A WRAP UP OF THE 2021 BUDGETS

CLASS NOTES

what does this mean for me?

Background & Economic Context

Both Australia and New Zealand went through significant health and economic shock over the last twelve months.

In last year's budgets for both countries, the concentration was on immediate responses to the pandemic to alleviate actual and potential effects of COVID-19.

This included the funding of a wide variety of business specific initiatives and packages including interest write offs on late tax payments, flexibilities on tax deadlines for affected SME's, amendments to tax loss continuity rules, a tax loss carry back scheme, a business finance guarantee scheme, measures to support commercial tenants and wage subsidies.

The paths chosen by both governments for influencing their respective economies last year can be seen to have worked, when compared to other developed countries. Our some-what isolationist approaches to dealing with the pandemic and its economic consequences has resulted in better than expected economic conditions and outcomes.

Leading into this year's budgets a range of general economic indicators have moved back to encouraging figures and levels for both countries. Although other developed countries may have had similar GDP outcomes, many did not implement the same restrictions and the cost to those countries has been tragically and significantly higher rates of COVID related deaths.

Leading into this year's budget, these outcomes of effective health policies and fiscal initiatives have resulted in upgraded expectations for economic recovery. Nonetheless, various sectors of both the New Zealand and Australian economies, such as tourism, aviation and hospitality, remain in difficulty and have yet to fully recover.

Our some-what isolationist approaches to dealing with the pandemic and its economic consequences has resulted in better than expected economic conditions and outcomes.

STRATEGIC

▼

DECISION

▼

PRODUCTION

▼

LEGISLATIVE

▼

IMPLEMENTATION

Budgetary Process

So how do the Australian and New Zealand governments get to their budget day speech with solid proposals?

It is essentially a five step process in both countries:

1. **Strategic Phase** – set objectives for revenue, expenditure debt repayment and investment
2. **Decision Phase** – Treasury assessment of proposed Government initiatives and decisions
3. **Production Phase** – detailed preparation of budgetary package
4. **Legislative Phase** – delivery and appropriation of funds
5. **Implementation Phase** – timetabled delivery of stated initiatives

In both countries, the period leading to the delivery of the 2021 Budgets would have been constantly evolving and the Treasury and Department of Finance will have been going 24/7.

Key Budgetary Terms

Leading into the delivery of the Budget, and for the week or so after, a number of economic related terms are used, used incorrectly, overused, and even abused.

Each of the terms are interrelated when it comes to the economy and for budgetary purposes. The following are some of those most used terms and what they mean.

> **Fiscal policy** – essentially taxation and government spending used to influence the economy.

> **Monetary policy** – think interest rates and the Reserve Banks determinations. Given the interest rates in both countries are at all-time lows, governments have had to rely on fiscal policy to move the economy along.

> **Surplus/Deficit** – revenue and income exceeds Government expenditure or the reverse creates a deficit.

> **Forward estimates** – rolling baseline of projections for government budgeting including proposed expenses. Usually the proposed government spending announced in a particular Budget is spread across several years. The whole budgetary process is built on forward estimates.

> **Inflation/Deflation** – a decline or increase in purchasing power, usually based on Consumer Price Index.

> **Gross Domestic Product (GDP)** – the monetary value of finished goods and services within a country as an indicator for calculating economic growth rates.

> **Consumer Price Index (CPI)** – is a measure of the cost increases or decreases on a weighted average of a 'basket of goods' that includes particular goods and services. Inflation is an increase in the level of prices of those goods and services that households buy. Typically, prices rise over time, but prices can also fall (deflation). In Australia and New Zealand, the Consumer Price Index is calculated by the Australian Bureau of Statistics (ABS) and StatsNZ (Tatauranga Aoteroa) and published once a quarter.

> **Unemployment rates** – those who are employable and actively seeking work - another indicator of the state of the economy.

> **Productivity** – put simply it is how efficiently production inputs are being used to produce a given level of outputs. Often considered as a key source of economic growth, but the method is often disputed and the meaning can be smokey.

> **Wellbeing indicators** – health, connectedness, and other quality of life indicators – they are measured in both Aus. and NZ.

