Visual Media Association

FEDERAL BUDGET REPORT 2024

MAY 2024

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INTRODUCTION & BACKGROUND

This week Treasurer Dr Jim Chalmers delivered his governments third Australian Federal Budget and claimed it was a responsible budget for the 'here and now' but looking to the future. In the lead up to delivering the government spending and income forecasts, Treasurer Chalmers stated the budget focuses on fighting inflation but without a 'slash and burn' approach. Relatedly, the Treasury has predicted inflation will fall to 2.75% by the end of the year due to budget measures.

Given most of the measures in this year's budget have previously been announced, Tuesday night offered few new announcements or surprises. On balance this budget does little to assist businesses outside the energy sector or to push national productivity and growth generally. However, it minimises the likelihood for this budget to increase inflation. Therefore, it appears the government is resting its credentials, and its future at the polls, on inflation falling and a resulting interest rate cut, along with a little bit of loving up for voters, before next year's election is announced. If this bet fails, they are going to have to own the result.

The Budget shows an expected surplus in the underlying cash balance for 2023-24 of $9.3B, which is a $10.4B positive turnaround from the 2023-24 mid-year forecast. Higher commodity prices and personal income tax receipts contributed heavily to the outcome. However, this is expected to move into a $28.3B deficit in 2024-25, with greater deficits in the years following than previously forecasted. Federal Government net debt is expected to remain reasonably stable as a percentage of GDP at between 20 – 22% over the forward estimates.

Leading into this year's budget, VMA were seeking various measures from this budget:

- A reconsideration of the proposed waste export levy.
- A review of the instant asset write-off scheme.
- Efforts to tackle skills and worker shortages and greater support for improved educational and training outcomes.
- Business incentivisation measures.
- Improve the taxation system challenges faced by business.
- Have an appropriately articulated approach to productivity.

Only a few of these issues have been partially addressed in this year's budget. However, this budget offers little to drive investment or productivity, and real tax reform looks to have been put off for another day.

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

ECONOMIC CONTEXT FOR THE MAY 2024 BUDGET

Leading into this budget the Australian economy has been walking a tightrope given it is at its weakest for approximately 25 years, and remains on the edge of a COVID induced recession. To set the current scene:

> The Australian Government has an approximate $660B budget to allocate in what is effectively a $2.6T economy.

> Announcing a $9.3B surplus for last year's final budget outcome evidences an improved Budget position than previously forecast.

> It will be unlikely that last year's budget surplus will be seen again for some years given the increased spending requirements, and less PAYG tax collection given the Stage-3 tax cuts. It has been forecast that we can expect $20B+ deficits each year moving forward for the next three to five years.

> Australia faces ongoing economic pressures that will 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.

> The RBA official cash rate currently sits at 4.35%. Although the RBA views inflation in Australia has passed its peak, it continues to hold the view that the indicator is still too high and will be some time yet before it is back in the target range (2-3%). Given the importance of returning inflation to target within a reasonable timeframe, the RBA Board has stated that further increases in interest rates will be made if warranted.

> Having moved into the 0.60c space since last year, the AUD/USD exchange rate has not improved greatly.

> According to the ABS, seasonally adjusted wage price index rose 0.9% for the December 2023 quarter and 4.2% over the year. The annual increase for 2023 is the highest recorded since the March quarter 2009. However, and apart from the flow on of the National Wage Case decision from July 2023, the industries with the largest contribution to that overall quarterly increase were health care, social services and education. The manufacturing industry came in at a 1.1% increase for the final quarter of 2023.

> In seasonally adjusted terms, in March 2024, unemployment rate remained at 3.9%, with a participation rate remaining at 66.6% and an underemployment rate increasing to 6.5%. However, the unemployment rate is forecast to rise to 4.5% in 2025, even with increased jobs growth.

