2020 FEDERAL BUDGET

What it means for SMEs

more than money nab

Group Economics overview of the Budget

As expected this is one of the most stimulatory budgets we have ever seen.

Broadly it is largely as expected. A key decision has been to backdate the Phase 2 tax cuts (worth $17.8bn over four years). The back dating of Phase 2 cuts is important as it helps fill the gap to consumers incomes from the reduction of JobKeeper and JobSeeker payments. It has also led us to revise up our near-term GDP forecasts and reduce the level of unemployment at the same horizon.

The biggest item in the budget was the instant asset write off for firms with turnover of less than $5bn (covering around 99% of businesses) - worth $26.7bn. It is very much aimed at encouraging business investment. Further in keeping with the tone of moving from “support to survival”, extra money has been given by way of pay incentives to employ people, especially for under 35 year olds who were previously unemployed ($4bn). Also announced were wage subsidies for new apprentices ($1.2bn).

A surprise was not bringing forward the timing of “Stage 3” tax cuts (which the Opposition opposes) or permanently increasing the JobSeeker payment.

The expenditure items include bringing forward infrastructure spending by providing extra money to the States ($6.7bn) along with Commonwealth road infrastructure of $2bn. There was also a carry back tax provision (of around $4.9bn). There was extra money for manufacturing support ($1.5bn) and higher education ($0.9bn). Further, as previously announced, the laws on Responsible lending have been scrapped in an attempt to boost credit for SMEs.

The size of the total fiscal package suggests a policy stimulus this year of around 7% of GDP. The implied fiscal tightening that follows as JobKeeper drops out sees the Budget position improving by around $100bn - or a tightening of nearly 5%. At a time when the economy is expected to grow by 4.8%. That in our view is a big stretch - either for the pace of Budget repair and growth.

In looking at the near-term deterioration in the Budget nearly all the work is done on the expense side - as is the subsequent repair process. Albeit, the structural Budget deficit is - even on these charitable assumptions - still likely to be around 6% in deficit. Therefore, repairing the budget will be a protracted process, taking well over 5 years.

Overall, we have no problem with the focus on getting the economy going using fiscal stimulus. Structural reform would have also been useful but has not really been attempted apart from the tax cuts. We agree the issue of future debt is of little near term concern. The economy needs all the help it can get from fiscal policy. While the RBA may fractionally lower rates, that would have marginal impacts at present. The cost of credit is not the issue - rather it is the lack of demand for credit.

Fundamentally we are much more worried about the outlook than the forecasts published by the Treasury. We see GDP falling by around -2.1% in 2020/21 (while the Treasury is at -1.5%). For 2021/22 we have around 3.8% but the Treasury has 4.7%. While we both see unemployment peaking at around 8% (Treasury in December 2020, NAB March 2021) the Treasury has unemployment falling to around 6½% in 2021/22 while NAB is nearer 7%. We both have unemployment of around 6% in 2022/23.Generally, we are weaker across all private sector components, while we are stronger on the outlook for government spending. We also expect a slower bounce back in exports.

Small Business Group's Agenda for Reform

The importance of small and medium enterprises (SMEs) to a healthy Australian economy cannot be overstated. They make up 99% of the economy and employ two in every three Australian workers. As they grow, so too does the economy, employment and access to new and diverse marketplaces. Their survival, success and continued growth is critical to every one of us.

With almost every industry affected by COVID-19, many of our SMEs have been tested as never before. The virus and subsequent containment measures have driven significant changes in the attitudes and behaviours of customers, employees and businesses alike. While some have continued to operate as normal (and even thrive), others have been heavily impacted with pressure on profitability and cashflow and temporary or permanent business closures.

NAB recently surveyed over 750 businesses across the country to hear their key concerns & wish lists prior to the Budget (Special 2020 Federal Budget SME Insight Series). While all industries have clearly been hit by the pandemic, the toll has clearly been greatest on the hospitality sector, along with parts of transport and retail. COVID-19 has hit Victoria particularly hard, but all states and territories have been impacted.

Business confidence has been improving in recent months but is still negative. Not surprisingly, business sees less disruption from COVID-19 as key to restoring confidence, along with improvements in consumer spending and demand, government policy and regulation changes, and reduced business compliance costs.

Around 3 in 10 Australian businesses expect to have to restructure their service or product offerings to meet changing needs in the next 12 months. Almost 1 in 10 businesses believe they will have to close permanently. Cost reduction will also be key to moving forward, along with cutting staff and wages.

It is against this background that various business organisations set out their wish lists of potential reforms and changes as part of their 2020 pre-budget submissions. This year, the list of recommendations included some usual suspects, but also a range of innovative ideas to address COVID-19 pressures. For many SMEs this will be the most important Federal Budget in their lifetime.

Revenue-contingent loans: SMEs have benefitted from support measures through the crisis such as loan and rent deferrals. However, there has been limited uptake of the Government's current unsecured loan scheme to SMEs. The Small Business Ombudsman and COSBOA called for a revenue-contingent loan scheme, wherein payments are contingent upon COVID-19 revenue recovery (similar to the HECS loan system for university students), providing businesses with flexibility to get back on track before repayments are due. Payment deferrals on loans has also been raised. In short, small businesses want greater loan support to help with the rebuild phase.

Industrial relations: COSBOA also called for a differentiated industrial relations system for smaller employers, similar to Small Business Ombudsman Kate Carnell's suggested small business award, arguing that the system needed to be simplified to encourage employment. COSBOA wanted the Government to make it easier for small business to employ people having described the current measures as complex and cumbersome, putting SMEs at a clear disadvantage. More specifically, there were calls for specification of a single all-hours rate, greater flexibility in employment, stand-down provisions and a change to redundancy and unfair dismissal provisions.

