2021-22 FEDERAL BUDGET

What does it mean for SMEs?

more than money

nab

Group Economics overview of the Budget

The Treasurer wasn't kidding when he said budget repair has been put on hold until unemployment was below 5%, with a raft of new spending measures offsetting the cyclical improvements in the budget due to a better than expected economic outcome. Overall, the momentum of the recovery has more than offset the pullback in stimulus, but this budget aims to provide further support.

In terms of spending the largest item was the aged care package - at around $17.7 billion over the forward estimates. But there were other big spends in the areas of Infrastructure ($15 billion) and NDIS ($13.2 billion). The Low and Middle-Income tax offset was extended a year ($7.8 billion) and the Investment Asset Write Off also was extended. Other areas of focus included childcare, home ownership support and a number of tweaks to superannuation to ensure greater flexibility (as well as support for women).

Something of a surprise was relatively little to boost private sector investment which will be critical to maintain the recovery's momentum. Also, there was not a lot of emphasis on public housing and no attempt to bring forward the third phase of tax cuts (which will be much cheaper than first thought given the better labour market outcomes forecast) or company tax changes. It is worth noting that the Budget does not include election spending which will either occur via an early Budget (the election must be called by May 2022) or via Government announcements.

Structurally the Budget is taking back only around 2% of GDP in policy stimulus - compared to a net 8% stimulus in 2019/20 and 2020/21. Clearly a structural surplus is a long way off. In looking at the near-term trends, the fiscal situation is once again driven by the expense side rather than revenue. Indeed, compared to MYEFO there is little change.

Overall, we have no problem with the focus on maintaining the support for economic growth, but we see the scope for more structural/productivity enhancing measures to have been included. Cutting red tape, tax changes and greater support for alternative energy environment would have been preferred. That said, as noted above, we are only getting a partial view of the likely budget outlook and much can and will probably change in the lead up to the election.

Fiscal Outcome

The underlying cash balance for 2020/21 is estimated at $161 billion (or around 8% of GDP), around $40 billion better than at MYEFO. While for 2021/22 a deficit of $107 billion is forecast (we had expected around $75 billion), after that progress is slow and by 2023/24 the deficit is still expected to be around $79.5 billion. A return to surplus looks many years away.

Economic Outlook

Both we and the Treasury see the economy continuing to recover over the next couple of years. In aggregate our outlook for real GDP sees a similar end point over the forward estimates but there are some underlying differences. We see a bigger boost to business investment in the near term and a more pronounced cycle in dwelling investment, while Treasury sees stronger consumption and a bigger contribution from net exports. On the labour market we are more optimistic with unemployment around 0.5ppt lower than the budget outlook by the end of the forecast horizon. That said, both sets of forecasts embody a weak outlook for wage growth, which will see soft inflationary pressure and the need for ongoing support from policy makers. Our forecasts are based on much the same assumptions for a reopening in borders next year and the possibility of further small outbreaks of the virus but no large-scale shutdowns.

Financial Markets

S&P maintained its negative outlook for Australia's AAA credit rating, noting that "risks remain tilted toward the downside". S&P has said before that a narrowing in the deficit towards 3% of GDP is more consistent with a AAA rating (not projected till 2024-25 in the budget).

Small Business Group's Agenda for Reform

Small and medium-sized enterprises (SMEs) are the backbone of the Australian economy. Small businesses alone (fewer than 20 employees) account for more than 97% of all Australian businesses, contribute around one-third to total GDP and employ over 4.7 million people or around 41% of the total business workforce. As these businesses grow, so too does the economy, employment and access to new and diverse marketplaces.

While some SMEs thrived during the COVID pandemic, many suffered (and some continue to do so). But SMEs are now making important contributions to the economic recovery which is continuing to unfold at a brisk pace.

NAB's most recent **SME Business Survey** saw further improvement in business conditions during the first quarter of 2021. Trading conditions are driving the improvement, but employment and profitability have also edged higher. As a result, all three sub-components of business conditions are now well into expansionary territory, mirroring the results of the broader NAB Quarterly Business Survey.

By industry, SME sectors that were most impacted by the pandemic continued to rebound, with Accommodation, Cafes & Restaurants, Property Services and Construction seeing big gains as restrictions continued to ease and residential construction gathered pace. Most other industries also saw improving conditions, except Retail, Health and Transport.

SME confidence however pulled back slightly from a record high in Q4 but remain elevated. While Accommodation, Cafes & Restaurants led the improvement in conditions, it also led the fall in confidence, suggesting the hospitality industry is less confident of further gains in conditions from here. Health remains the most confident and Financial services the least.

Leading indicators also improved in the March quarter. Forward orders - the pipeline of work - rose further to a well above-average levels. Capacity utilisation and near-term expectations for capex also made further gains. SMEs continued to report solid improvements in cashflow - although it pulled back slightly from the record high reached in Q4. Altogether, these indicators suggest the strength of business conditions is likely to be sustained, at least in the near-term.

As Australia starts to navigate its way out of the constraints of the COVID pandemic, SMEs and business organisations have set out their wish lists of potential reforms and changes as part of 2021-22 Budget. Following a very turbulent past year, many were hoping the 2021/22 Budget would give them the confidence to achieve their growth objectives for the coming year.

