

Melbourne's Economic Recovery:

9 ideas for the way forward

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Revitalise the City of Melbourne in the short term, and prepare Melbourne and Victoria for the longer term

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Mount a "bring them home" campaign encouraging on-shoring of operations

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Solve the social and affordable housing deficit

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Build world class advanced manufacturing capability in Victoria

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Supercharge Victoria as a hub for new technology growth

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Restore our thriving arts and culture sector and major events

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Capitalise on Melbourne's life sciences capability

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Fund the future through investment innovation

Businesses operating in the City of Melbourne need immediate support to return to COVID-safe operations, including measures to increase visitation to the City of Melbourne.

The direct consequences of not doing so include higher unemployment with its associated social impacts, impact on financial institutions supporting those businesses, reduced activation in the City of Melbourne, reduced tourism spend and reduced social capital.

The Victorian government and City of Melbourne can support these businesses through a short term transition in these ways:

- suspend payroll tax – now is not the time to tax employment
- bring visitation back the City of Melbourne by:
 - giving planning concessions to use laneways, roads and other public space in the city, to help assist with COVID-safe reopening and social distancing
 - allowing CBD workers to return to their offices with certainty under a COVID-safe plan
 - suspending the car park congestion levy, at least in the short term to encourage safe travel to the city, and increasing cleaning on public transport to allay concerns

- as border closures lift, encouraging the restart of tourism in the city through attractions and events
- expand the reach of businesses and help them diversify revenue sources through profiling on platforms such as Click for Vic
- create a forum for ideas and feedback from business owners, and the sharing of data on visitation to the city

The central business district will remain the centre of economic activity in Melbourne. However, in the longer term, we recognise the likely shift in some economic activity from the central business district of Melbourne to fringe, neighbourhood or regional areas. This will give rise to a multitude of opportunities to facilitate and support that shift, including:

- further implementation of planning policies encouraging more localisation and further development in activity centres around Melbourne – realising the “20 minute neighbourhood”
- reconsidering transport link priorities and supporting development of an enhanced logistics and transport sector which covers regional areas
- expanding high quality educational facilities to regional areas
- supporting rollout of key enabling technology such as 5G, assist to overcome community perceptions on 5G
- reconsidering open space requirements and the role of Melbourne’s green wedges

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2 Build world class advanced manufacturing capability in Victoria

The risks in reliance on global supply chains in manufacturing capability that have become apparent through the pandemic have been confronting. Victoria can build world-class capability in advanced and highly automated manufacturing, such as pharmaceuticals and medical devices, to create jobs and to facilitate critical research and development and commercialisation within Australia.

Melbourne has great connectivity through one of Australia's largest container ports and its road and rail network. Land is available for industrial development in proximity to the Port of Melbourne and Melbourne Airport, which facilitates manufacture for other parts of Australia and for export.

Melbourne has major related enterprises, such as higher education institutions, scientific research bodies and a significant proportion of Australia's ASX-listed life science companies, to support and carry out the critical research and development, and commercialisation of product.

Increasing levels of automation in manufacturing can make the costs of production in Australia comparable to those in other countries, and create jobs for skilled workers.

To encourage investment in local advanced manufacturing capability which creates jobs for Victorians, the Victorian government could:

- provide incentives such as expedited regulatory processes, payroll tax and land tax breaks
- ensure secure and affordable sources of energy, potentially renewable sources

- plan and provide transport links to manufacturing hubs
- establish and participate in forums to gain a deeper understanding of the certainty that is required to drive investment into advanced manufacturing in Australia, recruit from business and vice versa to enhance a deeper level of understanding

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Create an industrial scale hub in Melbourne to encourage investment in life sciences and health and maintain Melbourne’s leading position in this sector. The economic multiplier that comes from scientific research institutions is significant, and supports related sectors such as higher education, healthcare and advanced manufacturing.