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, slowly decreasing inflation, increasing deficits and net debt, and ongoing post COVID hangover issues. An application of those factors will likely see limited or suppressed economic growth over the coming years. That growth will remain hampered by ongoing supply chain cost issues and a lack of labour with the right skills and competencies.

RELEVENT BUDGETARY OUTCOMES

BUSINESS SPECIFIC

> This week's budget announced various measures aimed at supporting SME's.

> Approximately one million SME's will receive a $325 power bill rebate to be applied in quarterly instalments.

> The extension of the $20K instant asset write off for eligible assets until June 2025 for businesses with an aggregated turnover of less than $10M. This threshold applies to assets installed or used between 1 July 2023 to 30 June 2025. The extension of the program applies on a per asset basis so small businesses can instantly write off multiple eligible assets.

> $27.5M in extra funding to the Fair Work Ombudsman to investigate wage underpayments.

Commentary – There is minimal recognition for the needs of small business in this budget. The $20K asset write off won't buy much of an asset, however the threshold does operate on a per-asset basis and may improve cash flow for some small businesses and lower accounting costs of managing a depreciating asset. The $325 power rebate is a token assistance.

SUPERANNUATION

> Last year's decision that from 1 July 2026 super will be payable on 'payday' rather than on a quarterly basis has not changed.

> The Governments previously announced cut in tax concessions on superannuation accounts with more than $3M will be legislated to take effect from 2025 with an expected $3.2B to be collected over five years.

Commentary – The requirement for employers to pay super on a payday from 2026 may have an effect on business cashflow.

TAXATION

> From 1 July 2024 the reworked Stage-3 tax cuts will come into effect. From a revenue perspective, these cuts will potentially cost government coffers $20B per year.

> Extending the Personal Tax Compliance Program and funding for ATO to detect, prevent and mitigate fraud.

Commentary – Although the Morrison governments Stage-3 tax cuts program was amended, and the cuts will be smaller than originally intended, most employees will nevertheless receive a benefit. Some businesses will take these real income increases into account when determining any salary increases. However, we will see what effect if any these tax cuts have when the Fair Work Commission determine the National Minimum Wage Decision in June. Additionally, decreased PAYG tax collection will add to the disappearance of a budget surplus for years to come.

RELEVENT BUDGETARY OUTCOMES

FUTURE MADE IN AUSTRALIA

Under the "Future Made In Australia" banner, various funding support announcements have already been made across a range of undertakings. It appears the policy experiment seeks to invest public moneys in various industries and programs to incentivise and attract private investment. In its budget the government has announced $22.7B in spending which includes:

> $1B in subsidies, grants and other support for the domestic production of solar panels.

> $940M ($470M co-funding with Queensland government) to build the world's first commercial quality quantum computer near Brisbane Airport.

> $840M in development loans and grants to support Arafura mining development of mining and refining rate earth metal production.

> $400M in loans to Alpha HPA for high purity aluminium processing in Queensland.

> $566M across a ten year period for GeoScience Australia to map land and water.

> $107M in support for farmers due to ending the live sheep export trade by 2028.

Commentary – Significant fuzziness on the exact nature of the governments Future Made in Australia program remains and greater specificity is required. After many years of Australia's over-reliance on the importation of cheaply made and inferior quality goods, it seems government has recognised Australia needs sovereign manufacturing. However, let's hope this is not a diversion of government funding away from other potentially more beneficial programs for the Australian economy. The development of onshore quantum computing capability is certainly future focused, but remains somewhat theoretical in its purported ability to solve all the world's problems. Like with all emerging technologies it's a long game, if it actually works as claimed. Overall, investment in untested and yet to be proven technologies comes with risk and possible less than forecasted returns.

INFRASTRUCTURE

Various road, rail and other infrastructure projects have had significant allocations. These include:

> Growth areas in western Sydney will receive $1.9B in infrastructure funding, to be split across 14 different projects, including key freight and traffic routes to the new Western Sydney Airport.

