2019 FEDERAL BUDGET

What it means for Small & Medium Sized Businesses

FEDERAL BUDGET OVERVIEW

Our Group Economics View

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This Budget needs to be seen in its political context. It is more like an election manifesto than a traditional Budget and big questions remain around what parts, if any, will actually be implemented.

Firstly, the fact that the Budget is projected to return to surplus is unquestionably a good start. That has largely occurred on the back of expenditure constraint, bracket creep and higher commodity prices (especially iron ore, where the difference between the current and the previous forecast price is – on our estimates – around $7bn per annum). Also, the economic forecasts are unlikely to fundamentally change.

The Budget itself included a lot of headlines about personal income taxes. In the near term the low to medium income tax offset has doubled to a maximum of $1,080 per annum and the second tax threshold (of 32.5%) has been raised from $87k to $90k. However, the significant tax adjustments don't come until 2022/2023. The near-term cost to the Budget is only $700m per annum, whereas $4.5bn of the total spend of $6.7bn will come in the final year (in 2023). Also, a lot more money is given to the tax office to improve integrity but again is mainly spent in the out years.

The infrastructure package has been boosted by around $25bn to around $100bn in the long-run. However, in the next four years the additional spend is around $4.5bn with the big-ticket items including the Urban Congestion Fund, Victorian fast train (Melbourne to Geelong) and the Road Safety Program. To alleviate the impact of high energy prices the Government is also making a one-off tax-free payment to about 3.9 million welfare recipients (singles receive $75 and couples $125). SMEs also get a tax cut to 25% (phased in over three years) while the instant asset write-off rises to $30k per investment (and $50m of turnover).

It will be interesting to see how Labor responds to the personal tax changes. Labor may keep the near-term adjustments but aim to produce bigger and nearer cuts at the bottom end (their current stance is to concentrate tax cuts below the $125k).

It is clear that the Budget has been constrained to keep the surplus. The Government has retained the tax to GDP limit of 23.9% of GDP but the surplus doesn't go much above 0.7% in the next four years. That means that the Budget over the next few years adds little by way of fiscal restraint in the out years. Most of the improvement in revenue continues to rely on income taxes (bracket creep) till 2022/2023. The outlays continue to shrink as a percent of GDP (a better performance than in recent years - which may have benefited from NDIS underspend).

In our view, the Budget is not as stimulatory as is seems to be - or is being promoted as. It does not change our view on the economic outlook or how consumers will see their expenditure decisions. Nor would the outlook of the RBA be much affected.

SMALL BUSINESS GROUPS' AGENDA FOR REFORM

Small business is the backbone of our economy and our communities - there are over 2 million small businesses in Australia employing more than 4.7 million people.

NAB's latest Quarterly SME Business Survey (Q4 2018), showed SME business conditions continued to decline, though remain just above average (after reaching high levels earlier in the year). Confidence also weakened and is below average. Conditions remain most favourable on the east coast, with Victoria still recording well above average conditions, while WA and SA continue to lag the other states. The major constraints on output identified by SMEs continued to be sales and orders (i.e. demand) and the difficulty in finding suitable labour.

In this environment, businesses set out a wish list of potential reforms and changes as part of their pre-budget submissions. This year, the list of recommendations included a range of ideas.

Extension of instant asset write-off: In January 2019, the Government announced the $20,000 instant asset write-off scheme for businesses turning over less than $10m will be extended to 2020. The scheme will also be extended to cover assets up to $25,000. While many business groups welcomed the announcement, many have also called for the instant asset write-off to be permanent for small business, with some groups even urging Government to explore further investment allowances for asset purchases above $25,000.

Tax cuts: Currently, companies with an aggregated turnover of less than $25m, and have no more than 80% of their assessable income as base rate entity passive income have a tax rate of 27.5%. In October 2018, the Government introduced the Treasury Laws Amendment to accelerate future reductions in the corporate tax rate for small businesses to 26% for the 2020/2021 and 25% in 2021/2022 and subsequent income years. This move has been strongly supported by small business groups.

