OCTOBER 2022

OCTOBER 2022 AUSTRALIAN BUDGET INDUSTRY REPORT

The Print and Visual Communications Association

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INTRODUCTION & BACKGROUND

This week Treasurer Chalmers has delivered the first federal budget for the Albanese government.

Although federal budgets are usually handed down in May of each year, not much has been running to normal timetabling over the last couple of years. Additionally, with the new federal government inheriting their predecessors forecasted spending and strategies from its March pre-election budget, this government is looking to meet its election promises and policies. Under the current societal and economic circumstances being experienced in Australia and globally, Treasurer Chalmers budget could be considered as fiscally responsible for its spending restraint and savings that would otherwise negatively affect inflation.

Leading into this week Treasurer Jim Chalmers stated this budget will be a ‘bread and butter’ budget, and not ‘flashy or fancy’, but will be a ‘family friendly budget’ that recognises the pressures on the economy and their effects felt around the kitchen table. He stated that inflation has been the primary influence on this budget strategy. In this budget the federal government has outlined its priorities across this term in key areas such as climate change, employment, education, skills, gender equity health and aged care, infrastructure, tax and international affairs.

Through cancelling about $10B of the previous government’s spending commitments (including stage six of the Building Better Regions Fund) and pushing out the start of $11B worth of others, Finance Minister Katy Gallagher has stated that the government had found billions of dollars from across government departments it could reallocate to its own priorities.

From a business perspective this budget has not included much to benefit our industry directly, although there are likely to be indirect benefits through certain measures such as those relating to childcare, immigration, gender equity, education and training. However, these benefits will not be realised for some years. Thankfully, the government has not added any significant regulatory burdens on businesses.

The budget outcomes and commentary detailed in the following pages may also refer to and incorporate the costings for previously announced government proposals.

ECONOMIC CONTEXT FOR THE OCTOBER 2022 BUDGET

To set the economic context for this budget:

> The Final Budget Outcome for 2021-22 shows an improved Budget position last year off the back near-term boost in revenues and delays in payments and projects.

> The Budget underlying cash deficit was $32B in 2021-22. The improvement is the result of higher-than-expected receipts of around $27.7B and lower than budgeted for payments of $20.1B.

> Robust commodity prices, primarily iron ore and coal, are behind this improvement, however as with all markets what goes up can come down again.

> Despite this improvement, Australians are still burdened with a multi-billion-dollar deficit and approximately a trillion dollars of debt which is getting more expensive to service.

> There are no guarantees that all of the factors driving the improved outcome will be sustained over the longer term.

> More than half of the $27.7B boost to receipts was due to higher-than-expected company taxes - largely the result of commodity prices remaining higher for longer than assumed and a lower-than-expected take-up of COVID-19 business support, such as temporary full expensing and loss carry back.

> Payments were $20.1B lower than expected largely due to delays in contracting COVID-19 spending, supply chain disruptions and capacity constraints delaying road and rail infrastructure projects, along with lower-than-expected demand for health, NDIS and aged care services. More than half of these payment delays will spill over to future years.

ECONOMIC CONTEXT FOR THE OCTOBER 2022 BUDGET

> Australia faces more and ongoing substantial pressures that will have an ongoing impact on our fiscal position including higher costs of servicing government debt, increased spending on government payments from higher indexation, and underlying spending growth in areas such as NDIS, health, aged care and defence.

> Over the twelve months to June 2022 the CPI inflation rose to 6.1%, with the RBA forecasting CPI inflation to peak at 7.75% in 2022. A year ago, the RBA was forecasting that inflation over 2022 would be just 1.75%. Inflation is now the highest it has been since the early 1990's.

> The RBA has raised the official cash rate for six consecutive months to 2.6% as at October 2022.

> According to the ABS, wages growth rose to 2.6% in the year to June, the highest annual rate since September 2014, but still well below inflation.

> In seasonally adjusted terms, in September 2022 the unemployment remained at 3.5%.

> GDP is forecast to grow by 3.25% over 2022, which is lower than previously forecast by the RBA.

This budget has to be contextualised based on an initial baseline of current, medium and longer term economic forecasting, and considering current fiscal and monetary policy positions such as increasing interest rates, increasing inflation, increasing deficits and net debt, and social issues. An application of those factors will likely see limited or suppressed economic growth over the coming years. That growth will be hampered by ongoing supply chain issues and a lack of labour with the right skills and competencies

RELEVANT BUDGET OUTCOMES

INDUSTRY

> The government has allocated funding of for the already announced Future Made in Australia policy to encourage local manufacturing, including refining of raw minerals to add value before export. The $15B over 10 year allocation to the National Reconstruction Fund will co-finance projects that create secure well-paid jobs, drive regional development, and invest in national sovereign capability.