> Canberra's light rail project will get a $50M funding injection. Stage 2B of the tram will run from Lake Burley Griffin to Woden and is due to be built between 2028 and 2033.

> $249M in upgrades have already been announced for the Australian Institute of Sports to support efforts leading up to the 2032 Olympic Games in Brisbane.

> $2.75B has been allocated to the Brisbane to Sunshine Coast rail link.

> $3.25B has been allocate towards the Victoria's North East Link.

> $78M to deliver a business case for high-speed rail between Sydney and Newcastle

Commentary – Given Australia's size, the distances travelled, and the effects of several years of natural disasters, road and rail infrastructure improvements and upgrades are always critical spending requirements.

RELEVENT BUDGETARY OUTCOMES

EDUCATION

> Costing approximately $3B in potential revenues earned, a reduction in pre-existing HECS debts by crediting approximately $1200 per student on average depending upon debt balance, and an adjustment of related indexation to be calculated against either CPI or WPI, whichever is lower.

> The debt relief will also apply for apprentices who owe money through the VET Student Loan program or the Australian Apprenticeship Support Loan.

> Funding an additional 20,000 fee-free TAFE and VET places, but only in housing and construction.

> International student numbers will be capped unless Universities can build additional student housing to limit the detrimental effect on domestic residential housing.

Commentary – These announced measures are welcomed, but in the short term they won't address the underlying complex web of educational ecologies that created the current shortage of VET teachers, infrastructure, and apprentices, nor will they invigorate more apprentices into our industry. Any real and systemic improvements are still some years away and subject to any outcomes from the strategic review of the apprenticeship system that is currently underway.

CYBER SECURITY

> $314.1M over two years to strengthen safety and security at Services Australia centres, in the hopes of improving cyber security.

> Another $187.4M is being provided to protect taxpayer data against fraudulent attacks on the tax and superannuation systems, reducing the risk of cybercrime.

> The Government will introduce mandatory industry codes for businesses to address scams on their platforms, initially targeting telecommunications, banks and digital platforms. ASIC, the ACCC and ACMA will administer the code.

Commentary – Given the increasing instances of data and cyber security breaches these funding increases are and remain critical.

WASTE

> The $4 per tonne waste export levy has been scrapped.

Commentary – This measure was announced prior to the budget. The government recognised that such a charge risked sending more waste being sent to landfill. The government needs to do more work in this area.

RELEVENT BUDGETARY OUTCOMES

SOCIAL AND FAMILY

> $1.1B has been allocated to government funded superannuation to be paid on the 20 weeks of government funded paid parental leave at a rate of 12% from July 2025.

> $588M will be allocated across the next eight years for digital mental health services.

> $71M across four years will be spent on mental health nurses to provide services through 61 Medicare mental health centres.

> $11B in further commitments in housing to achieve the national target of 1.2 million new homes by the end of the decade.

> $925M across five years to provide access to $5K in emergency support payments to escape violent partners.

> The government has announced a cap for next year's permanent migration program at 185,000 places.

A GUIDE TO BUDGETARY TERMS

During the budget delivery period, politicians, economists and media use various economic related terms. Some are 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 the most commonly 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 Bank Boards monthly determinations. Given the interest rates have been rising consistently over the last 12 months, 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, rather than for just the following 12 month period. The whole budgetary process is built on forward estimates.

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

Consumer Price Index (CPI) – is a quarterly 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).

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

Cash rate – is the interest rate that banks pay to borrow funds from other banks in the money market overnight. It influences all other interest rates, including mortgage and deposit rates. In technical terms, it is the interest rate on unsecured overnight loans between banks (loans banks use to manage their liquidity). The cash rate has a strong influence over interest rates in the economy, such as lending and deposit rates. In turn, these interest rates influence economic activity, employment and inflation.

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.

Wage Price Index (WPI) – measures changes in the price of labour (wages and salaries), across a fixed group of jobs.

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

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