NZ

WELLBEING

AU

SHOVEL READY

The 2021 Budgets of Australia & New Zealand

A review of this year's budgets from both countries evidences that although there are many similarities in political systems, economic policies and societies, the respective governments have taken somewhat different courses this year.

Although both countries have taken on significant budgetary deficits and continue to deliver on economic stimulus across a broad range of issues, New Zealand has prioritised "Wellbeing" with spending on people and social capital, whereas Australia has an apparent concentration on "shovel ready" infrastructure projects.

However you look at it the outcomes, both countries have opened their balance sheets and invested in projects aimed at the creation of jobs and stimulus that will hopefully pay dividends in the short to medium term for both the economy and society of each country.

New Zealand Budget Highlights

INFRASTRUCTURE

An allocation of $57b across a range of projects in the period 2021 to 2025. These projects will encompass road, rail network upgrades, civil aviation, and housing. The expenditure is expected to create employment and stimulate the economy.

BUSINESS CONNECT

An allocation of $36m over the next four years to the Business Connect digital platform that aims to integrate services so businesses can apply for a range of permits and registrations across different government agencies. Continued investment on this government platform should assist business by saving time and costs on compliance.

VOCATIONAL EDUCATION AND TRAINING

A 13.4 percent increase in Vocational Education and Training (VET) funding by 2024 ($279.5m across the next 4 years). This funding will support the implementation of the new unified funding system for vocational education from 1 January 2023, a key part of the Reform of Vocational Education. The new system aims to better support high-quality, work-integrated provision, better support learner needs and help sustain a network of VET provision across the regions.

SMALL BUSINESS DIGITAL TRAINING AND SUPPORT PROGRAM

The government has allocated $44m across the next two years on this initiative. The purpose of this initiative is to enable partnering with the private sector to deliver a two-year nationwide programme to supply core digital business skills training to small businesses, and a digital business advisory service to assess digital needs and create digital business action plans.

CLIMATE

Funding in this area includes:

- $300m to recapitalise New Zealand Green Investment Finance to continue to invest in support of climate change mitigation, with a particular focus on decarbonising public transport, waste and plastics.
- $67m total funding to deliver a coordinated programme and support for agencies to reduce emissions, with the aim of making a number of government organisations carbon neutral by 2025.
- Commencement of efforts in hard-to-abate sectors, like transport, by preventing higher emissions through keeping trucks off the road and investing in the future of rail, while expanding the Low Emission Vehicle Contestable Fund by creating a new Low Emission Transport Fund.

SOCIAL UNEMPLOYMENT INSURANCE

The government has also announced a new unemployment insurance programme could cover 80% of a worker's income if they lose their job. It will be funded by a levy on pay cheques such as that already collected for the Accident Compensation Commission scheme.

The Social Insurance Tripartite Working Group will be consulting stakeholders on what the right settings could be, balancing the support needed to find quality new jobs against the costs of running the scheme. Public consultations are expected to be held later this year, although it is envisaged that such a scheme will not be in operation until at least 2023.

Such insurance schemes that provide 80% of income to an individual who has lost their job have been in place in Scandinavian countries and Canada for many years. However, like all insurance schemes they come with positives and criticisms depending upon how they operate, appropriate governance, whether they are compulsory or voluntary schemes, and related fee structures.

CONCLUSION

- The 2021 budget has moved away from the business support initiatives of last year and is disappointingly light on direct business assistance this year. This year's budget is aimed at medium term general stimulus compared to the emergency measures implemented last year.
- There is no clear assistance to areas of the economy that were hard hit last year, including tourism and hospitality. However, the approach to this year's budget is in keeping with the government's budget policy goals leading into this budget.
- Members should consider how to position your business to potentially benefit from the significant government spending initiatives, particularly in relation to supplying into those industries that will directly benefit from infrastructure funding.
- This budget has been made on assumptions that the borders will open in 2022 beyond Australia and the Pacific, and with a high rate of vaccinations by next year.
- Given the relatively strong state of the New Zealand economy it remains to be seen whether a greater allocation of funds across more sectors could have been delivered, or if the balance has been found for further economic growth and that government does in fact move towards a surplus in the next six years.

