

# The Opposition's 2022 Federal Budget reply

April 2022



# Executive summary

On Thursday night, Opposition Leader Anthony Albanese delivered the Budget Reply and completed the scene for the key themes that will be at the forefront of the policy debate as the nation moves towards an expected federal election next month.

With so much having happened to the Federal Government's financial position since the last election in 2019, Mr Albanese's speech was awaited with significant interest.

Mr Albanese's speech provides a valuable source of insight into the likely content of the further budget that the Opposition has announced it would hold later in 2022 if it forms government.

The two most prominent features of the speech were the Opposition's plans for boosting productivity and its plans for the aged care sector.

The plan for productivity improvement focuses on renewable energy, manufacturing, infrastructure, workplace skills and more affordable childcare.

On aged care, the announcements targeted a lifting of healthcare, nutrition and general care standards, supporting a pay rise for workers in the sector, and requiring care providers to report publicly on their spending.

The electorate and industry will be hoping for an extended period of sound economic management following the election, whichever party comes into power. This will be crucial to ensuring that households and businesses can continue to prosper in a global environment that appears to throw up a new challenge almost weekly. Geopolitical, environmental and financial headwinds continue to weigh on the prospects for Australia's future economic wellbeing.

# The Budget's economic forecasts

At a broad level, the economic forecasts contained within the Budget seem reliant on Australia lifting its productivity fortunes.

The Treasurer has forecast real GDP growth of 3.5 percent in 2022-23 and 2.5 percent in 2023-24, while assuming no change in the participation rate and population growth of nearly 400,000 people across those two years. Treasury projects that real GDP growth will average around 2.75 percent per annum over the period to 2032-33. However, this projection includes an assumption that labour productivity will steadily converge on its average growth rate for the 30 years to 2018-19, being 1.5 percent annually.

The apparently strong employment story of 3.75 percent unemployment rate in 2022-23 and 2023-24 raises some interesting questions. Australia does not have any recent experience of what the ongoing impact of such a low level of unemployment will be. There is a risk that further stoking of demand through fiscal policy could generate inflation without producing all of the hoped-for increase in GDP.

Overall, it appears the budget forecasts for real GDP and real wages implicitly assume an uplift in productivity growth and a continued strong labour market, especially in later years.

One potential element of upside compared to the Budget's GDP and government revenue forecasts appears to be the Budget's assumption about the iron ore price, which is forecast to decline to US\$55 a tonne by the September 2022 quarter and remain there. The current spot price Treasury has worked from is around US\$134 per tonne.

Under the Charter of Budget Honesty, Treasury will release a Pre-election Economic and Fiscal Outlook (PEFO) shortly after the calling of an election. PEFO is prepared by Treasury and the Department of Finance with no involvement from the government of the day. However, in the short time between the March 2022 Budget and PEFO, there will be no data releases that could materially change the economic and fiscal forecasts contained in the 2022-23 Budget.

## Key economic indicators from the 2022 Federal Budget

	MYEFO* 2021-22				BUDGET 2022-23				
	2021-22	2022-23	2023-24	2024-25	2021-22	2022-23	2023-24	2024-25	2025-26
Net operating balance (\$b)	(91.3)	(86.0)	(72.6)	(53.2)	(73.2)	(67.5)	(48.2)	(43.6)	(31.6)
Underlying cash balance (\$b)	(99.2)	(98.9)	(84.5)	(57.5)	(79.8)	(78.0)	(56.5)	(47.1)	(43.1)
Real GDP growth rate	3.75	3.50	2.25	2.50	4.25	3.50	2.50	2.50	2.50
Unemployment rate	4.50	4.25	4.25	4.25	4.00	3.75	3.75	3.75	4.00
Consumer price index	2.75	2.50	2.50	2.50	4.25	3.00	2.75	2.75	2.50

\* Mid-year economic and fiscal outlook

# Policy positions in the Budget Reply

The Budget Reply identified the need to address the perennial challenge of productivity improvement, as a pre-requisite for a broad-based raising of living standards for Australians.

Mr Albanese referred to five components of the ALP's plan to boost productivity:

- Investment in renewable energy and enablement of its wider use
- Growing the Australian manufacturing sector
- Investing in transport and communications infrastructure
- Increasing opportunities for training and workplace skills
- Making childcare more affordable

In the following pages we provide more information about the specific initiatives and policies that would underpin the delivery of these objectives.