The 2020/21 Federal Budget in October 2020 delivered a raft of new measures to help SMEs on the road back to recovery - including the expansion of the instant asset write-off, temporary full expensing, loss carry back for businesses, small business tax concessions, investment into digitisation and changes to insolvency laws.

Small businesses called for further support in this Budget. Those still being impacted by COVID pandemic restrictions, particularly in sectors such as hospitality and tourism, were hoping to see further targeted tax incentives and funding. For example, small businesses benefitting from the Tourism Support Package hoped to benefit from the program's extension.

A raft of budget measures were advocated by industry bodies and small business leaders. In its 2021/22 Budget submission, **Chartered Accountants Australia and New Zealand** highlighted some specific tax issues they believed the Budget should address. These included:

- Making loss carry backs a permanent feature of Australian income tax law, helping to build business (particularly small business) resilience during future economic downturns;
- Widen temporary loss carry-back further than just for incorporated entities to include sole traders or partnerships (the majority of small businesses);
- The small business concessions made available for up to $50 million turnover entities in the last Budget be made more broadly available; and
- A Small Business Viability Review subsidy to help eligible small businesses access urgently needed professional advice.

In its pre-Budget submission, the **Australian Small Business and Family Enterprise Ombudsmen** also called for additional reforms including:

- The establishment of a small business procurement panel to manage Government contracts up to $10 million, as well as higher targets for small business procurement;
- Abolishment of FBT on hospitality, childcare and gym/fitness expenses to encourage large business to spend more on small business;
- Government backed revenue contingent loans (HECS-style loans) for independently assessed viable small business in slow to recover sectors. The loans would only be

- repaid when they reach a certain level of revenue. COSBOA have also supported a HECS-style model after the current round of support ends; and
- Early additional release of super for particularly hard-hit businesses such as travel agents.

Independently, other small business leaders also called for changes for Temporary Full Expensing (TFE) so smaller businesses (like larger ones) could opt out of the TFE to prevent the creation of an unwanted tax loss. Currently, small businesses using simplified depreciation rules cannot. In addition, the Business Council of Australia (BCA) wanted the government's temporary expensing measure extended until 2023.

Small businesses were also hoping to see further cuts to red tape to relieve them of onerous compliance tasks and reduce the cost of doing business (a move also supported by the BCA), easier access to government procurement, additional instant asset tax write-offs and policies that encourage small business superannuation contributions.

The Government was also challenged to build on digitisation efforts - particularly improving internet coverage and cost in regional and rural areas, and more specifically incentivising the uptake of digital cloud-based tools to enable small businesses not online to get up to speed. The BCA had also called on the Government to provide additional funding for new digital micro apprenticeships.

Start-ups featured in last year's Budget, and in 2021/22 were looking at areas such as a renewed commitment and expansion of the R&D Tax Incentive, expansion of the talent and investor visas, and further investment in education and re-skilling, as well grants that would enable start-ups to take on local suppliers.

What did the Budget deliver?

Temporary full expensing: The temporary investment tax incentive announced in last year's budget has been extended for a further 12 months until 30 June 2023. Businesses with a turnover up to $5 billion will be able to deduct the full cost of any eligible asset they purchase for their business, including the cost of improvements to existing assets, until 30 June 2023.

Temporary loss carry-back provision: Similarly, companies will now be permitted to carry back tax losses for an extra 12 months from the 2019-20, 2020-21, 2021-22 and now 2022-23 income years to offset previously taxed profits in 2018-19 or later income years.

Extension of loan scheme for small business: The government is extending the SME Recovery Loan Scheme which builds on the SME Guarantee scheme. It includes an increased government guarantee of 80 per cent, a higher maximum loan size of $5 million and maximum loan term of 10 years with interest rates capped at around 7.5 per cent. Borrowers may also be offered repayment holidays of up to 24 months on appropriate products. The Scheme is available to SMEs with a turnover of up to $250 million that were recipients of the JobKeeper payment between 4 January 2021 and 28 March 2021 or were affected by the floods in eligible Local Government Areas in March 2021.

Tax cuts: The corporate tax rate for SME's will drop to 25 per cent from 1 July 2021 from 27.5 per cent.

Digital economy strategy: The Government will provide $1.2 billion over six years from 2021-22 for the Digital Economy Strategy. For SMEs, $53.8 million over four years from 2021-22 to create a National AI Centre and four AI and Digital Capability Centres to drive and support SMEs to adopt and use transformative artificial intelligence technologies; $15.3 million over three years from 2021-22 to promote and accelerate the adoption of e-invoicing by businesses and across all levels of Government; $12.7 million in 2021-22 to expand the Australian Small Business Advisory Service Digital Solutions program reach to up to 17,000 small businesses.

Deregulation: $134.6 million over four years from 2021-22 to progress the Government's deregulation agenda to make it easier for businesses to employ people and reduce the regulatory burden of interacting with the government.

