AUSTRALIA ECONOMIC OUTLOOK

Headline Statement

- The **global economic outlook** has deteriorated sharply in the face of high inflation, rising energy prices and the fastest synchronised monetary policy tightening in the inflation targeting era. The global outlook is uncertain and risks are tilted toward lower growth and higher inflation. (SB22-000328– Global economic conditions).

- The **Australian economy** will not be spared from these global challenges. While the economy is expected to grow solidly in 2022, global headwinds, cost-of-living pressures and rising interest rates are forecast to slow economic growth in early 2023, with growth falling to 1½ per cent in 2023-24.

- **Inflation** is expected to peak at 7¾ per cent, but to be more persistent than forecast in the July Ministerial Statement (July) owing to expectations for further electricity and gas price increases in 2023 (SB22-000329 – Inflation).

- The **unemployment rate** is expected to rise to 4½ per cent by June 2024, still below its pre pandemic level of around 5 per cent. While labour demand is expected to soften alongside slower growth in 2023-24, **employment growth** is forecast to remain positive.

- Strengthening wage growth and easing inflation is expected to see modest real wage growth in 2023-24 (SB22-000326 – Labour market & wages outlook).

Table 1: 2022-23 October Budget major economic parameters[a]

	Outcome												
	2021-22	2022-23			2023-24			2024-25			2025-26		
		PEFO	July	Budget	PEFO	July	Budget	PEFO	July	Budget	PEFO	July	Budget
Real GDP	3.9	3 1/2	3	3 1/4	2 1/2	2	1 1/2	2 1/2	2 1/4	2 1/4	2 1/2	2 1/2	2 1/2
Employment	3.3	1 1/2	1 1/2	1 3/4	1 1/2	1 1/4	3/4	1	1	1	1	3/4	1 1/4
Unemployment rate	3.8	3 3/4	3 3/4	3 3/4	3 3/4	4	4 1/2	3 3/4	4 1/4	4 1/2	4	4 1/4	4 1/4
Consumer price index	6.1	3	5 1/2	5 3/4	2 3/4	2 3/4	3 1/2	2 3/4	2 1/2	2 1/2	2 1/2	2 1/2	2 1/2
Wage price index	2.6	3 1/4	3 3/4	3 3/4	3 1/4	3 3/4	3 3/4	3 1/2	3 3/4	3 1/4	3 1/2	3 1/2	3 1/2
Nominal GDP	11.0	1/2	5 1/4	8	3	1/4	-1	5 1/4	4 1/2	4 1/4	5	5	5

(a) Real GDP and Nominal GDP are percentage change on preceding year. The consumer price index, employment, and the wage price index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter.

Source: ABS Australian National Accounts: National Income, Expenditure and Product;; Labour Force Survey, Australia; Wage Price Index, Australia; Consumer Price Index, Australia; and Treasury.

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Key Points

- **Real GDP** growth in 2022-23 remains solid at 3¼ per cent, reflecting strong employment outcomes and a rapid return to pre-pandemic consumption patterns, particularly as international borders reopen for international travel.
  - Household consumption growth has been upgraded to 6½ per cent in 2022-23, ¾ of a percentage point higher than PEFO and one percentage point higher than July.
  - This near-term strength in spending is being supported by strong balance sheets and an easing in elevated rates of household saving.
- **In 2023-24, economic growth** has been **downgraded** by 1 percentage point since PEFO, to 1½ per cent. Slower growth reflects stronger global headwinds, cost-of-living pressures and rising interest rates, with household consumption growth slowing to 1¼ per cent.
- **Nominal GDP** growth is forecast to grow strongly at 8 per cent in 2022-23, an upgrade of 7½ percentage points since PEFO, before falling by 1 per cent in 2023-24 (downgraded from 3 per cent growth at PEFO), due to the commodity glide path assumption, and growing moderately thereafter (4¼ per cent in 2024-25 and 5 per cent in 2025-26).
  - There is a significant upwards revision to nominal GDP over the forward estimates of around $430 billion.
  - This reflects an elevated terms of trade, high domestic inflation and a weaker USD exchange rate assumption, which increases the AUD value of Australia’s commodity exports.
- **CPI inflation** is forecast to peak at 7¾ per cent in the December quarter of 2022 and is expected to be more persistent than forecast at the time of the July Ministerial Statement.
  - Inflation is forecast to be 5¾ per cent through the year to June 2023 (up 2¾ percentage points since PEFO and ¼ of a percentage point since July), and 3½ per cent through the year to June 2024 (up ¾ of a percentage point since PEFO and July).
  - Treasury has assumed domestic retail electricity prices will increase by an average of 20 per cent in late 2022, based on increases to market offers and regulated increases to Default Market Offers from 1-July, and a

