

07 October 2020

Federal Government Budget 2020-21

Rebuilding Australia's economy

The Federal Government Budget 2020-21 is one of Australia's most important in living memory.

Against the backdrop of a global pandemic, the Morrison Government has provided its vision to navigate Australia out of the economic crisis COVID-19 has created.

The aim of this budget is to *cushion the blow* and reset Australia's economy.

The Government has announced a forecast budget deficit of \$213.7 billion in 2020-21 – just over 10 per cent of the nation's GDP. That figure is expected to drop to \$66.9 billion by 2023-24.

Total net debt is forecast to rise to \$966 billion by 2023-24.

The budget represents the beginning of a broad strategy to drive economic growth, with a focus on jobs, tax cuts and business support measures.

Other measures announced include the building of new infrastructure, stimulus for the housing sector and the funding of skills development.

With COVID-19 demonstrating how quickly highly fragmented global supply chains can evaporate, manufacturing capabilities will be boosted in six priority areas.

Business support measures will help ensure jobs are created and economic growth can continue. They include instant tax write-offs and the loss-carry back scheme for eligible businesses.

The Committee notes that tax cuts promised by the Coalition in the 2018 and 2019 budgets have been brought forward to help boost household and consumer confidence.

The Stage two tax cuts legislated to start in mid-2022 have been brought forward to July this year. The top threshold of the 19% tax bracket will rise to \$45,000, while the top threshold of the 32.5% bracket will rise from \$90,000 to \$120,000.

Net overseas migration is expected to contract by 71,600 this year and another 21,600 the following year, before stabilising in 2022-23. This record drop will have far-reaching consequences for the economy.

Australia's fiscal position is summarised in the tables below, which include the forward estimates.

Table 1: Budget Aggregates

	2020-21	2021-22	2022-23	2023-24
Surplus/Deficit (\$ billion)	-\$213.7	-\$112	-\$87.9	-\$66.9
Per Cent of GDP	-11%	-5.6%	-4.2%	-3%
Gross debt (\$ billion)	\$872	\$1,016	\$1,083	\$1,138
Per cent of GDP	44.8%	50.5%	51.6%	51.6%
Net debt (\$ billion)	\$703.2	\$812.1	\$899.8	\$966.2
Per cent of GDP	36.1%	40.4%	42.8%	43.8%

Table 2: Economic Indicators (% change)

	2020-21	2021-22	2022-23	2023-24
Real Gross Domestic Product (GDP)	-1.5%	4.75%	2.75%	3%
Unemployment Rate (%)	7.25%	6.5%	6%	5.5%
Consumer Price Index	1.75%	1.5%	1.75%	2%
Wage Price Index	1.25%	1.5%	2%	2.25%

The slump in economic activity combined with the necessary rise in government spending means the budget position has deteriorated sharply.

This budget is predicated on Australia obtaining a COVID-19 vaccine by late 2021, with outbreaks before then localised and contained.

The Committee has four key policy platforms; *Future Economy*, *Liveability*, *Urban Optimisation* and *Infrastructure*, and has convened a series of *Road to Recovery* working groups in response to the COVID-19 pandemic.

The Road to Recovery agenda covers various sectors including the visitor economy, arts and culture, not-for-profit, transport, housing, education and skills, and research and innovation.

Some of the key areas of the budget relating to our agenda are summarised below.

Transport and Infrastructure

Infrastructure investment will play a significant role in supporting Australia's economic recovery.

The Federal Government has announced an additional \$7.5 billion to be spent on national transport infrastructure.

Of that amount, \$1.1 billion will be invested in Victorian projects in comparison to the \$2.7 billion earmarked for NSW. The other states received \$155 million (ACT), \$190 million (NT), \$625 million (SA), \$360 million (Tasmania), \$1.1 billion (WA) and \$1.3 billion (Queensland).

Victoria's allocated funds will be directed towards 11 new projects, with additional funding for two more projects.