Other measures:

- The Government will allow businesses to self-assess the economic life of certain intangible assets (such as patents) for tax depreciation purposes to encourage investment and hiring in innovative activity.
- Government is broadening the scope of the Administrative Appeals Tribunal to help SME's put a pause on any debt recovery action launched by ATO until the underlying dispute is resolved. More funding also made available the Australian Small Business and Family Enterprise Ombudsman to continue helping small businesses resolve disputes.
- New efforts to give SMEs a bigger slice of the procurement pie. Government will provide $2.6 million over four years from 2021-22 to support and strengthen participation in Commonwealth procurement. Funding includes: scans of procurements to map any common 'pain points' for SMEs; increased communication of procurement

opportunities to potential suppliers; targeted Government Procurement Learning Events for SMEs about how to access supply chains and work in major project environments; and a pilot of direct engagement of SMEs by the Department of Industry, Science, Energy and Resources for contracts up to $200,000.

- Removal of current exclusion that applies to deductions for the first $250 spent on education courses, which will give more business owners (and their employees) a reason to learn new skills.
- Small craft brewers and distillers will benefit from an increase in the cap for claims on the Excise Refund Scheme from $100,000 to $350,000 from 1 July 2021.
- Almost $130 million to encourage entrepreneurship through the New Enterprise Incentive Scheme (NEIS) and Entrepreneurship Facilitators Program support people who want to start, run and grow their own business.

SMEs were among the winners in the 2021-22 budget. They will be pleased with the expansion and extension of government support in relation to full expensing and loss carry back, particularly those still suffering from the fallout from COVID. Some will however be disappointed that loss carry backs provisions were not made permanent or widened. Extra funding for new training, upskilling and apprenticeships will be particularly welcome for SMEs in sectors suffering skills shortages such as IT and Agriculture, while increased spending on the digital economy should help SMEs streamline productivity, improve cash flow with reduced admin and faster payments, and bring down the costs of doing business. Many SMEs will also be pleased their calls to improve procurement opportunities and reduce burdensome regulations and bureaucracy were heeded in this budget. Indirectly, SMEs serving the infrastructure sector should benefit from an additional $15.2 billion for a range of infrastructure projects including a new freight hub in Melbourne and upgrades to key highways and railroads around the country.

How did business react?

The budget has been generally well received by key small business groups. **Council of Small Business Organisations Australia** (COSBOA) CEO Peter Strong said: "This budget delivers substantial benefits for small business owners in five key areas, namely: business tax relief, simplifying compliance with Australia's IR laws, encouraging continued investment in digital commerce, and creating a national agency to accelerate recovery from ever-frequent natural disasters".

The **Australian Small Business and Family Enterprise Ombudsman** Bruce Billson also said: "The Federal Government's 2021 Budget is a clear acknowledgement that small and family businesses are central to the nation's economic recovery and future prosperity. Tonight's budget represents a substantial financial and strategic commitment to making Australia the best place to start, grow and transform a business."

Business Council of Australia (BCA) CEO Jennifer Westacott said: "This budget propels Australia out of the pandemic and lays the foundations for a jobs-led recovery."

Acting CEO of the **Australian Chamber of Commerce and Industry** Jenny Lambert said: "Incentives to increase workforce participation, promote business investment and boost productivity, crucial pillars of economic success, are the standout wins for business in tonight's Budget."

Key Sectors in Focus

1. Health Services

The healthcare sector was expected to be at the centre of this year's Budget, following the findings of the Royal Commission into Aged Care Quality and Safety released during March this year. Among its key findings the commission concluded that the present ration-based system of aged care should be replaced in favour of a rights-based system that allocated care to individuals based on assessments of their requirements in order to eliminate waiting lists. There were also calls for stronger governance and oversight into the sector including an independent pricing mechanism to set industry cost standards. The Commission also pointed to the need for new standards for front line workers, including a new national registration scheme. Finally, the report called for a universal funding model to replace the current mixture of means-tested arrangements. It would also eliminate refundable accommodation deposits, which can make the process of securing care difficult for many.

The healthcare sector was also hoping to see the Government take on board recommendations from the Productivity Commission and the Royal Commission into mental health and allocate additional investment into the system. National Mental Health Commission CEO Christine Morgan noted that the COVID-19 pandemic had shone a spotlight on the need to access mental health services as it showed Australians their mental health "is as much a part of us as our physical health."

What did business want?

The **Australian Medical Association** identified a range of key areas for funding commitments:

- **Telehealth** - permanent Medicare Benefits Schedule rebates for telehealth consultations with GPs and medical specialists - which were introduced in response to COVID but are only funded to the end of the year.
- **Public hospitals** - implement a comprehensive funding solution for public hospitals to reduce waiting times and cope with times of increased demand.
- **Aged care** - provide greater access to healthcare within the system to reduce the reliance on hospitals.
- **General Practice** - invest in the sector to respond to the needs of the ageing population.
- **Private health insurance** - addressing the decline in private health insurance and ensuring its long-term sustainability.
- **Indigenous health** - better access to healthcare to improve current poor health outcomes.

The **Pharmacy Guild of Australia** and the **Pharmaceutical Society of Australia** highlighted measures including:

- **Combating opioid dependence** - by increasing access to, and reducing the cost of, opioid dependence treatment.
- **Implementing e-prescriptions** - to reduce medication errors.
- **Aged care** - increase funding to allow residential aged care facilities to directly engage pharmacists to reduce preventable harm caused by medicines.