Melbourne has a world-recognised biotechnology sector, and the scale of this sector is rapidly increasing. The creation of an additional hub, to complement the biomedical precinct in Parkville, would provide a place of collaboration for scientific research and development. The impact of investment in this sector extends to related sectors. A strong scientific research base:

- attracts foreign students to Melbourne’s higher education institutions, which in turn adds to our cultural diversity and is a prime source of skilled immigration and population growth

- works hand in hand with advanced manufacturing facilities to create further jobs and investment opportunities
- supports our healthcare system

To encourage investment in life sciences and health which creates jobs for Victorians, the Victorian government could:

- issue government bonds to institutional investors such as Australia’s superannuation funds, and use the funds for programs that provide outcomes for Victoria in terms of job creation, research and development benefitting Victoria and collaboration with Victoria’s higher education institutions

- provide incentives such as expedited regulatory processes, payroll tax and land tax breaks
- launch a public-private partnership for the development of hub
- plan and provide transport links to hub

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Offshoring problems that have arisen during COVID can be solved by leveraging networks and technology, for example by establishing call-centres across regional Victoria to service financial institutions, retail outlets, telecommunications companies and other customer-facing groups both within and outside Australia.

Many businesses are looking to reverse existing offshoring arrangements following difficulties experienced during COVID. Victoria has an opportunity to attract these new onshoring opportunities, creating jobs and new growth for the economy. One example is voice call centres, which were significantly disrupted by the spread and challenges of the pandemic. There may be an opportunity for Victoria to be at the heart of voice call-centre operations to provide services to a range of companies both within and outside Australia. There is now greater ability to mitigate fixed costs usually associated with a call-centre (eg rent) and the rapid uptake of working from

home and decentralisation of certain workplaces has created opportunities for a more flexible workforce.

The Victorian government could support this initiative by:

- investing in improving fibre connectivity to business hubs and centres in regional Victoria, including by leveraging VicTracks’ extensive fibre network
- creating incentives (eg payroll tax relief) for Australian companies to establish call centres in regional Victoria
- creating employment boards and other means of connecting businesses with people in regional Victoria looking for work

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Build on existing Melbourne communications and technology capability to further promote Melbourne as a key destination for investment in technology and innovation.

Victoria is already home to more than half of Australia’s top tech companies including Carsales, Computershare, REA Group, and Seek. Cremorne and the area around it is already being described as Australia’s “Silicon Valley”, with many Australian and global tech companies basing themselves there. Australia’s largest telco, Telstra, is also head-quartered in Melbourne. Connectivity, technology and innovation will be a key driver in growth coming out of the COVID crisis. More could be done to profile and promote this capability in a way that sets the sector up for further success and truly establishes Melbourne as a technology destination.

The Victorian government could support this initiative by:

- investing in science and technology education and better connecting the education sector to the technology players to develop a technology talent pipeline
- establish a tech and innovation precinct for established and start up tech companies – consider leveraging off the existing concentration in Cremorne or taking advantage of anticipated spare capacity in buildings in the inner city
- ensuring any tech and innovation precinct is serviced by world class infrastructure to attract highly trained talent –

transportation, retail, housing, connectivity etc

- creating incentives (eg payroll tax relief) for startups and the funders of startups (Angel Investors, VCs, PE etc)
- establishing a government and industry advisory group to drive the initiative, seeing to understand deeply what tech companies and start ups need to support their success

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Develop Melbourne as Australia's hub for green hydrogen – the clean export energy of the future. Just as the Portland aluminium smelter helped transform the Victorian economy in the 1980s, a major hydrogen manufacturing and export hub can propel Victoria and Melbourne into the 2020s.

Hydrogen is a potential energy source for both vehicles (hydrogen fuel cells), homes (space, water heating) and, most excitingly, for export to markets such as Japan and Korea. A number of Victorian companies (including AGL) are already exploring pilot projects.

Victoria has clear competitive advantages – a strong industrial base, a large local energy market and strong technical capability. In particular this is an opportunity to match Victoria's renewable energy strengths with the large energy requirements needed to manufacture hydrogen.