Investment allowances: Small business groups have also called for an investment allowance to bolster investment spending. Investment allowances, put simply, are asset write-off schemes that allow companies to bring forward tax deductions on assets at a faster than traditional depreciation schedule. The Ombudsmen also proposed that the instant asset write-off threshold of $150,000 become a permanent fixture. While the Tax Institute believed small businesses would benefit from an investment allowance, they argued a corporate tax cut would ultimately be more beneficial to businesses as it would not only be of benefit for capital intensive industries, but would also encourage investment and jobs across more of the economy.

Deferral of superannuation guarantee increases & taxes: The Ombudsmen also proposed a two-year deferral on legislated superannuation guarantee increases, while also cutting the 15% tax on compulsory employer superannuation guarantee contributions to 7.5% during that time. In addition, there were calls for the abolition of the fringe benefits tax (FBT) for at least two years.

Viability subsidies & professional advice: CPA Australia, Chartered Accountants Australia and New Zealand (CAANZ), Institute of Public Accountants (IPA), Institute of Certified Bookkeepers (ICB), Council of Small Business Australia (COSBOA) and the Ombudsman called for a government funded subsidy to ensure small businesses could access professional advice on their viability. Under the jointly proposed program, small businesses with up to $10 million in annual turnover would be eligible to obtain a subsidy valued up to $5,000 to access a tailored 15-month plan from an accredited professional on how and whether to turn around their business or exit. Small Business Ombudsman Kate Carnell noted that while many Australian small businesses were no longer eligible for JobKeeper, they may still be experiencing a significant reduction in turnover and that up to 500,000 Australian small businesses could take up the viability subsidy costing the budget approximately $1.5 billion. The Government had already announced plans to overhaul insolvency laws to give small businesses a chance to trade through the coming months.

Mental health initiatives: A number of small business bodies called on the federal government to bolster mental health measures, amid concern the pandemic had created unprecedented personal and financial stress for SMEs across the country. Pre-pandemic, mental health was already a critical issue. While acknowledging there were excellent providers of mental health services, industry groups believed a centralised support portal was urgently needed.

Cuts to the SME tax rate: The SME tax rate is scheduled to decline from the current 27.5% to 25% in 2022-23. Businesses have called for this to be brought forward, similar to the situation with personal tax cuts. Such a measure it was argued would enhance SME after-tax income, and incentivise them to spend and invest more.

Alcohol excise reductions: Independent brewers and distillers have been severely impacted with the problems in the hospitality sector. The Independent Brewers Association have been lobbying the federal government throughout the COVID-19 pandemic to ease up on alcohol excises for beer and spirit manufacturers. Currently, distilleries pay upwards of $85 in excise per litre of pure alcohol, while full-strength beer is taxed at $50.70 a litre. Brewers want a similar arrangement to the wine industry, which pays 29% of wholesale prices under the wine equalisation tax.

What did the Budget deliver?

Temporary full expensing: From 6 October 2020 to 30 June 2022, businesses with annual turnover up to $5 billion will be able to write off the full cost of eligible assets of any value in the year they are installed, provided they are used by 30 June 2022. The will also extend to the cost of improvements to existing eligible depreciable assets made in this period. SMEs with a turnover between $50-500 million will also be able to instantly deduct the full cost of second-hand assets that cost less than $150 million. These assets however must be purchased by 31 December 2020 and be used or installed by 30 June 2021. For small businesses (aggregated turnover less than $10 million) they can deduct the balance of their simplified depreciation pool at the end of the income year, while full expensing applies.

Extending the instant asset write-off: Government is extending the instant asset write off that had already been expanded as part of its COVID-19 response. Businesses with turnover of up to $500 million can instantly write-off multiple assets worth up to $150,000 each.

Loss carry back: In an effort to help boost business cash flows, government will allow businesses with turnover of up to $5 billion offset losses incurred up to 2021-22 against previous profits made in or after 2018 19. Eligible companies may elect to receive a tax refund when they lodge their 2020 21 and 2021 22 tax returns.

R&D incentives: The government is providing an additional $2 billion through the R&D Tax Incentive. Under the new package, the proposed $4 million cap on annual cash refunds will not proceed, instead small companies (with aggregated annual turnover of less than $20 million) will see the refundable R&D tax offset set at 18.5% above the claimant's company tax rate.

Infrastructure spending: The federal government will "draw on local businesses to stimulate local economies" as part of its $7.5 billion new investment towards transport infrastructure projects.

National Digitisation Plan: Overall, the Government is investing a further $419 million to create a national directory. This means small businesses will be able to register for an ABN, ACN or licence in just one place. It will also invest $256 million in the expansion of its Digital Identity system over the next two years. Around $52 million is earmarked for cyber-security and digital capability program that will help small business.

JobMaker Hiring Credit (wage subsidy scheme): Provide businesses with incentive to hire young people. Businesses who hire eligible young people will receive $200 a week if they hire a person aged 16 to 29 years, or $100 a week if they hire an eligible young person aged 30 to 35.

Small business tax concessions: Tax concessions currently available to small business with annual turnover up to $10 million have been extended to businesses with turnover up to $50 million. These firms will have access to up to 10 small business tax concessions, including deductions of certain start-up and prepaid expenses, exemptions from the 47% FBT tax on car parking and multiple work-related portable electronic devices, such as phones or laptops

Mental health aid for small business owners: Government will provide $6.5 million in 2020-21 to support mental health and wellbeing of small businesses impacted by COVID-19. This includes a $4.3 million budget commitment to expand current mental health program for small business owners which will provide small business owners with access to free one-on-one telehealth sessions with specially trained mental health coaches.