But given many small businesses rely on sales and services contracts with larger businesses, industry groups such the Australian Chamber of Commerce have also called for a single company tax rate of 25% for all businesses (small, medium or large) by 2024/2025 to encourage larger business to invest, with flow on benefits for small businesses.

Training, Education & Employment: The Council of Small Business of Australia (COSBOA) has urged Government to focus on the skills needs of employees and businesses (rather than the training sector) and to move skills training back to the Department of Industry. They also want funding of welfare and community-based training to be separated from skills-based training, as COSBOA is of the view employers should not be asked to take the place of welfare and social workers. COSBOA is urging the Government to provide greater support for group training of apprentices into small businesses. NAB's latest Quarterly SME Survey (Q4 2018) also indicates that finding suitable labour continues to be a key constraint to output and it remains at a relatively high level.

Business simplification: According to NAB Bankers (NAB Business Banker Survey January 2019), Government policy and regulation is the most influential factor influencing the business conditions of their customers. Business groups are also calling for the removal of unnecessary red tape or poorly designed compliance processes. For example, COSBOA believes employers need to be removed from managing paid parental leave (PPL) payments on behalf of the Government. Master Builders Australia believes the burden of regulation and bureaucracy is particularly onerous on the building sector and recommended the Federal Budget take account of this situation.

Access to finance: Tighter lending requirements in the wake of the Banking Royal Commission have been particularly problematic for small business looking to access funds. Indeed, NAB's latest Commercial Property Surveys found accessing finance for developers was harder than at any time since the Survey began in 2010. Consequently, industry groups have called for a review of prudential regulations and capital requirements that increase the cost of capital for small businesses.

Other: There were a range of other ideas including: relief from high energy prices; and reducing company registration fees charged by ASIC as a tangible measure to support Australian small businesses.

WHAT THE BUDGET ACTUALLY DELIVERED FOR SME's

While not meeting their entire "wish list", small business is a winner from the Budget, with the Government describing it as "the engine room of the economy". The most significant benefits for small business include tax cuts, an increase to the instant asset write-off, increased infrastructure spending and investment in apprenticeships. Personal tax cuts and increased infrastructure spending should also flow through to SMEs. While the Government announced plans to hand out one-off payments for consumer electricity bill relief, missing was any relief for small business.

The **instant asset write-off,** which allows businesses to write-off assets (such as tools or equipment) against their taxable income,has been extended and expanded. It will now cover purchases under $30,000, up from $25,000, and can be used by businesses with an annual turnover of under $50m, up from a $10m limit previously. Medium sized businesses will welcome this new access to the scheme. The threshold applies on a per asset basis so businesses will be able to instantly write off multiple assets. Around 22,000 additional businesses employing approximately 1.7 million people will now be eligible for the tax write-off with the changes projected to cost the budget $400m over four years. These changes will apply from April 2019 to 30 June 2020 – it isn't a permanent scheme like the industry had hoped for. In total, these changes will benefit around 3.4 million businesses employing around 7.7 million workers. The Government's decision to increase and extend the instant asset write-off should help to alleviate cash flow pressures for SMEs and help them with their expansion plans.

The Government also announced that the **corporate tax rate** for companies with annual turnover of less than $50m will fall from 27.5% to 26% next year and 25% starting in 2021/2022. This five years earlier than previously planned and is expected to benefit roughly 970,000 companies. The Government will also increase the unincorporated small business (up to $1,000) tax discount rate from 8% in 2019/2020 to 13% in 2020/2021 and 16% in 2021/2022.

In recognition of SME concerns around **skill shortages** (a key constraint to their output), the Budget contained a $525m investment in vocational education and training directed towards "areas of future high demand" - albeit only $54.2m is new money over five years and the majority ($463m) in part from reallocating Skilling Australians Fund money unspent because Queensland and Victoria did not sign up to the scheme.