Hydrogen is currently not economic to produce and requires support on both the supply and demand side. Significant amounts of private capital are keen to support hydrogen.

The Victorian Government could:

- provide policy reform and funding support to enable development.

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Let's finally solve the social housing deficit in Victoria, and let's make other housing affordable for young Victorians too.

Social housing

Infrastructure Victoria has identified we need 30,000 new dwellings before 2036 just to maintain the current proportion of social housing at 3.5%. There are projects underway that are directed at increasing social housing stock in Victoria, but far greater scale is needed to make progress on this important social issue.

We know from housing first principles that \$1 spent on housing saves a multiple of that outlay in healthcare, judicial system and welfare costs.

The Commonwealth's National Housing Finance and Investment Corporation provides debt funding for social housing projects at preferential rates and with a longer tenor than other financiers, and institutional investors are ready and willing to participate in social housing models that are supported by State governments.

Social housing projects create jobs for Victorians in the construction industry and service industries, and enable economies of scale to be achieved by community housing

providers operating in Victoria.

The Victorian government can continue to support these outcomes not only through direct government funding of social housing projects, but by making land available, fast-tracking regulatory processes, permitting additional density where appropriate and accepting unsolicited proposals to encourage innovative structuring and funding solutions for these projects.

Affordable housing

We need to achieve a greater level of housing supply that is affordable for young Victorians in areas that they want to live. Build to rent apartment developments should be part of this solution, as they are in so many other parts of the world. The Victorian and local governments can support the affordable housing and build to rent sector in these ways:

- introduce a fast-track planning process for affordable housing developments, which helps developers keep the cost of the apartments down

- permit additional density, where accompanied by good design, where appropriate
- continued investment in public transport connectivity
- remove the land tax anomaly on build to rent apartments – it is up to 10 times higher than for an apartment held by a private landlord. This anomaly has a significant impact on returns and is a disincentive to investment – so much so that there is no budget impact of removing it, because it has effectively stifled that investment to date.

Whilst there are very significant federal tax impediments to undertaking build-to-rent projects in Australia, such as the higher tax rate on distributions of this type of income through MIT structures, and GST anomalies associated with projects of this kind, the Victorian government has a clear and meaningful role to play in supporting the sector.

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Restore our thriving arts and culture sector and major events

Melbourne’s arts, culture and events are world class and critical to protect and restore.

They provide important social capital and identity for Victorians, and are directly responsible for a significant portion of the State’s tourism revenue.

The Victorian government can support the arts, culture and events sector in these ways:

- allow arts and cultural organisations to re-open with a COVID-safe plan, and make other civic facilities available where possible to enable social distancing
- as border closures are lifted, support major tourism campaigns to attract visitors back and allay concerns about COVID-safety

- continue to invest in the physical infrastructure at Melbourne’s arts precinct and great sporting precincts
- issue government bonds to institutional investors such as Australia’s superannuation funds, and use the funds for programs that provide outcomes for Victoria in terms of job creation, tourism spend and major events

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Innovative funding solutions for all of these initiatives are critical. These initiatives should be implemented in a way that creates investment opportunities for the private sector and enables the Victorian government to reduce debt.

The development of the proposed hubs (advanced manufacturing, software and technology) are ideal for private investment, with appropriate government facilitation. There are existing government assets, and assets such as core transport links that can be created to support these initiatives, within Victoria for the purpose of release of capital.

Social and other innovative bonds can tap sources of institutional funding which are increasingly looking for socially responsible investment options. Melbourne is home to many of Australia's largest industry super funds, where investment opportunities linked to projects which also benefit their members through driving employment create synergies.

- The Victorian government could support this by:
- finding opportunities to monetise existing assets
 - recycling that capital into new infrastructure opportunities which create jobs in Victoria
 - increasing use of social bonds
 - reimagining the public/private model to ensure it remains fit for purpose over the medium term

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