. This rapid increase nonetheless understates the true impact of the coronavirus (COVID-19) pandemic on the labour market, for two reasons.

The first is the sharp fall in the workforce participation rate, with those who lost employment and also exited the labour force not counted as unemployed. There were 130 000 fewer Victorians in the workforce in the September quarter compared with the March quarter 2020, as the labour market deteriorated and public health restrictions impeded job searches. This lowered the participation rate from around record high levels of 66.5 per cent of the working-age population in the March quarter to 63.9 per cent in the September quarter.

The second reason is the effect of the Commonwealth JobKeeper program. This maintains the links between employers and workers even while work is unavailable or is prohibited by public health restrictions. The number of Victorians counted as employed but working zero hours for economic reasons averaged 97 000 in the September quarter, up from 21 000 in the March quarter, but down from 138 000 in the June quarter. In addition to the increase in employed people working zero hours, many people had their working hours reduced.

As a result, underemployment has risen sharply from 8.4 per cent of the labour force in March to 14.9 per cent in September (see Chart 2.9).

Chart 2.9: Unemployment, underemployment and underutilisation rates

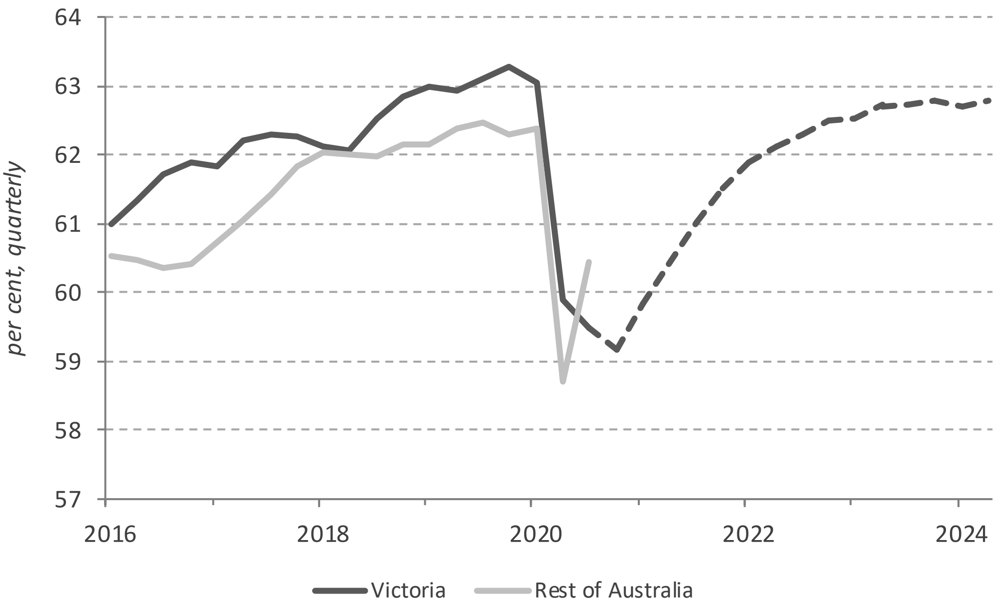


Source: Australian Bureau of Statistics

Reflecting this rise in underemployment in particular, the labour force underutilisation rate, which measures both those unemployed and underemployed, has risen sharply since March. The ratio reached over 22 per cent in May – higher than during the early 1990s recession – and remains close to this level.

Along with measures of unemployment, the employment-to-population ratio provides a gauge of labour market conditions. As with the unemployment rate, the JobKeeper program is also preventing this ratio from deteriorating further than it would otherwise, although it is not affected by the sharp fall in the workforce participation rate. The decline in employment since March 2020 has caused the employment-to-population ratio to fall from a record high of 63.3 per cent in the December quarter 2019 to 59.5 per cent in the September quarter 2020 (see Chart 2.10).

Chart 2.10: Employment-to-population ratio, quarterly, actual and forecast



Source: Australian Bureau of Statistics, Department of Treasury and Finance.

The trough in employment is forecast to occur in the December quarter. With restrictions being eased, the labour market recovery will take some time. Nonetheless, a steady rebound in employment since the declines in April and May has continued in the rest of Australia, and a broadly similar rebound is expected for Victoria.

Overall, employment is forecast to fall by 3.25 per cent in 2020-21. As the recovery builds over 2021, a strong increase of 3.50 per cent is expected in 2021-22.

The unemployment rate is expected to peak at 8.25 per cent in the December quarter 2020 and remain elevated for some time. As employment recovers, jobseekers are expected to return to the labour market, which will keep the official unemployment rate elevated. For 2020-21, the unemployment rate is forecast to average 7.75 per cent, before declining over the following years.

The unemployment rate forecast is, however, subject to a much higher degree of uncertainty than usual. This is due to uncertainty around both the future economic environment and the future path of the participation rate. For example, should labour force participation recover more quickly than forecast, then the unemployment rate would rise more than anticipated, and vice versa. Despite potential volatility in the unemployment rate, however, the employment-to-population ratio is expected to increase gradually over the forecast period, from its December quarter 2020 trough.

Wages

Victorian wages growth has been subdued in recent years despite the strength in employment, consistent with the experience of other Australian states and international jurisdictions.

The subdued outlook for the labour market is expected to put further downward pressure on wages growth for some time. Victorian wages fell by 0.1 per cent in the June quarter as falls in the professional, scientific and technical services, other services and transport, postal and warehousing sectors offset mostly small rises in other industries. For 2019-20 as a whole, wages rose by 2.4 per cent.

Business surveys indicate that wage pressures remain weak, and this is consistent with findings from the RBA's business liaison program. In its November *Statement on Monetary Policy*, the RBA reported that more than half of surveyed firms indicated they either had a wage freeze in place or expected to implement one in the year ahead.

Wages growth is expected to be 1.00 per cent in 2020-21 and 1.75 per cent in 2021-22, down from 3.25 per cent for both years forecast in the *2019-20 Budget Update*. As the economy recovers and spare capacity in the labour market is gradually reduced, wages growth is expected to increase moderately over the remainder of forecast period.

Prices

The Melbourne consumer price index (CPI) fell by a record 1.8 per cent in the June quarter 2020. This was due to a number of largely temporary price changes, notably free childcare and a sharp fall in fuel prices, as global demand for oil dropped amid widespread public health restrictions. Housing rents also fell as the supply of rental properties increased: closed national borders prompted some landlords to put their short-term holiday rentals up for longer-term rental. For 2019-20 as a whole, the CPI rose by 1.7 per cent.

The outlook for inflation has been revised lower compared with the forecasts in the *2019-20 Budget Update*. This largely reflects the downward revision to forecast wages growth, as well as weak inflation expectations and subdued global inflation pressures. The appreciation of the Australian dollar in recent months will also put downward pressure on inflation in the near term.

Inflation is forecast to be just 0.75 per cent in 2020-21, which is 1.25 percentage points lower than expected in the *2019-20 Budget Update*. As the economy and labour market recover, inflation is forecast to gradually increase, although it will likely still be low by the end of the forecast period.

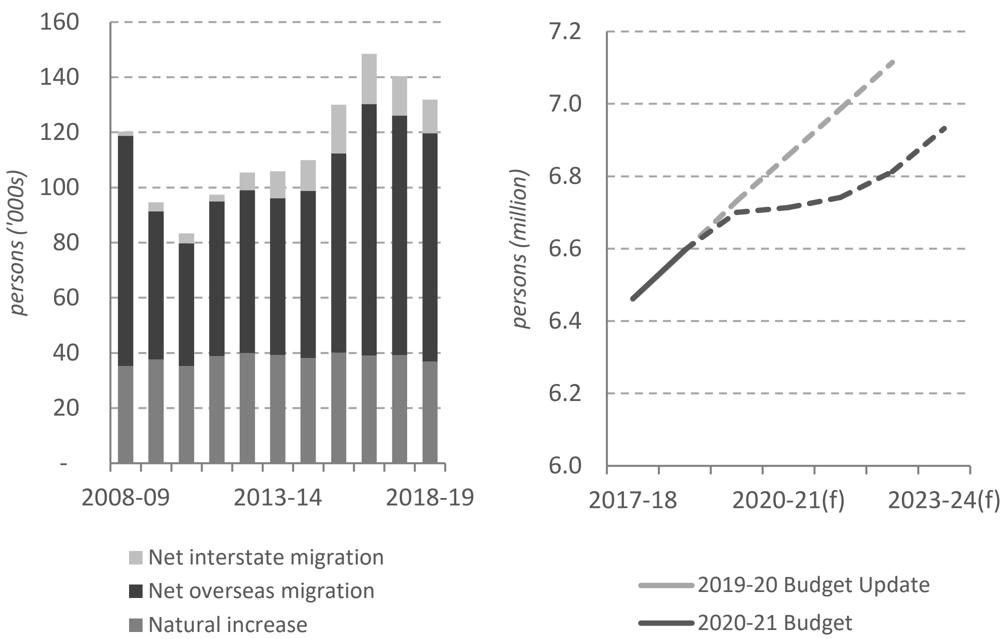
Population

Victoria's population growth has been strong over the past decade. Since 2013, annual population growth has been higher than in any other state or territory. However, the coronavirus (COVID-19) pandemic will have a significant impact on population growth in Victoria and nationally.

Net overseas migration has been the largest driver of Victoria's population growth for more than a decade (see Chart 2.11). Australia's border closure, which came into effect in March 2020, is expected to lead to negative net overseas migration for around the next two years. Net interstate migration to Victoria has also been strong in recent years, and this is also likely to be lower. Likewise, the fertility rate is expected to be slightly lower due to the weaker economic environment, resulting in a slower rate of natural increase.

Overall, population growth is forecast to be significantly lower in the next two years, and well below expectations in the *2019-20 Budget Update*. Population growth over 2020-21 is now expected to be just 0.2 per cent, compared with an average of 2.3 per cent over the past five years. As international borders re-open, and confidence in the economic outlook improves, population growth is expected to slowly pick up to be 1.7 per cent by the end of the forecast period.

Chart 2.11: Components of population growth and population forecasts



Sources: Australian Bureau of Statistics; Department of Treasury and Finance

Future levels of net overseas migration are a key uncertainty and pose a long-term risk to the economic outlook. It is assumed that migration levels, including temporary international student migrants, will start approaching pre-coronavirus (COVID-19) rates towards the end of the forecast period. If the recovery in net overseas migration occurs more slowly than currently expected, this would weigh on the longer term economic outlook for the State.

AUSTRALIAN ECONOMIC CONDITIONS AND OUTLOOK

The coronavirus (COVID-19) pandemic brought an end to Australia's 28-year run of unbroken annual economic growth and has taken the economy into recession. Heading into the coronavirus (COVID-19) pandemic, growth in the Australian economy had been reasonably subdued. This was largely due to sluggish growth in consumer spending and weaker dwelling investment, following a period of falling house prices through to mid-2019.

Real GDP fell by 0.3 per cent in 2019-20, the first annual decline since 1990-91. The economy contracted by 0.3 per cent in the March quarter and a record 7.0 per cent in the June quarter. As with Victoria, a large fall in national consumer spending was the major contributor to the decline in GDP; consumer spending recorded its first annual fall on record in 2019-20.

The Commonwealth Government forecasts the economy will contract by 1.50 per cent in 2020-21. Falls are expected in all major components of GDP except for public demand. Lower business and dwelling investment are expected to be the largest contributors to the fall in GDP, while consumer spending is forecast to decline for a second year. Activity is expected to gradually improve over 2021 as restrictions ease, uncertainty about coronavirus (COVID-19) and the economic outlook eases, the global economy improves and employment recovers. GDP is forecast to grow by 4.75 per cent in 2021-22.

Employment is forecast to rise by 2.75 per cent over the year to the June quarter 2021, after falling by 4.3 per cent over the previous year. However, the unemployment rate is expected to remain elevated for some time. It is expected to peak at around 8 per cent in late 2020, easing slightly to 7.25 per cent by the June quarter 2021. Wage and price pressures are forecast to remain subdued over the forecast period.

INTERNATIONAL ECONOMIC CONDITIONS AND OUTLOOK

Global economic output fell sharply in the first half of 2020 and, as with Victoria and Australia overall, the economic recovery is expected to be gradual. China, where the first major coronavirus (COVID-19) onset occurred, led the initial decline in the March quarter. In most other economies the downturn was concentrated in the June quarter.

The International Monetary Fund (IMF) expects global GDP to fall by 4.4 per cent in 2020, the largest fall in global output since the Great Depression, although this is an upgrade to its June estimate of a 5.2 per cent decline (see Table 2.3). The upgrade reflects the net effect of better-than-expected June quarter GDP outcomes in many advanced economies, against the negative impact of recent renewed coronavirus outbreaks and stalled reopenings in many economies.

Table 2.3: Summary of IMF's global economic forecasts [(a)] (per cent)

	2018 actual	2019 actual	2020 estimate	2021 projection
World output	**3.5**	**2.8**	**–4.4**	**5.2**
Advanced economies	**2.2**	**1.7**	**–5.8**	**3.9**
United States	3.0	2.2	–4.3	3.1
Euro area	1.8	1.3	–8.3	5.2
Japan	0.3	0.7	–5.3	2.3
Emerging market and developing economies	**4.5**	**3.7**	**–3.3**	**6.0**
China	6.7	6.1	1.9	8.2
India	6.1	4.2	–10.3	8.8
ASEAN-5 [(b)]	**5.3**	**4.9**	**–3.4**	**6.2**

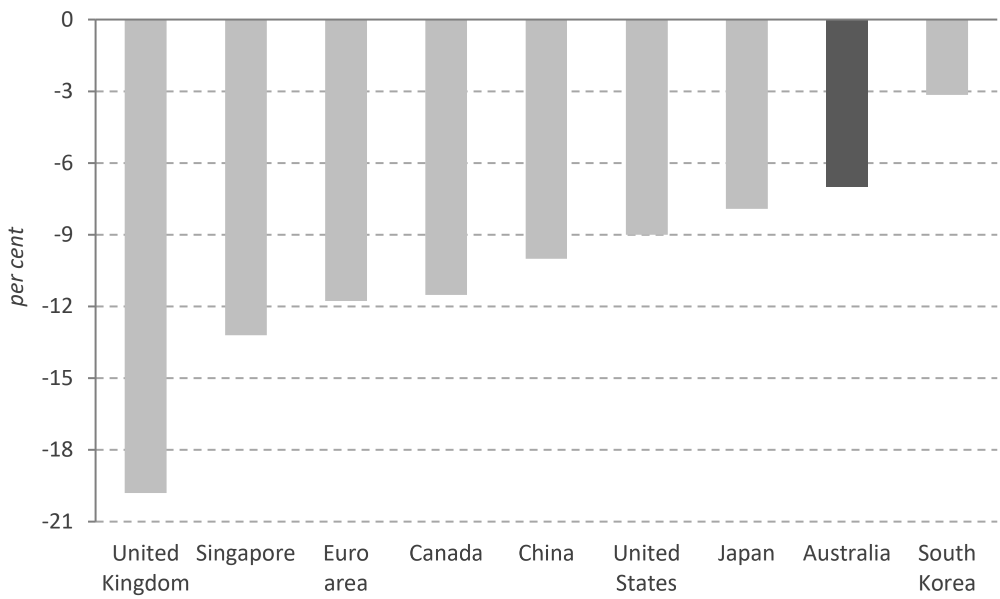
Source: IMF, World Economic Outlook*, October 2020*

Notes:
(a) Not all countries or regions are listed in the table.
(b) ASEAN-5 economies are Indonesia, Malaysia, Philippines, Thailand and Vietnam.

In China, GDP fell sharply in the March quarter, as large parts of the economy were shut down to contain the spread of coronavirus (COVID-19), but activity rebounded strongly in the June quarter and this recovery continued in the September quarter, led by the industrial sector.

In other major economies, the decline in GDP was largest in the June quarter, with the size of the decline varying according to the extent of the spread of coronavirus (COVID-19), the scale of containment measures and the policy response enacted (see Chart 2.12). The fall in Australian GDP in the June quarter, while very large in a historical sense, was relatively moderate compared with many other countries.

Chart 2.12: Real GDP growth, June quarter 2020 [(a)]



Source: Macrobond

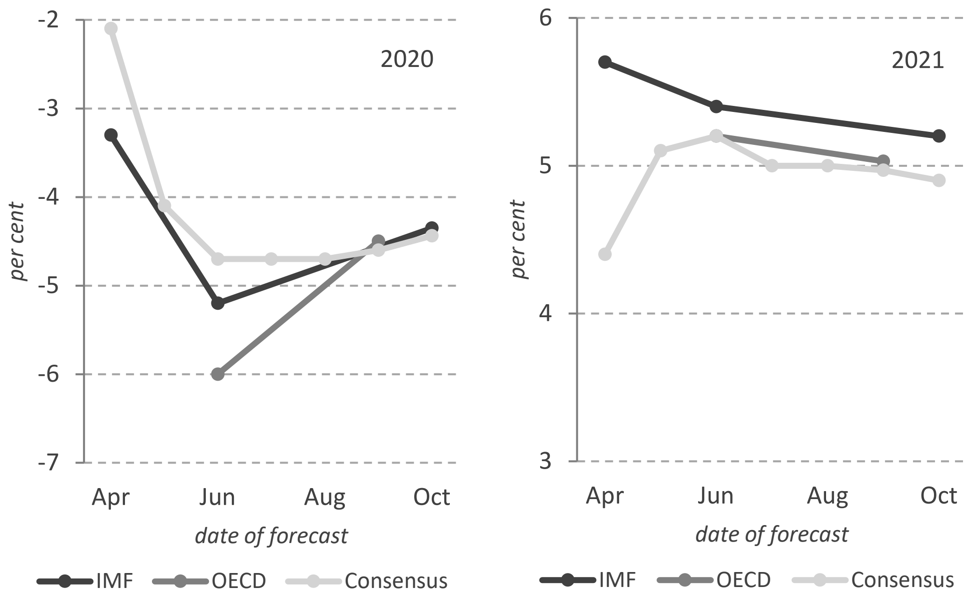
Note:
(a) Chinese GDP growth is for the March quarter 2020. Chinese GDP grew by 11.6 per cent in the June quarter.

The IMF judges that a global recovery commenced in the September quarter 2020 and that this will strengthen gradually over 2021. This is despite signs that momentum was slowing into the December quarter due to renewed outbreaks and fresh public health restrictions in many economies. Global GDP is forecast to rise by 5.2 per cent in 2021, which would take the level of global output to just above 2019 levels.

The improvement in economic conditions since mid-year has been supported by significant global policy responses. These include wage subsidies and income support for households and businesses, while central banks have reduced interest rates and significantly increased the size and scope of financial asset purchases to support financial conditions. The IMF estimates that discretionary revenue and spending measures announced in advanced economies amount to over 9 per cent of those economies' GDP, with another 11 per cent provided in various forms of liquidity support.

The IMF notes that there is a high degree of uncertainty around the forecasts, and that the global economy's long ascent back to pre-coronavirus (COVID-19) levels remains prone to setbacks. This high uncertainty is evident in the scale of forecast revisions by the IMF and other forecasters since April, as shown in Chart 2.13. The sources of uncertainty mainly relate to the spread of coronavirus (COVID-19) and uncertainty around timing of treatments and vaccines and access to these. Other risks include a renewed period of financial market volatility and that policy support is withdrawn prematurely.

Chart 2.13: Global real GDP growth forecasts [(a)]



Sources: IMF; OECD; Consensus Economics

Note:
(a) In March, the OECD forecast (positive) growth of 2.4 per cent in 2020 and 3.3 per cent in 2021 (not shown in charts).

RISKS TO THE VICTORIAN OUTLOOK

Risks to the Victorian economic outlook are much greater than normal, and mainly relate to the spread of coronavirus (COVID-19) – and related policy responses – both domestically and globally.

On the upside, early and widespread deployment of a coronavirus (COVID-19) vaccine or treatment may enable remaining public health restrictions, including on national borders, to be eased more quickly than expected. Further international or domestic economic policy support measures beyond those already announced could also contribute to a more robust economic recovery.

On the downside, a slower than expected recovery in global growth, which could be caused by a renewed onset of coronavirus (COVID-19) or further escalation of global trade tensions, could have negative implications for Victoria. A renewed bout of financial market volatility, triggered for instance by investors re-evaluating the economic outlook and risks, could lead to large negative effects on confidence and spending.

A key downside risk is further spread of coronavirus (COVID-19) in Victoria, creating a renewed contraction in the economy should public health restrictions need to be reinstated. A third phase of restrictions would see many businesses that had reopened needing to close once more. This would lead to a renewed downturn in economic activity and further job losses. The uncertainty created would be damaging to the economy's longer-term recovery prospects, due to increased business and consumer caution. The spread of coronavirus (COVID-19) in other Australian states may also affect the Victorian economy, through lower confidence and interstate trade. In the absence of an effective treatment or vaccine, this risk will remain.

Similarly, the timing of national borders reopening remains uncertain, and will likely be determined by when key overseas markets contain the spread of coronavirus (COVID-19), or when effective vaccines or treatments become available. The longer international borders remain closed, the longer net overseas migration, and international education and tourism exports, will remain very low.

The outlook for consumer spending remains uncertain, and the recovery profile could be considerably different to that currently forecast. On the upside, the positive effects of recently accumulated savings, income tax cuts and pent-up demand may be greater than expected. On the downside, households may remain more cautious and maintain a higher level of precautionary savings, which would dampen spending growth. Further disruption to the housing market and house prices as mortgage repayment holidays cease may also weigh on consumer spending.

The degree and persistence of scarring on the economy, which will affect the ability of the economy to recover, is unclear. As noted earlier, the outlook for the unemployment rate is highly uncertain. It may be higher or lower than forecast depending not only on the path of the employment recovery, but also on how quickly people re-enter the workforce as labour market conditions improve.

See Appendix A *Sensitivity Analysis* for further information on the estimated economic and fiscal impacts of a deep and enduring global coronavirus (COVID-19) pandemic across 2021 that leads to lower global economic growth and the delayed reopening of Australia's border.

CHAPTER 3 – THE JOBS PLAN

Key points

- The coronavirus (COVID-19) pandemic has had a significant impact on Victoria's economy and labour market. Employment has declined and the unemployment rate has increased.
- While the impact has been experienced throughout the Victorian economy, particular industry sectors and cohorts of workers have been more severely affected. Many of these sectors will take longer to recover, especially those reliant on international visitors.
- Since the onset of coronavirus (COVID-19) in early 2020, the Government has provided significant support to Victorian businesses, workers and households.
- A pandemic event and the economic consequences are unprecedented in the modern era; the response must match this challenge.
- The *2020-21 Budget* makes record investments in a suite of initiatives that form the *Jobs Plan*.
- The *Jobs Plan* is based on four key elements:
  - Getting Victorians back to work: Victorians without a job or without the hours they need will be supported to access the help they need – whether that's advice about training pathways, career counselling or more intensive support – and access opportunities to reskill and upskill through TAFE and other training providers.
  - Building our State as we rebuild our economy: Investments in infrastructure, including transport, social and affordable housing, education and energy, will deliver jobs and drive greater productivity for the State.
  - Support for industries and leveraging our strengths: Affected sectors will continue to be supported as Victoria emerges from the coronavirus (COVID-19) pandemic, while new investment and tax incentives will pave the way to realising and enhancing Victoria's capabilities.
  - Ensuring no community and no Victorian is left behind: Our recovery will rely on supporting every Victorian, every community and every corner of the State. A region by region approach to recovery will ensure that local priorities, businesses and investment are targeted to local strengths and local challenges.
- The Government is setting an ambitious Jobs Target – for employment to be 400 000 higher by 2025, with an interim milestone of 200 000 more people employed by 2022, compared with the trough in employment in 2020.