Australian Aged Care Collaboration, a group comprising of six peak bodies that deliver 70% of in-home and communal residential aged care services, outlined a range of priorities for this year's Budget, based on the findings of the Royal Commission. These were grouped into broad categories, including:

- **Human rights, access and choice** - including committing to a rights-based (non-rationed) Aged Care Act by July 2023; providing funding to remove the waiting list for home care packages by December 2022; developing and implementing uncapped and better integrated aged care (both in home and residential) by July 2024 with clear funding (comprising a mix of block and activity models and personal contributions).
- **Workforce** - increase minimum award wages; fund training program to ensure adequate long-term aged care workforce; improve access to wider health system by older people receiving aged care (including allied health professionals); implementing a national registration scheme for personal care workers.
- **Transparency** - implementing transparency and accountability provisions from December 2022, including clinical indicators, performance-based star ratings, reporting of care staff hours, reporting financial data to the independent pricing authority and strengthening prudential regulations.
- **Sustainability** - establishing an independent aged care pricing authority by July 2022 to determine pricing based on case-mix; funding for implementing amendments to indexation arrangements; extending the 30% increase in the Viability Supplement (for rural and regional providers); increased funding for residents' everyday living expenses and reimbursement for employers for their staff development costs.

Vision 2020's pre-Budget submission focussed on enhancing local eye care for Aboriginal and Torres Strait Islander communities, increasing support to combat blindness in Papua New Guinea, enhancing support for older Australians with vision loss, supporting workforce training, and increasing access to cataract surgery.

The Australian Healthcare & Hospitals Association had a wide range of recommendations across the healthcare system, including: moving from a volume-based healthcare system to a value-based one; increased funding for preventative health, mental health, oral health and aged care; a nationally consistent framework for advanced care, palliative care and end of life decisions; improved access to healthcare for Aboriginal and Torres Strait Islanders and rural and remote communities; and the establishment of an Australian Centre for Disease Control.

What did the Budget deliver?

Aged Care

The Government has pledged $17.7 billion over 5 years as part of an overall funding package in response to the Royal Commission into Aged Care Quality and Safety. This spending includes:

Residential Aged Care Services - the Government will provide $7.8 billion over five years from 2020-21 into improving the service and sustainability of residential aged care services, including:

- $3.9 billion over four years from 2021 on increasing front line care minutes with 200 minutes per day (40 minutes with a registered nurse) to be mandated by October 2023.
- $3.2 billion to support aged care providers via a new daily supplement of $10 per resident.
- $278.8 million over three years to continue the temporary financial support for aged care providers.
- $189.3 million over four years to implement a new funding model, the Australian National Aged Care Classification.
- $117.3 million to support structural reforms of the aged care sector and the strengthened financial reporting requirements for residential aged care providers.

Home Care Packages - an additional $7.5 billion will be provided in creating new home care packages which includes:

- $6.5 billion over four years to create 80,000 new home care packages over two years from 2021-22.
- $798.3 million for greater access to respite care and support carers.
- $272.5 million over four years to support access to information about aged care for senior Australians.

Aged Care Quality & Safety - $942 million over four years of new funding will be directed to improve the quality and safety of aged care services, including:

- $365.7 million for primary and other health care access and additional digital & face-to-face support to navigate the aged care system.
- $301.3 million for the Aged Care Quality and Safety Commission to ensure the safety and integrity of aged care services and to address the failures of COVID-19 response.
- $200.1 million for a new star rating system for senior Australians and their family and carers to make comparisons of aged care providers.

Regional Access to Aged Cared & Governance - $698.3 million in funding over five years, with the largest share to improve access to quality aged care services in regional, rural and remote areas, including those with Indigenous backgrounds and special needs groups.

Workforce - $652.1 million will be provided for training and upskilling of the aged care workforce.

Mental health

The Government will spend $2.3 billion over the four years starting 2021-22 to implement the National Mental Health and Suicide Prevention Plan, in collaboration with state and territory governments. This spending includes around $1.2 billion for mental health treatment (including specialised youth and disability services), almost $300 million for suicide prevention, around $250 million for prevention and early intervention and around $200 million to support workforce and governance.

COVID-19 measures

The Government will spend $1.9 billion over the five years commencing 2020-21 to continue the rollout of COVID-19 vaccines. The detailed breakup of this spending is somewhat unclear - given existing funding from last year's budget, along with commercial-in-confidence details regarding additional purchases of the Pfizer BioNTech vaccine.

The Government will spend $879 million over the two years from 2020-21 (including around $140 million carried over from last year's budget) to support Medicare and access to medicines in response to the COVID-19 pandemic. These measures include:

- $557.1 million to extend temporary Medicare Benefits Schedule (MBS) pathology items for COVID-19 testing.
- $204.6 million to extend temporary telehealth MBS services until the end of 2021, with some revised billing arrangements to commence 1 July 2021.

The Government will also spend $845.3 million over the two years from 2020-21 to continue its emergency response to the pandemic. These measures include:

- $487.0 million over two years to expand quarantine facilities in the Northern Territory.
- $271.5 million in 2020-21 to support the activities of the National Partnership on the COVID-19 Response.