Vocational education and apprenticeship numbers have suffered in recent years, with funding cited by businesses as a significant factor. Incentive payments to employers will double to $8,000. Employers will receive $4,000 ($2,000 after the first 12 months of an apprenticeship and $2,000 at its completion) on top of an existing $4,000 employer incentive. There is also a total payment of

$2,000 for the apprentices themselves ($1,000 after 12 months and $1,000 at the end of their apprenticeship). The Government says these measures (at a cost of $156.3m), will support up to 80,000 new apprenticeships over five years and the list of eligible occupations will be reviewed annually to reflect skills shortages.

An additional $48.3m will be put into establishing a National Skills Commission. The package is in response to an as-yet unpublished review by former New Zealand tertiary education minister Steven Joyce. A national careers institute and careers ambassador will also be introduced to help promote vocational education.

The Budget also proposes 10 "training hubs" across Australia at a cost of $50.6m over four years, focusing on training in industries that have a local skills shortage. It is designed to target youth unemployment in regional areas.

The Government will also provide $60m over three years from 2019/2020 to top up the **Export Market Development Grants (EMDG) scheme** (along with a further $1m in 2019/2020 for promoting Australian industry overseas). The EMDG scheme is aimed at helping SMEs to develop export markets and is a popular support program for tech companies and start-ups. The Export Market Development Grants (EMDG) program provides reimbursement for export promotion expenses for businesses with an annual turnover of less than $50m. Eligible activities include attending trade shows overseas, digital advertising, marketing consultant fees and visa fees. The scheme reimburses up to 50 per cent of eligible expenses above $5,000, with a total grant on offer of $150,000.

While this new money will be welcomed by SMEs, the Budget did not address concerns that Government grant programs are inaccessible and onerous for SMEs to apply for. Moreover, the Budget papers did not provide detail in regards to how Australian industries would be promoted overseas.

HOW DID BUSINESS REACT?

Australian Small Business and Family Enterprise Ombudsman, Kate Carnell said they were “pleased the instant asset write-off has been increased to $30,000 and expanded to businesses with a turnover of up to $50m, but had hoped the threshold was higher to capture capital intensive businesses, such as primary producers”. Ms Carnell also noted that “personal tax cuts to more than 10 million taxpayers means more money in people’s pockets which means more capacity to spend in their local small businesses” and that “an increase in infrastructure spending - $100bn over 10 years - is a positive for all Australians and particularly for small to medium enterprises (SMEs)”.

The **Australian Chamber of Commerce and Industry** welcomed the support for small business and skills. CEO, James Pearson, said: “The Government has heard our calls for greater investment in the skills needed by industry. Both job seekers and business will benefit, including from the extra support directly to apprentices and the businesses that employ them….This investment in skills, combined with the increase in investment in infrastructure in both cities and regional communities, should deliver a meaningful and positive impact on productivity….Making it easier for people to get to and from their place of work, speeding up the transport of goods and delivery of services, and encouraging growth in regional communities makes sense”.

Business Council of Australia's chief executive, Jennifer Westacott said, described the Budget as "strong and responsible" as it delivers "a surplus, lowers personal income taxes and invests in jobs, health, education and infrastructure...Returning to a serious and credible surplus matters enormously to meeting the cost of the future such as the $100bn earmarked for much needed infrastructure and sustaining high living standards." And, the increase in the instant asset write-off for small and medium business and expanding the eligibility to claim "will help drive activity in the business community".

SECTORS IN FOCUS

HEALTH & AGED CARE

What did business want?

This Budget is framed against a background of significant potential health care reform following: reviews of the Medicare Benefits Schedule (MBS) and the private health insurance (PHI) sector; negotiations with the states and territories around public hospital funding via the Council of Australian Governments (COAG) processes; and the Aged Care Royal Commission.