Bringing forward personal income tax cuts: Tax cuts scheduled to start in July 2022, are being brought forward and backdated to July 2020. This will deliver an immediate boost to household budgets and expected to result in future spending increases on goods and services across all businesses, including SMEs.

Modern Manufacturing Strategy: Investment of $1.5 billion over five years to improve competitiveness, scale and resilience in Australian manufacturing. The strategy will focus on six areas: resources technology and critical minerals processing, food and beverages; medical products, recycling and clean energy, defence and space. The strategy includes: $1.3 billion to establish the Modern Manufacturing Initiative; $107.2 million for supply chain vulnerabilities; $52.8 million for manufacturing modernisation; $30 million to improve competitiveness; and $20 million to Industry Growth Centres.

Insolvency reforms: Commitment made to changes bankruptcy and insolvency laws that put the small business owner in control of insolvency actions - effectively giving them a lifeline to trade their way out of insolvency. Where that is not possible, a simplified liquidation process will ensure greater returns to creditors and employees.

Changes to responsible lending laws: Reforms will make the credit application process easier for consumers and allow eligible borrowers to obtain credit faster, improve competition by making it easier for consumers to switch lenders and enhance access to credit for small business. This is expected to improve small business access to affordable bank loans to fund business recovery and growth activity in a post COVID-19 environment.

How did business react?

The Council of Small Business Organisations of Australia (COSBOA) said “The Budget provides a comprehensive suite of economic recovery measures that give small business owners a reason to feel more confident about their future, notwithstanding the unprecedented uncertainty that typifies the road ahead. The ‘big picture’ nature of many of the employment assistance initiatives, however, suggests a need to ensure that these measures are delivered in a manner that makes these programmes relevant and accessible to small and family businesses (at the local community level). This will be particularly important given that much of the job restoration effort will be borne by small businesses operating in local communities around the country - beginning with the imminent labour challenges associated with the summer harvest in regional and rural Australia.”

CEO of the Business Council of Australia (BCA) Jennifer Westacott said “This budget is about getting Australians back to work and getting businesses back on track. By shifting from emergency support to targeted spending, the budget will help employers get back to business and get on with urgently creating the new jobs needed for the recovery. The BCA in particular welcomed the huge injection to increase business investment and supports its application to small, medium and large businesses and its broad base.”

The Australian Small Business and Family Enterprise Ombudsman Kate Carnell said: “The Federal Government’s 2020 Budget is one for the history books, with a record spend that will help lift small businesses out of the COVID crisis and provide a much-needed boost to economic confidence.” Ms Carnell did however note that “While the Federal Government has made great strides towards overhauling insolvency rules, it has unfortunately overlooked helping small businesses make the critical first step to sit down with their trusted adviser for a viability assessment...The Government missed a golden opportunity to commit to prioritising small businesses when procuring work.” There was also some disappointment that small business revenue contingent loans were not included in the budget.

Sectors in Focus

1. Health Services

2020 has delivered the healthcare sector its biggest challenge in a century, but the impacts have been widely disparate across different parts of the sector. Big public hospitals, particularly in Victoria, have been under intense pressure to manage outbreaks and treat those hospitalised with coronavirus (peaking at 675 in Victoria in mid-August). Meanwhile, while still being subject to infection control requirements, private hospitals have faced the cancellation of elective surgeries due to restrictions or lower appetite for procedures on the part of concerned patients. Importantly Australia's public-private health sector has provided critical capacity in response to the pandemic, with private operators relieving pressure on the public sector, highlighting the need for a sustainable private health insurance sector.

Aged care facilities have been hit hard, particularly in Victoria where 73 aged care facilities have experienced outbreaks with at least five cases. The Royal Commission into Aged Care Quality and Safety released an interim report advising that the Commonwealth undertake immediate action by 1 December 2020 in four key areas, including additional funding for adequate staff, increasing allied and mental health services access in Medicare, develop a national COVID aged care plan and require facilities to appoint infection control officers.

Coronavirus diagnostics have been massive, but demand for diagnostic services outside of the virus has been under pressure. Likewise, GPs and dentists face onerous infection control demands and lower patient demand. Allied health services have likewise been hit hard, as patients avoided healthcare settings unless absolutely necessary.

Against this background, our health system has coped remarkably well showing incredible resilience. The sector has been a frontline in managing the pandemic, often pivoting towards digital health to ensure care has been maintained. NAB recently surveyed over 1,000 Australians about their health and the health system (NAB 2020 Consumer Health Survey). Around 1 in 5 Australians felt they had needed professional help for their emotions, stress, mental health or substance abuse during COVID-19 (rising to over 1 in 4 for those living in VIC).

When asked whether they could access health care only 1 in 10 people said they were unable to do so. Australians were also very satisfied with the quality of care received from most service providers (scoring over 8 points out of a possible 10). Almost 4 in 10 Australians had experienced a non-face to face health consultation during COVID-19, and 1 in 2 rated the experience about the same as a face-to-face consultation.

Finally, around 6 in 10 people who currently have private health insurance were happy with their cover and not intending to change it. Almost 15% of Australians planned to shop around for a cheaper/better product, around 10% drop it altogether, and 5% reduce their coverage.

What did business want?

The Australian Medical Association (AMA) believes this year's Budget provides a rare opportunity to reset Australia's attitude to health expenditure, citing longer waiting lists for elective surgery, hospital bed ratios for older Australians, worsening emergency department times and the backlog of cancelled surgeries and delayed diagnoses due to the pandemic. The AMA was particularly concerned for the aged care system, mental health, the protection of frontline healthcare workers, falling private health cover (noting the private health system accounts for about 60% of elective surgery), as well as the need to keep the virus out of our Indigenous communities.

