# 2022-23 FEDERAL BUDGET

## What does it mean for Infrastructure & Construction?

more than money

nab

## Group Economics overview of the Budget

With the looming election and the promise by the Opposition of a new budget if elected, there is considerable uncertainty over how many of the announced measures will be implemented. We also don't know what else the Government will announce in the lead up to the election (although the Contingency Reserve which widens to $15.4 billion by 2025-26 is pointing to some further announcements).

That said, the focus of spending was largely as expected. Cost of living measures were a centre piece, including halving the petrol excise for 6 months (worth 22c per litre), an extra $420 on the LMITO, and one-off special payment of around $250 for pensioners and welfare recipients.

Planned infrastructure spending was upped by $17.9 billion - largely concentrated on roads and rail. A new Regional Investment package of at least $11 billion was announced as well as significant new spending on defence - worth $270 billion over 10 years. Elsewhere there were incentives for investment in agriculture, medical manufacturing and digital.

Other measures included tax benefits for SMEs to invest in training and technology and an extension and expansion on home loan guarantees for housing.

Our analysis of the Structural Budget impulse using OECD methodology points to, very little structural tightening over the forward estimates - with the structural position improving by only 2% of GDP over the next 3 years. This sees the structural deficit still around 5% of GDP by 2024-25. Indeed, the small reduction in the headline Budget was largely brought about by a better economy - we think more could have been done.

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. See Fiscal Stimulus section.

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. Further measures that cut red tape, reform taxation and provide greater support for renewable energy would have been welcomed. This budget also does not change expectations for monetary policy - i.e., the RBA will move soon to moderately increase rates (we expect that process to start by August this year).

### Fiscal Outcome

The underlying cash balance for 2022-23 is estimated at $78 billion (or around 3.4% of GDP), while around $47 billion or 1.9% of GDP by 2023-24. Net debt is now expected to peak at around 33.1% of GDP by 2024-25 much lower and earlier than previously expected. That said, a return to surplus looks many years away.

### Economic Outlook

Both we and the Treasury have similar views on the economic outlook. We see growth of around 3.8% in 2022-23 (Treasury has 3.5%). For 2023-24 we have 2.2% and they have 2.5%. Our expectations for consumption and investment are somewhat more modest in the short term than the Treasury's forecasts, but on the other hand we see unemployment lower for the near term at 3.5%.

Further out, Treasury see unemployment falling to 3.75% in 2023-24 - we are at 3.5% - and then they see unemployment rising back up to 4% in 2024. They also forecast less sustained business investment growth. Regardless, we share a positive outlook for the near term, albeit coloured by elevated inflation and ongoing virus and geopolitical risks.

### Financial Markets

S&P has indicated that with Australia running a current account surplus in recent years, Australia's AAA rating is secured by a return to a budget deficit of around 2.5% of GDP, which this Budget presents.

# Infrastructure & Construction

**A record $225 billion in major infrastructure investments has been committed by governments across the country** between now and 2023-24, as well as investments being planned and delivered by the private sector.

**Infrastructure Australia** (IA) have noted that "many leading infrastructure economies, such as the United Kingdom and Canada were pursuing significant reform to the way infrastructure was delivered and operated in order to ensure they remain attractive places to live and work in, as well as safe and secure places to invest. The competitive pressures have been compounded by the COVID-19 pandemic, which has radically changed existing patterns of use for infrastructure and constrained the availability of international skilled labour". IA believes that the Australian construction industry has "failed to keep pace with the global transformation of the sector, which is seeing a shift from a focus on manual work on site to digitally enabled, prefabricated production processes delivered off-site". IA recently released a report providing a roadmap for the long-term reform it argues the sector needs to overcome skills and procurement challenges and deliver the critical infrastructure Australia needs. The report's key reform recommendations include:

- **Shifting** from a focus on manual work on-site to off-site digitally enabled, pre-fabricated production processes, in line with international best practice.
- **Developing** and publishing jurisdiction-wide, cross-sectoral infrastructure investment pipelines that outline current, funded, committed and planned public and private infrastructure activity over a ten-year horizon.
- **Shifting** from current combative contracting models to longer-term, collaborative models that integrate the supply chain.
- **Supporting** the financial sustainability of the infrastructure industry by adopting principles of fair return, improving benchmarking, reviewing payment terms and risk allocation
- **Establishing** and embedding equality, diversity and inclusion objectives through each infrastructure investment.

## What did business want this year?

**Infrastructure Partnerships Australia** welcomed the commitment by the Government to establish the National Intermodal Corporation, noting it was essential to have the right governance and planning mechanisms in place to facilitate the sectors continued growth. This will not only support the move towards a more integrated freight network but facilitate critical investment in intermodal terminals in Melbourne and Brisbane. The infrastructure sector welcomed the focus on increasing competition and efficiency by ensuring open-access arrangements across the Australia's east-coast network and making rail freight a preferred long-haul mode under the new Intermodal governance model. The sector looked forward to further funding clarity for these critical intermodal terminals in the upcoming Budget.