In their Pre-Budget Submission, the AMA was particularly keen to see which of the MBS review recommendations would be adopted as Government policy and expected the Government's strong ongoing commitment to the Pharmaceutical Benefits Scheme (PBS) to be reflected in this Budget. The AMA was also adamant that more funding (and co-operation) is needed to ensure hospital capacity to meet rapidly growing patient demand.

The Australian Dental Association (ADA) had called for additional Budget relief for those Australians with poor dental health and who are unable to pay for care because of genuine extenuating circumstances and are forced to face extended periods,oftenyears, waiting to receive basic dental care.

Optometry Australia (OA) urged the Government to recognise in the Budget the impact it could have on the eye health of millions of Australians. OA's key recommendations included: reinstatement of the biennial Medicare rebates for a comprehensive initial examination (for Australians aged 45-64); expansion of the Visiting Optometrists Scheme; and enhanced integration of optometric care into primary care.

Finally the Pharmacy Guild had recommended that the Budget improve the affordability of medicines by removing the optional $1 discount and reducing official patient co-payments by $1. Since January 2016, pharmacists have had the option to discount the PBS patient co-payment for claimable PBS prescriptions by up to $1.

What did the Budget deliver?

The Treasurer noted that health was "front of mind" for all Australians announcing a range of health initiatives including new spending in aged care and mental health, a promise to make Medicare more affordable (bringing forward the end of a freeze on Medicare rebates), and services more accessible. Ending the freeze has been a key aim of the AMA and other doctors' groups. A standard doctor's appointment currently attracts a rebate of $37.60 and is expected to go up about 60¢.

Primary health care services received a boost of around $1.1bn (over five years) including:

- a new funding model for chronic disease care for patients over 70 (totalling $448.5m over three years from 2020-21);
- $201.5m (over five years) to increasing funding for the revised Practice Incentive Program Quality Incentive and maintain the current aged care incentive;
- the resuming indexation for previously frozen GP services under the Medicare Benefits Schedule ($187m over four years);
- $62.2m to support for training and placement of GPs in rural, remote and regional communities.

Mental health and suicide prevention programs were allocated $736.6m (over seven years) some of which has already been allocated or announced. Allocation to Youth programs over this period is $461.6m, including $263m (over seven years) to increase services and reduce waiting times for the national headspace network

Access to aged care service will be helped by a $724.8m (over five years) allocation, including:

- a one-off increase to the basic residential aged care subsidy in 2018/19 ($320m in 2018/19);
- a further 10,000 home care packages over the five-year period ($282.4m); and
- an increase in dementia and veterans' home care supplements to support in home aged care ($35.7m).

The **Pharmaceutical Benefits Scheme** will be extended to cover a range of new and amended medications, covering a range of conditions that includes lung cancer, leukaemia, cutaneous T-cell lymphoma and renal cell carcinoma, at a cost of $331m (over 5 years).

Diagnostic imaging services were allocated an additional $308.9m, including for:

- additional 23 Magnetic Resonance Imaging (MRI) licences to provide Medicare subsidised access to imaging services
- indexation of ultrasound and x-ray diagnostic services from 1 July 2020 and
- two new items on the MBS for diagnosis of breast cancer.

Commitment made to **pharmacie**s in March was enshrined in the Budget, highlights being:

- better cash flows because the Government will reduce claims processing times from 9-16 days to 2-9 days
- increased administration, handling and infrastructure fees on PBS scripts ($215m over three years from 2020/2021).

The **Child Dental Benefits Schedule** will be extended, with $1.0bn (over three years from 1 January 2020) provided for eligible children aged between 2 and 17 years access to $1,000 of dental services over a two-year period. Provision for this funding has already been included in the forward estimates.

How did business react?