Against this background, the AMA called for an increase in spending on general practice from less than 12.7% of total Commonwealth Government spending on health to 16%, and at least 5% of the health budget on prevention measures. In relation to aged care, the AMA called for minimum staff-to-resident ratios that reflect the level of care required and ensure 24-hour, on-site availability of registered nurses. More generally, telehealth needs to become a feature of Australia's health system which requires sustainable funding models. In its pre-Budget Submission (produced earlier in the year), it called for the Government to increase health spending as a share of GDP, noting Australia's ageing population and increasing incidence of chronic illnesses.

In its pre-Budget Submission, the Australian Dental Association (ADA) called for the Government to provide additional targeted and sustainable funding to address the unmet oral and dental health care needs of Australians identified as 'priority' groups. In line with the Government's aim to develop a

National Preventive Health Strategy, the ADA also wants funding for a range of prevention-oriented initiatives designed to reduce the incidence of oral disease.

Optometry Australia (OA) called on the Government to: reinstate biennial Medicare rebates for comprehensive initial examinations for Australians aged 45 to 64; expand the Visiting Optometrists Scheme to provide services for Aboriginal and Torres Strait Islander and rural and remote communities; support greater awareness of general eye health; fund research into enhancing integration of optometric car into primary health; and review the Medicare fee schedule to ensure alignment with true cost of providing care.

The Pharmaceutical Society of Australia called on the Government to implement a number of measures, including: a program to support safe and quality use of medicines within aged care; support rural pharmacists in providing high quality primary care; a pilot opioid stewardship program to reduce harm caused by these medicines; increased incentives to support more pharmacists within general practice; and the introduction of a Commonwealth Chief Pharmacist.

The Council on the Ageing (COTA) welcomed the Aged Care Royal Commission's special report into COVID-19 and that the Government accepted all six recommendations. It recommended that the Government introduce dedicated funding to support increased visits for aged care residents. This includes funding for screening, infection control and personal protective equipment. It also called for increased funding for home care packages, ensuring that no older Australian wait more than 30 days. There were also calls for significant improvements to aged care workforce capacity and skills, and the greater incentives for business investment in the sector.

What did the Budget deliver?

COVID-19 measures

The Government will spend $1.7 billion over two years to ensure supply and production agreements for COVID-19 vaccines once available. These include agreements for the University of Oxford/AstraZeneca vaccine and the University of Queensland/CSL Limited vaccine. In addition, the Government will spend $123 million to join the COVID-19 Vaccines Global Access Facility (COVAX).

The Government will also spend $1.1 billion in 2020-21 to support access to healthcare services through the COVID-19 pandemic. This includes:

- $711.7 million to extend Medicare Benefits Schedule pathology items for COVID-19 testing, including targeted testing for key sectors such as interstate freight and aged care workers;
- $170.8 million for dedicated respiratory clinics to ease pressure on hospitals; and
- $111.6 million to extend temporary COVID-19 telehealth services.

The Government will provide $1.1 billion in 2020-21 under the National Partnership Agreement on COVID-19 Response to states and territories. This includes a continuation of the COVID-19 viability guarantee for eligible private hospitals that are supplementing public hospital capacity.

Aged care

The Government will spend $2.0 billion over four years to support older Australians, with $1.6 billion to create an additional 23,000 home care packages, and additional funds to improve transparency and regulatory standards in the sector.

The Government will provide $746.3 million over four years (or $700.2 million net of income tax revenue impacts), to provide COVID-19 support to the aged care sector. This includes:

- $245 million supplementary payment to all Commonwealth funded residential aged care and home care providers to cover additional operating costs due to COVID-19. This comprises a lump sum to all providers and the continuation of the 30% increase to the viability and homeless supplements for eligible providers;
- $205.1 million over two years ($159 million net income tax receipts) to provide a third instalment of the workforce retention bonus; and
- $103.4 million this year to support aged care providers to manage and prevent COVID-19 outbreaks.

Medicines

The Government will spend $375.5 million over four years for new and amended listings on the Pharmaceutical Benefits Scheme (PBS) and the Repatriation Pharmaceutical Benefits Scheme (RPBS).

Mental health

The Government has committed additional funding for mental health across a range of programs, including:

- $100.8 million over two years to provide up to 10 additional psychological therapy sessions each year through the Medicare Benefits Schedule;
- $47.3 million over two years for additional mental health and crisis support services in Victoria due to the COVID-19 pandemic; and
- $62.1 million over four years to improve access to mental health services, including $45.7 million to support vulnerable young people with mental illness to participate in the workforce.

How did business react?

Dr Omar Khorshid, the Federal AMA President, commended the Government for its COVID-19 health response and further stimulus spending. However, he noted that addressing a wide range of health sector problems has been deferred, including preventative health, long term public hospital funding, the viability of private health and help needed for General Practitioners.

Ian Yates, COTA Australia Chief Executive, welcomed the increase in home care packages, but was disappointed that there is still no commitment or plan to get waiting times down to 30 days or to ensure no one is prematurely forced into residential aged care.

Alison Verhoeven, Chief Executive, Australian Healthcare and Hospitals Association noted that the budget makes major commitments to health and aged care necessary to address COVID-19, but that there are many areas of significant need where more is required. The AHHA were disappointed with the limited focus on strengthening preventative and primary health and the lack of an Australian Centre for Disease Control.