Medicines and appliances

The Government will spend $882.5 million over the five years starting from 2020-21 for new and amended listings on the Pharmaceutical Benefits Scheme, the Repatriation Pharmaceutical Benefits Scheme and the Stoma Appliance Scheme, including extending the Take Home Naloxone Program to reduce the risk of opioid overdose.

Other healthcare measures

Changes to the Medicare Benefits Schedule will see the Government spend an additional $151.5 million over four years from 2021-22 for a range of services - including pre-implantation genetic testing of embryos for IVF; improved diagnosis of hypertension; and a range of cancer diagnosis and treatments.

The Government will spend an additional $231.9 million over the four years starting 2021-22 to support the national sport plan "Sport 2030" and support sport and physical activity in the community.

The Government will spend an additional $297.4 million over the four years starting 2021-22 to support greater access to primary healthcare services, with Medicare subsidised treatment for medication resistant major depressive disorder accounting for a large share of the spending.

How did business react?

The **Australian Aged Care Collaboration** welcomed the Government's $17.7 billion funding increase into the aged care sector over the next four years in response to the Aged Care Royal Commission. AACC representative Patricia Sparrow noted that this Budget, and the Government's response to the Royal Commission's recommendations, finally addressed many of the challenges facing aged care. That said, she noted that Australia now spends around half of what comparable countries do on aged care, and while this year's budget won't close the gap, it will provide structural relief in many critical areas.

The President of the **Australian Medical Association**, Dr Omar Khorshid, highlighted the increased spending on aged care and mental health as much needed improvements, although noted some concerns around how long implementation will take. Dr Khorshid also raised concerns around capacity in public hospitals and GP clinics - particularly regarding waiting times in emergency rooms and for elective surgery. He also noted that more should be done regarding prevention measures and that telehealth should be made permanent, rather than being temporarily extended.

Alison Verhoeven, **Chief Executive of Australian Healthcare and Hospitals Association** noted the sizeable investment in health in this year's budget, but also highlighted the need to plan for future challenges, such as climate change, the ageing population with rising rates of chronic disease and equity issues in healthcare access. She also noted that the announced spending in aged care was only around half of the investment recommended as necessary by the Royal Commission and the short-term extension to telehealth was a missed opportunity.

NAB's View

Kate Galvin, **Executive NAB Health**, noted "It is pleasing to see Health and Aged Care at the forefront of the budget, highlighting a strong commitment to pursue a healthy Australia. The NAB Health team is looking forward to discussing these announcements with all of our customers with a view to understanding the impacts on their businesses."

With regards to aged care, **NAB's Head of Corporate Health** John McCarthy stated "As one of the largest financiers to the sector we welcome the budget announcements and the Government's commitment to meaningful reform. We believe there is a balance between immediate relief with an eye to longer term change. We look forward to continuing to support our customers and the sector as the change program is implemented over the coming years." More specifically he noted:

- In response to the 148 Royal Commission recommendations, Aged Care funding and reform were set to be the centrepiece of the 2021 budget. The Government committed to addressing the final report on budget night. To a large degree it did this directly through an increase in funding to residential facilities and home care places, and indirectly through various buckets of funding to support a complete reform of the sector.

- Residential Aged Care facilities, that have largely been struggling to cover the cost of care, will benefit directly from the $10 daily increase per resident. This will provide instant relief while $189m is spent on putting in place the Australian National Aged Care Classification Model that should ensure there is a more sustainable funding model going forward.
- Funding for mandated care hours and registered nurses will boost confidence in the sector. The key questions are: is the funding sufficient and why wait until October 2023?
- 80,000 additional home care places over the next two years will go a long way to addressing the current wait list issues and will provide genuine choice for consumers. Additional funding to safeguard the system through support for informal carers, respite services and the new support program are all key enablers to a functioning home care system.
- Staffing the biggest issue within the sector and one that needed to be addressed urgently has been provided welcome relief with the Government committed to grow a "skilled, professional and compassionate aged care workforce" through a $652m funding package. Vocational training places and financial support for registered nurses will enhance the attractiveness of the sector to potential employees.
- The perception of the sector has suffered through inconsistent governance and reporting. There is additional funding to establish a National Aged Care Advisory Council, independent regulator and a new star rating system. These enhancements will provide be endorsed by all stakeholders in the sector.
- The integration with primary health networks in the regions and the additional funding to improve access to the primary care system for residents of aged care facilities will hopefully highlight the benefits of collaboration across the healthcare sector to improve care for older Australians.
- While means testing has not been directly covered, the introduction of an Independent Pricing Authority is another welcome relief to the sector. The authority needs to fully review how the consumer contributions are managed to ensure a fair and equitable system.
- While investors, consumers and operators will welcome the removal of the ACAR, greater clarity is still needed on the future of RADs. The phasing out of these as recommended by the Royal Commission has not been covered and this will create instability within the sector.

2. Education

Over the past year, the education sector has been a key sector feeling the disruptive effects of the pandemic. From the challenges of home-schooling, to the issues related to closed borders for international education providers, the effects have been pervasive. Educators and students have adapted to meet these challenges, with more flexible timetables, and uptake in technology for remote learning.

However, for the tertiary sector, which contributes heavily to services exports, funding constraints associated with physical border closures remain. With the continued absence of international students, revenue to the universities sector fell by about $1.8 billion in 2020, or about 5% on 2019 figures. This drop in revenue is likely to be repeated in 2021 while international borders remain closed, or relatively small numbers are granted entry.