further 30 per cent in late 2023. Consumer gas prices are also expected to rise by up to 20 per cent both this year and next.

- The **terms of trade** increased by 12.1 per cent in 2021-22 to its highest level on record due to elevated commodity prices. The terms of trade are forecast to remain elevated in 2022-23 declining by 2½ per cent before falling 20 per cent in 2023-24, in line with Treasury's long term commodity price assumptions *(SB22-000330 – Commodity prices)*.

- The **unemployment rate** is expected to rise to 3¾ per cent by June 2023. However, as activity slows across 2023-24, the unemployment rate is expected to rise to 4½ per cent by June 2024, ¾ of a percentage point higher than PEFO and ½ of a percentage point higher than July.

  - The unemployment rate is forecast to fall to 4¼ per cent by June 2026 – which is consistent with Treasury's assumption for the non accelerating inflation rate of unemployment (NAIRU).

- The outlook for nominal wage growth has been upgraded in the near term. Tight labour market conditions and high inflation are expected to see wage growth pick up to 3¾ per cent by June 2023 – the fastest pace since 2012.

Medium term

- The Budget uses a long-run productivity growth assumption of 1.2 per cent. At PEFO, the long-term productivity growth assumption was 1.5 per cent a year.

  - Since the mid-2000s there has been a global slowdown in productivity growth and international agencies have lowered their forecasts in response. Using the 20-year average of 1.2 per cent is a more realistic assumption.

- If the PEFO projections had used the 1.2 per cent long-term underlying productivity growth assumption, the level of real GDP at the end of 2032-33 would have been around 1¾ per cent lower, with the difference increasing over time.

Key sensitivities

- Based on a survey of market economists, the overnight **cash rate** is assumed to peak at 3.35 per cent in the June quarter of 2023. This is both higher and sooner than assumed at PEFO. As of 21 October, financial markets were trading at an expected peak cash rate around 110 basis points higher than market economists.

- The AUD/USD **exchange rate** is **assumed** to remain around a recent 20-day average price of 65 cents (set in mid-October).
  - A weaker AUD/USD exchange rate assumption would boost the AUD price of Australia’s key commodity exports, contributing to higher nominal GDP.
- The **labour share of income** has declined over the past couple of years, due to strong growth in mining profits, supported by high commodity prices.
  - This effect is forecast to unwind over the next couple of years as wage growth picks up to its fastest pace since 2012 and commodity prices are assumed to fall.
  - Excluding mining profits, the labour share of income has been relatively stable over recent years.

Table 2: Detailed economic forecasts[(a)]