The **Australian Logistics Council** (ALC) focused their submission on six specific issues including intermodals and rail; critical infrastructure legislation and risk management; funding of SMEs to assist digitisation of information; compliance with Public Health Orders; International Freight Assistance Mechanism (IFAM); and emissions reduction. The ALC noted that "the ability of moving freight from Melbourne to Brisbane in one day could change the way freight is moved in Australia from a ratio of 30% movement by rail, to 62% by 2050". The ALC also recognised that with transport Australia's third largest source of greenhouse gas emissions (and the highest rate of growth), a specific and targeted focus on the heavy vehicle sector (with additional funding) would provide added impetus at an early, and important, stage of the transition and help fast track enterprise-level initiatives, (including testing and trialing of zero emissions vehicles for the freight and logistics sector for use in Australian conditions).

The **National Growth Areas Alliance** (NGAA), which represents Councils from fast-growing areas, noted that "the COVID-19 pandemic had disproportionately impacted growth area communities" and particularly in Victoria and NSW. More than five million people live in an outer urban growth area around our major cities - 20% of Australia's population. The NGAA believes there is a "new looming infrastructure crisis in growth areas exacerbated by the high take-up of Homebuilder grants, which has seen record building approval rates in all growth area LGAs across the country, which will see development occur long before vital infrastructure is planned and funded, let alone delivered". Among their recommendations, they called for a financing mechanism to secure current and future infrastructure delivery, and a strong role for national and state infrastructure bodies (with less ad hoc infrastructure funding announcements). The NGAA endorsed Infrastructure Australia's call for place-based planning.

## What did the Budget deliver?

**The Budget includes funding for 'priority road and rail projects' at a cost of $17.9 billion over 10 years.** Water infrastructure projects in regional communities are worth $7.4 billion over 12 years, and there is also $1.3 billion in new spending on regional communications over 6 years. A new 'regional accelerator program' will cost a further $2 billion over 5 years.

**New South Wales** is set to receive $3.3 billion for infrastructure, of which $1.33 billion is in the Budget and forward estimates period. Key projects include (but are not limited to):

- $1.0 billion for Sydney – Newcastle faster rail
- $352 million for the Milton – Ulladulla bypass
- $355 million for the Pacific Highway
- $300 million for grade separations
- $232.5 million for the Newell Highway
- $232.5 million for Mulgoa Rd stage 2
- $100 million for Southern connector Rd
- Other projects below $100 million in value

**Victoria** is set to receive $3.4 billion for infrastructure, of which $208.4 million is in the Budget and forward estimates period. Key projects include (but are not limited to):

- $1.2 billion for the Beveridge Interstate Freight Terminal
- $920 million for Outer Metropolitan Ring Rail South
- $740 million for the Western Interstate Freight Terminal
- $280 million for the Beveridge Interstate Freight Terminal road connections
- $109.5 million for Mickleham Rd
- Other projects below $100 million in value

**Queensland** is set to receive $3.3 billion for infrastructure, of which $446.5 million is in the Budget and forward estimates period. Key projects include (but are not limited to):

- $1.6 billion for the Beerwah-Maroochydore rail extension
- $1.1 billion for Brisbane – Gold Coast faster rail
- $190 million for the Mount Isa to Rockhampton corridor
- $114.4 million for the Tennant Creek to Townsville corridor
- Other projects below $100 million in value

**Western Australia** is set to receive $1.7 billion for infrastructure, of which $1.05 billion is in the Budget and forward estimates period. Key projects include (but are not limited to):

- $441.2 million for METRONET
- $320 million for the Bunbury outer ring road
- $200 million for the Tonkin Highway
- $178 million for the Pinjarra Heavy Haulage Deviation
- $145 million for the Thomas Road Dual Carriageway
- $140 million for regional road safety
- Other projects below $100 million in value

**South Australia** is set to receive $2.8 billion for infrastructure, of which $229.3 million is in the Budget and forward estimates period. Key projects include (but are not limited to):

- $2.3 billion for North - South Corridor
- $200 million for Marion Road - Anzac Highway to Cross Road
- $120 million for Adelaide Hills roads
- Other projects below $100 million in value

**Tasmania** is set to receive $639.9m for infrastructure, of which $185.3m is in the Budget and forward estimates period. Key projects include:

- $336m for northern roads
- $100m for the Great Eastern Tourism Drive
- $96.0m for Tasmanian rail freight.

The **Northern Territory** is set to receive an additional $237 million for infrastructure, of which $105 million is in the Budget and forward estimates period. Projects funded are:

- $132 million for Central Australian tourism roads
- $55 million for Tiger Brennan drive
- $50 million for Alice Springs – Hall Creek road upgrade.

## How did business react?

**Infrastructure Partnerships Australia** Chief Executive Adrian Dwyer said:

*"We welcome the significant $9 billion increase in funding for infrastructure, lifting total spending to $66 billion over the next four years. We are particularly pleased to see a sensible focus on freight in Victoria and faster rail in NSW and QLD. Our freight sector plays a vital role in keeping Australia's economy moving, so it is essential we have the infrastructure in place to make rail freight a preferred long-haul mode over the longer term."*

But Mr Dwyer also added: *"While we welcome these well-considered rail infrastructure commitments, there is still taxpayer money chasing sub-economic projects in this Budget."*

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