- The *Jobs Plan*, as well as other initiatives announced since the *2019-20 Budget Update*, will support around 125 000 jobs over the life of these initiatives.
- The *Jobs Plan* has been designed to provide the greatest level of support to the Victorian labour market at the time when it is most needed, while support from the Commonwealth Government tapers.

IMPACT OF THE CORONAVIRUS (COVID-19) PANDEMIC

As noted in Chapter 2 *Economic outlook*, the coronavirus (COVID-19) pandemic has resulted in the largest global recession since the Great Depression and is affecting the Australian and Victorian economies.

Globally and domestically there have been record falls in economic activity so far in 2020 and sharp falls in employment, as governments introduced necessary restrictions on economic and social activities to contain the spread of coronavirus (COVID-19).

The comprehensive Victorian public health response to the coronavirus (COVID-19) pandemic was necessary to save lives and ensure Victoria's health system was not overrun. The public health response to the coronavirus (COVID-19) pandemic since March 2020 has been based on the advice of health and epidemiology experts and consultation with other governments and external stakeholders. The Government's economic response has reflected this approach.

Chapter 1 *Economic and fiscal overview* outlines evidence from around the world that slowing the spread of coronavirus (COVID-19) is necessary to protect lives and is key to sustained economic recovery. Without slowing the spread of coronavirus (COVID-19), many consumers would become cautious or uncomfortable about engaging in their usual routines. Analysis shows that jurisdictions that effectively control the spread of coronavirus (COVID-19) are more likely to achieve sustained economic growth through recovery and that delays in taking tough decisions to introduce public health restrictions only amplify longer-term economic impacts.[2]

As detailed in Chapter 2 *Economic outlook*, the coronavirus (COVID-19) pandemic has had a significant impact on Victoria's economy and labour market. Victoria's state final demand fell by a record 8.5 per cent in the June quarter, and gross state product (GSP) is forecast to decline by 4 per cent in 2020-21; employment declined by 180 000 (5.2 per cent) from the March to September quarters 2020, and the unemployment rate rose by 1.6 percentage points to 6.9 per cent over the same period.

Further, the unemployment rate understates the extent of the weakness in the labour market as it does not capture those workers on reduced hours or those who have left the labour force. There were 130 000 fewer Victorians in the workforce in the September quarter compared with the March quarter 2020, and an average of 97 000 Victorians were employed but not working any hours in the September quarter – for example while receiving the JobKeeper wage subsidy program.

[2] McKinsey & Company. (2020, August 17). *COVID-19: Saving thousands of lives and trillions in livelihoods.*

Since late March 2020 the Victorian Government has provided significant emergency support to Victorian businesses and their employees through a range of mechanisms, complementing the support provided by the Commonwealth. The Government invested almost $7.6 billion in direct support for businesses and workers including almost $2.6 billion allocated for Business Support Fund grants and $1 billion of payroll tax refunds and waivers.

VARIABLE ECONOMIC IMPACT OF THE CORONAVIRUS (COVID-19) PANDEMIC

Almost all industries in Victoria saw job losses during the coronavirus (COVID-19) pandemic. But customer-facing service industries requiring physical proximity, including arts and recreation and accommodation and food services, have been disproportionately affected.

The most severe impacts have been on women, younger Victorians and workers without post-school qualifications – with significant overlap between these groups.

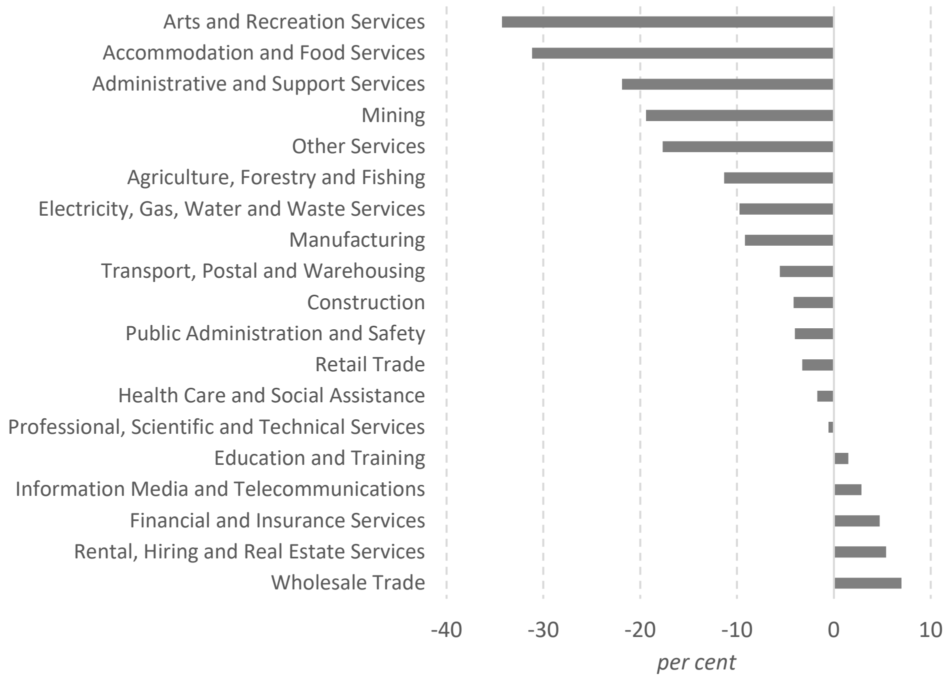
Highly variable industry impacts

From February to August 2020, employment declined by 69 000 (31 per cent) in accommodation and food services and 27 000 (34 per cent) in arts and recreation (Chart 3.1).

A few sectors were relatively less affected by the coronavirus (COVID-19) pandemic or grew. For instance, wholesale trade likely benefited from a shift to online purchasing. Others were able to better adapt to public health restrictions, for example by transitioning to remote working.

Part-time jobs fell at a faster rate than full-time jobs during the coronavirus (COVID-19) pandemic. Part-time and casual jobs make up a greater share of employment in the most heavily affected industries. Part-time employment declined by 6.7 per cent (76 000 persons) from the March to September quarters 2020, one and a half times the rate of decline in full-time employment. The JobKeeper wage subsidy program supported permanent full-time and part-time employment, but was less effective at supporting casuals, as it excludes those who had been with their employer for less than 12 months as at 1 July 2020.

Chart 3.1: Change in employment by industry, February to August 2020, Victoria



Source: Australian Bureau of Statistics

Box 3.1: Impact of Commonwealth Government policy on Victoria

Victorians are significant beneficiaries of Commonwealth economic support that was deployed in the wake of the economic downturn caused by the coronavirus (COVID-19) pandemic. Supports such as JobKeeper and cash flow assistance have been important for keeping businesses open, stimulating economic activity and keeping Victorians employed. Furthermore, the Coronavirus Supplement to JobSeeker and Youth Allowance recipients, and one-off payments to pensioners, have supported household incomes, consumer spending and economic activity.

Commonwealth economic support has been welcome. However, the JobKeeper wage subsidy excludes some of the groups most affected by the coronavirus (COVID-19) pandemic, including casuals who were with their employer for fewer than 12 months as at 1 July 2020, and temporary residents.

A substantial proportion of casual employees are likely to have missed out on JobKeeper and lost work. Nationally, nearly two thirds of the total decline in employment from February to August was from casual employees. And in 2019, 43 per cent of all Victorian casual employees were with their employer for fewer than 12 months.

The JobKeeper exclusion for shorter term casual employees exacerbates the disproportionate economic impact of the coronavirus (COVID-19) pandemic on women. In 2019, 56 per cent of casual employees were female.

There were around 160 000 temporary residents employed in Victoria in 2019, many of them employed in industries most affected by the coronavirus (COVID-19) pandemic – including accommodation and food services, which is one of the two largest employers of temporary residents in Victoria. Unfortunately, temporary residents are ineligible for Commonwealth support from either the JobKeeper or the JobSeeker payments.

Victoria's education sector represents approximately 3 per cent of the Victorian economy and 22 per cent of our exports, making it our largest service export sector. Unfortunately, universities were excluded from the JobKeeper wage subsidy despite the international student intake for Victoria's education sector dropping by 49 per cent due to the coronavirus (COVID-19) pandemic.

The reduction to fortnightly JobKeeper – by $300 for full-time workers and $750 for part-time workers – from 28 September 2020 came as Victoria was subject to public health restrictions in response to the second wave of the coronavirus (COVID-19). The Coronavirus Supplement for JobSeeker and Youth Allowance recipients was also reduced by $300 a fortnight. These cuts have disproportionately affected Victoria's economy and lower-income Victorians, right when support is needed the most.

The *Commonwealth Budget 2020-21* continues the trend of Victorians not receiving their fair share of infrastructure investment. Despite more than 26 per cent of Australia's population living in Victoria, it is estimated that the State will receive less than 22 per cent of Commonwealth infrastructure investment over the five years to 2023-24.

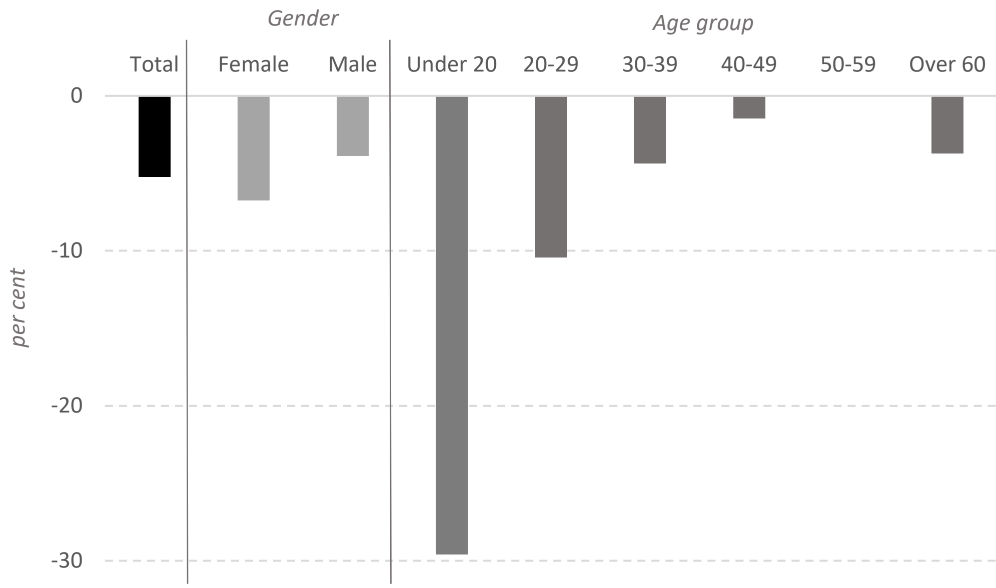
As detailed in *Chapter 4*, the Commonwealth Grants Commission's (CGC) 2020 Methodology Review significantly reduced the GST relativity for Victoria, and the methodology change is expected to redistribute approximately $1 billion per year in GST revenue away from Victoria.

Disproportionate impact on women

The public health response to the coronavirus (COVID-19) pandemic has disproportionately affected women in the labour market. Employment of women fell by 6.7 per cent (109 000 people) from the March to September quarters 2020, while male employment fell 3.9 per cent (70 000 people).

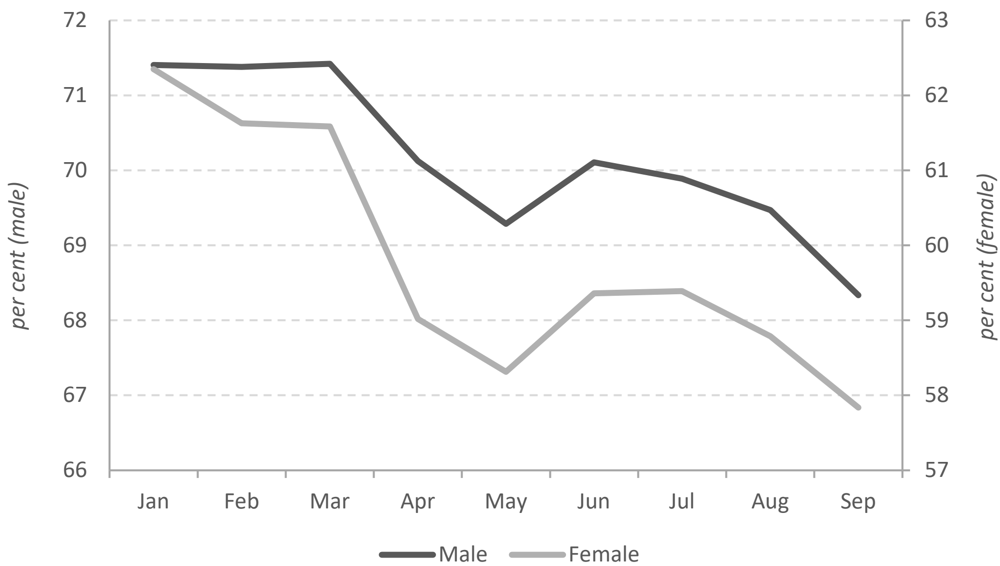
The most affected industries, including arts and recreation and accommodation and food services, employ high proportions of female workers. Female employment and participation were further affected by the shift to remote learning for school children and closure of early childhood education and care services. Additional caring responsibilities disproportionately fell to women, limiting their participation in employment. Australian women were at least four times as likely as men to report they looked after children full-time when children stayed home due to the public health restrictions in response to the coronavirus (COVID-19) pandemic.

Chart 3.2: Change in employment by gender and age, March to September quarters 2020, Victoria



Source: Australian Bureau of Statistics

Chart 3.3: Participation rate by gender, from January to September 2020, Victoria



Source: Australian Bureau of Statistics

Impacts on young Victorians

Young Victorians experienced proportionately more job losses than older workers. Employment for young people aged under 30 declined by 13.7 per cent (130 000 persons) from the March to September quarters 2020, higher than the decline of 2.4 per cent (60 000 persons) for those over the age of 30.

From the March to September quarters 2020, the unemployment rate for young workers under the age of 30 rose by 2.3 percentage points to 12.1 per cent and is much higher than the unemployment rate of 4.9 per cent for older workers.

As with women, young Victorians were more likely to work in the hardest-hit industries including arts and recreation and accommodation and food services. Some 63 per cent of the accommodation and food services workforce was under the age of 30 in 2019. For arts and recreation this figure was 43 per cent.

Further, young people were more likely to be in casual employment, for which falls in employment were highest. Of those under the age of 30, 41 per cent were employed as casuals, compared with 17 per cent of older workers in 2019.

Large impacts to youth employment present long-term risks as early career experiences of unemployment risk long-term impacts to participation, employment and earnings.

The importance of skills

Qualification and skill levels are also a key determinant of how the economic impact has affected individual workers. Since February 2020, the greatest decline in employment has been among workers without post-school qualifications.

Employment declined by 11.8 per cent (121 000 persons) for workers without post-school qualifications, compared to 4.2 per cent (99 000 persons) for those with higher qualifications from February to August.

Occupations requiring the completion of secondary education or lower, including labourers and hospitality workers, experienced greater falls in employment than higher-skilled occupations. Workers without post-school qualifications were less likely to be in roles that could adjust to the public health restrictions by working from home. And as with women and young people, some of the hardest-hit industries employ a high proportion of workers without post-school qualifications, including arts and recreation and accommodation and food services.

EMERGENCY SUPPORT FOR THE ECONOMY

The Government moved quickly in March 2020 to support Victorian businesses and their workers.

The package of supports announced on 21 March 2020 included the Business Support Fund. The fund was designed to support the hardest-hit sectors including hospitality, tourism, accommodation, creative industries, and retail. Up to $2.6 billion has been allocated to this fund since the end of March to support Victorian businesses.

The Government also significantly cut taxes and fees. In March, the Government provided full payroll tax refunds for the 2019-20 financial year to small businesses with payrolls of less than $3 million – giving $1 billion back to businesses that needed it most. It saved eligible businesses up to $114 000, with businesses saving an average of $29 000.

Independent analysis by AlphaBeta estimated businesses who benefitted from this payroll tax relief or the Business Support Fund were half as likely to close as firms that did not – meaning as many as 7 700 more small businesses survived the crisis and kept paying staff than would have been the case without the Government's support.

Businesses in Victoria participating in the JobKeeper program have been exempt from payroll tax and the WorkCover premium on payments to staff stood down and payments above an employee's usual salary required by the JobKeeper program.

The Government has also supported more than 20 000 pubs, clubs, hotels and bottle-shops by waiving and refunding liquor licence renewal fees for 2020 for affected venues and small businesses.

Other economic support since March 2020 includes:

- the $587.5 million Working for Victoria Initiative to help workers who have lost their jobs find new opportunities;
- land tax relief for landlords who provide eligible tenants with rent relief, or who are unable to secure a tenant because of public health restrictions during the coronavirus (COVID-19) pandemic, and owner-occupiers of commercial properties;
- specialist support for the hospitality sector with over $368.7 million in dedicated support including grants to help businesses meet expenses and prepare for outdoor eating and entertainment;
- support packages for the tourism, creative and events sectors, all sectors under significant pressure, totalling over $2.3 billion; and
- a Melbourne City Recovery Fund of $100 million, comprising a 50 percent contribution from the State Government and Melbourne City Council. This will assist businesses during this extreme shock to trading conditions in Melbourne's central business district and fund infrastructure works to improve safety and facilitate the return of workers and visitors.

In April, the Government also froze all fees and fines that were due to increase in July at 2019-20 levels. In May the Fire Services Property Levy paid by Victorian businesses and households was also frozen at the 2019-20 revenue target.

As the spread of coronavirus (COVID-19) has slowed, enabling public health restrictions to be carefully eased on the path to COVID Normal, the Government's *Jobs Plan* outlines Victoria's path to economic recovery and job creation.

There has been a number of business supports delivered, particularly those launched in September in *Supporting Victorian Businesses on our Road to COVID Normal*, for Victorian businesses.

This package of support included:

- $1.1 billion in cash grants to support small and medium-sized businesses. This includes:
  - $822 million for the third round of the Business Support Fund;
  - the $251 million dedicated Licensed Venue Fund, with grants of between $10 000 and $30 000 for licensed venues. The Government is also providing further relief by waiving liquor licence fees for 2021; and
  - an investment of $44 million to equip businesses to thrive in COVID Normal. It includes $20 million for small businesses to access off-the-shelf digital programs, training and workshops designed to help them adapt to online operations.
- the deferral of payroll tax for businesses with payrolls up to $10 million for the full 2020-21 financial year. This equates to a $1.7 billion cash flow boost for businesses;
- a 50 per cent stamp duty discount for commercial and industrial property across all of regional Victoria was brought forward to 1 January 2021;
- waiving 25 per cent of the 2020 congestion levy and deferring any outstanding congestion levy liability until March 2021;
- a full waiver will be provided for all 2021 vacant residential land tax liabilities that arise due to property vacancies in 2020;
- grants of up to $50 000 for local business groups and chambers of commerce, to assist members adapt to COVID Normal;
- $15.7 million to fund an export recovery package to address logistics and supply chain issues during the coronavirus (COVID-19) pandemic and establish new export channels; and
- $8.5 million for the Click for Vic campaign and website to connect Victorians with local producers, creators and businesses.

A further $100 million was provided as part of a dedicated Sole Trader Support Fund to support non-employing Victorian sole traders operating out of commercial premises or locations within specific sectors.

THE *JOBS PLAN*

The *Jobs Plan* sets out the Government's plan for Victoria's growth and recovery from the severe effects of the global recession.

This is underpinned by two key principles:

- The Government will not leave any worker, sector or community behind. Genuine recovery means inclusive recovery, where every Victorian gets the support they need.
- The Government will leverage the State's strengths. Victoria has a range of fundamental strengths that will be critical to our rebuild and our long-term future.

The *Jobs Plan* will provide a targeted, timely economic stimulus that kick-starts the economy – getting more Victorians back to work and laying the foundations for a more inclusive and innovative economic recovery.

The *Jobs Plan* is built on fundamentally strong budget settings, a track record of investment in services and infrastructure, and an enviable record of economic growth throughout the state.

It also reflects that there is no 'one' Victorian worker, business or community. An effective recovery plan requires tailored support to meet the diverse needs of our State.

Guiding this work, the *Jobs Plan* has four distinct elements:

1. Getting Victorians back to work
2. Building our State as we rebuild our economy
3. Support for industries and leveraging our strengths
4. Ensuring no community and no Victorian is left behind

Together these four key pillars will help grow jobs, get more Victorians in work and begin the State's recovery.

GETTING VICTORIANS BACK TO WORK

As mentioned above, several sectors and groups of workers have experienced a greater economic impact due to the characteristics of the coronavirus (COVID-19) pandemic and the necessary health restrictions. Sectors that are population dependant, like hospitality and residential construction, and sectors that have experienced structural change as a result of changes in consumer behaviour, like business travel and bricks and mortar retail, are likely to experience prolonged employment impacts. There has also been a disproportionate impact on younger and more insecure cohorts of Victorians, in particular casual workers and women.

The Government's response is to focus heavily on repairing and supporting participation and employment in the first phase of the recovery, with an emphasis on supporting vulnerable cohorts, particularly through this uncertain period.

This support for workers includes boosting workforce participation through labour market programs, coupled with building worker capability through traditional and new approaches to skills.

Support for women

Women have been disproportionately affected during the coronavirus (COVID-19) pandemic. The industries that have been the hardest-hit, including arts and recreation and accommodation and food services, employ high proportions of female workers and women's additional caring responsibilities, while remote learning occurred and early childhood education and care services were closed, compounded this impact.

Funding of $170 million will be provided to make free or low cost kindergarten programs available in eligible services in 2021, to further support families and make it easier for women to take up employment opportunities in recovery.

To boost workforce participation for women with caring responsibilities the Government is additionally investing $82 million to increase availability of outside school hours care to Victorian families.

The budget also focuses on delivering new opportunities and professional pathways for women, who have been disproportionately affected by the economic impact of the coronavirus (COVID-19) pandemic. This includes investment in sectors that tend to predominantly employ female workers, such as health and education.

These investments will also help Victoria meet rapidly rising demand for health and social services and ensure Victorians are not worse off as a result of the coronavirus (COVID-19) pandemic.

These initiatives include:

- recruitment of more than 4 100 tutors to help students catch up in 2021;
- recruitment of up to 1 730 teachers, allied health and other staff to support students with disability in Victorian government schools by 2025;
- coordination of up to 240 traineeships in community services organisations to develop participants' skills and knowledge in the prevention of family violence and sexual assault;
- more than 300 Child Protection Practitioners and staff across the children and families system;
- 80 coordination roles in care and recovery for alcohol and other drugs; and
- support for 400 social services workers to gain credentials and upskill through higher apprenticeship pilots while they work.