2. Education

The disruptive effects of the pandemic on international education is having impacts throughout the Australian economy. In addition to funding constraints, it has also curtailed the capacity of universities to conduct research and development. There has also been concern for temporary visa holders (such as international students) unable to access Australian social security systems, and for whom returning to their countries of origin has not been feasible.

Some schools, particularly those with large rural and international boarding communities, have experienced a loss of a key source of income. In response to COVID-related financial pressures, some private schools have offered fee cuts and deferrals, and asked alumni to help pay the fees of students at risk of leaving the school due to economic pressures in the family.

What did business want?

The higher education sector has been directly affected by COVID-19. Physical distancing requirements have made in-person activities difficult, while border closures have disrupted a key source of funding which many universities have become increasingly dependent upon. In addition, a number of universities enacted redundancy programs, as they were unable to satisfy amended requirements related to the JobKeeper program. With universities conducting over one-third of R&D the loss of staff is a key concern.

In their pre-Budget submission, Universities Australia made a number of recommendations to Government including: stabilisation funding for the research workforce; hardship support for international students; and further funding for clinical health experience (given new physical distancing requirements).

In addition, along with universities, leading industry groups (including Science & Technology Australia and the Australian Investment Council) called on the government to improve the commercialisation of local research in Australia. While the government had already announced a $1.3 billion Modern Manufacturing Initiative that will offer co-investment grants, there were hopes it would go further, with calls for a Research Translation Fund, modelled on the Biomedical Translation Fund or the Medical Research Future Fund (MRFF). Science and Technology Australia along with Innovation and Science

Australia also called for a 20 per cent "collaboration premium" to be introduced to the Research & Development Tax Incentive (RDTI) - something which Innovation and Science Australia also called for.

More generally, there were calls for: further investment in R&D (with Research Australia calling on the government to spend at least 0.75% of GDP on R&D by the end of its current term); more incentives to attract international investment; programmes to attract and retain talent onshore; and tax regimes that incentivised the discovery, exploitation and value add of patentable intellectual property, especially the advanced manufacturing of IP-based products.

In terms of school education, the NCEC (National Catholic Education Commission) urged Government to increase the capital funding allocations to meet the capital funding needs stemming from a rise in student numbers (as it has done in past years). In its second submission the NCEC recommended stimulus funding for capital works especially for areas affected by the economic fallout from COVID-19.

A recommendation of support for indigenous boarding schools is shared with the Independent Schools Council of Australia (ISCA). The ISA recommended the Direct Measure Income (DMI) methodology used for the Capacity to Contribute (CTC) be delayed for schools where their score increased, to allow a better assessment of the effects of COVID-19 and called for the extension of the current 2-year 'best-of' arrangements. In addition, the CTC should use the most up to date parental income for the CTC calculation instead of an 18-month lag, given the immediate effects of COVID-19 on incomes.

Key early learning operators also made pre-budget submissions with key recommendations relating to: the allocation of funding across the forward estimates providing universal access; the extension activity test exemptions; a second 13 weeks of child care subsidy for families meeting financial hardship; and removing the current cap per child, and limits for middle and high-income earners. Early Childhood Australia (ECA) called for an increase in the Child Care Subsidy (CCS) to 95% for low-income families, to overcome cost barriers to children's participation in ECEC.

What did the Budget deliver?

In the July Economic and Fiscal Update, $2.8 billion was allocated for 180,000 apprenticeships and traineeships. In this Budget, under the JobMaker Plan - Boosting Apprentices Wage Subsidy, $1.2 billion is allocated for 100,000 additional positions over the next four years, with the biggest allocation in 2021/22. Eligible businesses can claim up to 50% of an apprentice or trainees wage, capped at $7000 per quarter.

Additional initiatives include:

- $298.5 million for 12,000 new Commonwealth supported higher education places deemed 'national priority area' in 2021.
- $251.8 million allocated over two years for 50,000 new higher education short courses in agriculture, health, IT, science and teaching.
- $238.9 million for the government to guarantee the Commonwealth Grant Scheme (CGS) payments for higher education providers between 2021 and 2023 as transitional payments to the 'Job-ready Graduates'.
- $1.0 billion in 2020/21 via the Research Support Program to support universities' costs related to research infrastructure, research jobs, and partnerships with industry.
- $263 million over four years for Vocational Education and Training (VET). This includes $91.6 million for an apprenticeships data management system, $75.9 million for the Department of Education, Skills, and Employment, $52.3 million for literacy and numeracy skills, and $29.6 million for the National Careers Institute careers information.
- $146.3 million over five years including $39.8 million over four years for 2,000 positions funded via the Clontarf foundation to assist indigenous men, and $38.2 million over four years to the Smith Family for 76,000 disadvantaged Australians. Both programs aim to assist recipients' complete year 12 and move into work, training, or further study. There is also $27.3 million over five years for STEM skill related programs.
- Emergency support for Victorian childcare, as $314.2 million is allocated to support early childhood education and care (ECEC) in 2020/21 so that services remain viable. There is already a $51.7 Child care subsidy that will conclude in January. Key parts of the new initiative include $269 million for recovery payments for all ECECs, $8.6 million for outside school hours and vacation care until school returns, and $36.6 million for the same operators after that.

How did business react?

Universities Australia Chair Professor Deborah Terry welcomed the significant investment to the nation's research effort, noting that the Government "clearly understands you can't have an economic recovery without investing in research and development", and that "this will ensure world-class research and discovery can continue on Australia's university campuses" and "will stabilise university research capacity and jobs." Universities Australia also noted that the 50,000 new short courses will be "especially important for mature-aged workers looking for new skills".