Universities across the country proposed to Government a range of plans aimed at bringing international students back under special lockdown arrangements but with little success to date. The sector (along with other institutions that host international students, including VET, ELICOS and schools), fear that students abroad are growing impatient and may turn to competitor countries which have made immigration concessions to allow internationals to return to their studies on campus. The sector has recognised that bringing Australians home should be a priority, but have also argued that there is capacity to bring back both residents and students, with costs borne by the students themselves and education providers.

The Federal Government has continued to signal that universities should not expect a large-scale return of international students until 2022. The sector has been encouraged to increase diversification (arguing that even before COVID hit, rates of growth of on-campus enrolments were not sustainable), focus on domestic students, and invest more in online delivery models for international students.

What did business want?

Universities Australia (UA) highlighted 12 targeted initiatives they proposed would strengthen the sectors role in the economy and support research. While acknowledging the benefits of the $1billion research funding in the October 2020 budget, UA continued to advocate for stabilisation funding for the research workforce; hardship support for students; and the extension of HELP loans for students looking to retrain.

In addition to universities advocating for research initiatives, in the Science & Technology Australia pre-Budget submission, they maintained a proposal that the government invest $2.4 billion over the forward estimates to support a "Research Translation Fund" which would provide long term research funding. There was also a submission to improve communications to attract more STEM students and fund a STEM specific Teach for Australia program.

In terms of school education, the **National Catholic Education Commission** (NCEC) continued to urge 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 January submission, the NCEC recommended stimulus funding for capital works for both schools and early childhood centres, and the consistent application of funding for preschools. The NCEC has a list of project proposals worth $1.02 billion in 2021-22.

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; 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. The **Australian Childcare Alliance** (ACA) has also long advocated for the removal of the CCS annual cap arguing it had been a major disincentive for secondary income earners when deciding how many days they would like to work. They have also stressed that for Australian families who have multiple children in early learning, affordability is a major challenge and often results in the secondary income earner remaining out of work until all of their children commence school.

What did the Budget deliver?

Childcare

Starting on 1 July 2022, the current $10.3 billion in Child Care Subsidy (CCS) will be increased by $1.7 billion. If a family has more than one child aged 5 and under in the childcare system, the subsidy will increase by 30 percent to a maximum of 95 percent of the daily fee for the second and subsequent children. Treasury estimates that about 250,000 families will benefit from this initiative. In addition, the current $10,560 subsidy cap for families with a combined income above $189,390 will be removed.

Preschools

$1.6 billion will be provided over four years from 2021-22, which covers the 2022 to 2025 preschool years under the Guaranteeing Universal Access to Preschools Program. The proposed agreement aims to support 15 hours of preschool per child, per week, and 600 hours per year, in the year prior to starting school. It should be noted that this proposal will be delivered via a yet to be negotiated agreement with the states and territories and replaces an existing agreement.

Schools

There is an additional $40.8 million over two years from 2021-22 for the continuation of the sporting schools program.

$63 million, over four years from 2020-21, is allocated as part of the Indigenous Skills and Job Advancement Program, to support a further 2700 places in indigenous girl's academies. However, funding for this measure has already been provided as part of the previous budget.

As part of regular funding transfers, school funding to non-government schools increases from $13 billion in 2020-21 to $14.7 billion in 2021-22. On the same basis, government school funding increases from $9.0 billion to $9.7 billion.

Job training

$2.7 billion to extend the Boosting Apprenticeship Commencements, which is a wage subsidy that will reimburse businesses up to $7,000 per quarter for 12 months for taking on new apprentices and trainees. While this is a wage subsidy, it is likely to lead to further demand for technical training. Further, a $500 million extension of the JobTrainer fund, conditional upon state and territory governments matching contributions. The aim is to provide an additional 163,000 low fee and free training places, with 33,800 targeted towards aged care skills, and 10,000 places for digital skills courses.

There are also a series of smaller targeted 'Next Gen' programs, although these are partly allocated beyond the forward estimates. As part of the Next Generation AI graduates program, the government has allocated $24.7 million over 6 years to attract and train AI specialists. A further $42.4 million is allocated over 7 years for a Next Generation of Women in STEM.

Tertiary support

Additional support to tertiary and international education providers is relatively small. An additional $26.1 million will be available in 2021-22 to non-university higher education providers for 5,000 short course places in 2021. $9.4 million is also allocated in 2021-22 for $150,000 grants to support online and offshore delivery models. A PhD program that links funding to industry placements has been allocated $1.1 million. The $1 billion emergency research funding support of 2020-21 has not been extended.

How did business react?

Universities Australia Chief executive Catriona Jackson reiterated the need for the facilitation of a return of international students, stating that "another $2 billion will be lost this year" in reference to the likely revenue shortfall from continued border closures. The **National Tertiary Education Union** went further, citing the cessation of the emergency research funding and limited benefit of allocating 5,000 short course places. The NTEU asks "Where is the rescue package for higher education…which has lost over 17,300 jobs". The **Australian Education Union** highlighted a lack of reference to TAFEs, despite the government's emphasis on apprenticeships and job training.