Funding is also provided for the Women in Transport program to provide training and employment opportunities for women in the transport sector, including:

- training and employment opportunities for 300 women to become heavy vehicle drivers;
- Australian qualifications and employment opportunities for 40 female refugee and asylum seeker engineers through the Engineering Pathways Industry Cadetship program;
- scholarships for 20 women undertaking diesel mechanic apprenticeships; and
- 15 vocational placements for PhD students and 20 undergraduate and postgraduate scholarships for women studying in transport related fields.

The budget delivers opportunities for women considering careers in the construction and building industries.

Subsidies will be provided to Victorian local government authorities to employ and train new building surveyors, with a particular emphasis on attracting women to this profession. This will help address a current shortage of building surveyors in Victoria and increase the capacity in local government to effectively regulate and provide building services to the community, meeting an expected increase in demand after the coronavirus (COVID-19) pandemic.

Funding is also provided to deliver the short, medium and long-term actions outlined in the Women in Construction Strategy and to help implement the Building Equality Policy by creating training and employment opportunities for women on government construction projects valued at $20 million or more. This will promote construction as an attractive and viable career option for women and encourage workplaces to be inclusive and adaptive.

To support entrepreneurs, the Government is providing $10 million to support innovative early stage startups founded by women with the establishment of a women's founders Angel Sidecar Fund. The fund will increase access to finance for women founders, growing early stage startups, increasing the participation rate of women in Victoria's startup economy and support new high-value jobs.

Targeted support for affected workers

The *Jobs Plan* acts immediately to repair and support participation and employment, supporting insecure workers.

A significant number of Victorians have been left without a job due to the coronavirus (COVID-19) pandemic, or are currently not working and supported through the Commonwealth's JobKeeper program. Many others have had their hours cut, while a further group of workers has left the workforce.

These Victorians will be provided with opportunities to play a role in the State's recovery. This will include opportunities for further skill development to re-enter the workforce, the development of new skills to switch to the industries that will enjoy significant growth, or to just get that start in the workforce as the first step to a lifetime of work.

The *Jobs Plan* includes Jobs for Victoria, a new $619 million initiative to maximise jobs and help Victorians into work. This investment includes 10 000 work placements that will complement Commonwealth initiatives; the promotion of further placements through the use of expert job mentors, and jobs and skills advocates; and it will continue the successful JobsBank program.

A New jobs tax credit will also be provided to encourage small and medium sized businesses to re-employ staff, restore staff hours and hire additional staff. Businesses with annual Australian group wages less than $10 million will receive a non-refundable credit of 10 cents for every dollar of Victorian wages paid in 2020-21 and 2021-22 above the previous year's wages.

Box 3.2: The New jobs tax credit

In response to the coronavirus (COVID-19) pandemic, the Government acted quickly to provide a full refund and waiver of 2019-20 payroll tax to small and medium businesses, providing $1 billion back into the bank account of around 34 000 businesses.

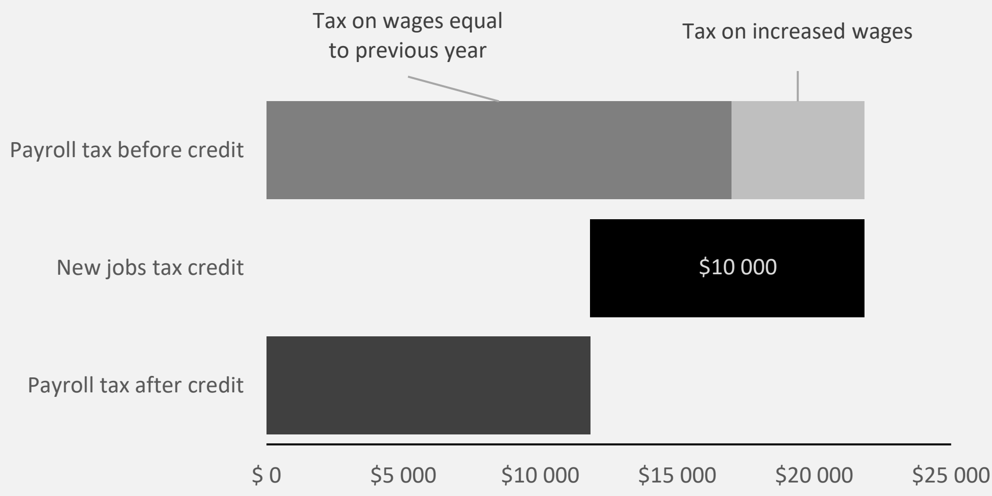
Now, as part of the *Jobs Plan*, the Government is introducing the New jobs tax credit. This will encourage small and medium businesses to re-employ staff, restore staff hours and hire additional staff as they recover from the effects of the coronavirus (COVID-19) pandemic.

For the next two years, eligible businesses will receive a New jobs tax credit of 10 cents for each dollar of increased Victorian taxable wages compared to the previous financial year, saving businesses $836 million.

This means that not only will eligible businesses pay no payroll tax on increased wages — they will get a refund of tax already paid. The more they increase wages and employment in Victoria, the less payroll tax they will pay.

Chart 3.4 shows the value of the New jobs tax credit to a business that increases taxable wages by $100 000 by hiring two staff. The New jobs tax credit will reduce its payroll tax bill by $10 000 — from $21 825 to $11 825. This will encourage the business to hire more staff or increase wages. If the business further increased its wages in 2021-22 it would be eligible for an additional New jobs tax credit.

Chart 3.4: How growing businesses benefit from the New jobs tax credit



Source: Department of Treasury and Finance

This emergency tax relief measure is expected to help support 9 400 jobs and stimulate the economy by providing tax relief to 14 000 businesses in 2020-21, and 21 000 businesses in 2021-22.

Businesses with annual Australian group wages less than $10 million will be eligible to receive the non-refundable tax credit in 2020-21 and/or 2021-22. Special rules apply for new businesses. The New jobs tax credit will be applied automatically for eligible businesses through their usual payroll tax arrangements.

Putting TAFE and training at the heart of Victoria's recovery

The Government is investing $1.0 billion in TAFE and training to give Victorians the skills to get back to work, including $631 million to ensure the system can respond to anticipated demand, including subsidised training and Free TAFE in priority areas. It will also provide funding to attract and support people to reskill as teachers at Victorian TAFEs, including teacher scholarships and mentoring.

The package includes $155 million to support Victorians particularly affected by economic disruption, including women, young people, migrants, vulnerable Victorians and retrenched workers, to access subsidised training and Free TAFE training to reskill and upskill in 2021. This will include opportunities for Victorians with pre-existing qualifications to retrain for sectors that need more skilled workers.

As part of this package the Government is also investing $75 million in a new skills program for resilient and emerging industries. This will enable rapid retraining of workers into high-priority industries through additional places in accredited skill sets, delivered through a new Victorian Funded Skill Set List. This initiative also supports a workforce skill sets pilot to respond to immediate and emerging skills needs.

The funding will also support skills and workforce development as part of the current North East Link and new Footscray Hospital projects. This funding will put TAFE at the centre of these iconic projects, training the project workforce and creating a skilled workforce legacy. This will include new Skills and Jobs Centres and on-site support at these projects to provide workers with skills advice and address project-specific training needs.

The Government is transforming its approach to supporting apprentices and trainees through the $33 million Big Build apprenticeship pathway. This new, more coordinated pathway will connect new apprentices to employers working on the State's iconic public infrastructure projects, allowing them to move between projects when work on a particular job is finished to learn new skills and successfully complete their training.

Funding is also provided to continue and strengthen supports for apprentices, trainees and employers more broadly, with a focus on ensuring apprentices complete their training and boosting new commencements. The Government is also investing in new approaches to skills, expanding the development of new higher apprenticeships and traineeships in the social service sector, creating new opportunities for workers to credential and upskill while continuing employment.

The coronavirus (COVID-19) pandemic has accelerated technology-enhanced working and business practices, accelerating the demand for digital skills. To create new opportunities, the Government is establishing a ground-breaking Digital Skills and Jobs program for unemployed Victorians. Unemployed Victorians will have the opportunity to undertake digital skills training or take part in a digital internship with an employer on a digital project.

BUILDING OUR STATE AS WE REBUILD OUR ECONOMY

The provision of targeted, timely economic stimulus measures is crucial to kick-start the economy and re-build participation and employment in the near term. The economic activity created through stimulus investment in transport, social housing, community infrastructure and energy infrastructure provides a clear pipeline for continued economic activity and job creation. But importantly, each also creates a double dividend – boosting productivity, creating a social and community recovery, or boosting sustainability.

Since November 2014, the Government has announced infrastructure investment that has supported or will continue to support over 165 000 jobs.

This investment supports transformational projects such as the North East Link, Metro Tunnel, West Gate Tunnel, Melbourne Airport Rail and the removal of 75 level crossings by 2025.

The Government's strategic program of infrastructure investment is broadened in this budget to include other forms of infrastructure that provide a stimulus and additional benefit.

As part of the $6 billion investment in the Big Housing Build, a record investment of $5.3 billion in funding will expand and diversify social and affordable housing across the state, improving the lives of thousands of Victorian families and providing direct economic stimulus to boost the economy and deliver jobs.

Box 3.3: Victoria's Big Housing Build

Victoria's Big Housing Build will invest $6 billion to build more than 12 000 new social and affordable homes and make housing more accessible and affordable for Victorians.

Record investment in social and affordable housing

Victoria's Big Housing Build will transform the social and affordable housing system and create opportunities for small, medium and large building contractors, supporting Victoria's economic recovery.

Victoria's Big Housing Build includes $5.3 billion to construct more than 12 000 new dwellings, including:

- 9 300 new social housing dwellings replacing 1 100 old housing units; and
- 2 900 new, mainly affordable and low-cost homes in locations that are close to jobs and transport.

Victoria's Big Housing Build will be delivered through partnerships with the community housing sector, private sector construction and development companies, superannuation funds and other investors.

It is estimated that 10 000 jobs will be supported, on average per year, over the next four years, as well as increasing economic activity across the state. A quarter of the total investment will be in regional areas.

The package also provides funding to accelerate the public housing capital upgrade program, including the enhanced gas heater servicing and replacement programs. These works will enhance the amenity and quality of the public housing for tenants.

This package builds on the $498 million provided through the Building Works package for improvements such as increased security, maintenance and capital upgrades across public and community housing.

Unlocking the housing market

Victoria's Big Housing Build will help make housing more affordable and accessible for Victorians, as well as supporting private sector investment.

The Victorian Homebuyer Fund provides $500 million to accelerate Victorians into home ownership. The fund will contribute to the purchase price in exchange for a proportionate equity interest in the property. This reduces the size of the deposit required and will help Victorians buy homes sooner. The fund will support the purchase of both established and newly built homes.

To help establish the build-to-rent sector in Victoria, from 1 January 2022, Victoria's Big Housing Build will provide a 50 per cent land tax discount for eligible new developments until 2040. These developments will also be exempt from the Absentee Owner Surcharge over the same period. Investment in the build-to-rent sector will provide greater choice and diversity of housing options for renters and support Victoria's economic recovery.

Emergency tax relief on land transfer duty for residential property transactions of up to $1 million will also be provided. A land transfer duty waiver of 50 per cent for new residential properties, and 25 per cent for existing residential properties, will be available for purchases up to $1 million for contracts entered into between the day after announcement and 30 June 2021.

The Government has already extended the $20 000 First Home Owner Grant for people buying or building a new home in regional Victoria to apply to contracts of sale entered up until 30 June 2021. This extension gives more Victorians the opportunity to live locally and enter the property market for the first time, while also supporting jobs in regional Victoria.

To unlock construction activity, Victoria's Big Housing Build includes $52 million in funding to implement the Commissioner for Better Regulation's planning reforms to improve the system's performance and clarity, and to grow housing supply across the state through the Victorian Planning Authority programs Affordable by Supply and Streamlining for Growth.

In addition, $59 million in funding is provided for targeted planning system reforms. The reforms will have a critical role in unlocking private sector investment and supporting Government initiatives, including the delivery of infrastructure, jobs and housing.

A further key element of the recovery plan is a $1.6 billion investment in clean energy initiatives and energy efficiency upgrades to homes. The package will drive economic recovery and jobs growth, and deliver cheaper, cleaner energy.

It includes:

- coordination of new renewable energy zones across regional Victoria, upgrades to transmission networks and facilitation of new clean energy generation projects;
- energy efficiency upgrades to 250 000 low income households and over 35 000 social housing properties, providing cheaper energy bills for families, improved living comfort and energy efficient housing;
- legislative amendments and policy development to mandate timely utility connections, energy standards in rental properties, expand the Victorian Energy Upgrades program and work towards net zero carbon new homes; and
- targeted works to support energy management by businesses and an electric vehicle fast-charging network.

Funding is also provided for a one-off $250 Power Saving Bonus for Victorian households that have at least one eligible concession card holder such as a JobSeeker or Youth Allowance recipient or pensioner and use the Victorian Energy Compare website to search for a better electricity deal.

Further economic stimulus will be provided by continuing the Government's significant investment in social and community infrastructure, including schools, hospitals, Melbourne's Arts Precinct, and community sport (see Chapter 5 *State Capital Program 2020-21*).

To encourage development and improve the process and timing for projects, the Government has committed to a new legislative framework for state significant development and private sector projects, a new model for streamlined assessment of significant development proposals greater than $50 million, and a new critical infrastructure facilitation service.

SUPPORT FOR INDUSTRIES AND LEVERAGING OUR STRENGTHS

The differential impact of the coronavirus (COVID-19) pandemic on the economy requires a combination of broad, economy-wide supports for the recovery and targeted support for sectors that will experience enduring impacts.

While all industries will feel the impacts of general economic decline, it is noteworthy that some sectors of the economy experienced growth during the coronavirus (COVID-19) pandemic and there are sectors that will recover relatively quickly.

The *Jobs Plan* funds significant additional programs to assist the sectors most heavily affected by the restriction of movement across borders, particularly the visitor economy and the international education sector.

Victoria’s visitor economy sector has been amongst the hardest-hit parts of our local economy. The immediate priority is to restart marketing and provide funds to stimulate activity. This budget includes:

- $150 million for a Regional Tourism Investment Fund 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;
- $149 million for regional tourism infrastructure, campsites and visitor amenities projects to support jobs and local communities, including investment in the Grampians Peak Trail Projects, Wilson Promontory Revitalisation, Great Ocean Road and the Gippsland Tourism Recovery Package;
- $107 million to support strategic destination planning, targeted marketing campaigns, capacity and skills development for tourism businesses, and Regional Tourism Boards;
- $28 million for a new Victorian Regional Travel Voucher Scheme to encourage visitors to regional tourism regions and attractions;
- $20 million for regional events, to attract visitors from Melbourne and interstate, creating economic and community benefits in regional areas; and
- $9.7 million to continue to attract a strong pipeline of business events to Melbourne and regional Victoria, a high-yielding sector of the visitor economy delivering visitors during the off-peak and shoulder seasons.

Victoria’s creative industries are the envy of the nation, and a key driver of employment and economic activity. They have been hit hard by the public health restrictions protecting Victorians during the coronavirus (COVID-19) pandemic.

The Government has developed a further package of responses to assist and support recovery in the State’s vibrant experience economy. They include:

- $35 million to support infrastructure projects for creative industries in regional Victoria;
- $24 million to support creative industries, including the independent and live music industry;
- $20 million to support Victoria’s cultural agencies recover and adapt to safer operations as they reopen; and
- $17 million to support live public performances and music events across Victoria this summer and autumn.

The budget also includes a $21 million Screen Industry Crisis Recovery Plan to support the screen and digital games industry, and additional funding to help restart physical production of international productions and support the local screen industry.

The State’s higher education providers have also been heavily affected during the coronavirus (COVID-19) pandemic, and the public university sector has been unable to access key Commonwealth assistance programs such as JobKeeper.

The budget includes $33 million in assistance for the *International Education Sector Recovery Strategy*, including initiatives such as the Pathway to Victorian Scholarship Program, the Beyond Melbourne Education Tourism Program and the Study Melbourne Entrepreneurship Program.

It follows the Government's $350 million in support for Victorian universities through the Higher Education State Investment Fund, which will contribute to capital works, applied research and research partnerships. This reflects a new partnership model between the Government and universities to support economic recovery.

Leveraging strengths for the future

With the uncertainty around population as a driver of economic growth, it is crucial that we lay the foundations for more productive, sustained economic recovery that reflects Victoria's areas of comparative advantage.

Maximising investment opportunities will help drive growth and create jobs as Victoria transitions to COVID Normal.

The priority sectors identified in the State's *International Investment Strategy* remain the most appropriate targets for inbound investment attraction. Most importantly, the competitive advantages that Victoria has in these sectors remain globally relevant. These sectors include health and life sciences, agri-food, advanced manufacturing, clean energy and digital technologies.

As the Victorian economy recovers and opens up to the world, it is also important that the State continues to be a global leader in liveability, education, tourism and events, and the creative sector.

The *Jobs Plan* maintains a focus on investments that realise and enhance Victoria's capabilities, including those that:

- promote cooperation in research, development and commercialisation;
- address supply chain gaps;
- strengthen our venture capital ecosystem; and
- enhance linkages into the global economy and global value chains.

Recovery will drive further activity in priority sectors and also leverage aspects of the State's other strengths.

To promote business investment in Victoria, Government will commit an $80 million package of targeted financial incentives to secure high-quality international business investment boosting Victorian capability and creating local jobs.

Just as Victoria's world-class medical researchers and research institutions have played a critical role in previous medical discoveries, they are also at the frontline of developing better treatments for coronavirus (COVID-19) and a potential vaccine.

The Plan provides $210 million in funding to strengthen Victoria's position as a leader in medical research, support jobs and improve health outcomes over the longer term, with initiatives including:

- the Australian Institute for Infectious Disease, which the Government and the University of Melbourne are making a substantial contribution towards, subject to completion of the business case and co-investment from the Commonwealth;
- the development of a business case for the establishment of a National Centre for Inflammation, led by the Hudson Institute;

- continued support for the Melbourne Genomics Health Alliance;
- delivery of a respiratory challenge trials project, with the Government taking an equity share; and
- COVID-19 research to support the development of treatments and responses that address its immediate, medium and long-term impacts.

Beyond supporting the work of our research community, the Government will take the State's research and innovation to a new level. With a new $2 billion Breakthrough Victoria Fund, the Government will drive investment in translational research, innovation and commercialisation outcomes to accelerate growth in key industry sectors and support jobs. The focus industries will include health and life-sciences, agri-food, advanced manufacturing, clean energy and digital technologies.

This Fund is expected to catalyse significant investment from other industry, university and government sources and is expected to support 15 700 jobs over 10 years.

The Fund will support research and development adoption and commercialisation outcomes across Victoria. It will support projects delivered by consortia of knowledge institutes and industry stakeholders, anchored at key innovation and employment precincts, including Parkville, Arden Macauley, Fishermans Bend, Latrobe Bundoora and Monash Clayton.

Just as Victoria has a strong record in medical research, it also has a history as being an Australian leader in manufacturing. Victoria is home to world-leading manufacturers with supportive ecosystems of businesses and a highly-skilled workforce. The transformational shift towards high-valued products, embracing new technologies and securing new global value chain connections provides a strong platform for growth.

The *Jobs Plan* includes a $60 million Manufacturing and Industry Development Fund to support essential and sovereign manufacturing and industry capability in Victoria, with a focus on development in key sector growth areas. In a significant boost to the manufacturing sector in Victoria, the budget also includes funding for 100 Next Generation Trams all to be made in Victoria. This will also build industry capability and skills.

The plan will support new technology and startups through a $61 million Victorian Startup Capital Fund designed to unlock capital to support Victoria's high-growth startups to scale and support high value jobs. A Venture Growth Fund will provide funding to co-invest into a venture debt facility with a private investor to inject more capital into the scaleup sector and support companies to grow that do not meet the requirements of traditional lenders. Low-interest loans will also be available for eligible Victorian enterprises to assist with cash flow and support vital research and development work programs.

The budget also funds the $40 million LaunchVic Accelerate initiative that will boost support for Victoria's startup ecosystem.

A $75 million package of regulatory reform initiatives will improve Victoria's regulatory system, and enable firms to innovate and reduce the cost of doing business.

This budget marks a fundamental shift in how the Government is supporting Victorian innovation and digital jobs.

Victoria's Digital Future Now is a comprehensive $626 million package over six years that will deliver business-grade broadband across suburbs and regional towns to enable businesses, employees and job seekers to fully participate in the emerging digital economy.

This includes:

- funding for business-grade broadband in suburbs and regional towns to enable businesses, workers and job seekers to fully participate in the emerging digital economy anywhere in Victoria. This includes upgrades to regional towns that currently only have access to satellite and fixed wireless services and giving other locations across the state the opportunity to connect to business-grade services;
- the eradication of Mobile Black Spots in populated areas in regional Victoria, subject to a co-contribution from the Commonwealth Government;
- funding for the Cremorne flagship digital hub, to support emerging digital capabilities required by industry and accelerate the development of one of Australia's leading urban technology precincts; and
- a new Digital Skills and Jobs program for unemployed Victorians, to fund digital short courses and industry internships.

ENSURING NO COMMUNITY AND NO VICTORIAN IS LEFT BEHIND

The coronavirus (COVID-19) pandemic highlighted that many Victorians who work casually do not have the benefit of the same rights and entitlements as those available to other workers.

To support casual workers, this budget provides funding to undertake further policy development, modelling, consultation and stakeholder engagement required to finalise the design of a Secure Work pilot scheme.

The budget continues the Government's strong record of investing in regional Victoria – making sure that as we recover from the coronavirus (COVID-19) pandemic, no community or corner of the state is left behind.

As regional employment data shows in Chart 3.5, some parts of the state have been more affected than others.

Metropolitan Melbourne experienced the greatest falls in employment, as well as tourism-exposed regional areas such as around the Great Ocean Road, Daylesford, the Alpine Resorts and the Yarra Valley.

Employment declined by 6.5 per cent (175 000 persons) in Melbourne compared to 2 per cent (15 000 persons) in regional Victoria from March to September quarters 2020.

Communities in the State's east and north were also dealt the double blow of the coronavirus (COVID-19) pandemic and the 2019-2020 Victorian bushfires.

This budget is dedicated to making sure these communities – and every community – have the support they need to rebuild and recover.

Chart 3.5: Change in number of JobSeeker recipients by small area, March to September 2020, Victoria[(a)(b)(c)]

Source: Australian Bureau of Statistics, Commonwealth Department of Social Services

Notes:

(a) JobSeeker recipients include Youth Allowance (other) recipients.

(b) Small areas are Statistical Area Level 2 as defined by the Australian Bureau of Statistics.

(c) Areas in black shading are not applicable due to a low number of observations.

The *Jobs Plan* will enable regional and rural communities to deliver what's best for their community, based on local strengths and local challenges with initiatives such as:

- $156 million for the continuation of the Regional Jobs and Infrastructure Fund to support local priorities, regional businesses and investment, including:
  - the Economic and Community Development fund to deliver priority economic and community projects that can be activated quickly, support and retain jobs and support regional economies and communities in their recovery efforts;
  - the Regional Jobs Fund to support businesses in sectors that are seeking to develop and expand their operations; and
  - funding to accelerate and develop business cases and planning for regional projects of strategic importance, to increase the pipeline of investment-ready projects in rural and regional Victoria.
- $65 million for a new strategy to grow and modernise Victorian agriculture will provide short-term support and stimulus to assist Victoria's agriculture industry to recover and lay the foundations for the sector to become more innovative and sustainable; and
- $10 million in grants to support short-term projects identified by communities in regional Victoria to address their urgent coronavirus (COVID-19) socioeconomic recovery needs.