57 BILLION BUDGET

Australian Budget Highlights

ASSET WRITE-OFF AND LOSS CARRY BACK EXTENSION

The government has announced that the asset write off measures brought in under the last budget will continue until the end of June 2023. Effectively a business with a turnover of up to $5b and businesses with income of less than $5b will be able to claim an immediate deduction for the capital costs associated with purchasing eligible depreciable assets purchased since the last budget through to 30 June 2023.

Additionally, this budget extends the temporary loss carry back for an additional year. Companies with a turnover of less than $5b will be able to write off any COVID induced losses incurred up to June 2023 against previously taxed profits made going back to the 2018 - 2019 financial year.

WRITE-OFFS

SME'S

INFRASTRUCTURE

TECHNOLOGY

EMPLOYMENT

WORKPLACE EQUITY

SUPERANNUATION

WASTE & RECYCLING

SME'S

The government has considered small business in this budget:

> SME's with a turnover of less than $50m will benef it from a reduction in the company tax rate from 30% to 25% from 1 July 2021.

> As part of a $1.2b injection into the digital economy, the government intends to provide more training in digital skills and business capabilities including an expansion of the governments small business digital solutions advice service.

> Small businesses, with an annual turnover of less than $10m, will be allowed to apply to the Administrative Appeals Tribunal to act as an intermediary to pause or modify any disputed ATO debt recovery actions. This takes them out of strict court-based litigation system and the associated costs, at least for a period of time. This can be seen as a potential benefit to small businesses facing the weight of the ATO.

INFRASTRUCTURE INITIATIVES

The government is applying $15b to infrastructure spending across the nation over the next decade. As part of this announcement there is a particular concentration on regional and rural initiatives aimed at stimulating those communities and will include various infrastructure projects and regional grants. The proposed funding will be spread across projects that include road, transport, gas, power storage, and water infrastructure. During the delivery of the 2021 budget, the Treasurer has said that funding for the various "shovel-ready" projects is to be provided on a "use it or lose it basis".

TECHNOLOGY INITIATIVES

This year's budget has a range of technology related initiatives, including:

- Federal government suppliers that e-invoice will be guaranteed payment within 5days or be paid interest.
- As part of a $1.2b injection into the digital economy, the government intends to provide more training in digital skills and business capability.
- $130m has been allocated for the improvement of digital connectivity in rural and regional communities.
- $16.4m has been allocated to improve mobile phone services in bushfire prone areas outside of metropolitan areas.

EMPLOYMENT INITIATIVES

This year's budget has a concentration on job creation and lowering the unemployment rate to below 5%. With that aim the government has determined to:

- Overhaul the JobMaker hiring credit program which has not fulfilled its aim of increasing the employment of workers under 35 years of age.
- Introduce amendments to taxation so as to attract highly skilled individuals to relocate to Australia under the Global Talent visa.
- An injection of $9b over a four-year period to fund a JobSeeker increase of $50 per fortnight.
- The JobTrainer program will receive a $1b extension to train and reskill 17 - 24 year olds.
- The current apprenticeship and traineeships subsidy scheme is being extended with an injection of a further $2.7b to reimburse employers by up to %50 of wages.

WORKPLACE EQUITY INITIATIVES

As part of the governments bid to overcome gender inequity and sexual harassment in workplaces, it has committed to:

- An investment of $38.3m to expand the Women's Leadership and Development Program which target projects that will improve outcomes for Australian women across five key areas:
  - job creation;
  - economic security;
  - workforce participation;
  - leadership; and
  - safety.
- Provide $6m to the Workplace Gender Equality Agency (WGEA) to increase its efforts in the prevention of sexual harassment in workplaces.
- Provide an additional $9.3m to the Respect@Work Council.

SUPERANNUATION

From 1 July 2022 this budget removes the current $450 a month threshold to pay compulsory superannuation contributions in an aim to boost the retirement incomes of thousands of part-time workers. Further, the maximum withdrawal from super annuation for purchasing a house has been increased from $30k to $50k. Additionally, it appears the next increase to the superannuation guarantee contribution rate (up from 9.5% to 10%) will occur from 1 July 2021.