The Early Childhood education sector was critical of the lack of a boost in national funding, with Sam Page from Early Education Australia commenting "If you want to create jobs - invest in early education, the investment employs people (70% of expenditure is wages) and supports parents to work - plus it's good for children. It is just as critical to the economy as construction and manufacturing but overlooked."

3. Agribusiness

While much of the Australian economy has been hit hard by coronavirus, Australian agriculture finds itself in a very different position. Though the virus has undoubtedly had an impact on agriculture, people still need to eat and many parts of the industry (particularly in staples), have continued to perform. Indeed, coronavirus is arguably not the biggest challenge facing Australian agriculture at present.

Australian agriculture has faced four key issues this year, namely: seasonal conditions; commodity prices and the AUD; trade disputes and uncertainty; and labour availability.

After some very tough years in much of New South Wales and Queensland, 2020 has been much kinder overall. Rainfall has generally been average to above average, and we look to be on track for an above average winter crop. The BoM has now declared a La Nina event, typically associated with wetter than average spring-summer conditions in eastern and northern Australia. The latest three-month outlook to December points to generally wetter than average conditions across almost all the country.

Commodity prices have been somewhat mixed, but the NAB Rural Commodities Index has been on a generally positive trend for some years. Cattle prices remain at or near record levels on restocker interest, while grain is likely to come down as domestic premiums evaporate on good yields. One area of concern is fibres, particularly wool. With consumers buying fewer clothes due to the pandemic, this is likely to remain an issue for some time.

The AUD has been on a rollercoaster this year, especially with the weakness in the USD. AUD-USD was down into the-50s in the first wave, up to the mid-70s on a low USD, then back down into the low-70s more recently. Our forecasts point to gradual appreciation from here, up to 80 US cents by 2022. While a higher AUD is a challenge for exporters, elevated volatility has also been a concern.

Australia's diplomatic relationship with China has taken a battering this year and this has spilled over into agricultural trade. China is Australia's biggest agricultural export destination, making trade disruptions quite a challenge. So far this year, China has restricted four Australian abattoirs, imposed a tariff of around 80% on Australian barley, initiated an anti-dumping inquiry into Australian wine and most recently indicated it will employ "enhanced inspection" of Australian wheat. It remains to be seen whether these tensions will continue to rise and what impact it will have on agricultural trade.

The coronavirus has closed Australia's external and internal borders, restricting the ability of agricultural contractors to move between states and limiting the availability of backpackers and migrant workers, particularly in horticulture. With Australia's external border to remain closed into 2021, this is an ongoing concern for agricultural enterprises.

What did business want?

The National Farmers Federation (NFF) released its Get Australia Growing report in June this year, which set out an extensive wish list for Australian agriculture. Key priorities for the NFF in the report included: fast-tracking 20 new Regional Deals; reinvigorating regional manufacturing; a $1 billion Biodiversity Stewardship Fund; slashing red and green tape; fixing the Murray Darling Basin Plan; getting regions digitally connected; helping more people get into jobs in agriculture.

What did the Budget deliver?

Tax changes

A key feature of the 2020-21 budget was a very substantial expansion of the instant asset write-off. Businesses with a turnover of less than $5b can now deduct the full cost of eligible capital assets until 30 June 2022. This will apply to new depreciable assets and the cost of improvements to existing eligible assets. SMEs (with aggregated annual turnover of less than $50m), can also fully expense second-hand assets. The total cost of this policy over the forward estimates is $26.7b.

Businesses with a turnover of less than $5b can also carry back tax losses from the 2019-20, 2020-21 or 2021-22 income years to offset previously taxed profits in 2018-19 or later income years.

Stage 2 of the Personal Income Tax Plan has been brought forward to 1 July 2020 from 1 July 2022.

National Water Grid

The budget sets out an additional $2b over 10 years (just over half of which is in the forward estimates) to fund priority water infrastructure projects for agriculture and to increase water security. This includes (alongside states) and additional $162.5m for the Wyangala Dam and $121.0m for the Dungowan Dam.

However, the budget also announced that the government will now not proceed with the National Water Infrastructure Loan Facility, previously announced in 2017. This facility was intended to provide concessional loans to state and territory governments for water infrastructure. Not entirely coincidently, this facility was intended to cost $2b when it was set up. In effect, 2020-21 budget has redirected the priority from concessional loans to grant funding.

Modern Manufacturing Strategy

The Modern Manufacturing Strategy sets out $1.5b over five years to improve competitiveness, scale and resilience in Australian manufacturing. The strategy will focus on six areas: resources technology and critical minerals processing, food and beverages; medical products, recycling and clean energy, defence and space. The strategy includes:

- $1.3b to establish the Modern Manufacturing Initiative
- $107.2m for supply chain vulnerabilities
- $52.8m for manufacturing modernisation
- $30m to improve competitiveness
- $20m to Industry Growth Centres

Supporting regional Australia

While not an explicit support to agriculture, the budget does provide $552.9m over the forward estimates for support for regional Australia, including for community infrastructure, health, R&D, tourism, regional recovery and digitisation.

Support for agricultural exporters

The budget provides $328.4m over the forward estimates to help agricultural exporters do business. This includes $222.2m to modernise ICT systems and business processes, $71.1m for the financial sustainability of export certification services and $35.2 for “targeted interventions” and regulatory reforms.

Murray-Darling communities investment package

The budget provides $269.6m for the Murray-Darling basin. This includes:

- $37.6m to extend the Murray-Darling Basin Economic Development Program;
- $37.6 for the environment in the SA Riverland;
- $24.5m for community grants for river and wetland health;
- $4.2m for Indigenous River Rangers;
- $38.7 for compliance, including to set up the Inspector-General of Water Compliance;
- $25m to improve metering systems, particularly in the northern basin;
- $7.5m track and ecological, economic and social conditions;
- $6m for improved information;
- $70.5m to accelerate at-risk projects in the Basin Plan; and
- $18m for Basin Plan implementation.