To support regional businesses to open, relocate or expand, and help regional Victoria recover from the effects of the coronavirus (COVID-19) pandemic, the Government is bringing forward the 50 per cent commercial and industrial land transfer duty concession for eligible properties anywhere in regional Victoria. The concession will apply to contracts entered into from 1 January 2021, rather than 1 July 2023 as announced in the *2019-20 Budget*.

This builds on previous support for regional Victoria as part of the *2019-20 Budget*, including reducing the regional payroll tax rate to 1.2125 per cent, or 25 per cent of the metropolitan rate, by 2022-23.

The Government is also funding new programs to support Melbourne's suburban communities:

- $75 million for the Growing Suburbs Fund to boost the number of community facility projects delivered in Melbourne's growing interface councils, and for the first time, in six peri-urban councils. The fund provides grants to build or upgrade community facilities such as parks, community centres, town centres, playgrounds, swimming pools and cultural facilities;
- $20 million as part of the Suburban Revitalisation and Growth initiative to continue the work of the Broadmeadows and Frankston revitalisation projects and support social initiatives and infrastructure delivery for six new suburban revitalisation sites; and
- as part of the School and Community Safety program, funding to improve safety for motorists, cyclists and pedestrians on local and arterial roads, and around Victorian schools. This will include new and enhanced pedestrian crossings, temporary walking and cycling infrastructure, funding to increase road safety around schools and at school crossings, and development funding for a shared user path as part of the Hurstbridge line works. Regional intersection upgrades will also be delivered as part of the program.

THE JOBS TARGET

The Victorian economy experienced an extended period of strong jobs growth before the coronavirus (COVID-19) pandemic, with 523 000 new jobs created between November 2014 and March 2020. Victoria created more jobs in this period than any other state or territory.

The consequences of the coronavirus (COVID-19) pandemic led to employment falling by 180 000 between the March and September quarters 2020.

The *Jobs Plan* has been designed to provide the greatest level of support to the Victorian labour market at the time when it is most needed, while support from the Commonwealth Government and banks tapers.

The Government is setting an ambitious Jobs Target – for employment to be 400 000 higher by 2025, with an interim milestone of 200 000 more people employed by 2022, compared with the trough in employment in 2020.

THE EMPLOYMENT AND ECONOMIC IMPACTS OF THE *2020-21 BUDGET*

Protecting and creating jobs for Victorians is central to the *2020-21 Budget*. The *Jobs Plan*, as well as other initiatives announced since the *2019-20 Budget Update*, will support around 125 000 jobs over the life of these initiatives.

These jobs are all in addition to those jobs supported by the Government's base levels of funding for essential services like health and education.

Deloitte Access Economics also estimates that the Government's expenditure and revenue decisions will result in a cumulative $43.9 billion increase to GSP over the budget and forward estimates period.

The Government's support for the economy is timed for when it is needed most. The peak in Victorian Government support coincides with tapering down of Commonwealth Government supports with the Coronavirus Supplement for income support recipients and JobKeeper wage subsidies scheduled to decline further from January 2021 and end in March 2021. Mortgage relief from banks is likely to unwind over the same period.

A rebound in private sector employment, in addition to initiatives in this budget, is expected to see the Victorian economy generate at least 200 000 new jobs by 2022, and 400 000 new jobs by 2025, compared to the trough in employment in 2020.

CHAPTER 4 – BUDGET POSITION AND OUTLOOK

- The *2020-21 Budget* demonstrates the Government's commitment to supporting Victorians through the coronavirus (COVID-19) pandemic, while ensuring the State's finances remain sustainable over the medium term.
- In this budget, the Government has announced $29.2 billion in new output initiatives and up to $19.8 billion total estimated investment (TEI) in new asset initiatives.
- Central to the *2020-21 Budget* is the *Jobs Plan*. This targeted, complementary set of initiatives will help protect and create new jobs and make the Victorian economy stronger and more resilient.
- The combined impact of reductions in revenue as a result of the global recession and increases in expenditure has resulted in a forecast operating deficit of $23.3 billion in 2020-21, compared with an operating deficit of $6.5 billion in 2019-20. Further operating deficits are forecast over the forward estimates.
- Total revenue for the general government sector is expected to be $66.7 billion in 2020-21, a downgrade of $7.8 billion compared with the *2019-20 Budget Update*. While revenue will remain lower than forecast in the *2019-20 Budget Update* across the forward estimates, it is expected to grow as the economy recovers, reaching $81.4 billion in 2023-24.
- Total expenditure is expected to be $90.0 billion in 2020-21, before declining by 6.2 per cent in 2021-22. The projected peak in 2020-21 reflects the Government's objective to support economic growth in the short to medium term, with this expenditure tapering as the economy recovers. Expenditure growth is expected to be 0.1 per cent in 2022-23, increasing to 3.4 per cent in 2023-24.
- Government infrastructure investment (GII) is expected to average $19.6 billion a year over the budget and forward estimates – around four times the 10-year average to 2014-15.
- Net debt is projected to be $154.8 billion by June 2024. As a proportion of gross state product (GSP), net debt is projected to increase to 28.9 per cent by June 2024.
- Interest expense as a share of total revenue remains manageable and is expected to average 4.4 per cent a year over the budget and forward estimates.
- The Government is on track to fully fund the State's unfunded superannuation liability by 2035.

This chapter outlines the budget position of the general government sector. This budget paper takes into account the financial impacts as at 12 November 2020 of all policy decisions made by the Government, as well as other information that affects the financial statements, unless otherwise stated.

GENERAL GOVERNMENT SECTOR

Overview

The *2020-21 Budget* demonstrates the Government's commitment to supporting Victorians during the coronavirus (COVID-19) pandemic, while ensuring the State's finances remain sustainable over the medium term.

This budget invests $29.2 billion in new output initiatives and up to $19.8 billion TEI in new asset initiatives.

The global recession has resulted in total revenue being revised down by $7.8 billion in 2020-21 compared with the *2019-20 Budget Update*. The combined impact of this reduction in revenue and increases in expenditure to deal with the impacts of coronavirus (COVID-19) has resulted in a forecast operating deficit of $23.3 billion in 2020-21, compared with an operating deficit of $6.5 billion in 2019-20. Further operating deficits are forecast over the forward estimates. The general government operating cash deficit is forecast to be $21.8 billion in 2020-21, reducing to an average of $2.8 billion a year over the forward estimates.

In 2020-21, total revenue is expected to be 4.2 per cent lower than 2018-19 levels. While revenue will remain lower than forecast in the *2019-20 Budget Update* across the forward estimates, it is expected to grow as the economy recovers, reaching $81.4 billion in 2023-24.

Total expenditure is expected to be $90.0 billion in 2020-21, before declining by 6.2 per cent in 2021-22. The projected peak in 2020-21 reflects the Government's objective to support economic growth in the short to medium term, with this expenditure tapering as the economy recovers. Expenditure growth is expected to be 0.1 per cent in 2022-23, increasing to 3.4 per cent in 2023-24.

Table 4.1 General government fiscal aggregates (a)

	Unit of measure	*2019-20 actual*	*2020-21 budget*	*2021-22 estimate*	*2022-23 estimate*	*2023-24 estimate*
Net result from transactions	$ billion	(6.5)	(23.3)	(13.1)	(6.7)	(5.9)
Net cash flows from operating activities	$ billion	(2.9)	(21.8)	(4.0)	(2.6)	(1.8)
Government infrastructure investment (b)	$ billion	12.0	19.4	19.5	20.3	19.2
Net debt	$ billion	44.3	86.7	109.7	132.9	154.8
Net debt to GSP (c)	per cent	9.6	19.5	22.5	26.0	28.9

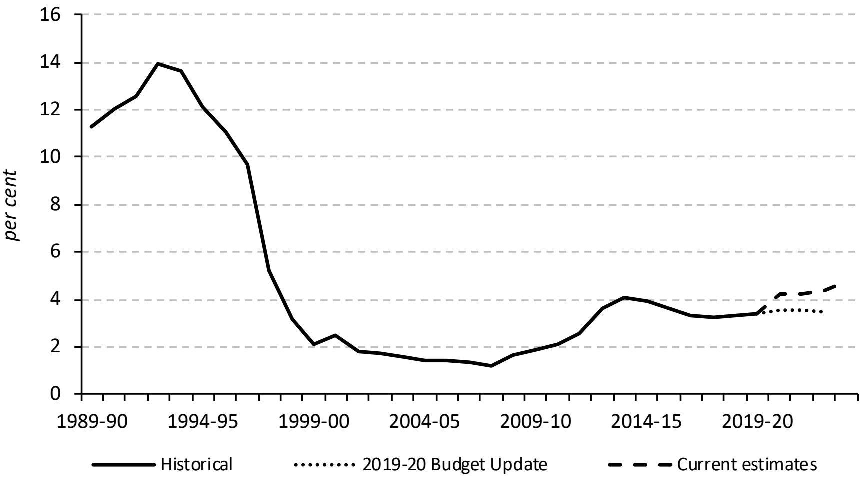
Source: Department of Treasury and Finance

Notes:
(a) Includes the impact of accounting standards changes that require the classification of most operating leases as debt and the progressive recognition during construction of capital expenditure and related debt associated with financial service concession arrangements, including certain public private partnership projects.
(b) Includes general government net infrastructure investment and estimated construction costs for public private partnership projects.
(c) The GSP figure for 2019-20 is an estimate. The ratios to GSP may vary from publications year to year due to revisions to the Australian Bureau of Statistics GSP data.

Government infrastructure investment is projected to average $19.6 billion a year over the budget and forward estimates – around four times the 10-year average to 2014-15.

Net debt is projected to be $154.8 billion by June 2024. As a proportion of GSP, net debt is projected to increase to 28.9 per cent by June 2024. However, interest expense as a share of total revenue – a better measure of the costs associated with borrowings – is expected to remain manageable, averaging 4.4 per cent a year over the budget and forward estimates.

Chart 4.1: Interest expense to revenue ratio [(a)]



Source: Department of Treasury and Finance

Note:

(a) Interest expense to revenue ratio prior to 1996-97 has been calculated on a cash basis, as accrual accounting was implemented from 1996-97 onwards.

Box 4.1: Victoria's fiscal position compared with the Commonwealth Government

The fiscal positions of both the Victorian and Commonwealth Governments have been greatly impacted by the coronavirus (COVID-19) pandemic.

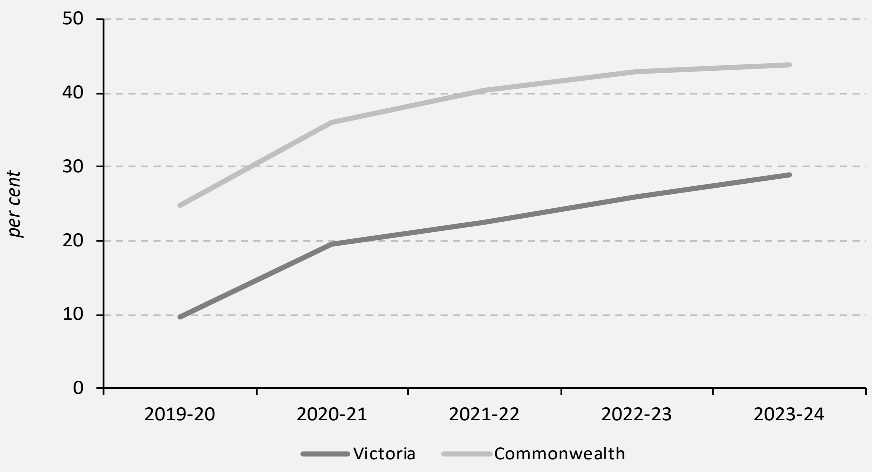
In 2020-21, Victoria is forecasting a general government operating deficit equivalent to 34.9 per cent of total revenue. The Commonwealth Government's expected deficit as a share of its total revenue is larger, at 41.9 per cent.

Chart 4.2: Net operating result as a share of total revenue

Sources: 2020-21 Commonwealth Budget*; Department of Treasury and Finance*

Like Victoria, the Commonwealth Government is expecting net debt to increase, as it too increases borrowings to fund its response to the coronavirus (COVID-19) pandemic. As a share of GDP, it is expecting net debt to increase from 24.8 per cent in June 2020 to 43.8 per cent by June 2024. This is an increase of around 19 percentage points – the same percentage point increase that Victoria is expecting for its net debt to GSP.

Chart 4.3: Net debt to GSP and GDP



Sources: 2020-21 Commonwealth Budget*; Department of Treasury and Finance*

As part of the *2020-21 Budget*, the Government has updated its long-term financial management objectives and its financial measures and targets to better reflect the current economic and fiscal conditions. The Government will further refine its objectives in future budgets, to the extent necessary to help guide Government decision-making and to deliver the best outcomes for Victorians.

Table 4.2: Financial measures and targets for the *2020-21 Budget*

Financial measures	*Target*
Net debt to GSP	General government net debt as a percentage of GSP to stabilise in the medium term.
Interest expense to revenue	General government interest expense as a percentage of revenue to stabilise in the medium term.
Superannuation liabilities	Fully fund the unfunded superannuation liability by 2035.
Operating cash surplus	A net operating cash surplus consistent with maintaining general government net debt at a sustainable level after the economy has recovered from the coronavirus (COVID-19) pandemic.

In the *2019-20 Budget*, the Government identified the need to respond to changing economic conditions by progressively realigning expenditure to target key priority areas, including by implementing savings and efficiencies to improve the effectiveness of departmental spending, and by rebalancing wages policy parameters.

The Government remains committed to the efficiency and effectiveness of government services. However, in the context of the current economic climate, the Government has revised its approach to ensure efficiency measures can be implemented without impairing the economic recovery by deferring the implementation of a range of efficiency measures.

As part of the 2021-22 budget, the Government will continue to review its path forward to ensure fiscal sustainability.

Box 4.2: Advance to Treasurer appropriation

Each annual appropriation Act includes within the appropriations for the Department of Treasury and Finance (DTF) an amount of Advance to Treasurer (TA), from which supplementary funding may be provided to departments during the financial year for urgent claims for unforeseen events and other funding and policy responses not reflected in departmental appropriations.

In addition to appropriating funds for the ordinary services of government (i.e. excluding the Parliament) for the first half of the 2020-21 financial year, the *Appropriation (Interim) Act 2020* (the Supply Act) also appropriated amounts of TA for both the second half of the 2019-20 financial year ($10.0 billion) and the first half of the 2020-21 financial year ($14.5 billion).

The supplementary 2019-20 TA and 2020-21 TA appropriated by the Supply Act was intended to provide the Government with adequate financial resources to enable it to respond rapidly and effectively to the health, economic and other social impacts of the coronavirus (COVID-19) pandemic.

The TA appropriated by the Supply Act provided Government with the authority to spend these amounts. It did not automatically mean that these amounts were spent, or would be spent. Rather, it was intended that this authority would provide sufficient funding cover to ensure the Government could respond urgently to some new or exacerbated impact of the coronavirus (COVID-19) pandemic.

The *2019-20 Financial Report* for the State of Victoria (AFR) itemised the coronavirus (COVID-19) related items funded from TA in 2019-20. Of the $10.0 billion set aside, only $2.4 billion was needed to be drawn down – see AFR pages 166-167.

In the September quarter of 2020-21, $677 million of funding was drawn from the TA of $14.5 billion set aside for the first half of the 2020-21 financial year.

Upon receiving Royal Assent, the *Appropriation (2020-21) Act 2020* will subsume the Supply Act and provide the appropriation amounts for 2020-21 agreed by the Parliament.

Amounts of supplementary funding provided to departments from the 2020-21 TA appropriated by the Supply Act have been incorporated within those departments' annual appropriations in the Appropriation (2020-2021) Bill 2020. This incorporation provides the Parliamentary sanction required by section 6 of the Supply Act, and accordingly these amounts will not be reported as TA spending in 2020-21 annual reporting.

Undrawn amounts of 2020-21 TA appropriated by the Supply Act will cease to exist, and so be unavailable to be drawn on, as soon as the Appropriation (2020-2021) Bill 2020 is enacted and comes into operation.

BUDGET AND FORWARD ESTIMATES OUTLOOK

Table 4.3 summarises the operating statement for the general government sector. A comprehensive operating statement is presented in Budget Paper No. 4, Chapter 1 *Estimated Financial Statements for the general government sector*.

Table 4.3: Summary operating statement for the general government sector [(a)] ($ million)

	2019-20 actual	*2020-21 budget*	*2021-22 estimate*	*2022-23 estimate*	*2023-24 estimate*
Revenue and income from transactions					
Taxation	23 167	20 928	23 700	26 021	27 565
Dividends, TER and interest [(b)]	1 429	1 171	1 113	1 143	1 211
Sales of goods and services	7 902	8 433	9 043	9 325	9 448
Grants	32 789	33 483	34 591	38 210	40 059
Other revenue and income	2 662	2 673	2 869	3 048	3 165
Total revenue and income from transactions	**67 948**	**66 687**	**71 315**	**77 747**	**81 448**
% change	(2.4)	(1.9)	6.9	9.0	4.8
Expenses from transactions					
Employee expenses	27 214	29 971	30 643	32 081	33 306
Superannuation [(c)]	3 480	3 634	3 687	3 723	3 811
Depreciation	3 894	4 145	4 365	4 592	4 834
Interest expense	2 328	2 813	3 038	3 424	3 895
Grant expense	15 331	22 009	18 816	17 464	17 531
Other operating expenses	22 241	27 397	23 865	23 188	23 960
Total expenses from transactions	**74 487**	**89 968**	**84 413**	**84 472**	**87 337**
% change	8.5	20.8	(6.2)	0.1	3.4
Net result from transactions – net operating balance	**(6 539)**	**(23 281)**	**(13 098)**	**(6 725)**	**(5 889)**
Total other economic flows included in net result [(d)]	**(1 360)**	**(382)**	**(393)**	**(394)**	**(378)**
Net result	**(7 899)**	**(23 663)**	**(13 491)**	**(7 119)**	**(6 266)**

Source: Department of Treasury and Finance

Notes:

(a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.

(b) Comprises dividends, income tax and rate equivalent revenue and interest.

(c) Comprises superannuation interest expense and other superannuation expenses.

(d) This typically includes gains and losses from the disposal of non-financial assets, adjustments for bad and doubtful debts and revaluations of financial assets and liabilities.

Revenue outlook

Total revenue for the general government sector is expected to decrease by 1.9 per cent compared with the 2019-20 result to $66.7 billion in 2020-21. From this reduced level, it is expected to recover, with growth projected to average 6.9 per cent a year over the forward estimates.

Compared with the *2019-20 Budget Update*, taxation revenue, goods and services tax (GST) grants and most other key revenue streams have been downgraded as a result of the coronavirus (COVID-19) pandemic. Since the *2019-20 Budget Update*, total revenue has decreased by $7.8 billion in 2020-21, $6.9 billion in 2021-22 and by $4.8 billion in 2022-23.

Taxation

State taxation revenue is forecast to decrease by 9.7 per cent compared with the 2019-20 result to $20.9 billion in 2020-21. From this reduced level, it is expected to recover from 2021-22 with an average annual rate of growth of 9.6 per cent over the forward estimates. From the pre-coronavirus (COVID-19) level in 2018-19, taxation revenue is expected to increase by an average annual rate of 3.2 per cent to 2023-24.

- Land transfer duty revenue is expected to fall sharply by 25.9 per cent in 2020-21 from the 2019-20 result, reflecting the fall in transaction volumes, weaker property prices and the impact of the Government's land transfer duty relief initiatives, before starting to recover from 2021-22. Although the coronavirus (COVID-19) pandemic started to affect property market conditions in 2019-20, the impact on land transfer duty revenue is expected to be delayed since duty is collected at settlement which typically occurs several months after the contract is signed. Land transfer duty is expected to recover from 2021-22 and grow by an average of 15.4 per cent a year over the forward estimates, but is not expected to reach the 2018-19 level until 2022-23.
- Land tax revenue in 2020-21 is expected to increase by 1.6 per cent from the 2019-20 result to $3.5 billion. The deterioration in the property market following the onset of the coronavirus (COVID-19) pandemic is expected to weaken growth in land tax revenue from 2021-22 onwards. Land tax revenue is expected to grow by an average of 3.0 per cent a year over the forward estimates, and by an average annual rate of 1.8 per cent over the five years to 2023-24.
- Payroll tax revenue is forecast to fall by 7.3 per cent from 2019-20 to $5.4 billion in 2020-21 as a result of weak labour market conditions and the impact of the Government's support measures for small and medium businesses in response to the coronavirus (COVID-19) pandemic. Payroll tax revenue is expected to grow by an average of 9.8 per cent a year over the forward estimates, and by an average annual rate of 2.5 per cent over the five years to 2023-24.
- Gambling tax revenue is forecast to decrease by 15.8 per cent from 2019-20 to $1.4 billion in 2020-21. This decrease is largely driven by the temporary closure of Crown Casino, hotels and clubs as part of the Government's public health response to the coronavirus (COVID-19) pandemic. Nevertheless, gambling revenue is expected to be supported by elevated revenue collections from lotteries and racing and sports betting. Gambling tax revenue is expected to grow by an average of 16.4 per cent a year over the forward estimates, and by an average annual rate of 2.5 per cent over the five years to 2023-24.

- Motor vehicle taxes are expected to increase by 2.4 per cent from 2019-20 to $2.7 billion in 2020-21. Motor vehicle tax revenue is expected to grow by an average of 3.9 per cent a year over the forward estimates. Cautious consumer spending behaviour in response to weaker economic conditions is expected to lead to a slower rate of growth in motor vehicle taxes over the budget and forward estimates than that in recent years.
- Insurance tax revenue is expected to increase by 2.4 per cent from 2019-20 to $1.5 billion in 2020-21 and grow by 6.3 per cent a year on average over the forward estimates. Tax revenue from most types of insurance is expected to be largely unaffected by the coronavirus (COVID-19) pandemic.

Dividends, income tax equivalent and interest

Dividend and income tax equivalent (ITE) revenue is projected to decline by 34.1 per cent in 2020-21, before increasing by an average of 4.3 per cent a year over the forward estimates. The decline in 2020-21 is largely due to lower profits from the metropolitan water corporations as a result of the coronavirus (COVID-19) pandemic. Dividends in 2019-20 were also higher compared with 2020-21 due to the deferral of the 2018-19 interim dividends of metropolitan water corporations into 2019-20.

Interest income is earned on holdings of cash and deposits. Total interest income is expected to be $637 million in 2020-21 and is forecast to decline by an average of 1.7 per cent a year over the forward estimates, largely due to money being drawn down from the Victorian Transport Fund to fund infrastructure.