	Outcome	Forecasts	
	2021-22	2022-23	2023-24
Real gross domestic product	**3.9**	**3 1/4**	**1 1/2**
Household consumption	4.1	6 1/2	1 1/4
Dwelling investment	2.8	-2	-1
Total business investment[(b)]	5.2	6	3 1/2
By industry			
Mining investment	-1.7	4	5 1/2
Non-mining investment	7.4	6 1/2	3 1/2
Private final demand[(b)]	4.5	5 1/4	1 1/4
Public final demand[(b)]	6.5	1	1 1/2
Change in inventories[(c)]	0.1	0	- 1/4
Gross national expenditure	5.2	4	1
Exports of goods and services	0.0	7	5
Imports of goods and services	7.7	11	3
Net exports[(c)]	-1.5	- 3/4	1/2
Nominal gross domestic product	11.0	8	-1
Prices and wages			
Consumer price index[(d)]	6.1	5 3/4	3 1/2
Wage price index[(d)]	2.6	3 3/4	3 3/4
GDP deflator	6.9	4 3/4	-2 1/4
Labour market			
Participation rate (per cent)[(e)]	66.6	66 3/4	66 1/2
Employment[(d)]	3.3	1 3/4	3/4
Unemployment rate (per cent)[(e)]	3.8	3 3/4	4 1/2
Balance of payments			
Terms of trade[(f)]	12.2	-2 1/2	-20
Current account balance (per cent of GDP)	2.2	1/2	-3 3/4
Net overseas migration[(g)]	150,000	235,000	235,000

(a) Percentage change on preceding year unless otherwise indicated.
(b) Excluding second-hand asset sales between the public and private sector.
(c) Percentage point contribution to grow h in GDP.
(d) Through-the-year growth rate to the June quarter.
(e) Seasonally adjusted rate for the June quarter.
(f) Key commodity prices are assumed to decline from current elevated levels by the end of the March quarter 2023: the iron ore spot price is assumed to decline from US$91/tonne to US$55/tonne free on board (FOB); he metallurgical coal spot price is assumed to decline from US$271/tonne to US$130/tonne FOB; the thermal coal spot price is assumed to decline from US$438/tonne to US$60/tonne FOB; the oil price (TAPIS) is assumed to decline from US$108/barrel to US$100/barrel; and he LNG price is assumed to decline from US$934/tonne to US$630/tonne.
(g) The figure for 2021-22 consists of three quarters of preliminary outcomes and one quarter of forecasts. Net overseas migra ion is assumed to continue in line with pre-COVID trends at 235,000 from 2022-23.

Note: The exchange rate is assumed to remain around its recent average level – a trade-weighted index of around 61 and a $US exchange rate of around 65 US cents. Interest rates are informed by the Bloomberg survey of market economists. Population growth is forecast to be 1.1 per cent in 2021-22 and 1.4 per cent in 2022-23 and 2023-24.

Source: ABS Australian National Accounts: National Income, Expenditure and Product; Balance of Payments and Interna ional Investment Position, Australia; National State and Territory Popula ion; Labour Force, Australia; Wage Price Index, Australia; Consumer Price Index, Australia; unpublished ABS data and Treasury.

FORECAST COMPARISONS

Headline Statement

- Budget forecasts across key economic measures are within the range of other forecasters including the RBA.
- Economic circumstances are evolving rapidly so differences in publication date are a key source of forecast differences.
  - The World Bank forecasts are from June. Forecasts from the OCED for real GDP and the Consumer Price Index (CPI) were updated in September, with the remaining components updated in June. The RBA forecasts are from August. Consensus, IMF, Consensus and Deloitte forecasts are from October.
- The RBA will publish updated forecasts in the November Statement on Monetary Policy (SMP) on 4 November, including CPI data from 26 October, revised market expectations of the cash rate and exchange rate movements.

Key Points

- Real GDP is forecast to grow by 3¼ per cent in 2022-23 and 1½ per cent in 2023-24.
  - This is weaker in both years than the RBA's forecast in the August SMP.
- In calendar year terms, real GDP is forecast to grow by 4 per cent in 2022 and 2 per cent in 2023.
  - This is in line with the OECD and Consensus mean forecasts.
  - The IMF forecasts slightly lower growth in 2022 and is in line with the Budget forecast for 2023.
- The unemployment rate is forecast to be 3¾ in the June quarter of 2023 and 4½ in the June quarter of 2024.

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- This is broadly in line with the OECD and Deloitte forecasts, but higher than the RBA, IMF and the Consensus forecasts.

- The September monthly unemployment rate of 3.5 per cent is currently in line with the United States (3.5 per cent) and United Kingdom (3.5 per cent), higher than New Zealand (3.3 per cent) and lower than the Euro Area (6.6 per cent).