Drought support

The budget sets out $155.6m for drought support, including:

- $50m in 2020-21 for the On-farm Emergency Water Infrastructure Rebate Scheme;
- $19.6m in 2021-22 to extend the drought function of the National Drought and North Queensland Flood Response and Recovery Agency for a further year; and
- $86m over four years to establish eight Drought Resilience and Adoption Hubs.

Other measures

Other measures include:

- $36.6m for changes to the Environment Protection and Biodiversity Conservation Act 1999; and
- $2.4m to extend the Improved Access to Agricultural and Veterinary Chemicals program.

How did business react?

The NFF has responded very positively to the budget, with NFF President Fiona Simson commenting that: "The NFF welcomes a combination of big-ticket, future-focused regional infrastructure spends and immediate cash injections needed to stimulate growth and to address the COVID-induced challenges facing farmers, including critical labour shortages."

On food manufacturing, NFF President Fiona Simson commented that: "With targeted investment in advanced manufacturing, and the right policy settings for things like labour, skills, energy and telecommunications, we can start to lure back industries which have flown the coop in recent decades".

On the extension of the On-Farm Emergency Water Infrastructure Rebate Scheme, NFF CEO Tony Mahar noted: "The first tranche of the Emergency Water Infrastructure Scheme was an absolute success with feedback from farmers only positive. This second round of funding will benefit those farmers who missed out the first time".

The lack of budget measures around labour availability, particularly for horticulture will likely cause some concern for some. While there will be a "one off" change to family migration arrangements to prioritise partner visas for people in regional areas, labour shortages in agriculture are likely to remain a concern.

4. Infrastructure & Construction

Since the end of the mining construction boom, public infrastructure has become an important support for the Australian economy, particularly in NSW and Victoria, driven by rapid population growth in the capital cities. Although infrastructure spending is already at a high level, there is a large backlog of transport projects announced by state governments that need a Commonwealth contribution to proceed.

What did business want?

With the uncertain times due to COVID 19, industry lobby groups such as Infrastructure Partnerships Australia and the Australian Constructors Association have both expressed the need for further reforms and called for further collaboration between different levels of government and industry. Master Builders Australia has called for a dedicated Ministry of Housing and Construction to better coordinate planning, procurements, regulations etc.

Besides calls for general reform in the construction industry, there is a consensus among the industry groups to fast track existing spending commitments from the 10-year $100 billion total announced by the Federal government last year. On top of direct investment in infrastructure, Master Builders Australia has called for the extension of the Homebuilder program with expanded eligibility and relaxed price and income caps to further stimulate housing construction.

What did the Budget deliver?

On the back of $100b announced last year, this year the government has announced around $11b in infrastructure spending. Around $8b are allocated or have been brought forward for state specific projects.

($m)			
State/Territory	New	Brought Forward	Total
ACT	$ 155.3		$ 156.3
NSW	$ 2,579.2		$ 2,579.2
NT	$ 189.5		$ 189.5
QLD	$ 1,296.8	$ 14.2	$ 1,311.0
SA	$ 625.2	$ 20.3	$ 645.5
TAS	$ 351.0	$ 15.0	$ 366.0
VIC	$ 1,119.2	$ 610.0	$ 1,729.2
WA	$ 1,185.8	$ 161.4	$ 1,347.2
Total	$ 7,502.0	$ 820.9	$ 8,323.9

*Excludes measures announced in the July Economic and Fiscal update.

** WA figure includes Perth City Deal.

New South Wales is forecast to receive an additional $2.6b on top of $120m funding for the Pinch Points program announced in the July Economic and Fiscal update. New funding includes $603m for the New England Highway - Singleton Bypass and Bolivia Hill Upgrade, $591.7m for the Newell Highway Upgrade, $360m for the Newcastle Inner City Bypass, $120 for Prospect Highway Upgrade, $94m for the Heathcote Road Upgrade, $63.5m for the Dunheved Road Upgrade, $60m for the M1 North Smart Motorway and $46.4m for the Mulgoa Road Upgrade. A further $120m was announced non-specifically for grade separating road interfaces.

The Infrastructure Investment Program - New South Wales infrastructure investments expense line shows $1.98b of additional funding over the budget and forward estimates period.

Victoria is forecast to receive an additional $1.1b and another $610m in funding brought forward. Out of the new funding, $320m is marked for the Shepparton Rail Line Upgrade, $292m for Barwon Heads Road, $208m for the Warrnambool Rail Upgrade Stage 2, $104m for the McKoy Street - Hume Freeway Intersection Upgrade, $84.5m for Hall Road, $31m for Narre Warren North Road, $30m for the Western Rail Plan, $27.2m for the Western Port Highway and $22.5m for South Road. The $610m brought forward are $605m for the South Geelong to Waurn Ponds Rail Upgrade Stages 2 and 3 and $5m for the Outer Metropolitan Ring / E6 Corridor Preservation.

The Infrastructure Investment Program - Victorian Infrastructure investments expense line shows $1.69b of additional funding over the budget and forward estimates period.