Sales of goods and services

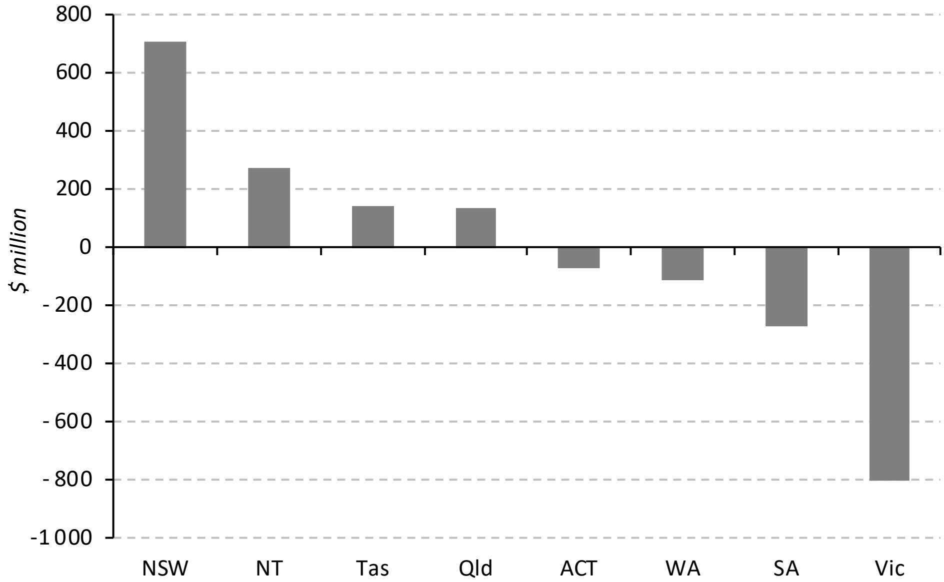
Revenue from the sales of goods and services is expected to grow by 6.7 per cent in 2020-21 to $8.4 billion. Growth over the forward estimates is expected to average 3.9 per cent a year. This growth largely reflects increases in the capital asset charge revenue from VicTrack associated with an increase in its asset base, along with an expected recovery in public transport fare revenue from 2021-22 onward.

Grants

Total grant revenue is expected to be $33.5 billion in 2020-21, an increase of 2.1 per cent from the 2019-20 result. Grants for specific purpose are expected to increase in 2020-21. However, GST revenue is expected to decline due to the deterioration in the Australian economy as a result of the coronavirus (COVID-19) pandemic and a reduction in Victoria's GST relativity as a result of changes to the GST distribution methodology in 2020. Total grant revenue is expected to grow over the forward estimates, largely driven by a recovery in GST revenue.

GST revenue is forecast to fall by 0.7 per cent from the 2019-20 result to be $15.3 billion in 2020-21. This fall reflects a weak outlook for the national GST pool and a reduction in Victoria's GST relativity as a result of methodology changes in the Commonwealth Grants Commission's (CGC's) 2020 Methodology Review. At that time, the CGC estimated that the net impact of the methodology changes on Victoria's relativity would be an $802 million reduction to Victoria's GST revenue in 2020-21 (Chart 4.4). This change represented the single largest redistribution away from any state in a methodology review since the introduction of the GST. Based on Victoria's own forecasts, the methodology change is expected to redistribute approximately $1 billion per year in GST revenue away from Victoria across the budget and forward estimates.

Chart 4.4: CGC's estimated impact of revised GST distribution method, 2020-21 ($ million)



Source: Commonwealth Grants Commission

Over the forward estimates, GST revenue is expected to grow by an average rate of 8.7 per cent a year, driven by a recovery in the national GST pool. Victoria's assessed relativity is forecast to increase modestly over the forward estimates.

Commonwealth grants for specific purposes are projected to average $18.7 billion a year over the next four years. The Commonwealth provides these grants as contributions toward healthcare, education, disability and other services, and major infrastructure investment.

Other revenue and income

Other revenue and income includes fines, royalties, donations and gifts, assets received free of charge and other miscellaneous revenues. Other revenue and income is projected to be $2.7 billion in 2020-21 and increase by an average of 5.8 per cent a year over the forward estimates.

Budget Paper No. 4, Chapter 4 *State revenue* contains further details of expected movements in the major categories of general government revenue.

Expenses outlook

The Government is expected to spend $90.0 billion in 2020-21, as it continues to make the investments necessary to help Victorians during the coronavirus (COVID-19) pandemic and support the economic recovery. Expenses are then expected to decline by 6.2 per cent in 2021-22, before growing by 0.1 per cent in 2022-23 and 3.4 per cent in 2023-24.

- Employee expenses (including superannuation) are forecast to grow by 9.5 per cent in 2020-21 and by an average of 3.4 per cent a year over the forward estimates. The growth in the budget year and over the forward estimates reflects the Government's response to the coronavirus (COVID-19) pandemic, increased service delivery, primarily in health and education, as well as increased remuneration consistent with enterprise bargaining agreements.
- Depreciation expense is forecast to grow by 6.4 per cent to $4.1 billion in 2020-21 and by an average of 5.3 per cent a year over the forward estimates. This growth is broadly in line with the Government's increased investment in infrastructure.
- Interest expense is forecast to grow by 20.8 per cent to $2.8 billion in 2020-21, and by an average of 11.5 per cent a year over the forward estimates, as the Government increases borrowings to fund its response to the coronavirus (COVID-19) pandemic. Interest expense as a share of total revenue is expected to remain manageable, averaging 4.4 per cent a year over the budget and forward estimates.
- Grants expenses are forecast to grow by 43.6 per cent to $22.0 billion in 2020-21, reflecting significant payments to businesses expected as part of the Government's coronavirus (COVID-19) pandemic support measures. Grants expenses are then expected to decline by 14.5 per cent in 2021-22, and by an average of 7.3 per cent a year over the forward estimates, with the Government's stimulus expenditure tapering as the economy recovers.
- Other operating expenses are forecast to grow by 23.2 per cent in 2020-21, before declining by 12.9 per cent in 2021-22. Over the forward estimates, other operating expenses are expected to decline by an average of 4.4 per cent a year.

Reconciliation of estimates to the *2019-20 Budget Update*

Relative to the *2019-20 Budget Update*, the net result from transactions has been revised down by $24.5 billion in 2020-21, $16.9 billion in 2021-22 and by $11.6 billion in 2022-23 (Table 4.4).

Table 4.4: Reconciliation of estimates to the *2019-20 Budget Update* [(a)] **($ million)**

	2020-21 budget	*2021-22 estimate*	*2022-23 estimate*
Net result from transactions: *2019-20 Budget Update*	**1 222**	**3 841**	**4 898**
Policy variations			
Revenue policy initiatives	(1 285)	(730)	12
Output policy initiatives [(b)]	(14 392)	(6 079)	(2 909)
	(15 677)	**(6 809)**	**(2 897)**
Economic/demographic variations			
Taxation	(3 451)	(2 415)	(2 433)
Investment income [(c)]	19	(31)	(36)
	(3 432)	**(2 446)**	**(2 469)**
Commonwealth grant variations			
General purpose grants	(3 076)	(3 887)	(3 094)
Specific purpose grants [(d)]	218	360	600
	(2 858)	**(3 527)**	**(2 494)**
Administrative variations			
Contingency offset for new policy initiatives [(e)]	100	250	250
Other administrative variations	(2 635)	(4 407)	(4 012)
	(2 535)	**(4 157)**	**(3 762)**
Total variation since *2019-20 Budget Update*	**(24 503)**	**(16 939)**	**(11 623)**
Net result from transactions: *2020-21 Budget*	**(23 281)**	**(13 098)**	**(6 725)**

Source: Department of Treasury and Finance

Notes:
(a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.
(b) This is represented in Table 4.5 as the 2020-21 Budget *output policy initiatives.*
(c) Comprises dividends and income tax and rate equivalent revenue.
(d) Reflects the change in grant revenue as per Note 1.2.4 of Budget Paper No. 4, Chapter 1 Estimated Financial Statements for the general government sector *less associated expense movements.*
(e) Represents releases from the funding not allocated to specific purposes contingency associated with 2020-21 Budget *new output initiatives. Further information on total output contingencies can be found at Note 1.3.5 of Budget Paper No. 4, Chapter 1* Estimated Financial Statements for the general government sector.

Policy variations

Policy variations reflect specific initiatives by the Government that have an impact on the next four years and are related to a new policy or represent a change in the Government's existing policy position since the *2019-20 Budget Update.*

The *2020-21 Budget* funds $29.2 billion in new output initiatives over the four years to 2023-24. Table 4.5 shows the impact of the new output initiatives in this budget. New revenue policy initiatives have resulted in a decrease in revenue of $668 million a year on average from 2020-21 to 2022-23.

Details of specific new output and revenue policy initiatives are contained in Budget Paper No. 3, Chapter 1 *Output, asset investment, savings and revenue initiatives.*

Table 4.5: Net impact of the *2020-21 Budget* new output initiatives [(a)] ($ million)

	2020-21 budget	*2021-22 budget*	*2022-23 budget*	*2023-24 budget*
New output initiatives	**14 625**	**6 909**	**4 105**	**3 604**
Less:				
Reprioritisations and revenue offsets [(b)]	1 836	651	631	587
Adjustments [(c)]	(1 603)	180	565	1 198
Savings	..	..	..	..
***2020-21 Budget* output policy initiatives**	**14 392**	**6 079**	**2 909**	**1 819**
Less: contingency offset for new policy [(d)]	100	250	250	250
Net impact	**14 292**	**5 829**	**2 659**	**1 569**

Source: Department of Treasury and Finance

Notes:

(a) *Figures in this table are subject to rounding to the nearest million and may not add up to totals.*

(b) *This includes the reprioritisation of resources previously allocated to departments and revenue offsets.*

(c) *Primarily incorporates the net impact of the specific creation and release of contingencies held for decisions made but not yet allocated.*

(d) *Represents releases from the funding not allocated to specific purposes contingency associated with* 2020-21 Budget *new output initiatives. Further information on total output contingencies can be found at Note 1.3.5 of Budget Paper No. 4, Chapter 1* Estimated Financial Statements for the general government sector.

Economic and demographic variations

Since the *2019-20 Budget Update*, taxation revenue has been revised down by an average of $2.8 billion a year from 2020-21 to 2022-23 due to economic and demographic variations. This includes downgrades to land transfer duty, payroll tax and land tax revenue estimates, as a result of the expected weakening of the Victorian economy and public health restrictions.

Commonwealth grants variations

Commonwealth general purpose grants (or GST grants) estimates have been revised down by an average of $3.4 billion a year from 2020-21 to 2022-23 compared with the *2019-20 Budget Update*. This reflects a weaker outlook for national consumption and dwelling investment, as well as a reduction in Victoria's expected GST relativity partly due to the revised redistribution methodology determined by the Commonwealth Grants Commission's 2020 Review.

Net changes to specific purpose grants have increased the operating result by an average of $393 million a year from 2020-21 to 2022-23 compared with the *2019-20 Budget Update*. The movements primarily reflect additional infrastructure grants for major transport projects.

Administrative variations

Other administrative variations are expected to decrease the operating result by $2.6 billion in 2020-21, $4.4 billion in 2021-22 and $4.0 billion in 2022-23. The variations since the *2019-20 Budget Update* include:

- an increase in interest expense, resulting from the Government increasing borrowings due to the reduction in revenue and to fund coronavirus (COVID-19) pandemic support initiatives;
- adjustments to the expected profile of grants from the public financial corporations sector; and
- adjustments to the provisions for decisions made but not yet allocated that are outlined in Note 1.3.5 of Budget Paper No. 4, Chapter 1 *Estimated Financial Statements for the general government sector*.

Capital expenditure

Government infrastructure investment, which measures investment funded or facilitated by the Government, is expected to reach $19.4 billion in 2020-21, and average $19.6 billion a year over the budget and forward estimates. This includes expenditure on major productivity-enhancing projects including North East Link, Melbourne Airport Rail, Suburban Rail Loop and the removal of 25 additional level crossings by 2025.

Further information on the Government's infrastructure investment, and how it will support jobs and the economic recovery, is available in Chapter 5 *State capital program 2020-21*.

Budget Paper No. 3, Chapter 1 *Output, asset investment, savings and revenue initiatives* contains details of individual asset initiatives.

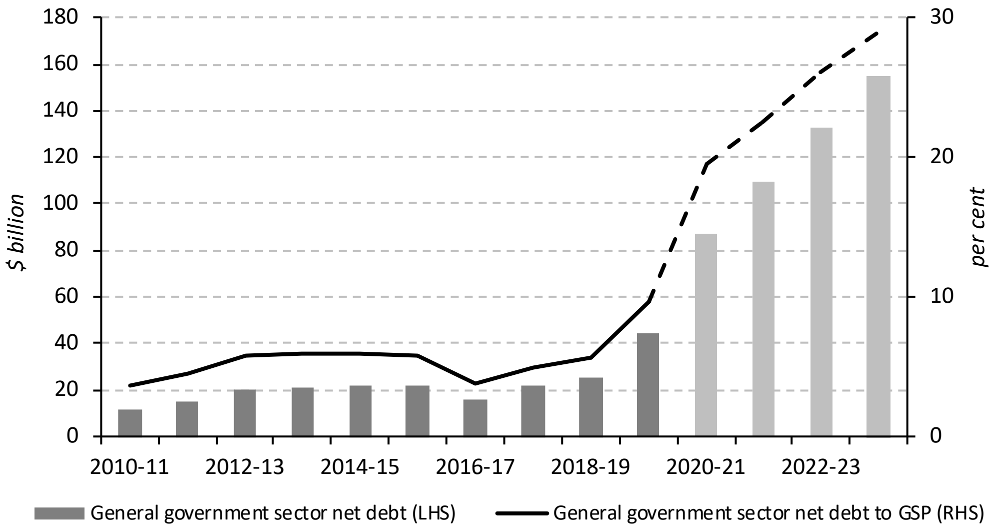
Net debt

In *Labor's Financial Statement 2018*, the Government committed to stabilising net debt at 12 per cent of GSP over the medium term, for the purpose of delivering three major productivity-enhancing infrastructure projects – North East Link, Melbourne Airport Rail, and 25 additional level crossing removals by 2025. The increase also accommodated changes to accounting standards.

The Government's substantial response to the coronavirus (COVID-19) pandemic and the impact of the economic downturn on the State's revenue base has meant that net debt will necessarily exceed this level.

Net debt is projected to be $154.8 billion by June 2024. As a proportion of GSP, net debt is projected to increase to 28.9 per cent by June 2024.

Chart 4.5: General government net debt to GSP [(a)]



Source: Department of Treasury and Finance

Note:
(a) The decrease in 2016-17 reflects the receipt of proceeds from entering into a medium-term lease over the operations of the Port of Melbourne.

Box 4.3: Growth in general government net debt

In recent years, the Government generated strong operating surpluses. This allowed a portion of the State's significant capital investment to be delivered using funding from government operations, rather than through debt.

Looking forward, the impacts of the coronavirus (COVID-19) pandemic and the Government's health and economic responses mean net debt will increase compared with the *2019-20 Budget Update* estimates.

The State's revenue base has weakened, with reduced forecasts across several revenue lines, including GST, land transfer duty, payroll tax, and land tax. At the same time, substantial additional funding, including record levels of infrastructure investment, has been committed by the Government to support the health response and economic recovery.

The application of cash resources for the general government sector (as shown in Table 4.6) outlines the annual movements in net debt. The general government operating cash deficit is forecast to be $21.8 billion in 2020-21, and average $2.8 billion a year over the forward estimates.

Table 4.6: Application of cash resources for the general government sector [(a)] ($ million)

	2019-20 actual [(b)]	*2020-21 budget*	*2021-22 estimate*	*2022-23 estimate*	*2023-24 estimate*
Net result from transactions	**(6 539)**	**(23 281)**	**(13 098)**	**(6 725)**	**(5 889)**
Add back: non-cash revenue and expenses (net) [(c)]	3 626	1 478	9 052	4 123	4 047
Net cash flows from operating activities	**(2 913)**	**(21 803)**	**(4 046)**	**(2 602)**	**(1 842)**
Less: Total net investment in fixed assets [(d)]	**8 207**	**15 083**	**15 899**	**17 081**	**17 502**
Surplus/(deficit) of cash from operations after funding net investment in fixed assets	**(11 120)**	**(36 886)**	**(19 945)**	**(19 683)**	**(19 344)**
Less:					
Leases and service concession arrangements [(e)]	2 224	3 797	2 849	3 457	2 537
Other movements	1 910	1 740	134	80	3
Decrease/(increase) in net debt	**(15 254)**	**(42 423)**	**(22 929)**	**(23 220)**	**(21 883)**

Source: Department of Treasury and Finance

Notes:

(a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.

(b) Movements in 2019-20 include the impact of the new accounting standards.

(c) Includes depreciation, prepayments and movements in the unfunded superannuation liability and liability for employee benefits, as well as operating cash flows not required to be recognised in the operating statement for the respective year.

(d) Includes total purchases of plant, property and equipment, and net capital contributions to other sectors of government net of proceeds from asset sales.

(e) Includes most operating leases which are now required to be recognised as lease liabilities. The financial liabilities relating to public private partnerships include the Casey Hospital expansion, the High Capacity Metro Trains Project, the Metro Tunnel, the new Footscray Hospital, Frankston Hospital Redevelopment, North East Link and Western Roads Upgrade.

Unfunded superannuation liability

The Government is on track to fully fund the State's unfunded superannuation liability by 2035. Note 1.6.3 of Budget Paper No. 4, Chapter 1 *Estimated Financial Statements for the general government sector* shows information on the reported superannuation liability.

FISCAL RISKS

This section discusses a number of risks which, if realised, are likely to impact on the State's financial position and budget outcomes.

Details of specific contingent assets and liabilities, defined as possible assets or liabilities that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, are contained within Budget Paper No. 4, Chapter 6 *Contingent assets and contingent liabilities*.

General fiscal risks

Coronavirus (COVID-19)

The coronavirus (COVID-19) pandemic continues to present significant uncertainty in relation to the Government's economic and fiscal forecasts. While Victoria is currently in a phase of successful suppression of the coronavirus (COVID-19), the outlook of the pandemic – both domestically and internationally – remains highly uncertain.

The Government's forecast revenues, expenses and borrowings are predicated on a series of assumptions, including those related to the coronavirus (COVID-19) pandemic and the level of Government support that is required. If these assumptions do not eventuate, the actual financial outcomes may differ materially from the Government's current budget.

Appendix A *Sensitivity analysis* contains information on the impact of variations in the macroeconomic outlook on the Government's key fiscal aggregates. This includes a scenario exploring the impact that a deep and enduring coronavirus (COVID-19) pandemic throughout all of 2021, including in Victoria's key trading partners, could have on the State's fiscal position. Potential impacts considered include those resulting from lower economic growth in Victoria's trading partners, reducing demand for Victoria's exports, as well as potential impacts to service exports due to continued restrictions on international borders.

State taxes

State tax forecasts are primarily modelled on the relationships between taxation revenue and projected economic variables. As a result, the main source of uncertainty to state taxation estimates is unforeseen changes in the economic outlook.

Revenue from property-based taxes, such as land tax and land transfer duty, are subject to unique risks and historically have been volatile. The *2020-21 Budget* incorporates the expected negative impacts of the coronavirus (COVID-19) pandemic on revenue over the budget and forward estimates. Property markets can exhibit large cycles typically related to changes in interest rates and/or changes in sentiment. If property prices and transaction volumes were to pick up more than anticipated, in the context of a low mortgage interest rate environment, revenue from property-based taxes may be stronger than forecast. On the downside, prolonged global uncertainty, deterioration in Victorian economic conditions, and slower population growth could lead to weaker collections. These risks are explored further in Appendix A *Sensitivity analysis*.

Employee expenses

Employee expenses are the State's largest expense. Two important determinants of employee expenses are wages growth and the number of employees.

Wages growth is primarily driven by enterprise bargaining agreements, which are subject to compliance with the Government's Wages Policy. Other factors contributing to projected employee expenses include the composition and profile of the workforce as well as rostering arrangements.

Demand growth

Another key uncertainty is growth in demand for government services exceeding or being below current projections. This can occur, for example, as a result of higher than forecast population growth or expenditure in response to unforeseen events such as natural disasters, including bushfires and floods.

The estimates incorporate contingency provisions to mitigate the impact of expenditure risks, which may be realised during the next four years. The contingency provisions are sized to allow for the likely growth in Victoria's population and the derived increased demand for government services.

Note 1.3.5 and Note 1.3.6 of Budget Paper No. 4, Chapter 1 *Estimated Financial Statements for the general government sector* discloses general government output and asset contingencies not allocated to departments.

Capital program risks

The Government is delivering a historically large program of capital investments aimed at creating jobs for economic recovery and improving productivity and the quality of public service delivery. In addition to the existing projects in construction, there is a substantial amount of new investment in this budget that will be delivered in the short to medium term.

This elevated level of infrastructure investment in Victoria coincides with similar increases in other Australian jurisdictions. Investment is anticipated to remain elevated over the medium term and constrain some sectors in the construction industry and supply chains placing pressure on delivery timetables and costs. To mitigate the impact of these constraints, the Government has implemented a range of strategies to support growth in the construction industry, including freeing up supply chains, an extractive resources strategy and increasing investment in skills.

Public health restrictions to slow the spread of coronavirus (COVID-19) have impacted the delivery of the Government's capital program in the short to medium term. COVID Safe Plans apply across all construction sites. The Government implemented a whole of government framework to assist delivery agencies to manage risks associated with the coronavirus (COVID-19) pandemic for projects at each stage of the project lifecycle. The framework facilitates outcomes that are best for individual projects, project workforces and broader economic recovery in Victoria. This coordinated approach from the Government is expected to reduce project and financial risk, and preserve the project pipeline and competitive local industry.

Specific fiscal risks

Commonwealth schools funding

In June 2017, the Commonwealth Government passed amendments to the *Australian Education Act 2013* to implement a new national school funding model. Victoria has signed the National School Reform Agreement and an accompanying bilateral agreement, which expire on 31 December 2023. Estimates of funding required to acquit the Schooling Resource Standard target in a given year will be based on student number and profile projections for that year. Expenditure targets will be finalised towards the end of or after the school year in question based on actual student data, creating a risk that the Victorian and Commonwealth targets differ from the funding allocated that year.

Universal Access to Early Childhood Education

The Commonwealth's financial contribution to assist the states and territories to provide 15 hours a week of preschool support per student is supplied under the National Partnership Agreement on Universal Access to Early Childhood Education. Funding under this agreement expires on 31 December 2021 and ongoing Commonwealth funding arrangements are uncertain. An independent review, led by the Nous Group, found that the agreement achieved its stated objectives and made a range of recommendations including that governments move towards a longer-term agreement to support kindergarten in the year before full-time school.

Victoria's GST revenue

Victoria's GST revenue is broadly determined by three key factors:

- the amount of GST collected by the Commonwealth (the national GST pool);
- Victoria's GST relativity; and
- Victoria's share of the national population.

National GST pool

If consumption growth or dwelling investment recover more slowly than expected, the national GST pool could grow more slowly, resulting in lower GST grants to Victoria. Movements in the household saving ratio is also a source of uncertainty for household spending and the GST pool outlook.

GST relativities

The national GST pool is shared between states and territories based on relativities determined annually by the Commonwealth Treasurer, informed by the recommendations of the Commonwealth Grants Commission.

These relativities are based on the relative fiscal capacity of each jurisdiction and are influenced by differences in revenue bases and costs of delivering services. Relativities are sensitive to a broad range of factors, including demographics, infrastructure needs, developments in property markets and global commodity prices (particularly for iron ore and coal).