Three Victorian projects to receive major funding contributions include:

- \$320 million: Shepparton Rail Line Upgrade (Stage 3)
- \$292 million: Barwon Heads Road Upgrade
- \$208 million: Warrnambool Rail Line Upgrade (Stage 2)

The Committee welcomes investment in Victorian infrastructure projects. However, the investment in infrastructure for Melbourne, and Victoria, does not appear to be commensurate with the city and state's growing importance to the Australian economy.

Prior to COVID-19, Melbourne's population was growing disproportionately faster than any other Australian city, while the city and state was making an outsized contribution to Australia's GDP. This contribution should be reflected in Federal Government infrastructure spend.

Manufacturing

Australia will become a more competitive place for manufacturers to do business.

In a bid to fix vulnerabilities in Australia's supply chain, the budget includes a \$1.5 billion program to boost local manufacturing. Applications for more than \$50 million in grants will be open before the end of the year, while the remainder of the funds will be available over the next four years.

Six priority areas for Australian manufacturing have been identified:

- Resources technology and critical minerals processing
- Food and beverages
- Medical products
- Recycling and clean energy
- Defence
- Space

More than \$1 billion in grant funding will help commercialise ideas, generate economies of scale and integrate manufactured goods into global supply chains.

Supply chains profoundly disrupted by the pandemic will be strengthened with a \$107.2 million investment. Of that investment, medicines and medical equipment will be prioritised, followed by products such as food, chemicals and plastics.

An additional \$52.8 million is earmarked to expand the Manufacturing Modernisation Fund to provide immediate assistance to businesses in the priority sectors. It will aim to fast-track capital investment in technology upgrades and enable up to 150 additional local businesses to invest.

The Committee welcomes the renewed focus on manufacturing. Melbourne is home to a network of advanced manufacturing organisations, who service a range of industries including aerospace, defence, medical devices and pharmaceuticals.

Housing

Housing affordability is a significant element of the federal budget.

The First Home Loan Deposit Scheme is being extended to add an additional 10,000 places. This will enable first time home buyers to purchase a new or off-the-plan property with a 5% deposit and with a guarantee against mortgage insurance.

Properties in Melbourne worth up to \$850,000 will be covered under the scheme.

To help stimulate building, a \$688 million HomeBuilder scheme was announced, which will give cash grants to people to build new homes or renovate existing properties.

The Committee welcomes the issuance of \$1 billion in bonds to facilitate investment in affordable housing. The bond aggregator program encourages the provision of lower cost loans to the community housing sector for affordable housing provision. Affordable housing is required to create a critical supply of housing for the disadvantaged and key workers.

The Committee encourages greater collaboration between the Victorian and Federal Governments, and the private sector, to continue to find ways to increase the supply of affordable housing in Melbourne.

Employment and Skills

The new JobMaker scheme will replace the JobKeeper program and provide a wage subsidy for young job seekers between the ages of 16 and 35. The \$4 billion initiative aims to support 450,000 jobs.

Eligible businesses will be able to claim \$200 each week for every employee hired who is aged between 16 and 29. For hired employees aged between 30 and 35, businesses will be able to claim \$100 per week.

Employers will be given more than \$1 billion in new wage subsidies to take on 100,000 apprentices or trainees. Designed to increase employment opportunities for young people with limited experience and skills, this is a welcome initiative.

Just as important as getting people into jobs is the need for skill acquisition and deployment, which will underpin the post-COVID economic recovery. Initiatives to encourage upskilling and re-training of the workforce are necessary.

The Committee has been a strong advocate for the implementation and recognition of micro-credential qualifications to foster peoples' 'essential skills', including innovation, creativity and problem solving.

Tourism

Regional tourism has been boosted with more than \$250 million committed to the Regional Tourism Recovery Package. This package includes \$100 million for infrastructure projects.

The Committee welcomes the Government's commitment to support Australia's tourism industry and to encourage Australians to travel locally.

There are nine key areas earmarked for investment including Phillip Island in Victoria. The Committee believes the government should develop a tourism strategy that includes promotion of attractions in Greater Melbourne, given it acts as a gateway to the regions.

The Committee would welcome Tourism Australia opening a dialogue with Melbourne's visitor economy groups to determine a *road to recovery* strategy that will encompass a connected plan for Greater Melbourne and regional tourism.