Queensland is forecast to receive an additional $1.1b, including $750m for the Coomera Connector Stage 1, $201.2m for the Bruce Highway, $112.0m for the Centenary Bridge Upgrade, $76m for the Riverway Drive Stage 2, $50m for the Beams Road Open Level Crossing Upgrade, $42.4m for the Mount Lindesay Highway Upgrade, $38m for the Cooktown to Weipa Corridor Upgrade, $17.2m for the Cairns to Northern Territory Border Upgrade, $10m for the M1 Pacific Motorway Upgrade with $10m brought forward for the Port of Brisbane planning and $4.2m brought forward for the Brisbane to Gold Coast Faster Rail Business Case.

The Infrastructure Investment Program - Queensland infrastructure investments expense line shows $1.05b of additional funding over the budget and forward estimates period.

Western Australia is forecast to receive an additional $1.1b, including $227.1m for Metronet - High Capacity Signalling and Morley-Ellenbrook Line, $87.5m for the Reid Highway Interchanges, $80m for the Wheatbelt Secondary Freight Network, $75m for the Canning Bridge Bus Interchange, $70m for the Roe Highway Widening and Abernethy Road Upgrade, $70m for the Newman to Katherine Corridor Upgrade, $56m for the Karratha to Tom Price Corridor Upgrade, $48.6m for the Kwinana and Mitchell Freeway Improvements, $45.0 million for the Stirling Bus Interchange, $41.6m for the Port Augusta to Perth Corridor, $40m for the Freight Vehicle Productivity Improvements Program, $17.5m for the Bus Lane Program - Stirling and Canning Highways. A further $161.4m is brought forward for existing projects, including $115.8m for the Roe Highway-Great Eastern Highway Bypass and Abernethy Road-

Great Eastern Highway Bypass Interchanges, $24m for the Freemantle Traffic Bridge - Swan River Crossing and $21.6m for the Wheatbelt Secondary Freight Network. On top of these, an additional $327.5m over 11 years have been announced for the Perth City Deal.

The Infrastructure Investment Program - Western Australia infrastructure investments expense line shows $1.05b of additional funding over the budget and forward estimates period.

South Australia is forecast to receive an additional $625m, including $200m for the Hahndorf Township Improvements and Access Upgrade, $136m for the Princes Highway Corridor Improvements, $136m for the Main South Road Duplication Stage 2, $100m for the Strzelecki Track Upgrade, $28m for the South Eastern Freeway Safety Upgrade, $13.2m for the Goodwood and Torrens Junctions and $12m for the Victor Harbor Road Upgrade. $20.3m have been brought forward to accelerate the Eyre Peninsula Network. The Infrastructure Investment Program – South Australia infrastructure investments expense line shows $ 512.5m of additional funding over the budget and forward estimates period.

Tasmania will see an additional $150m for the Hobart to Sorell Corridor, $72m for the Tasman Roads Package, $65m for the Tasman Bridge Upgrade, $52m for the Midland Highway Upgrade, $12.0 million for Freight Bridge Upgrades and $15.0 million brought forward to accelerate Hobart Airport to Sorell Southern Bypass.

The **Northern Territory** will see an additional $120m for the Carpentaria Highway Upgrade, $ 46.6m for the Northern Territory National Network Highway Upgrades and $22.9m for the Stuart Highway Upgrade.

The **ACT** will see an additional $87.5m for the Molonglo River Bridge, $50m for the Canberra - Southwest Corridor Upgrade, $15.3m for the Monaro Highway Upgrade and $2.5m for the Parkes Way Upgrade planning.

A further $3b have been announced and committed over 2 years for two nation-wide infrastructure programs. The 'Local Roads and Community Infrastructure Program' will be extend with another $1b over 2 years for local councils to maintain and deliver local infrastructure. Another program, the 'Infrastructure Investment - road safety and upgrades project' aims to provide $2b for shovel-ready projects on a first-come-first-serve basis where states ready to start will get priority.

Construction

The Construction sector was a winner in this budget, with measures to stimulate building across the country in a bid to create jobs and increase cashflows right now. This includes the $680m HomeBuilder scheme, which provides eligible owner-occupiers with a grant of $25,000 to renovate or build new homes.

The First Home Loan Deposit Scheme will also be expanded to give an additional 10,000 places to potential first home buyers who will be able to purchase a new home sooner under the extension. Builders will receive extra benefits from the expansion as part of the conditions of the First Home Loan Deposit Scheme is to purchase new dwellings.

The JobMaker hiring credit, slated for $4b over 3 years coupled with a boost to the Supporting Apprentices and Trainees subsidy, slated for $1.2b over 4 years, will be of welcomed benefit for the construction industry. With new and old trainees' wages subsidised to 50% (capped at $7000 per quarter) till September 2020, coupled with an additional $200 per new employee aged between 16 to 29 or $100 for those between 30 to 35, the construction industry will be able to expand quickly to meet expansion in the construction sector.

How did business react?

Infrastructure Partnerships Australia has welcomed the Budget noting that "The Federal Government has moved decisively in this Budget, lifting total infrastructure funding to $48.8 billion over the forward estimates, a surge of $19.3 billion from the four-year spend set out last year". IPA has also applauded the government on taking its advice to "go hard on funding for projects that can be deployed to market quickly". Coupled with "The Federal Government's initiative to provide funding to state and local governments on a 'use it or lose it' basis", Infrastructure Partnerships Australia's Chief Executive Adrian Dwyer believes "it will accelerate project delivery and ensure construction boots hit the ground faster."

Graham Wolfe, Managing Director of the Housing Industry Association has welcomed both the increase in the number of First Home Loan Deposit Scheme as well as the injection of $1.2b into the Supporting Apprentices and Trainees wage subsidy stating that "Tonight's budget has given both first home buyers and more than one million workers in the residential building industry the incentive and confidence needed to continue to navigate through these challenging times."

Important Notice