Population

Restrictions on migration may disproportionately impact Victoria's population growth relative to the other states and territories, resulting in a decrease in Victoria's share of the national population. If Victoria's population growth is higher than forecast compared with other states, Victoria's share of GST revenue could increase. Conversely, should other states have higher population growth than expected compared with Victoria this would negatively affect Victoria's GST revenue.

Expiry of Commonwealth no-worse off guarantee for GST entitlement

In 2018, the Commonwealth reformed the system of horizontal fiscal equalisation (HFE), which introduced:

- a minimum GST revenue sharing relativity (relativity floor) of 0.70 commencing in 2021-22 and rising to 0.75 from 2024-25;
- a permanent boost to the GST revenue pool from 2021-22 with additional Commonwealth financial assistance; and
- the transition of the HFE system from full equalisation (so-called equalising to the strongest state) to 'reasonable' equalisation, based upon the fiscal capacity of the stronger of New South Wales or Victoria.

During a six-year transition period commencing in 2021-22, each state or territory is entitled to receive additional Commonwealth financial assistance to ensure it is no worse off compared to its GST entitlement had full equalisation been maintained. The no-worse-off guarantee will no longer apply after the end of the transition period in 2026-27, which poses a fiscal risk to states and territories. If a state's or territory's assessed relativity falls below 0.75 from 2026-27 onwards, the legislated relativity floor will require a redistribution of GST revenue away from other states and territories. As part of the reforms, the Productivity Commission is required to undertake a review into the changed distribution system by 2026 to ensure the updated system is operating efficiently, effectively and as intended. Through the Board of Treasurers and at other forums, Victoria will continue to work with other state governments and the Commonwealth to ensure Victoria receives its fair share of GST.

CHAPTER 5 – STATE CAPITAL PROGRAM 2020-21

The *2020-21 Budget* funds capital projects with a total estimated investment of up to $19.8 billion, creating the largest capital program in the State's history.

With $134 billion of new and existing projects now funded and underway, building works and construction will play a major role in the economic recovery of the State for many years to come.

In the *2020-21 Budget* government infrastructure investment (GII) will increase to an average of $19.6 billion a year over the budget and forward estimates – around four times the 10-year average to 2014-15.

Victoria's *Jobs Plan* and the *2020-21 Budget* prioritise infrastructure investment to support jobs and ensure Victoria has a pipeline of work to boost productivity and support business confidence.

Since 2014, the Government has announced infrastructure investment that has supported, or will continue to support, over 165 000 jobs.

New infrastructure investment in the *2020-21 Budget* will:

- provide jobs in direct construction and supply chains across the short, medium and long term;
- balance smaller local infrastructure programs that are quick to activate with large state-shaping infrastructure investments providing jobs over many years;
- invest in a diverse profile of social and economic infrastructure;
- reduce costs and improve productivity for Victorian businesses through passenger and freight transport network improvements;
- respond to changes in travel patterns and living locally; and
- protect the State's assets through significant renewal and maintenance programs.

This chapter outlines the state capital program for 2020-21 for the general government sector and public non-financial corporations (PNFCs). This chapter provides aggregated tables of new and existing initiatives for all departments and PNFC entities. In 2020-21 there is no separate budget paper on the state capital program.[3] A list of new asset investments is available in Budget Paper No. 3, Chapter 1 *Output, Asset Investment, Savings and Revenue Initiatives.*

[3] It is not a statutory requirement of the *Financial Management Act 1994* to publish a separate capital program budget paper.

ROLE OF INFRASTRUCTURE IN ECONOMIC RECOVERY

The coronavirus (COVID-19) pandemic has had a major impact on businesses, the labour market and the lives of Victorians. To help mitigate the impact, the Government has responded with record investment in infrastructure to create jobs, rebuild the economy and deliver improved services for Victorians.

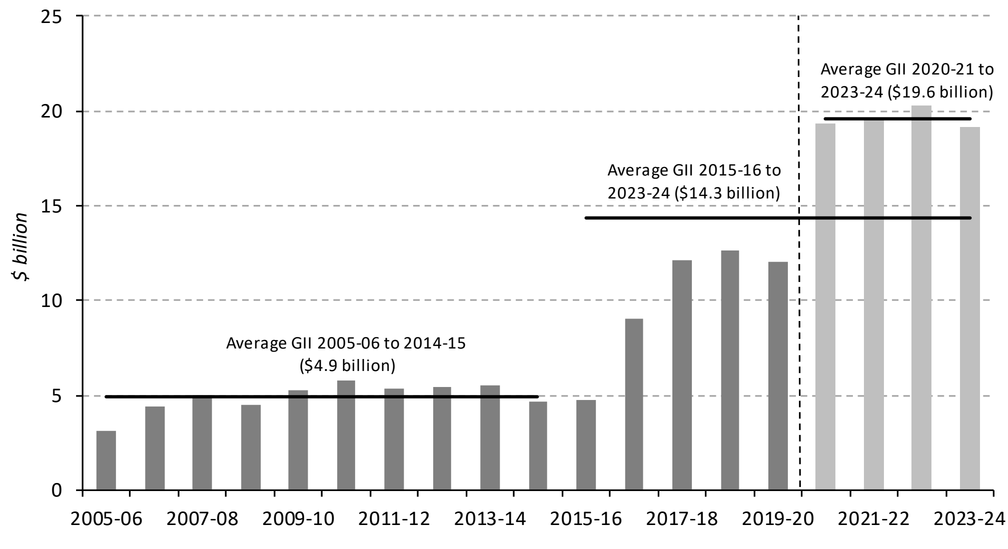
In May 2020 the Government announced the $2.7 billion Building Works package to address the impact of the coronavirus (COVID-19) pandemic on the economy. The package includes hundreds of smaller construction and maintenance projects that can be implemented quickly to create new jobs.

The *2020-21 Budget* delivers the *Jobs Plan,* a targeted, timely economic stimulus that kick-starts the economy – getting more Victorians back to work and laying the foundations for a more inclusive and innovative economic recovery. The *Jobs Plan*, as well as other initiatives announced since the *2019-20 Budget Update*, will support around 125 000 jobs over the life of these initiatives.

The Government's Big Build capital investment has been a major driver of growth for the Victorian economy. Since 2014, the Government has announced infrastructure investment that has supported, or will continue to support, over 165 000 jobs.

The Government's strong record of investment in the State's infrastructure is demonstrated by an annual capital investment that is estimated to average $14.3 billion a year over the nine years from 2015-16 to 2023-24. This is nearly three times the 10-year average to 2014-15. With the *2020-21 Budget* funding capital projects worth up to $19.8 billion*,* the annual capital investment is now estimated to average $19.6 billion over the next four years, which is around four times the 10-year average to 2014-15. This increase reflects a step change in investment to rebuild the economy.

Chart 1: Government infrastructure investment (average) (a)(b)



Source: Department of Treasury and Finance

Notes:

(a) Includes general government net infrastructure investment and estimated cash flows for public private partnership projects.

(b) Excludes the impact of the medium-term lease over the operations of the Port of Melbourne and the divestment of Victoria's share of Snowy Hydro Limited.

With the new investments made in the *2020-21 Budget* there is $134 billion of new and existing projects funded and underway. This significantly increases the level of investment in the State's infrastructure, focusing new effort on smaller scale projects that are quick to implement, while building on our existing program of large state-shaping transformational projects. These projects will deliver benefits for generations to come, including the North East Link, Metro Tunnel, West Gate Tunnel, Melbourne Airport Rail and the removal of 75 level crossings by 2025. The budget provides funding to progress the Geelong Fast Rail project and commence the Suburban Rail Loop.

The *2020-21 Budget* also fast-tracks several projects that had been scheduled to commence over the next few years to create jobs now when they are needed most.

The *2020-21 Budget* is investing $5.3 billion to expand and diversify social and affordable housing across the State as part of the $6 billion Big Housing Build package, as well as over $2 billion for projects that will refurbish, upgrade or maintain schools, health facilities, roads and railways. This investment will ensure that these state assets continue to provide high quality services well into the future.

Box 1: Suburban Rail Loop

The *2020-21 Budget* invests $2.2 billion to commence the Suburban Rail Loop.

The Suburban Rail Loop is a city and state-shaping project that will transform Victoria's public transport system. Linking every major railway line from the Frankston line to the Werribee line via the airport, it will provide important travel connections to employment, health, education and retail centres in Melbourne's middle suburbs. Three new transport super hubs at Clayton, Broadmeadows and Sunshine will connect regional passengers to the Suburban Rail Loop.

The Suburban Rail Loop will take thousands of passengers off existing rail lines and 200 000 cars off Melbourne's major roads every day. This transformational project will be the most significant infrastructure and placemaking investment ever undertaken in Victoria and will be completed in stages, with work on Stage 1 in the south east expected to start in 2022. The project is expected to support up to 20 000 jobs during construction and kick-start the careers of 2 000 apprentices, trainees and cadets.

The Suburban Rail Loop Authority has been established to lead the design and delivery of the project. Detailed development work, including an investment case, is expected to be delivered by 2021.

The Government's $2.2 billion investment is for a range of critical works including project development, land acquisition, utility relocation and protection works, geotechnical investigations and precinct development planning.

The Victorian Government will work with the Commonwealth Government, private sector and the community to explore funding pathways, including value capture opportunities.

Investments that create new jobs

The *2020-21 Budget* continues to invest in infrastructure to create local jobs in both small and large building projects across the whole state. The infrastructure investment in the transport network will boost productivity through improved access to jobs and connections to support existing industries.

Investments in freight and transport include:

- $2.2 billion to undertake preconstruction works on the Suburban Rail Loop project (see Box 1 above);
- $2.0 billion to progress Stage 1 of Geelong Fast Rail, which will provide faster, more frequent and more reliable services to Geelong, Victoria's second largest city and the second fastest growing city in Australia;
- $1.5 billion to purchase 100 Next Generation Trams and commence the establishment of a tram maintenance facility in Melbourne's north west;
- $255 million to support regional tourism through improving the Great Ocean Road and inland routes; and
- $17.4 million to upgrade the Barwon South West dairy freight and supply chain road networks.

Box 2: Next Generation Trams for Melbourne's commuters

Melbourne's tram network is a key contributor to the city's economic and social prosperity. Over 200 million trips are completed annually on the network, connecting people to jobs, education and services.

The Government is committing $1.5 billion to procure 100 Next Generation Trams and commence the establishment of a tram maintenance facility in Melbourne's north west. This will allow the retirement of the ageing high floor tram fleet to commence and support universal access, social inclusion and economic participation. The fleet will cater for the future needs of a growing Melbourne and improve tram network performance, reliability, capacity and accessibility, including complying with Commonwealth Disability Standards for Accessible Public Transport (DSAPT).

Next Generation Trams will be manufactured in Victoria to support local manufacturing and supply chains, with the investment supporting close to 1 900 jobs at the peak of production. Development and procurement activities will continue throughout 2020-21 with manufacturing expected to begin in 2022.

Building social and community infrastructure

The coronavirus (COVID-19) pandemic has demonstrated the value in having a world class health system that is able to respond to crises. Continuing to invest in the State's health, social and community infrastructure remains a priority for the Government.

Investments in our health system include:

- $492.2 million to expand acute mental health treatment capacity;
- $384.2 million for the redevelopment of the Warrnambool Base Hospital;
- $200 million for a new Metropolitan Health Infrastructure Fund;

- $120 million for the Regional Health Infrastructure Fund;
- $75 million to continue planning for the new Melton Hospital, including purchasing land and early works;
- $10 million for planning the redevelopment of the Royal Melbourne Hospital and activating the Arden and Parkville precincts; and
- $4.8 million to plan the future expansion of the Werribee Mercy Hospital.

The $1.9 billion investment in schools in the *2020-21 Budget* includes upgrades to existing schools (listed below under Construction and Maintenance Jobs) and new investments that include:

- $408.8 million to support students with disability through an Inclusive Schools Fund and by upgrading 39 special schools across the state; and
- $324.3 million for new schools and to expand capacity at existing schools to meet enrolment growth (for a list of schools funded in the *2020-21 Budget* refer to Budget Paper No. 3, Chapter 1 *Output, Asset Investment, Savings and Revenue Initiatives*).

Investments in the creative industries to support a hard-hit sector and grow the visitor economy include:

- $1.4 billion for Phase One of the Melbourne Arts Precinct Transformation including the development of a stand-alone National Gallery of Victoria Contemporary with a focus on contemporary art and design on Southbank Boulevard, new and renewed public spaces to better connect the arts institutions with each other and with Sturt Street, critical maintenance for the Arts Centre Melbourne to improve safety and the visitor and audience experience, and planning for Phase Two focussing on the Arts Centre Melbourne;
- $34.7 million to enhance regional and community creative infrastructure, delivering greater access, supporting new and touring exhibitions and improving collection storage; and
- $15 million to assist State-owned creative venues to transition to a COVID Normal operating environment.

Investments in sporting and community facilities include:

- $141.1 million to deliver the final stage of the Kardinia Park redevelopment completing the stadium with a new stand, a new cricket hub and activation of public spaces;
- $83.8 million to expand the Werribee Open Range Zoo to accommodate higher visitor numbers with additional visitor amenities and experiences including a new open range Elephant Sanctuary for the Asian elephant herd to be relocated from Melbourne Zoo;
- $52.4 million for safer and better public parks;
- An additional $22 million for the redevelopment and expansion of the State Basketball Centre to create one of Australia's premier basketball facilities, bringing the State Government's investment up to $105 million; and
- $9 million to make vacant rail buildings available for community use.

The State is also providing $626 million over six years to expand the telephone and business-grade broadband coverage across the state and developing technology skills and precincts.

Box 3: Victoria's Big Housing Build

Victoria's Big Housing Build will invest $6 billion to build more than 12 000 new social and affordable homes and make housing more accessible and affordable for Victorians.

Record investment in social and affordable housing

Victoria's Big Housing Build will transform the social and affordable housing system and create opportunities for small, medium and large building contractors, supporting Victoria's economic recovery.

Victoria's Big Housing Build includes $5.3 billion to construct more than 12 000 new dwellings, including:

- 9 300 new social housing dwellings replacing 1 100 old housing units; and
- 2 900 new mainly affordable and low-cost homes in locations that are close to jobs and transport.

Victoria's Big Housing Build will be delivered through partnerships with the community housing sector, private sector construction and development companies, superannuation funds and other investors.

It is estimated that 10 000 jobs will be supported on average per year over the next four years, as well as increasing economic activity across the State. A quarter of the total investment will be in regional areas.

The package also provides funding to accelerate the public housing capital upgrade program, including the enhanced gas heater servicing and replacement programs. These works will enhance the amenity and quality of the public housing for tenants.

This package builds on the $498 million provided through the Building Works package for improvements such as increased security, maintenance and capital upgrades across public and community housing.

Unlocking the housing market

Victoria's Big Housing Build will help make housing more affordable and accessible for Victorians, as well as supporting private sector investment.

The Victorian Homebuyer Fund provides $500 million to accelerate Victorians into home ownership. The fund will contribute to the purchase price in exchange for a proportionate equity interest in the property. This reduces the size of the deposit required and will help Victorians buy homes sooner. The fund will support the purchase of both established and newly built homes.

To help establish the build-to-rent sector in Victoria, from 1 January 2022, Victoria's Big Housing Build will provide a 50 per cent land tax discount for eligible new developments until 2040. These developments will also be exempt from the Absentee Owner Surcharge over the same period. Investment in the build-to-rent sector will provide greater choice and diversity of housing options for renters and support Victoria's economic recovery.

Emergency tax relief on land transfer duty for residential property transactions of up to $1 million will also be provided. A land transfer duty waiver of 50 per cent for new residential properties, and 25 per cent for existing residential properties, will be available for purchases up to $1 million for contracts entered into between the day after announcement and 30 June 2021.

The Government has already extended the $20 000 First Home Owner Grant for people buying or building a new home in regional Victoria to apply to contracts of sale entered up until 30 June 2021. This extension gives more Victorians the opportunity to live locally and enter the property market for the first time, while also supporting jobs in regional Victoria.

To unlock construction activity, Victoria's Big Housing Build includes $52 million in funding to implement the Commissioner for Better Regulation's planning reforms to improve the system's performance and clarity, and to grow housing supply across the State through the Victorian Planning Authority programs Affordable by Supply and Streamlining for Growth.

In addition, $59 million in funding is provided for targeted planning system reforms. The reforms will have a critical role in unlocking private sector investment and supporting Government initiatives, including the delivery of infrastructure, jobs and housing.

In addition to the Big Housing Build the Government is also funding energy efficiency upgrades for over 35 000 social housing properties, providing cheaper energy, improved thermal comfort for families and more stock of climate-resilient housing.

Box 4: School capital program

The Government is investing a record $3.1 billion funding in the school capital program to meet the growing needs of the Victorian community.

- $1.18 billion was committed in May 2020 as part of the Building Works package (refer to Table 1 for a list of schools in this package); and
- $1.9 billion is further invested in the *2020-21 Budget* (refer to Budget Paper No. 3, Chapter 1 *Output, Asset Investment, Savings and Revenue Initiatives* for a list of schools in this package).

This investment will support more than 7 000 jobs at the peak of program delivery across metropolitan and regional areas. Smaller tier construction contractors and sub-contractors are well placed to mobilise quickly for these building projects, including:

- 11 new schools and 7 additional stages of new schools across metropolitan and regional Victoria; and
- 234 school upgrades.

Construction and maintenance jobs

Investments in large civil infrastructure projects deliver significant improvements in the productivity of the State as well as providing high-value design and construction jobs over many years. The *2020-21 Budget* includes several investments that refurbish and extend the life of existing assets (including some operating expenditure) to deliver high-quality services into the future, including:

- Accelerating planning and development activities to bring forward the $901.2 million Waurn Ponds Track Duplication Stage 2[4] with $899.2 million this budget;
- $894.8 million to upgrade 123 schools;

- $450 million for a road maintenance blitz that will include routine maintenance, road surface replacement, bridge strengthening and replacing intelligent transport systems such as traffic signals and electronic speed signs across Victoria;
- $400 million for the Shepparton Rail Line Upgrade Stage 3[4] which provides additional infrastructure to accommodate nine daily return passenger services;
- $272 million for new Wyndham Law Court with new hearing rooms, mediation suites, and a specialist family violence court, to service Wyndham and the surrounding growth corridor;
- $260 million for the Warrnambool Rail Line Upgrade Stage 2[4] which provides additional infrastructure upgrades to allow modern VLocity trains to operate to and from Warrnambool for the first time, improving the amenity and reliability of services;
- $241.1 million to duplicate the Princes Highway[4] between Traralgon and Sale improving travel efficiency and safety;
- $187.6 million for regional rail sustainability for operations and maintenance of the regional passenger and freight rail network to support reliability, punctuality and safety[5],
- $59.9 million for the Greener Government Building program to improve energy efficiency of government buildings; and
- $24 million to continue the Cultural Facilities Maintenance Fund to protect the safety and accessibility of State-owned creative industries facilities.

Responsive to changes in demand and travel patterns

As a result of the coronavirus (COVID-19) pandemic major behaviour changes have been observed in how people work, use online services and access outdoor spaces. Infrastructure investment needs to respond to changes in Victorians' travel patterns and new ways of working. New investments include:

- $388.1 million to keep traffic on Victorian roads moving including strategies to reduce congestion and improve travel times on the metropolitan road network, as well as funding to reduce the wait time for registration and licensing services;
- $63.4 million for the School and Community Safety program to improve safety for motorists, cyclists and pedestrians on local and arterial roads, and around Victorian schools; and
- $3 million to develop options for tram network reform to improve reliability, align capacity with future demand patterns and make the best use of Melbourne's existing tram fleet and Next Generation Trams.

[4] Funded on an 80:20 basis by the Commonwealth and the State respectively.

[5] This funding is exclusive of the $48.8 million the Victorian Government has set aside for the finalisation of the Murray Basin Rail Project.

Building works

In May 2020 the Government announced the $2.7 billion Building Works package to address the impact of the public health response to the coronavirus (COVID-19) pandemic on jobs and the economy. The package included hundreds of small construction and maintenance projects that could be implemented quickly to support jobs.

Box 5: Building Works package

The $2.7 billion Building Works package comprises hundreds of projects across all sectors. The package will support more than 3 700 jobs across the state and deliver improvements to our economic and social infrastructure.

Investing in our schools and TAFEs with $1.24 billion for education infrastructure, including:

- $467.8 million for 10 new schools and further stages in four new schools;
- $401.3 million for upgrading and modernising 56 schools, including modifications for students with a disability;
- $137.3 million for nine school upgrades to expand capacity at existing schools;
- $55 million to maintain our TAFE facilities; and
- $27.8 million to provide grants to local government and other eligible providers to build, expand and upgrade early childhood infrastructure.

A significant investment in public, community and social housing facilities with $498 million provided for improvements such as increased security, maintenance and capital upgrades.

A boost for local sport and tourism with a $382 million package for upgrades, maintenance and new experiences at tourism destinations, including:

- $103.5 million for new local sport facilities and maintenance of our existing sport assets; and
- $2.7 million for 50 kilometres of mountain bike trails across the state.

Protecting our transport infrastructure with $359 million for maintenance and repairs:

- $123 million for resurfacing and patching around 300 kilometres of roads;
- $106 million for regional rail maintenance;
- $62 million to maintain our trams and trains;
- $24 million for repairs and upgrades at train stations and tram stops;
- $24 million for upgrades to our jetties, wharves and piers along the coast; and
- $20 million to upgrade key freight routes and support agricultural supply chains.

Creating a safer and fairer state with $109 million for community assets:

- $30 million for disability accommodations;
- $28 million for local courts and corrections facilities;
- $20 million for grants for volunteer emergency services agencies;
- $20 million for aged care facilities; and
- $11 million for mental health facilities.

The Building Works package also provides $180 million to ensure a pipeline of new projects over coming years, including land acquisition or acceleration of existing projects including TAFEs and community hospitals, and business case development for future projects such as the Caulfield Hospital redevelopment.

Despite disruptions to delivery during the coronavirus (COVID-19) pandemic, around two-thirds of the program is expected to be in construction by the end of December 2020.