Australian Medical Association (AMA) President Dr Tony Bartone welcomed the boost to general practice detailed in the Budget, describing it as "a strong health Budget, which has a particular emphasis on primary care" and "hardworking GPs will be happy to see a commitment of almost $1bn to general practice". The AMA also welcomed funding for new PBS medicines, the retention of the Aged Care Access Incentive and rural workforce program, but noted "obvious gaps in mental health, prevention, Indigenous health, pathology, and public hospital funding to improve all hospitals".

Welcoming the announcement of the sustainability of the Child Dental Benefits Schedule for the next few years, Australian Dental Association (ADA) President Dr Carmelo Bonanno, said "this was a good investment in our children's future" and that "a child's oral health is a good predictor for the future so it is critical that we embed good oral health habits at an early age".

The ADA does however have concerns about the future of the National Partnership Agreement (NPA) which provides a commonwealth contribution to states to help fund public dental services. While it wasn't expected that the NPA would feature in this budget, the ADA urged the Government "to finalise an agreement with states and to ensure certainty around the commonwealth contribution".

EDUCATION

What did business want?

School funding has increased as the Gonski 2.0 reforms are implemented, but at a slower rate than planned under the previous Labor Government. While acknowledging growth in Government spending, the schools sector noted that spending per student as a percentage of GDP is less in Australia than in countries such as Germany, Korea, New Zealand and the UK.

With Catholic schools educating approximately 20% of Australian schoolchildren, it is an important segment of the school system. As part of its Budget submission, the NCEC (National Catholic Education Commission) urged the Government to increase the capital funding allocations to meet the capital funding needs stemming from a rise in student numbers.

The Government has indicated that future schools funding should be driven by improvements in literacy and numeracy outcomes and the quality of teachers and teaching, including a focus on disadvantaged schools and science, technology, engineering and mathematics (STEM) subjects. School funding in Australia is determined by the Schooling Resource Standard (SRS). Under the SRS, every student receives a base amount of funding - which is reduced if a parent chooses a nonG~~g~~overnment school according to their capacity to contribute.

The universities sector has faced enforced belt-tightening following the 2017 funding freeze and intensifying competition from Asia. In their Pre Budget Submission, Universities Australia made a number of recommendations to Government including: an end to the funding freeze on university places and restoration of the demand-driven system; improved funding for vocational education and training; an increase in student income support payments; restoration of Research Block Grants to previous levels; and expansion of clinical placements for all health disciplines, particularly in aged and disability care. Further objectives include: raising the international mobility of indigenous students through changes to the New Colombo plan and implementation of a long-term plan for investment in research and education infrastructure with the ultimate objective of ensuring an appropriate level of strategic investment to maintain a world-class higher education and research sector.

What did the Budget deliver?

While pre and post-secondary schools received a funding boost, there were few significant measures for the higher education sector.

The **National School Reform Agreement** between the Australian Government and all states and territories sets out the long-term national goals for school education in Australia. It commenced on 1 January 2019. Under the agreement, recurrent funding for schools is anticipated to reach $19.9bn in 2019, with average Commonwealth funding per student increasing to $5,097 in 2019, a 36% increase over five years. This funding will increase to $32.4bn by 2029, a 63% rise over 2019 expenditure. Approximately 60% of school funding for 2019/2020 is to be allocated to non-Governmental schools.

New measures in the Budget for schools and pre-schools include:

- The **National Partnership Agreement on Universal Access to Early Childhood Education** was extended for another year with $453.1m committed over two years to 2020. This will support 15 hours of early childhood education for students attending preschool in early 2020 in preparation for commencing schooling in 2021. In all, about 350,000 children should benefit.
- A $30.2m **Local School Communities Fund** to allow local communities to prioritise their funding needs and spend accordingly, e.g. classrooms, play equipment, etc.
- Expenditure of $41m over two years from 2019/2020 to expand the sporting schools program and provide free sport-based activities for students in over 6,000 primary and secondary schools.
- Ongoing pastoral support services through a continuation of its chaplaincy program, comprising $61.4m per year over the period to 2022/2023.
- To support Indigenous students in the Northern Territory, the Government has allocated $134.3m over the four years to 2022/2023.