> $15.1M has been allocated to extend the small business mental health program delivered through Beyond Blue.

> $62.6M in grant funding has been allocated to Energy Efficiency Grants whereby SME's hoping to invest in energy efficient upgrades will be eligible for Commonwealth grants. These grants will cover feasibility studies, planning measures, along with equipment and facility upgrades designed to boost efficiency, lower emissions, or smooth out power demand. It is not yet known when applications will open.

> Penalties for breaches of competition and consumer law are being lifted. Maximum penalties for corporations will increase from $10M to $50M per breach, and from 10% of annual turnover to 30% of turnover during the period the breach took place.

Commentary – Although there are several potential benefits for SME's, unfortunately this budget has not addressed the current effects of exposing Australian businesses to international gas prices and increasing power costs.

RELEVANT BUDGET OUTCOMES

TAXATION

- There has been a $200M per year funding boost allocated to the ATO for its Tax Avoidance Taskforce, which will have a particular focus on multi-national and large public and private business tax avoidance. The government estimates this will bring the tax coffers up by $2.8B over four years.
- Speculation around the "Stage 3" tax cuts has dominated recent headlines, but it seems like the government has ruled out any changes for the time being. Therefore, from 1 July 2024, the 37% bracket will be removed entirely, and the 32.5% bracket will be reduced to 30%. In addition, the threshold above which the top marginal rate of 45% applies will increase from $180K to $200K.
- Any government decisions on the Petroleum Resource Rent Tax (PRRT) were not addressed.
- The tax treatment of off-market share buybacks undertaken by listed public companies will be aligned with the treatment of on-market share buy-backs (in which no part of the buy-back proceeds is treated as a dividend). This measure will apply from Budget night.

Commentary – Although this is really a mini-budget, there has been a missed opportunity here, so let's wait to see if it's sorted out in May 2023 if still relevantly possible. Given the Petroleum Resource Rent Tax (PRRT) revenue looks to have only increased by approximately $1B, but given the LNG industry windfall gains have increased up to approximately $40B, imagine the beneficial outcome for the country if the Government adjusted the PRRT to be paid when a super profit is earned, instead of being exempt until after companies have paid down capital and 'uplift factors' that allow capital expenditures to be increased by the government bond rate plus risk premiums that vary with the nature of the capital expenditure. Those who live in Norway are shaking their heads at us, but improving their own country through it being supported from an oil and gas tax revenue forecast of US$131B in 2023, up from US$111B in 2022.

RELEVANT BUDGET OUTCOMES

INFRASTRUCTURE

> This Budget reconfirms the government's commitment to a $120B investment in transport infrastructure over the next ten years.

> There is a $9.6B allocation in infrastructure commitments across Australia, particularly around road infrastructure. These include:

o $2.2B for Victoria's Suburban Rail Loop, plus $330M for roads including $150M for the Camerons Lane Interchange at Beveridge, $125M to upgrade Barwon Heads Road, and $57M for the Ison Road Overpass.

o $1B for NSW including $300M for the Western Sydney Roads Package and $500M towards early-stage development of high-speed rail connecting Sydney, the Central Coast and Newcastle.

o Queensland will get $1.47B including $800M for major upgrades of the Bruce Highway.

o $670M for Western Australia, with $125M towards electric bus charging infrastructure for 130 new locally manufactured buses supplied by the state government.

o Nearly $2.5B has been allocated to the Northern Territory, including $350M to seal the Tanami Road and upgrade Central Arnhem Road.

o South Australia is getting $660M, with $60M to construct on and off ramps for the Southern Expressway at Majors Road and $200M to remove the Marion Road Level Crossing and upgrade Marion Road between Cross Road and the Anzac Highway.

o $685M has been allocated for Tasmania, including $540M to upgrade the Bass Highway, the Tasman Highway and the East and West Tamar Highways.

> The government has also said it will be moving forward with a $2.4B equity investment in the NBN over four years.

Commentary – Useful and purposeful infrastructure projects are an important driver of economic growth and productivity across regional and metropolitan areas. Given the size and the distances in Australia, road infrastructure upgrades are critical.

RELEVANT BUDGET OUTCOMES

WOMEN

> There has been a $15.8 million allocation over four years to fund six projects to increase women's workforce participation and representation in leadership positions, to directly benefit 5000 women nationwide.

> The budget allocated $1.7B over six years to support the National Plan to End Violence Against Women and Children.