Table 1: Schools funded through the Building Works package

School	
New Schools Construction (opening 2022)	
• Bridge Road (Melton) Primary School	• Grasslands Primary School
• Clyde North Station Primary School	• Greater Shepparton Secondary College
• Clyde North Station Secondary College	• Greenvale Secondary School
• Endeavour Hills Specialist School	• Kalkallo Common Primary School
• Gisborne South Primary School	• Wollert East Primary School
Additional stages of school building	
• Beaumaris Secondary College	• Saltwater P-9 College
• Dohertys Creek P-9 College	• Wonthaggi Secondary College – San Remo Campus
School Upgrades - growth for 2022	
• Avondale Primary School ($9.024 million)	• Preston South Primary School ($14.632 million)
• Carlton Gardens Primary School ($10.592 million)	• Rosebud Primary School ($13.768 million)
• Footscray North Primary School ($16.128 million)	• Strathmore North Primary School ($6.616 million)
• Glenroy West Primary School ($18.120 million)	• Windsor Primary School ($15.497 million)
• Meadows Primary School ($5.864 million)	
School upgrades	
• Albert Park College and the Victorian College of the Arts Secondary School ($11.250 million)	• Lilydale Heights College ($5.349 million)
• Ararat Primary School ($0.495 million)	• Lilydale High School ($3.199 million)
• Baimbridge College ($8.320 million)	• Macleod College ($4.436 million)
• Bairnsdale Secondary College ($1.260 million)	• Miners Rest Primary School ($15.390 million)
• Ballarat High School ($7.200 million)	• Monbulk College ($8.415 million)
• Bellarine Secondary College ($8.033 million)	• Montmorency Secondary College ($16.990 million)

School	
• Bellbrae Primary School ($2.380 million)	• Mordialloc College ($7.701 million)
• Brandon Park Primary School ($6.120 million)	• Morwell Park Primary School ($5.350 million)
• Brunswick North West Primary School ($5.611 million)	• Newcomb Park Primary School ($2.880 million)
• Clifton Creek Primary School ($4.245 million)	• Newcomb Secondary College ($5.400 million)
• Clifton Hill Primary School ($11.481 million)	• Parkdale Secondary College ($8.701 million)
• Clyde Primary School ($20.520 million)	• Pascoe Vale South Primary School ($1.230 million)
• Cowes Primary School ($4.950 million)	• Patterson River Secondary College ($7.200 million)
• Cranbourne Secondary College ($5.955 million)	• Phoenix P-12 Community College ($10.594 million)
• Croydon Community School ($18.123 million)	• Port Melbourne Primary School ($7.060 million)
• Delacombe Primary School ($5.850 million)	• Reservoir Primary School ($3.409 million)
• Derinya Primary School ($4.320 million)	• Sandringham College ($10.000 million)
• Diamond Creek East Primary School ($3.240 million)	• Southern Autistic School ($6.660 million)
• East Loddon P-12 College ($4.050 million)	• St Helena Secondary College ($12.124 million)
• Exford Primary School ($2.420 million)	• St Kilda Primary School ($4.531 million)
• Fitzroy North Primary School ($8.100 million)	• Staughton College ($5.850 million)
• Gladstone Park Primary School $2.272 million)	• Timbarra P-9 College ($2.610 million)
• Glen Huntly Primary School ($6.620 million)	• Tucker Road Bentleigh Primary School ($4.515 million)
• Greensborough Secondary College ($8.952 million)	• Upper Yarra Secondary College ($4.129 million)
• Kew High School ($9.755 million)	• Wangaratta District Special School ($5.235 million)
• Koo Wee Rup Primary School ($2.250 million)	• Warracknabeal Secondary College ($19.800 million)
• Lang Lang Primary School ($1.384 million)	• Williamstown High School ($1.233 million)
• Latrobe Special Developmental School ($13.700 million)	• Yarra Ranges Special Developmental School ($10.000 million)

Source: Department of Education and Training

INFRASTRUCTURE DELIVERY

Government framework to respond to the impacts of coronavirus (COVID-19) on the infrastructure program

The coronavirus (COVID-19) pandemic has had an impact on the delivery of the Government's capital program in the short to medium term as worksites have adjusted to safety requirements. COVID Safe Plans apply across all construction sites and together the Government and industry have kept the construction sector working.

A whole of government framework has been established to effectively manage the impacts of coronavirus (COVID-19) and support the continued delivery of the Government's capital program, where safe to do so. The framework provides a consistent approach across projects and authorises departments and agencies to implement a range of responses, including extensions of time and expedited payment arrangements. The Government has been working collaboratively with industry partners to achieve outcomes that are best for individual projects, maintain employment and create economic stimulus.

For new initiatives funded in the *2020-21 Budget*, the project delivery programs will take into account designing and building infrastructure in a COVID Normal environment. For existing infrastructure initiatives, there have been risks and opportunities arising from the coronavirus (COVID-19) pandemic. Substantial effort is going into mitigating the impacts on project completion dates and costs due to site disruptions, social distancing requirements and enhanced hygiene practices, as well as capitalising on the opportunities provided by reduced traffic and disruptions. An update on existing initiatives will be reported in the 2021-22 budget.

Infrastructure procurement policy reforms

The Government is reviewing the way major infrastructure projects are being delivered to identify opportunities to improve procurement processes and contracting arrangements.

The Victorian and New South Wales Treasuries are working together to engage directly with industry to share information and identify reforms that increase consistency between the two jurisdictions. At the same time, the Department of Treasury and Finance is working with the Victorian Major Transport Infrastructure Authority to enhance the delivery of mega transport infrastructure projects. This work will review the way these projects are packaged, procured and contracted to encourage a broader range of contractors to bid for projects. These reviews will provide a set of targeted and deliverable reform options that can inform and shape updates to key Victorian government infrastructure policies and guidance. They will also support a strong infrastructure sector and ensure value-for-money outcomes for taxpayers.

To support a strong and resilient construction sector, the Government has developed principles for the early release of performance security on public construction contracts. The principles support departments and agencies in fast-tracking the release of performance security for smaller suppliers impacted by coronavirus (COVID-19) where appropriate. This frees up capital and improves supplier cashflows, enabling ongoing participation in the Government's infrastructure program.

Market capacity

The Government is delivering a historically large program of capital investments aimed at creating jobs for economic recovery and improving the productivity and quality of public service delivery. In addition to the existing projects in construction, there is a substantial amount of new investment in this budget that will be delivered in the short to medium term. The activity ranges across small, medium and large-scale projects, which will engage the full capability of the market from large Tier 1 construction companies to smaller companies and sub-contractors.

This elevated level of infrastructure investment in Victoria coincides with similar increases in other Australian jurisdictions. To mitigate the impact of market and supply chain constraints, the Government has implemented a range of strategies to support growth in the construction industry, including freeing up supply chains, an extractive resources strategy and increasing investment in skills.

The Government is also investing to secure the pipeline of skilled workers. Additional funding is being provided to meet anticipated demand for training, including additional subsidised training places and Free TAFE in priority areas. The Government is also investing in further places in skill sets in high-priority industries, including in construction, to ensure workforces can rapidly respond to immediate and emerging skills needs.

Opportunities for apprentices and trainees will be expanded through a new approach to coordinating opportunities across Victoria's Big Build infrastructure projects, leveraging group training organisations. Additional funding is also provided to enhance support for apprentices across sectors, including those most at-risk of dropping out, and to encourage more women to pursue non-traditional roles, including in the building and construction industry.

Victorian Major Projects Pipeline

In July 2020 the Government released the Victorian Major Projects Pipeline. The new online portal has been designed to make it easier for businesses, suppliers and contractors to find more opportunities to be part of major project delivery across Victoria.

New capital initiatives valued over $100 million funded in the *2020-21 Budget* are listed on the pipeline. To help business plan, the pipeline projects can be viewed by estimated value, region, project type and relevant delivery agency. The online portal complements public information available on Victoria's Big Build website.

The Victorian Major Projects Pipeline can be viewed at opv.vic.gov.au/pipeline.

OVERVIEW OF THE STATE CAPITAL PROGRAM

In 2020-21, $134 billion of State capital projects are commencing or underway (refer to Table 2). These include projects in both the general government and PNFC sectors.

Table 2: Infrastructure investment by total estimated investment – summary [(a)] **($ thousand)**

Sector	*Total estimated investment*	*Estimated expenditure to 30.06.2020*	*Estimated expenditure 2020-21*	*Remaining expenditure*
General government				
New projects	8 626 953	11 996	2 286 100	6 328 740
Existing projects	60 759 312	17 165 938	10 111 340	33 477 670
Public non-financial corporations				
New projects	13 164 000	16 325	1 537 067	11 710 606
Existing projects	51 878 823	21 480 012	8 504 236	23 554 716
Total new projects	**21 790 953**	**28 321**	**3 823 167**	**18 039 346**
Total existing projects	**112 638 135**	**38 645 950**	**18 615 576**	**57 032 386**
Total projects	**134 429 088**	**38 674 272**	**22 438 743**	**75 071 732**

Source: Department of Treasury and Finance

Note:
(a) Totals do not include expenditure for projects with 'tbc' cash flows.

High-value and high-risk projects

Under the high-value high-risk framework, infrastructure and information and communication technology projects identified as being high value and/or high risk are subject to more rigorous scrutiny and approval processes. Table 3 lists the new projects to be monitored under the framework.

Table 3: Major new high-value and high-risk projects

Projects
A Pathway to More Acute Mental Health Beds
Big Housing Build program
Kardinia Park Stadium Stage 5 redevelopment
Melbourne Arts Precinct Transformation – Phase One
Next Generation Trams
New Schools Construction
School Upgrades – growth
Shepparton Rail Line Upgrade Stage 3
Ten New Community Hospitals
Warrnambool Base Hospital Redevelopment
Warrnambool Line Upgrade Stage 2
Western Rail Plan – Geelong Fast Rail
Wyndham Law Courts

Source: Department of Treasury and Finance

Box 6: Melbourne Airport Rail

Planning and development for the Melbourne Airport Rail continues, in collaboration with the Commonwealth Government. Melbourne Airport is a key part of Victoria's economy.

The new rail line will link the central business district to Melbourne Airport via Sunshine to improve access to the airport and provide greater connectivity to more parts of Melbourne and regional Victoria.

It will provide a viable, reliable and much-needed alternative to road travel, bringing an airport rail connection to Melbourne in line with other cities across Australia and around the world. Not only will it connect Melbourne Airport to the rail network for the first time – it will also be integrated with the Metro Tunnel and the Suburban Rail Loop.

Development work in 2020 will assess station, concept of operation and procurement options, value creation and capture opportunities, and economic analysis of the recommended solution. Construction is expected to commence in 2022.

The Victorian and Commonwealth Governments have committed up to $5 billion each to deliver Melbourne Airport Rail.

Box 7: 75 level crossing removals by 2025

The Government will continue removing Victoria's most dangerous and congested level crossings.

Already, 43 level crossings have been removed, with the program on track to significantly exceed the Government's commitment to remove 50 level crossings by 2022. Despite the introduction of health and safety protocols and restrictions during the coronavirus (COVID-19) pandemic, significant construction milestones continue to be achieved.

More level crossing removals across Melbourne will ease road congestion and improve journey times and reliability, creating more open space and making local communities safer for drivers and pedestrians.

PUBLIC PRIVATE PARTNERSHIPS

This year marks the 20th year of the Partnerships Victoria framework, making Victoria a leading jurisdiction in innovative and value-for-money public private partnership (PPP) projects that deliver high quality infrastructure and services for Victorians. Over this time 32 PPP projects worth over $30 billion have been contracted across many different sectors of the economy. There are currently four PPP projects in development, representing more than $10 billion in capital investment.

Table 4 lists PPP projects in construction and development.

Table 4: Public private partnerships in construction and development

Projects
In development
Frankston Hospital Redevelopment
New Footscray Hospital
North East Link
Public Housing Renewal Project
In construction
High Capacity Metro Trains
Metro Tunnel
West Gate Tunnel
Western Roads Upgrade

Source: Department of Treasury and Finance

Projects in development

Frankston Hospital Redevelopment

The Government has provided $562 million to redevelop and expand Frankston Hospital. A new multi-storey tower will deliver additional capacity for 120 beds, more operating theatres, enhanced mental health and oncology services along with expanded maternity and paediatric services and new initiatives in emergency department care. Construction of the new tower is expected to be completed by the end of 2024.

New Footscray Hospital

The Government has provided $1.5 billion to build a new Footscray Hospital to replace the ageing Footscray Hospital on Gordon Street, which was built in the 1950s. The new hospital will be located at Victoria University's Footscray Park campus (corner of Ballarat and Geelong Roads). The New Footscray Hospital will feature at least 504 beds, enabling care for almost an additional 15 000 patients and an extra 20 000 people to be seen by the emergency department each year. In October 2020, the Government announced a preferred bidder following the PPP tender process. The new hospital opens in 2025.

North East Link

The *2019-20 Budget* provided $15.8 billion to deliver the North East Link, the biggest road transport project in Victoria's history. The project will fix the missing link in Melbourne's freeway network and up to 135 000 vehicles will use North East Link every day, reducing congestion in the north east while keeping trucks off local roads.

The tender process for the primary package is underway. The primary package, including Victoria's largest road tunnels, will be delivered as an availability PPP.

The PPP model has been adapted to align with current market conditions and in response to recent industry feedback. The PPP will still retain core features of an availability PPP, including private finance and long-term asset management and operation contracted over the term. However, the State will work more closely with the successful consortium to manage the cost of building the project by introducing an Incentivised Target Cost risk and reward regime into the North East Link PPP.

The State will work with the current bidders to implement the adapted PPP model as part of the next stage of the procurement process. Contract award is expected in the June quarter 2021.

Construction on the early works package is already underway.

The new link will be tolled (with the State retaining toll revenues), while the Eastern Freeway and the M80 Ring Road will remain toll free.

Public Housing Renewal Project

The Public Housing Renewal Project Package 1 will deliver more than 800 dwellings at existing housing estates at New Street, Brighton, Racecourse Road, Flemington and Bangs Street, Prahran.

The private sector will be responsible for constructing, financing, operating and maintaining all dwellings for 40 years under a ground lease model, which means that the Director of Housing will retain ownership of the land. The project will provide much needed additional social housing in these areas as well as provide the opportunity for tenants to live as part of integrated communities. The project features a mix of social and affordable housing. At least 75 per cent of new social housing dwellings would be targeted to priority access applicants and members of the community most in need.

The project is currently in procurement. Demolition at the sites has already commenced and construction is expected to begin in 2021.

Projects in construction

High Capacity Metro Trains

The High Capacity Metro Trains availability PPP contract with Evolution Rail was executed in November 2016. The net present cost of the contract is $2.34 billion as at November 2016.

The trains will provide a dedicated fleet for the Cranbourne-Pakenham line, ultimately running through the Metro Tunnel to Sunbury.

Metro Tunnel

The Metro Tunnel is the biggest rail project currently under construction in Victoria, freeing up space in the City Loop to run more trains, more often on rail lines across Victoria. The Metro Tunnel project comprises three key works packages including the Tunnels and Stations availability PPP package.

In December 2017, the Government entered into a 25-year PPP contract with Cross Yarra Partnership to design, construct, finance and maintain twin nine-kilometre tunnels under the central business district, five underground stations and commercial opportunities at the new stations.

On 30 June 2020, a Commercial Principles deed was signed between the parties to record a set of agreed non-binding principles to resolve project issues that have arisen during delivery. Agreed commercial outcomes are expected to be formalised in amending deed(s) that have not yet been signed. It is expected that the cost to complete the project will exceed the planned cost as agreed in December 2017. The State may incur additional liabilities to meet some of these additional costs and may receive additional value from the project in return. Details of the non-binding principles and the estimated financial impacts are not separately disclosed in order to not prejudice the State's interests or any other interested party during these ongoing negotiations.

West Gate Tunnel

As Melbourne's second river crossing, the West Gate Tunnel will provide an alternative to the West Gate Bridge. It will provide direct freight access to the Port of Melbourne and remove thousands of trucks from local streets.

The $6.7 billion West Gate Tunnel provides a network-wide solution to reducing congestion along the M1 corridor. The State entered into a PPP contract with Transurban Group in December 2017 for the building, operation, tolling, financing and maintenance of the West Gate Tunnel.

Construction on the West Gate Tunnel is underway, including widening of the West Gate Freeway and a new elevated road to connect the new tunnels to CityLink, the port and the central business district. The program is currently experiencing delays due to challenges with contaminated soil and program pressures exacerbated by the pandemic.

Western Roads Upgrade

The $1.8 billion Western Roads Upgrade involves duplicating and improving arterial roads in Melbourne's west, including eight high priority road upgrades.

The contract for the PPP was awarded in December 2017. Work is well underway with all eight major road upgrades now under construction from Altona North to Tarneit. Individual construction projects will be progressively completed from 2020 with road rehabilitation and maintenance continuing for 20 years.

Market-Led Proposals

Market-led proposals provide an opportunity for Victorians to benefit from innovation in the delivery of infrastructure and services. Proponents approach government for support and approval of their proposals and pre-submission meetings are regularly undertaken to discuss new initiatives.

The Market-led Proposals Guideline provides a transparent and fair process, ensuring the highest level of probity and public accountability throughout the assessment process. The Guideline is currently being updated to further improve assessment timeframes, streamline governance and approval processes and ensure proposals that progress deliver the best value for Victorians.

GENERAL GOVERNMENT CAPITAL PROGRAM

The individual new and existing capital investments summarised in Table 5 predominantly comprise projects funded by the Government through the annual budget process, where the resulting asset or infrastructure is owned and managed by a general government sector agency. This includes schools, roads, hospitals, courts and police stations.

Total capital expenditure recorded in each agency's financial statements may be different as they include other capital expenditure. This includes expenditure relating to an agency's ongoing capital programs (such as minor works, refurbishments and vehicle fleet purchases), and capital expenditure of other budget entities (such as schools and hospitals) funded through their own revenue sources, such as donations.

The Government also funds infrastructure (including major public transport infrastructure) where the resulting assets are accounted for in the PNFC sector.

The measure of general government infrastructure investment includes:

- net investment in assets for the general government sector (which appears in the government sector financial statements as cash flows from investments in non-financial assets);
- capital funding provided through the budget for PNFC sector infrastructure (which appears in the government sector financial statements as cash flows from investments in financial assets for policy purposes); and
- estimated private sector construction related expenditure on PPP projects.

Table 5: General government capital program 2020-21 – summary [(a) (b)] ($ thousand)

Department/entity	*Total estimated investment*	*Expenditure to 30.06.2020*	*Estimated expenditure 2020-21*	*Remaining expenditure*
Education and Training				
New projects	3 115 573	..	749 475	2 366 098
Existing projects	2 618 528	1 110 146	991 460	516 922
Environment Land Water and Planning				
New projects	253 241	..	47 271	205 970
Existing projects	781 132	213 782	158 522	408 827
Health and Human Services				
New projects	1 844 882	..	718 995	1 125 887
Existing projects	5 983 701	1 473 105	1 002 932	3 503 618
Jobs Precincts and Regions				
New projects	1 497 588	3 710	97 763	1 395 998
Existing projects	537 260	132 758	225 492	178 692
Justice and Community Safety				
New projects	276 008	..	241 950	34 058
Existing projects	3 308 481	734 792	1 208 985	1 364 704
Premier and Cabinet				
New projects	64 307	..	19 793	44 514
Existing projects	16 459	13 857	2 602	..
Transport				
New projects	874 777	..	197 920	676 857
Existing projects	46 899 527	13 250 573	6 329 215	27 319 739
Treasury and Finance				
New projects	176 542	..	121 642	54 900
Existing projects	24 007	12 042	6 132	5 833
Parliament				
New projects	35 589	8 286	13 084	14 219
Existing projects	491	25	466	..
Court Services Victoria				
New projects	311 781	..	30 853	280 928
Existing projects	294 304	71 488	69 126	153 690
Country Fire Authority				
New projects	84 513	..	26 215	58 298
Existing projects	194 039	105 919	74 412	13 708
Fire Rescue Victoria				
New projects	92 152	..	21 139	71 013
Existing projects	101 383	47 451	41 996	11 936
Total new projects	**8 626 953**	**11 996**	**2 286 100**	**6 328 740**
Total existing projects	**60 759 312**	**17 165 938**	**10 111 340**	**33 477 670**
Total projects	**69 386 265**	**17 177 934**	**12 397 440**	**39 806 409**

Source: Department of Treasury and Finance

Notes:
(a) Totals do not include expenditure for projects with tbc cash flows.
(b) Estimates of the capital program cash flows are based on advice from departments and agencies.

Table 6 reconciles key measures of general government sector capital/infrastructure expenditure in the *2020-21 Budget* and the measures of general government sector infrastructure investment.

Table 6: Reconciliation of general government sector capital expenditure aggregates – 2020-21 to 2023-24 ($ million)

	2020-21	*2021-22*	*2022-23*	*2023-24*	*Reference*
Estimated expenditure on general government sector projects identified in Budget Paper No. 4	12 397	na	na	na	Budget Paper No. 2, Chapter 5, Table 5
Plus					
Other capital expenditure [(a)]	4 137	na	na	na	
Equals					
Cash flows from purchases of non-financial assets	16 534	16 562	17 825	18 103	Budget Paper No. 4, EFS cashflow statement
Less					
Sales of non-financial assets	(258)	(520)	(548)	(381)	Budget Paper No. 4, EFS cashflow statement
Equals					
Cash flows from investments in non-financial assets	**16 276**	**16 042**	**17 277**	**17 722**	Budget Paper No. 4, EFS cashflow statement
Plus					
Net cash flows from investments in financial assets for policy purposes	(1 193)	(143)	(196)	(220)	Budget Paper No. 4, EFS cashflow statement
Equals					
Total net investment in fixed assets	**15 083**	**15 899**	**17 081**	**17 502**	Budget Paper No. 4, EFS cashflow statement
Plus					
PPP and other investment [(b)]	4 281	3 569	3 175	1 674	Department of Treasury and Finance
Equals					
Government infrastructure investment	**19 364**	**19 468**	**20 256**	**19 176**	Budget Paper No. 2, Table 4.1

Source: Department of Treasury and Finance

Notes:

(a) This includes capital expenditure on assets other than State funded projects. It also includes capital expenditure by regulatory bodies and part budget funded agencies, net of contingencies not allocated to departments.

(b) Includes PPP infrastructure investment, Victorian Transport Fund related transactions and other commercially sensitive items.

PUBLIC NON-FINANCIAL CORPORATIONS CAPITAL PROGRAM

The public non-financial corporations (PNFC) sector largely funds its investment in new infrastructure through operating cash flows arising from revenues from users, borrowings, revenue from asset sales and Victorian and Commonwealth government funding and grants.

For significant investments, PNFC entities are required to submit a detailed business case for the Treasurer's approval. The threshold above which business cases are required is set for each entity according to a four-tiered approach, being $5 million, $10 million, $20 million or $50 million, depending on the relative size and risk of the PNFC entity. The four thresholds have been developed so the business case review and approval process focuses on those projects that are complex, high value and/or high risk.