In the post-secondary school sector:

- The Budget contained a $525m investment in vocational education and training.Only $54.2m of this allocation is new money over five years and the majority ($463m) in part from reallocating **Skilling Australians Fund** money unspent because Queensland and Victoria did not sign up to the scheme.
- As part of this program the Budget also proposes 10 "training hubs" across Australia at a cost of $50.6m over four years, focusing on training in industries that have a local skills shortage and designed to target youth unemployment in regional areas.
- A further $62.4m over four years has been proposed for improving language, literacy, numeracy and digital skills for "at-risk" workers,although the budget doesn't specify who these workers are or who would teach them.

Some measures (albeit modest) for higher education includes:

- A $5m funding over two years, commencing 2018/2019, for the construction of the Stawell underground physics laboratory at Melbourne University.
- A reduction in the HELP (Higher education loan program) - which allows students to defer payment of fees for diploma level and above courses. For example, the fair value of HELP is anticipated around $46.1bn at June 2019, $0.3bn lower than the 201-19 MYEFO.
- The start-up and innovation sector has received a setback, with the R&D tax incentive cut a further $1.35bn over forward estimates. The decline in the R&D incentive program over the past

two budgets has been more than $4bn. This will raise the ire of those in the high technology sector who were already upset due to cuts made in last year's budget.
- The abolition of the Education Investment Fund (EIF) and the creation of an Emergency Response Fund to fund national disaster programs above and beyond State and Federal funding. This will entail transferring $3.9bn of unused funds in the EIF to the Emergency Response Fund.

How did business react?

The **Australian Childcare Alliance** (ACA) commended the Government for extending the national agreement designed to give every child greater access to preschool education. Paul Mondo, the ACA Presiident, also said that "whilst we're pleased that the budget includes another year of Universal Access funding, we'd really like to see an ongoing commitment to this program."

The Chief Executive of **Universities Australia** Catriona Jackson said: "The Government has missed a prime opportunity to reverse its previous $2.1bn freeze on student places and $328m cuts to university research." Ms Jackson added "these cuts are the wrong decision for Australia's future and they will deny Australians access to University, and to life-changing and life-saving research breakthroughs."

Professor Emma Johnston AO is President of **Science & Technology Australia** expressed concern that "while it is important to support those affected by emergencies including floods and fires, taking funding away from education to fund emergency responses is a false economy. STEM education should be supported in a way that increases our national capacity to predict, prevent and respond to the impacts of national emergencies".

AGRIBUSINESS

What did business want?

2018 was a tough year for agriculture in eastern Australia, although the west enjoyed an excellent crop. These tough seasonal conditions continued into 2019 (compounded by devastating floods in north-west Queensland earlier this year), although sentiment has been boosted by useful rains over the last few weeks.

NAB's latest Agribusiness Banker Survey reflects these conditions, finding that agribusiness conditions were negative in Q4 2018, with a strong divergence in seasonal conditions across Australia. Conditions were weakest in NSW which endured severe drought in large parts of the state and strongest in WA which enjoyed CBH's second biggest winter harvest and solid grain prices. Overall confidence levels were flat but varied widely across the country. WA was the clear out-performer, with confidence flat or negative in all others states.

Against this background, key industry bodies such as the National Farmers Federation (NFF) in their 2019/2020 Pre-Budget Submission, called on the Government to develop a comprehensive national drought policy and to "reduce confusion among farmers about their eligibility for drought assistance and ensure the provision of personal support services".

What did the Budget deliver?

The Budget delivers substantial spending for drought and flood relief, as well as a Future Drought Fund (announced late last year) and an Emergency Response fund.