The early childhood education sector welcomed the pre-budget announcement for the additional $1.7 billion. Sam Page from **Early Childhood Australia** (ECA) commented further "We are also pleased that removal of the $10,560 cap on the Child Care Subsidy is part of the announcement". However, the delayed timing of changes has not been greeted with the same enthusiasm. "While ECA believes this investment is a step in the right direction, we are disappointed that changes are planned to come in to effect in 2022". The **National Catholic Education Commission** (NCEC) also welcomed the $1.6 billion for Early childhood learning and $63 million for Indigenous girls academies. Executive director Jacinta Collins said "the continuation of universal access to 15 hours preschool will enable children to build critical foundations…".

The Parenthood, an independent not-for-profit, issued a mixed response. "$1.6 billion over 4 years for preschool funding for 4 year olds is great news. Nothing beyond $1.7 billion over three years for child care - with nothing for educators - is disappointing."

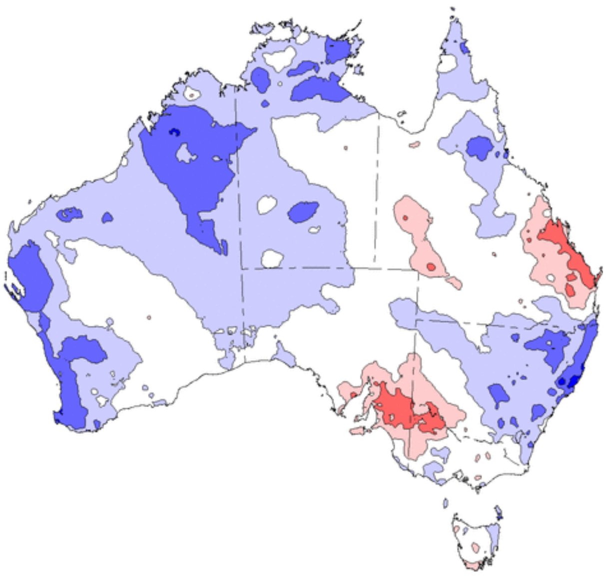
Science and Technology Australia CEO Misha Schubert said "New women in STEM scholarships would pave the way for more women and girls to study science and technology."

3. Agribusiness

Australia's agricultural sector is currently enjoying boom conditions across many (but not all) industries, underpinned by largely good prices and seasonal conditions. Prices continue to perform generally very well, rounding out a mostly strong period for many agricultural producers. Cattle prices have been perhaps the most obviously compelling, with the benchmark EYCI cracking a record 900c/kg earlier last month. However, trends in global grain markets also point to encouraging news for Australian grain growers.

Seasonal conditions, which were bolstered by big rainfall events earlier this year, remain generally good. But some small caveats are emerging. April has been very dry in many areas and soil moisture levels have taken a hit from the lack of rain. This is unlikely to be a concern at this stage, given the rains earlier this year. But it does bear close watching.

Rainfall deciles – last 6 months (BoM)



What did business want?

The **National Farmers Federation** (NFF) released a wish list last week, noting that the government had already committed to biosecurity upgrades (which they commended). The list included trade resilience, workforce development and climate adaptation. Budget's delivery of substantial funding to support the $100 billion goal is likely to be very welcome. **NSW Farmers** was likewise supportive to the biosecurity measures.

What did the Budget deliver?

The budget includes several initiatives for the agricultural sector, but the key focus is in the following areas:

- Agriculture 2030 - $850 million over the forward estimates to support the National Farmers Federation's (NFF) ambition of a $100 billion industry by 2030;
- A one-year extension to the instant asset write-off, to June 2023;
- Redirected $1.5 billion in already-announced water efficiency funding to Murray Darling basin water projects, as well as continued drought funding; and
- Changes to visa arrangements to allow temporary visa holders to undertake more farm work, although the budget forecasts the borders will remain closed until mid-2022.

Agriculture 2030

The NFF's goal for a $100 billion target for Australia's agricultural sector by 2030 has been around for some time. The 2020-21 budget explicitly addresses this commitment, with additional funding for biosecurity, soils, biodiversity, export and production. The budget provides $850 million over the forward estimates.

Just under half of the funding under Agriculture 2030 (some $411.4 million) is directed to biosecurity and pest management and was largely leaked before budget night. There is also $147.9 million for soil programs, $102.1 million for production and trade, $67 million for organic waste, $36.8 million for biodiversity and $50.3 million for forestry and fisheries, with the balance of funds in the package to support agricultural employment and innovative agricultural practices.

Instant asset write-off extension

The instant asset write-off was expanded substantially in last year's budget to $150,000, largely as a COVID stimulus measure. The scheme has been extended for one year to 30 June 2023. Treasury estimates that this will reduce revenue by $17.4 billion over the forward estimates. The temporary loss carry-back was also extended at a cost of $2.8 billion.

Drought and water infrastructure projects, other sundry measures

The budget provides funding for drought support, although some of this is existing funding, as well as redirected $1.5 billion from the Water Efficiency Program to improvement works in the Murray Darling basin. The budget also provides $29.3 million for timely environmental assessments.