Table 7: Public non-financial corporations capital program 2020-21 – summary [(a)] **($ thousand)**

Agency	*Total estimated investment*	*Expenditure to 30.06.2020*	*Estimated expenditure 2020-21*	*Remaining expenditure*
Barwon Region Water Corporation				
New projects	248 350	..	7 339	241 010
Existing projects	1 730 887	1 979 237	79 151	1 318 620
Cemeteries				
New projects	79 602	..	29 977	49 625
Existing projects	168 425	44 660	28 629	95 137
Central Gippsland Region Water Corporation				
New projects	113 028	480	3 249	109 299
Existing projects	519 256	71 239	59 979	388 038
Central Highlands Region Water Corporation				
New projects	37 420	..	37 420	..
Existing projects	209 635	31 415	31 415	146 805
City West Water Limited				
New projects	919 973	..	150 115	769 857
Existing projects	58 812	35 989	22 103	720
Coliban Region Water Corporation				
New projects	14 023	..	388	13 635
Existing projects	252 037	95 162	28 005	142 892
Director of Housing				
New projects	872 941	..	586 241	286 700
Existing projects	933 832	384 707	131 241	417 884
East Gippsland Region Water Corporation				
New projects	9 207	798	5 404	3 005
Existing projects	42 711	10 353	11 864	20 494
Gippsland and Southern Rural Water Corporation				
New projects	66 109	..	6 396	59 713
Existing projects	257 857	228 426	10 584	18 846
Goulburn-Murray Rural Water Corporation				
New projects	12 607	..	12 607	..
Existing projects	1 421 729	119 599	30 796	1 271 334
Goulburn Valley Region Water Corporation				
New projects	27 354	524	4 900	21 930
Existing projects	607 964	63 146	43 580	501 239

Agency	*Total estimated investment*	*Expenditure to 30.06.2020*	*Estimated expenditure 2020-21*	*Remaining expenditure*
Grampians Wimmera Mallee Water Corporation				
New projects	19 034	2	2 200	116 832
Existing projects	186 249	89 211	32 893	64 145
Lower Murray Urban Rural Water Corporation				
New projects	2 213	283	1 930	..
Existing projects	93 267	23 078	30 675	39 514
Melbourne Water Corporation				
New projects	5 300 924	..	49 679	5 251 245
Existing projects	9 887 899	4 089 654	1 149 394	4 648 850
North East Region Water Corporation				
New projects	16 537	1 238	2 758	12 541
Existing projects	115 271	24 379	35 726	55 166
Port of Hastings				
New projects	8 254	..	5 827	2 427
Existing projects	101 500	4 500	92 050	4 950
South East Water Corporation				
New projects	106 184	..	3 044	103 141
Existing projects	1 792 645	243 797	308 467	1 240 381
South Gippsland Region Water Corporation				
New projects	797	..	..	797
Existing projects	204 426	30 373	11 897	162 156
Victorian Ports Corporation (Melbourne)				
New projects	33 362	..	2 755	30 607
Existing projects	39 357	12 657	5 650	21 050
Victorian Rail Track (VicTrack)				
New projects	4 957 482	..	523 035	4 434 447
Existing projects	29 428 656	12 816 924	5 400 762	11 210 970
Victorian Regional Channels Authority				
New projects	11 553	..	1 426	10 127
Existing projects	3 028	2 877	150	1
Wannon Region Water Corporation				
New projects	14 751	..	6 855	7 895
Existing projects	151 316	37 182	32 124	82 009
Western Region Water Corporation				
New projects	29 087	..	29 087	..
Existing projects	177 587	91 265	85 494	828
Westernport Region Water Corporation				
New projects	4 512	..	1 119	3 393
Existing projects	43 235	12 361	8 308	22 565
Yarra Valley Water Limited				
New projects	63 935	13 000	14 772	36 163
Existing projects	2 844 531	603 718	686 157	1 554 656
Other public non-financial corporations				
New projects	194 761	..	48 544	146 217
Existing projects	606 711	334 103	147 142	125 466
Total new projects	**13 164 000**	**16 325**	**1 537 067**	**11 710 606**
Total existing projects	**51 878 823**	**21 480 012**	**8 504 236**	**23 554 716**
Total projects	**65 042 823**	**21 496 337**	**10 041 302**	**35 265 322**

Source: Department of Treasury and Finance

Note:
(a) Totals do not include expenditure for projects with tbc cash flows.

APPENDIX A – SENSITIVITY ANALYSIS

The *2020-21 Budget* relies on forecasts and judgements about the economic, operating and financial conditions for the Victorian general government sector. Uncertainty in these conditions, for example as a result of international developments and other risks to the national economy, may cause the actual results to differ from projections.

This sensitivity analysis explores the impact of variations in the macroeconomic outlook on key fiscal aggregates of the general government sector using two alternative approaches.

The first approach quantifies the fiscal impacts of a scenario involving simultaneous variations in economic parameters that represent key risks to the economic outlook described in Chapter 2 *Economic Outlook*. This scenario was selected to cover a plausible shock that could affect Victoria over the budget period, and the modelling takes account of linkages between key international, Australian and Victorian economic aggregates.

The modelled outcomes are intended to be used as a guide and care should be exercised in interpreting the results. Economic shocks tend to be idiosyncratic in nature, with the modelled scenario unlikely to completely reflect any future shock that could occur. Departures from this scenario would likely result in different impacts on the budget. Furthermore, the modelled results of the shocks do not incorporate any policy responses to the shocks and their subsequent effects on the economic outlook.

The second approach considers the fiscal impacts of independent variations in major macroeconomic parameters, holding constant all parameters other than the indicator of interest. This analysis may be useful for assessing the impact on fiscal aggregates of a forecast error in a single economic parameter. In practice, economic variations rarely occur in isolation, and scenario analysis is likely to be more appropriate to illustrate the fiscal impacts of an economic environment materially different from that presented in the budget papers.

FISCAL IMPACTS OF VARIATIONS TO THE ECONOMIC OUTLOOK

This part of the sensitivity analysis quantifies a key risk identified in Chapter 2 *Economic Outlook* and presents how this risk might affect the State's economic and fiscal aggregates. The scenario considered is a deep and enduring coronavirus (COVID-19) pandemic throughout all of 2021, including in key trading partners. The coronavirus (COVID-19) pandemic leads to international border restrictions lasting for longer than assumed in the base case and weaker global demand.

The economic impacts of the scenario have been modelled using VURMTAX, a computable general equilibrium model developed by Victoria University's Centre of Policy Studies. The results of the scenario are analysed as a deviation from the 'business as usual' base case, which represents the economic forecasts outlined in Chapter 2 *Economic Outlook*.

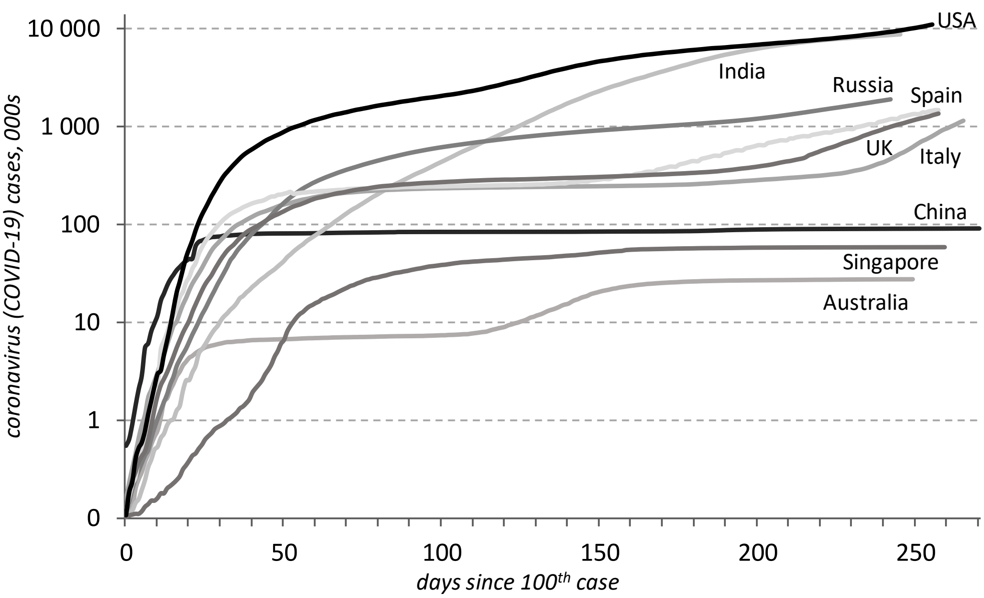
The changes in economic variables resulting from the modelled shocks are then mapped into estimated revenue and expenditure impacts using elasticities that describe the historical relationship between fiscal outcomes and major macroeconomic parameters in Table A.2.[6]

Scenario: A deep and enduring coronavirus (COVID-19) pandemic throughout all of 2021

The coronavirus (COVID-19) pandemic has had a significant impact on the global economy creating a high degree of uncertainty around the economic outlook. This scenario explores the economic and fiscal impacts of a deep and enduring global coronavirus (COVID-19) pandemic, including in Victoria's major trading partners.

As of early November 2020, the coronavirus (COVID-19) pandemic had infected over 50 million people and resulted in over one-and-a-quarter million deaths globally. Many countries have had success in slowing the spread of coronavirus (COVID-19), which has been associated with better economic outcomes, as outlined in Chapter 1 *Economic and Fiscal Overview*. However, others are experiencing an acceleration in the spread of coronavirus (COVID-19), and many of those countries are reinstating public health restrictions that weigh on economic activity in the near term.

Chart A.1: Cumulative case numbers in select economies (log scale)



Source: John Hopkins University; Department of Treasury and Finance's calculations.

More recently, daily new cases reached peaks in the United Kingdom and Spain, case numbers in the United States increased to over 150 000 per day, and a surge of cases in India lifted the country's total to one of the highest in the world (Chart A.1).

[6] The Department of Treasury and Finance maintains a set of elasticities covering the relationship between major economic parameters and revenue and expenditure lines, including superannuation, and dividends and income tax equivalents from public financial and non-financial corporations.

The outlook for coronavirus (COVID-19) is highly uncertain. Consistent with the outlook presented in the International Monetary Fund's (IMF) October 2020 *World Economic Outlook*, the base case assumes that a global recovery commenced in the September quarter 2020 and that it will strengthen gradually over 2021. Global gross domestic product (GDP) is forecast to rise by 5.2 per cent in 2021, which would take the level of global output to just above pre-coronavirus (COVID-19) levels.

In the alternative scenario, a deeper, enduring global outbreak of coronavirus (COVID-19), including in Victoria's major trading partners, results in lower global growth. This reduces demand for Victoria's exports and leads to an extension to international border restrictions and a delayed recovery in net overseas migration. Major economies experience larger, more persistent outbreaks over 2021, and have less success in controlling the spread of coronavirus (COVID-19). The enduring outbreaks lead to a reduction in economic activity, as many countries reinstate or delay the easing of health restrictions.

Relative to the baseline, global growth is assumed to be around three-quarters of a percentage point lower in 2020 and around 3 percentage points lower in 2021.[7]

A deeper, enduring coronavirus (COVID-19) pandemic is also assumed to lead to a delay of around six months in the easing of international border restrictions. The continued restrictions on international borders delays the expected recovery in service exports, weighing on education exports and international tourism.

A large portion of the impact of the shock on Victorian service exports is the delayed return of international students. International education is Victoria's largest service export industry, generating $13.7 billion in exports in 2019 and supporting almost 79 000 jobs in 2018.

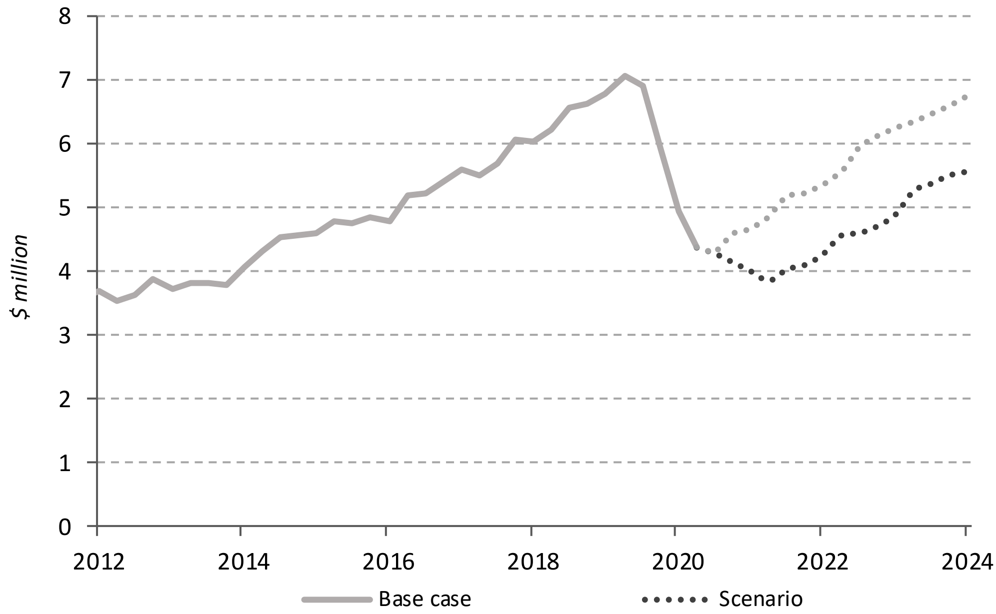
Tourism, which accounted for 3.2 per cent of the Victorian economy in 2018-19, remains very low until international borders are fully reopened. While there is some substitution from international tourism to domestic tourism in the scenario, the net impact on the Victorian economy is negative.

In the scenario, the extended border restrictions result in a 20 per cent fall in Victoria's service exports relative to the base case (Chart A.2). This has a significant impact on Victoria's trade balance, with service exports assumed to be $4 billion lower over 2021-22.

International students are also a key component of Victoria's net overseas migration and population growth. In 2018-19, international students accounted for around half of Victoria's net overseas migration which is about two-thirds of Victoria's population growth. A slower than forecast recovery in international students lowers net overseas migration by around 24 000 over 2021-22 relative to the base case. In this scenario, population is permanently lower relative to the base case.

[7] The scenario for global growth is consistent with the IMF's October 2020 *World Economic Outlook*, downside scenario: *Containment proves much more difficult*.

Chart A.2: Service exports, Victoria



Sources: Australian Bureau of Statistics; Department of Treasury and Finance

The shock to exports and net overseas migration reduces Victoria's GSP by 0.7 per cent by 2023-24 compared to the base case. The shock lowers population by around 0.9 per cent by 2023-24, which reduces the supply of labour and, coupled with reduced demand, lowers employment by 0.6 per cent by 2023-24 relative to the base case.

Weaker economic growth increases the level of spare capacity in the labour market which puts downward pressure on wages. While slower population growth puts some upward pressure on wages by lowering the supply of labour relative to the base case, the net effect on wages is negative, resulting in slower wages growth relative the baseline. Lower wages reduce the level of the consumer price index by around 0.1 per cent relative to the baseline by 2023-24. Relatively weaker inflation puts downward pressure on the exchange rate, improving the competitiveness of Victorian exporters and lowering Victoria's terms of trade. This lifts exports by around 1.2 per cent by the end of 2023-24 relative to the baseline, though service exports remain lower relative to the baseline.

The fall in employment, and subsequently wages, lowers total household income by around 1.1 per cent by the end of 2023-24. This leads to lower household consumption relative to the base case. The negative impact on household consumption is exacerbated by a rise in the savings rate, as households save some of the funds they would have otherwise spent on international tourism, rather than spend the same amount domestically.

Government consumption is also lower over the forecast period as a lower population requires a lower level of expenditure. For the purposes of the scenario there is no further discretionary fiscal expenditure in response to the shock.

Domestic tourism is higher in the scenario as Victorians substitute from overseas to domestic holidays. However, the substitution is less than one-for-one, so the net impact is negative.

Table A.1 summarises the economic effects of a deep and enduring coronavirus (COVID-19) pandemic across 2021.

Table A.1: Projected economic impact of a renewed global outbreak (a)(b) (per cent)

	2020-21 estimate	*2021-22 estimate*	*2022-23 estimate*	*2023-24 estimate*
Real GSP	(0.33)	(0.71)	(0.79)	(0.68)
Employment	(0.29)	(0.57)	(0.61)	(0.55)
Consumer price index	(0.05)	(0.10)	(0.09)	(0.07)
Wage price index	(0.10)	(0.39)	(0.44)	(0.31)

Source: Centre of Policy Studies

Notes:

(a) *Figures reported are year average deviations in the level of each parameter relative to the baseline outlined in Chapter 2* Economic Outlook.

(b) *In this simulation the GSP deflator is the reference price variable.*

The shock has a negative impact on the State's fiscal position (Table A.2). Lower population growth slows the recovery in property-related taxation revenue, including land transfer duty and land tax, which combined, have the largest impact on total income from transactions. Lower employment growth in the scenario lowers household income and consumption, which results in a smaller national GST pool and smaller GST grants revenue. The restrictions on international tourism lead households to reallocate some spending to domestic goods, partly offsetting some of this fall. As a result, income from transactions is lower over the forward estimates.

Expenses from transactions are also lower in the scenario relative to the base case as lower employment growth lowers employee expenses. These impacts reflect the assumed relationship between private and public sector employment and wages, and the associated impact on the State's fiscal position. The fiscal modelling assumes that public sector employment is a fixed share of overall employment and that public sector wage growth is correlated with private sector wage growth.

Table A.2: Projected fiscal impact of renewed global outbreak (a)(b)(c) ($ million)

	2020-21 estimate	*2021-22 estimate*	*2022-23 estimate*	*2023-24 estimate*
Total revenue and income from transactions	(150.1)	(506.9)	(723.5)	(712.9)
Total expenses from transactions	(100.2)	(264.0)	(362.4)	(344.7)
Net result from transactions – net operating balance	**(50.0)**	**(242.9)**	**(361.0)**	**(368.1)**
Total other economic flows included in net result	(1.4)	(10.4)	(13.6)	(7.6)
Net result	**(51.4)**	**(253.3)**	**(374.7)**	**(375.8)**
Net debt (cumulative)	**51.4**	**304.7**	**679.5**	**1055.4**
Net debt to GSP ratio (percentage point difference)	**0.01**	**0.06**	**0.13**	**0.20**

Source: Department of Treasury and Finance

Notes:

(a) *Figures may not add due to rounding.*

(b) *Figures reported are deviations in the level of each parameter relative to the baseline outlined in Chapter 4* State Revenue.

(c) *Only reasonably quantifiable impacts have been included in the analysis.*

SENSITIVITY TO INDEPENDENT VARIATIONS IN MAJOR ECONOMIC PARAMETERS

Table A.3 presents the sensitivity of financial aggregates where the levels of key economic parameters are 1 per cent (or, for interest rates, 1 percentage point) above the forecast for each year of the budget and forward estimates, holding all else constant.

The impacts shown are broadly symmetric; that is, the estimated fiscal impacts would apply approximately equally in the opposite direction where there is a decrease in the parameter. Differences may arise to the extent that the impact on income tax equivalent income may not be symmetric because that line item is subject to a floor of zero, and the impact on dividends may be affected by some entities facing caps on the share of profits that can be returned to the general government sector.

Table A.3: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2020-21 [(a)(b)(c)(d)(e)] **($ million)**

	2020-21 estimate	*2021-22 estimate*	*2022-23 estimate*	*2023-24 estimate*
GSP				
Total revenue and income from transactions	96	109	124	133
Total expenses from transactions	2	(1)	(4)	(7)
Net result from transactions – net operating balance	**93**	**110**	**128**	**140**
Net debt	**(93)**	**(203)**	**(331)**	**(471)**
Employment [(f)]				
Total revenue and income from transactions	71	81	91	96
Total expenses from transactions	304	317	337	355
Net result from transactions – net operating balance	**(233)**	**(236)**	**(247)**	**(259)**
Net debt	**233**	**469**	**715**	**974**
Consumer prices [(g)]				
Total revenue and income from transactions	240	266	293	310
Total expenses from transactions	280	247	239	246
Net result from transactions – net operating balance	**(40)**	**19**	**54**	**65**
Net debt	**39**	**17**	**(40)**	**(108)**
Average weekly earnings [(h)]				
Total revenue and income from transactions	74	84	94	100
Total expenses from transactions	4	1	(1)	(3)
Net result from transactions – net operating balance	**70**	**83**	**95**	**102**
Net debt	**(70)**	**(153)**	**(248)**	**(350)**
Total employee expenses				
Total revenue and income from transactions	..	26	97	107
Total expenses from transactions	305	356	378	397
Net result from transactions – net operating balance	**(305)**	**(330)**	**(281)**	**(290)**
Net debt	**305**	**619**	**885**	**1159**

	2020-21 estimate	2021-22 estimate	2022-23 estimate	2023-24 estimate
Domestic share prices				
Total revenue and income from transactions	..	..	..	..
Total expenses from transactions	..	(0)	(0)	(0)
Net result from transactions – net operating balance	**..**	**0**	**0**	**0**
Net debt	**..**	**..**	**..**	**..**
Overseas share prices				
Total revenue and income from transactions	..	..	..	..
Total expenses from transactions	..	(1)	(1)	(1)
Net result from transactions – net operating balance	**..**	**1**	**1**	**1**
Net debt	**..**	**..**	**..**	**..**
Property prices				
Total revenue and income from transactions	56	114	127	137
Total expenses from transactions	(1)	(4)	(7)	(10)
Net result from transactions – net operating balance	**57**	**118**	**134**	**147**
Net debt	**(59)**	**(181)**	**(320)**	**(470)**
Property transaction volumes				
Total revenue and income from transactions	44	53	64	67
Total expenses from transactions	(1)	(2)	(4)	(5)
Net result from transactions – net operating balance	**44**	**56**	**67**	**73**
Net debt	**(44)**	**(100)**	**(167)**	**(240)**
Interest rates (i)				
Total revenue and income from transactions	88	84	80	76
Total expenses from transactions	3	(24)	(32)	(47)
Net result from transactions – net operating balance	**85**	**108**	**111**	**123**
Net debt	(85)	(164)	(240)	(318)

Source: Department of Treasury and Finance

Notes:

(a) Variations are applied to the economic variables effective from the first day in the budget year (1 July 2020). It is assumed that each variable's growth rate matches that under a no-variation scenario for the forward estimates period. This implies that the level of all economic variables (other than interest rates) is 1 per cent higher in level terms in each year of the budget and forward estimates. Interest rates are assumed to be 1 percentage point higher in each year of the budget and forward estimates.

(b) A positive number for income from transactions denotes an increase in revenue. A positive number for expenses from transactions denotes an increase in expenses (and hence a reduction in the net result from transactions). A positive number for the net result from transactions denotes a higher surplus or smaller deficit. A positive number for net debt denotes a higher level of net debt in the relevant year compared with a no-variation scenario.

(c) Only reasonably quantifiable impacts have been included in the analysis.

(d) Estimates of net debt are approximately equal to the cumulative impact of the net result from transactions. The difference between the cumulative net result from transactions and net debt is due to non-cash expenses and gross sale proceeds (where applicable).

(e) Figures may not add due to rounding.

(f) A shock to employment is assumed to impact payroll tax revenue to an extent consistent with no change to historical relationships between total employment, part-time/full-time employment shares and payroll tax revenue. Both public and private sector employment levels are assumed to be 1 per cent higher across the four years; the rise in public sector employment boosts general government sector employee expenses.

(g) Incorporates the impact of departmental funding model arrangements. It is assumed an increase in consumer prices within the budget year does not affect employee entitlements.

(h) A positive shock to average weekly earnings increases the expenses of public financial and non-financial corporations and reduces the general government sector's income from dividends and income tax equivalents.

(i) Interest rates are assumed to be 1 percentage point higher in each year of the budget and forward estimates.

STYLE CONVENTIONS

Figures in the tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage changes in all tables are based on the underlying unrounded amounts.

The notation used in the tables and charts is as follows:

n.a. or na	not available or not applicable
1 billion	1 000 million
1 basis point	0.01 per cent
..	zero, or rounded to zero
tbc	to be confirmed
ongoing	continuing output, program, project etc.
(x xxx.x)	negative amount
x xxx.0	rounded amount

Please refer to the **Treasury and Finance glossary for budget and financial reports** at dtf.vic.gov.au for additional terms and references.

Victorian Budget 2020/21
Strategy and Outlook
Budget Paper No. 2

budget.vic.gov.au

VICTORIA State Government

Treasury and Finance