The **North Queensland Flood Recovery Package** includes $3.1b over five years – this will support the North Queensland livestock industry to recover from the devastating floods earlier this year. The package has a number of components but the largest three are:

- up to $1.75bn for financial institutions to provide interest rate relief for business loans to flood affected primary producers;
- $1bn for loans through the Regional Investment Corporation to assist in restocking and damaged crops and on-farm infrastructure; and
- $300m in grants to primary producers (with a cap of $400,000 per producer) to assist in restocking and damaged crops and on-farm infrastructure.

The Government will also establish a $3.9b **Future Drought Fund**, although this was already announced in MYEFO in December 2018. The fund will use $3.9b in uncommitted funds from the Building Australia Fund, with the value of these invested funds expected to grow to $5b over the next decade. $100m in disbursements will be available from the fund per year from 2020/2021.

In addition, there will be a $3.9b **Emergency Response Fund** to fund natural disaster recovery. Up to $150m will be available from the fund annually from 2019/2020. There will also be $130.5m over the forward estimates to reduce the risk and impact of disasters.

There will also be $29.4m to improve industry access to export markets as well as $18.3m to continue the war on fire ants.

How did business react?

The **National Farmers Federation** was generally pleased with the Budget. NFF President Fiona Simson told The Weekly Times that the Budget represents “a commitment to agriculture and the regions” and that “across the board there’s been some really positive announcements”. The NFF welcomed greater measures to improve industry access to export markets and the increase in the instant asset write-off.

INFRASTRUCTURE & TRANSPORT

What did business want?

Since the end of the mining construction boom, public infrastructure become has become an important support for the Australian economy, particularly in NSW and Victoria, driven by rapid growth in population, particularly in Sydney and Melbourne. Infrastructure spending is already at a high level, although there is a large backlog of transport projects announced by State Governments that need a Commonwealth contribution to proceed, allowing the Commonwealth to further increase funding.

Most transport infrastructure is built for the public sector and is with the exception of ARTC and Western Sydney Airport, generally delivered by the states. Due to Australia’s vertical fiscal imbalance (in which the Commonwealth raises a large share of taxes, but states deliver most of the services), the states generally seek more funding in Commonwealth budgets.

To support increased infrastructure funding, private sector infrastructure lobby group Infrastructure Partnerships Australia had called for reform at the state and territory level, including reopening the Asset Recycling Fund to encourage greater asset recycling as well as other programmes to encourage broader reforms such as franchising or introducing contestability into public service provision.

What did the Budget deliver?

The Budget announces $100b of infrastructure spending over the next 10 years, although it appears that a good deal of the money is either scheduled beyond the forward estimates period or already committed from the previous budget, which committed to around $75b of infrastructure spending.

The Government will provide an additional $3b for the Urban Congestion Fund (of which $1.6b will be provided over the budget and forward estimates period), bringing the total commitment to $4b.

New South Wales is forecast to receive an additional $6.1b, with projects including $3.1b for the Western Sydney North South Rail Link (already provided by Government), $1.6b for the M1 Pacific Motorway, $405m for the M12 Motorway, $400m for the Newell Highway and $200m for an additional Hawkesbury River crossing. There will also be $496m for the state under the Roads of Strategic Importance initiative and $253.5m, under the Urban Congestion Fund. The *Infrastructure Investment Program – New South Wales infrastructure investments* expense line shows $266.5m of additional funding over the budget and forward estimates period.

Victoria is forecast to receive an additional $2.8b, including $1.1b for suburban roads, $700m for the South Geelong - Waurn Ponds Rail Upgrade, $360m for the Western Highway, $300m for the Dandenong Ranges, $208m for the Shepparton Bypass and $110m for the Wellington Rd Duplication. There will also be $490m under Roads of Strategic Importance, $396.3m through the Urban Congestion Fund and $162m under the Victorian Congestion Package. The Government has also committed $2b to Geelong fast rail under the *Population Package*, although almost none of the money is in the forward estimates and the Victorian Government has been very critical of the project. The *Infrastructure Investment Program – Victorian Infrastructure investments* expense line shows $266.5m of additional funding over the budget and forward estimates period.