Of these, the most significant in terms of expenditure appear likely to be the proposed \$20 billion modernisation of the electricity grid to make it more compatible with renewable energy sources and the increase to the childcare subsidy, which the ALP had previously costed at \$5.4 billion over an unstated period from July 2023. An increased childcare subsidy would of course become a recurring annual cost to the revenue.

The ALP has indicated that the aged care reforms discussed in the Budget Reply would cost approximately \$2.5 billion over the period of the forward estimates.

In 2019 the ALP had published a wider range of fiscal policies by the equivalent stage of the election run-up. It is reasonable to expect that it will release further policy statements between now and the election.

## ALP policy positions – business tax and regulation: general

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### Worker status and wage underpayments

Extend the powers of the Fair Work Commission to include “employee-like” forms of work such as gig economy workers and legislate an objective test for determining casual employee status. Following consultation with employer groups, trade unions and state/territory governments, introduce a federal criminal offence for dishonest underpayment of wages or superannuation contributions.

### Fringe benefits tax and import tariff exemption for some electric vehicles

An employer providing an electric car for an employee’s private use will receive an exemption from fringe benefits tax from 1 July 2022, where the car costs less than the luxury car tax threshold for fuel-efficient vehicles (currently \$79,659). These cars will also be exempt from import tariffs. A Labor government would review the policy after three years.

## ALP policy positions – business transparency and disclosure

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### Gender pay gap

Require an employer with more than 250 employees to publicly report its gender pay gap.

## ALP policy positions – personal tax and incomes

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### Personal income tax

The ALP has indicated that it would retain the currently legislated personal income tax reductions that are due to commence in 2024-25.

### Childcare subsidy (CCS)

Increase the maximum subsidy to 90 percent of the capped hourly rate (from current 85 percent for the first child in care at any one time). Commence the tapering of the CCS rate at family income of \$80,000 (currently \$70,015). Modify the taper rate to a consistent 1 percent for each additional \$5,000 of family income.

The ALP will also task the Productivity Commission with reviewing the childcare system with a view to how a universal 90 percent subsidy could be implemented for all families.

### Salary packaging of electric cars

An employee who salary packages an eligible electric car will benefit from the proposal to exempt these car fringe benefits from fringe benefits tax from 1 July 2022.

### Start-up Year loans to participate in accelerator programs

Offer loans to up to 2,000 final year students and recent graduates to enable them to participate in an accredited accelerator program, for example one run by a university, which provides mentoring and professional development.

## ALP policy positions – investment in infrastructure and skills

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### Rewiring the nation

As part of its plan for Australia to achieve a 43 percent reduction in emissions by 2030, the ALP proposes to establish a Rewiring the Nation Corporation which will invest \$20 billion towards the modernisation of the electricity grid to enhance its capacity to take on electricity generated from additional renewable sources. There is also a policy for a \$300 million investment in community batteries and shared solar banks.

### National Reconstruction Fund

A \$15 billion National Reconstruction Fund which will act as a financing vehicle to drive investment in infrastructure projects, on similar lines to the Clean Energy Finance Corporation. \$3 billion of this funding is allocated to support renewables manufacturing and the deployment of low-emission technologies.

### Housing Australia Future Fund

The Future Fund Board of Guardians will manage this \$10 billion fund and each year some of the investment returns will be transferred to the National Housing Finance and Investment Corporation to finance social and affordable housing projects. The remainder will be allocated to dealing with specific areas of acute housing need.

### Free TAFE places and New Energy Apprenticeships

The ALP proposes to make 465,000 TAFE places free, of which 45,000 will be new places.

To encourage apprentices to train in the new energy jobs of the future, the ALP will invest \$100 million to support 10,000 New Energy Apprenticeships. Apprentices who choose to train in new energy industries will receive up to \$10,000, being \$2,000 on commencement, and \$2,000 a year for up to four years afterwards, including on successful completion. 10,000 New Energy Apprenticeships will be available over four years (2,500 commencements a year from 2022-23).

## ALP policy positions – aged care

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### Care home standards and reporting

A registered nurse will be required to be on-site all the time. New minimum standards will apply for residents' nutrition and staff to resident ratios will be adjusted so that there is capacity for each resident to receive around 3.5 hours' interaction with a care worker daily. Care providers will be required to report publicly on their expenditure.

### Wages for workers in the sector

The ALP in government would support workers in the sector in making their case to the Fair Work Commission for an increase in pay rates.



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