> The introduction of the National Strategy to Achieve Gender Equality and funding ($68.5M) for reproductive and women's health will provide additional impetus to achieving gender equity.

Commentary – These announcements will improve the lives of many Australian women and improve the economic bottom line. The continued consideration and representation of women's policy issues in the budget is welcomed. The Albanese government has committed to 'gender budgeting' as can be seen in various OECD countries.

FAMILY

> The paid parental leave allowance will be expanded by six weeks up to 26 weeks (six months), amounting to an extra $6.5K. However, these changes won't begin until July 1, 2024, with two additional weeks a year until the scheme reaches its full 26 weeks from July 2026.

> Additionally, there has been a $10.8 million allocation to fund a 12-month inquiry by the ACCC into the rising cost of childcare in Australia.

> The government has already introduced legislation to parliament to increase the subsidy for early childhood education for 90 per cent of families who earn up to $80,000 a year. The subsidy will then taper down by one percentage point for every $5,000 a family earns over $80,000, up to a combined income of $530,000 a year. The new subsidy is set to begin in July 2023. These reforms were costed at $5.1 billion over the next four years during the election campaign, and they're expected to help an estimated 37,000 full-time workers return to the workforce.

Commentary – Although greater child care subsidisation is welcomed, that sector is also short on required labour which will continue to affect parents trying to find a place for their children.

RELEVANT BUDGET OUTCOMES

EDUCATION

- $485M has been allocated to 20,000 new university places will be funded primarily aimed at teaching, nursing, IT, health and engineering.
- Education Ministers agreed to develop a National Teacher Workforce Action Plan by the end of 2022. The Budget looks to address growing teacher shortages, with a focus of the 20,000 newly funded university places to be on priority skills shortages, including teacher training.
- This budget has also allocated funding for the government's 180,000 fee-free TAFE and vocational education places, announced during the recent Jobs and Skills Summit. These places will be allocated with a gender, indigenous and equality lens and be reserved for areas of critical skill shortage including early childhood, aged care, health and disability. Other areas of focus include digital skills, hospitality and tourism, construction, agriculture, manufacturing and defence.
- $621M has been allocated over four years will go to 465,000 free TAFE spots in industries badly affected by the coronavirus pandemic, including hospitality and tourism, and to fill skills gaps in construction and digital industries.

Commentary – the funding for tertiary places is welcomed, however the issue is bigger than merely funding places. Tertiary infrastructure, particularly in TAFES, need to be made fit for purpose. Additionally, attracting tertiary students into VET and through to completion of studies is a societal and generational issue that needs to be addressed.

IMMIGRATION

- The government has already stated its intentions to increase the number of permanent migration visas available in 2022-23 by 35,000, from 160,000 to 195,000 places, to "address parts of the Australian economy currently experiencing severe shortages".
- $42.2M has been allocated in additional funding for visa processing to support a "surge capacity" of 500 staff over the next two years.
- Additionally, post-study work rights for international students will be extended from two to four years for bachelor's degrees, three to five years for master's degrees and four to six years for PhDs.

Commentary – Recent migration data and new visa issuances evidences an improved outlook for migrant arrivals, especially of students, and a delayed recovery in temporary migrant departures.

RELEVANT BUDGET OUTCOMES

CYBER SECURITY

- The Office of the Australian Information Commissions will get $5.5M to investigate and respond to the Optus data breach.
- There's $12.6M allocated over four years to combat scams and online fraud to protect Australians from financial harm. The bulk of that will go to the Australian Competition and Consumer Commission for initial work on the establishment of a National Anti-Scam Centre.

Commentary – given the economic effects on businesses and individuals from scams and cyber breaches, this issue could have benefited from greater funding.

ELECTRIC VEHICLES

- As previously stated by the government, the temporary reduction in the fuel excise levy has not returned. However, legislation has been introduced into parliament that seeks to remove FBT and import tariffs from eligible electric vehicles, to lower the cost of electric vehicles and encourage their take-up.

Commentary - the creation of adequate electric vehicle recharging infrastructure across this wide brown land needs to be undertaken to actually bring about an increased uptake of electric vehicles.

A GUIDE TO BUDGETARY TERMS

Leading into the delivery of the budget, 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 a basic definition of 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 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.

> 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, the Consumer Price Index is calculated by the Australian Bureau of Statistics (ABS) and published quarterly.

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

> 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 of calculation is often disputed and the meaning can be unclear.

> Wellbeing indicators – measurement of health, connectedness, and other quality of life indicators.

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NOTICE

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