Queensland is forecast to receive an additional $2.6b, including $800m for the Gateway Motorway, $500m for the M1 upgrade, $425.4m for the Bruce Highway, $320m for the Warrego Highway, $287.2m for the Cairns ring road, $170m for the Cunningham Highway, $100m for the Gladstone Port access road. There will also be $1b for the state under the Roads of Strategic Importance initiative and $378.8m under Urban Congestion Fund. The *Infrastructure Investment Program – Queensland infrastructure investments* expense line shows $1.2b of additional funding over the budget and forward estimates period.

Western Australia is forecast to receive an additional $932m, including $348.5m for the Tonkin Highway, $207.5m for level crossing removals, $140m for the Albany Ring Road, $121.6m for the Bunbury Outer Ring Road and $115m for the Freemantle bridge. There is $535m under Roads of Strategic Importance and $121.8m under the Urban Congestion Fund. The *Infrastructure Investment Program – Western Australia infrastructure investments* expense line shows $443m of additional funding over the budget and forward estimates period.

South Australia is forecast to receive an additional $1.8b, including $1.5b for the North-South corridor, $260m for rural roads and $40m for local roads. There is $341m through the Urban Congestion Fund and $220m through Roads of Strategic Importance. The *Infrastructure Investment*

Program – South Australia infrastructure investments expense line shows $134.8m of additional funding over the budget and forward estimates period.

Tasmania will see an additional $68m for freight rail modernisation,all provided within the forward estimates. There is $210 under Roads of Strategic Importance and $35m under the Urban Congestion Fund.

The Northern Territory will see an additional $60m in the forward estimates for Tiwi Island road upgrades, $492.3 under Roads of Strategic Importance and $70m for road infrastructure for Kakadu. The ACT will see an additional $50m, of which $35m is in the forward estimates period.

Road safety will see $2.2b in additional funding, although only $800m of this will be provided over the budget and forward estimates period.

How did business react?

Infrastructure Partnerships Australia said that the Budget delivered a welcome boost to infrastructure, noting that "the Government has taken the sensible step of reversing the recent decline in funding for critical projects, ensuring the heavy lifting on infrastructure investment isn't left to state and territory Governments". While welcoming the increase in funding, they also noted that "funding alone won't solve our longer-term challenges", including "big issues like settling energy policy to end the investment strike, dealing with our looming road funding crisis, and driving big ticket infrastructure reforms to boost productivity".

ENERGY

What did business want?

Australia's energy sector is in transition. Older coal generators are reaching the end of their lives and are being replaced – often with renewable energy. Meanwhile, high domestic gas prices have made gas power less competitive. As the share of intermittent renewable generation increases, more projects to stabilise the network will be needed.

At the same time, the move towards a privatised and less regulated sector, underway since the 1990s, has been reversed more recentlywith Governments increasingly owning and/or funding projects. The Commonwealth has previously announced projects in this area, such as Snowy 2.0.

Electricity prices have increased considerably over the past decade, increasing costs for small businesses. There is considerable pressure for the Government to reduce electricity prices. The "big stick" legislation to impose certain regulations on the energy sector was intended to reduce prices, although it won't be brought to parliament before the election.

What did the Budget deliver?

The Budget provides $3.5b over 15 years for the Climate Solutions Package, although most of the spending will be beyond the forward estimates period. This includes $2b for the Climate Solutions Fund (previously the Emissions Reduction Fund) over 15 years, $1.4b equity investment in Government-owned company Snowy Hydro for Snowy 2.0, and $56m for a feasibility study into the Marinus Link project in Tasmania. This will give Tasmania a second interconnector with the mainland and allow the state's extensive hydro generation assets to be used as a "Battery of the Nation". There is also $79.2m for new energy efficiency measures.

Beyond Climate Solutions, there is an additional $3.5m for underwriting new generation and $284m for one off payments to 3.9m Australians to assist with their power bills.

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