WASTE AND RECYCLING INITIATIVES

The government will provide $11.0 million over four years from 2021 - 22 to further stimulate and incentivise recycling behaviours among Australian businesses and communities.

Funding includes:

- $5.9 million over four years from 2021 - 22 to conduct a further grant round of the National Product Stewardship Investment Fund.
- $5.0 million over three years from 2021 - 22 to support small businesses to adopt the Australasian Recycling Label.

CONCLUSION

- This year's budget is one of economic repair aimed at medium term stimulus compared to the emergency measures implemented in 2020. Although there isnothing in this year's federal budget specifically targeted at our industry, we are not alone.
- The variable business tax concessions, concessions for investment, the potential for work to flow through from targeted industry areas within the budget, continued incentives for taking on apprentices and trainees, along with the extension of the asset write off scheme from last year are likely to bring benefit to our industry. Further, there will be expected flow on benefits to our industry from numerous of the infrastructure related initiatives that have been stated in this budget and as outlined throughout this report.
- Although government spending is high in this budget it is focussed on those elements that are expected to boost domestic economic activity. That being said, the economic recovery is reliant upon ongoing effective containment of any domestic COVID outbreaks and the assumption that the majority of Australians will be vaccinated by 2022.

ECONOMIC REPAIR.

Q&A

Last year there were many similarities between the budgets of New Zealand and Australia. This year they appear to have taken different paths?

We agree. Last year both countries had similar initiatives that concentrated on business and employee support. Although there are some similarities between the budgets of both countries this year, and they are both fiscally heavy given government cannot rely on monetary levers such as lowering interest rates any further, the respective governments see economic recovery resulting from somewhat differing directions.

What goods and services are included in the Consumer Price Index (CPI)?

The CPI is a measure used to determine the rate of inflation. It examines the weighted average prices of a 'basket' of consumer goods and services that includes food, transport, alcohol, tobacco, clothing, communications, health, furnishings, household equipment, recreation, insurance and financial services. Those standard products represent considerable household expenditure, and any changes are used to assess price changes associated with the cost of living. Although as an indicator CPI concentrates on urban environments, and doesn't consider weather related issues, it is a good indicator of price changes and the cost of living.

Why is measuring productivity controversial?

In part it depends upon the context in which the term is used and what efficiencies are being sought as a result of the measurement. There are different measures of productivity and the choice between them depends upon the purpose of the measurement and what data is available for measurement. One of the most widely used measures of general productivity is the GDP per hour worked.

Did the Collective approach Government about the industry leading into this year's budgets?

Yes. The Collective has been making regular and targeted approaches to government to inform them on the needs of our industry. For example, given the significant capital expenditure required to operate in our industry we made various representations to the Australian government over the benefits of last year's asset write off and loss carry back measures. The extension of those measures in this year's budget will continue to give our industry an opportunity to focus on upgrading their operational capabilities and potential moving forward. We say this will assist in our aim to ensure as much production as possible stays onshore now and into the future.

NOTES

Further Information

- These Class Notes are extracted from the TRMC webinar given on 23 June 2021.
- These Class Notes only contain certain aspects from the 2021 Budgets of Australia and New Zealand as discussed in the webinar.
- Should webinar participants wish for further and more detailed information, please feel free to contact The Real Media Collective to receive a copy of the detailed budgetary report produced by TRMC for each country.
- Please contact Charles Watson, GM – IR, Policy and Governance, if you require greater clarification and assistance.

charles@thermc.com.au

PARTNERS

KONICA MINOLTA

Australia Post

media super An Industry SuperFund

SPRINTER POWERED BY AUSTRALIAN PRINTER & PROPRINT

the·real·media·collective

+61 3 9421 2206
hello@thermc.com.au

Suite 6, 151 Barkly Avenue
Richmond VIC 3121 Australia

therealmediacollective.com.au
therealmediacollective.co.nz

CHARLES WATSON

GM - IR, Policy & Governance
THE REAL MEDIA COLLECTIVE

Charles has a strong background in HR and workplace relations. His experience includes roles such as leading the consulting team at Workforce Guardian and GM - Workplace Relations and Legal Services at the PIAA (now PVCA). He has also worked for law firms Clayton Utz and Herbert Smith Freehills.