Visa changes and border reopening timing

A key challenge for agricultural businesses, particularly in horticulture, has been lack of labour availability with closed borders. While the budget includes a measure (announced in January 2021), to allow temporary visa holders to work more hours in the agricultural sector, the major challenge remains closed borders. The budget sees negative net migration to the tune of almost 100,000 by mid-year and does not forecast the border reopening until well into 2022. This is likely to present an ongoing challenge to industry. One silver lining is that the budget includes the assumption that the vaccination rollout will be completed this year, if this transpires it is likely borders can reopen earlier.

How did business react?

The **National Farmers Federation** (NFF) was particularly pleased with this year's budget, perhaps in part because the it explicitly acknowledges the $100 billion by 2030 target. The NFF described the budget as a shot in the arm for agriculture and regional Australia, with NFF President Fiona Simson commenting that “This Budget is recognition of the crucial role a strong and profitable farm sector plays in Australia's overall economic prosperity”. However, the NFF did criticise the lack of funding for rural communications.

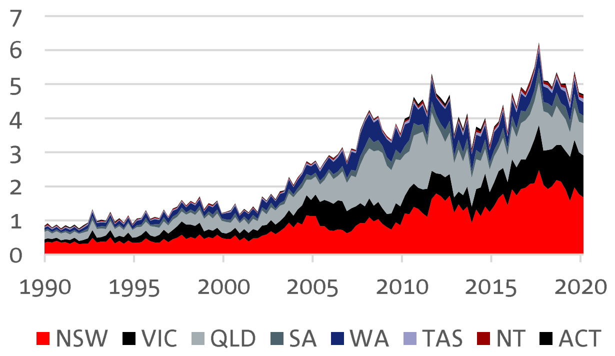
4. Infrastructure & Construction

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

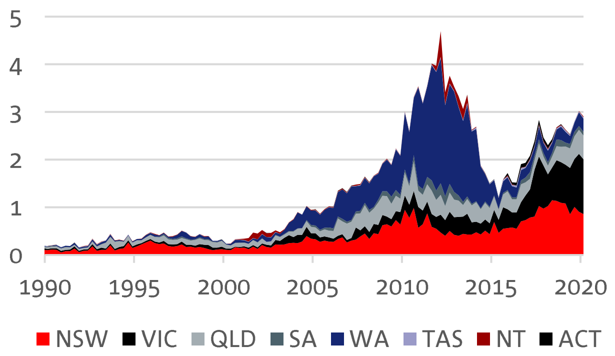
While infrastructure investment remains at a high level, ABS engineering construction surveys show that road spending has plateaued since 2018, while rail has continued to grow, driven largely by spending in Victoria.

Transport infrastructure is largely delivered by (or behalf of) state governments, although due to vertical fiscal imbalance (i.e. the Commonwealth raises most of the revenue) Commonwealth funding contributions are a key element of new projects.

Road engineering construction, $b quarterly (ABS)



Railway, bridge, harbour engineering construction, $b quarterly (ABS)



What did the Budget deliver?

The budget delivers an additional $15.2 billion in infrastructure spending over 10 years as part of its commitment to provide $110 billion in infrastructure spending over the next decade. It is important to note that the full phasing of this spending is not available beyond the five-year budget and forward estimates period. More detail by state is included below.

Victoria
The budget commits $3.0 billion for projects in Victoria, with the major projects being:

- Up to $2 billion for the Melbourne Intermodal Terminal, although funding and potential Commonwealth equity is yet to be fully determined. The proposal seeks equivalent funding from the Victorian Government.
- $380 million for Pakenham Roads Upgrade
- $250 million for Monash Roads Upgrade

New South Wales
The budget commits $3.3 billion for projects in New South Wales, with the major projects being:

- $2.0 billion for the Great Western Highway from Katoomba to Lithgow
- $500 million for the Princes Highway
- $229.4 million for the M12 Motorway

Queensland
The budget commits $1.6 billion for projects in Queensland, with the major projects being:

- $400 million for the Bruce Highway
- $400 million for the Inland Freight Route
- $240 million for the Cairns Western Arterial
- $178.1 million for Gold Coast light rail capacity improvement and $126.6 million for the light rail stage 3 extension
- $160 million for the Mooloolah River Interchange

Western Australia
There is $1.3 billion for Western Australian projects, including:

- $237.5 million for METRONET Hamilton St/Wharf St grade separations and $110m for the METRONET Byford extension
- $200 million for the Great Eastern Highway
- $160 million for agricultural supply chain improvements
- $112.5 million for the Reid Highway

South Australia
There is $3.2 billion for South Australian projects, including:

- $2.6 billion for the North-South Corridor
- $161.6 million for the Truro bypass
- $148 million for the Augusta Highway duplication

Tasmania
The budget commits a further $322.6 million for Tasmanian infrastructure projects, including $113.4 million for the Midland Highway.

The Territories

The Northern Territory has received $323.9 million, including $173.6 million for gas industry roads upgrades and $150 million for National Network highway upgrades.

The ACT has received $167.3 million, including $132.5 million for Canberra Light Rail stage 2A.

How did business react?

Infrastructure Partnerships Australia was pleased with additional funding, with CEO Adrian Dwyer commenting that: “The Federal Government has raised its high watermark of infrastructure funding in this year’s Budget … The challenge now is getting dollars out the door and diggers in the dirt.”