- CPI growth is forecast to be 5¾ per cent through the year to the June quarter of 2023 and 3½ per cent through the year to the June quarter of 2024.

  - The RBA forecasts CPI growth through the year to the June quarter of 2023 to be stronger, at 6.2 per cent growth, and are in line with the Budget forecast for the June quarter of 2024.

  - The RBA forecasts CPI to peak at 7.8 per cent in the December quarter of 2022, in line with the Treasury's peak of 7¾ per cent. Global inflation is expected to peak in late 2022 and decline over 2023 and 2024.

- In calendar year terms, CPI growth is forecast to be 6.5 per cent in 2022 and 5.7 per cent in 2023.

  - This is higher than the OECD and the Consensus forecasts, who forecast inflation based on the change in the average of the CPI over calendar years.

Background

Table 1: Comparison of forecasts for domestic economy

Real GDP(a)

	2021	2021-22	2022 (f)	2022-23 (f)	2023 (f)	2023-24 (f)
2022-23 Budget	4.9	3.9	4	3 1/ 4	2	1 1/ 2
RBA			4	3 1/ 2	2 1/ 4	1 3/ 4
Deloitte Access Economics			3.9	3.2	2.0	1.6
IMF			3.8	na	1.9	na
OECD (h)			4.1	na	2.0	na
Consensus (Mean)			3.9	na	2.0	na
Consensus (Minimum)			3.2	na	1.2	na
Consensus (Maximum)			4.2	na	2.8	na

Household Consumption(a)

	2021-22	2022-23 (f)	2023-24 (f)
2022-23 Budget	4.1	6 1/ 2	1 1/ 4
RBA (i)		2.8	2.3
Deloitte Access Economics		5.2	1.2

	2021	2022 (f)	2023 (f)
IMF	5.0	na	na
OECD (g)		5.7	2.6
Consensus (Mean)		6.8	2.4
Consensus (Minimum)		4.4	0.8
Consensus (Maximum)		7.5	3.7

Business Investment(a)

	2021-22	2022-23 (f)	2023-24 (f)
2022-23 Budget	5.2	6	3 1/ 2
RBA (i)		5.9	5.7
Deloitte Access Economics		2.8	0.8

	2021	2022 (f)	2023 (f)
IMF	6.3	na	na
OECD		6.8	3.0
Consensus (Mean)		3.0	3.3
Consensus (Minimum)		2.1	1.5
Consensus (Maximum)		6.4	6.2

Table 2: Comparison of forecasts for domestic nominal economy and prices

Nominal GDP[(a)]

	2021-22	2022-23 (f)	2023-24 (f)
2022-23 Budget	11.0	8	-1
RBA		na	na
Deloitte Access Economics		7.7	3.5
	2021	**2022 (f)**	**2023 (f)**
IMF	10.6	na	na
OECD		na	na
Consensus (Mean)		na	na
Consensus (Minimum)		na	na
Consensus (Maximum)		na	na

Consumer Price Index [(e)]

	2021-22	2022-23 (f)	2023-24 (f)
2022-23 Budget	6.1	5 3/ 4	3 1/ 2
RBA		6.2	3.5
Deloitte Access Economics		6.4	3.0
	2021	**2022 (f)**	**2023 (f)**
IMF[(d)]	2.9	6.5	4.8
OECD[(d)(h)]		6.1	4.4
Consensus (Mean)[(d)]		6.3	4.4
Consensus (Minimum)[(d)]		5.7	2.9
Consensus (Maximum)[(d)]		6.6	5.9

Table 3: Comparison of forecasts for the labour market and wages

Employment growth[(a)]

	2021-22	2022-23 (f)	2023-24 (f)
2022-23 Budget [(i)]	3.8	1 3/ 4	3/ 4
RBA [(i)]		2.2	1.1
Deloitte Access Economics		3.0	1.1

	2021	2022 (f)	2023 (f)
IMF	2.4	na	na
OECD [(g)]		2.6	1.4
Consensus (Mean)		na	na
Consensus (Minimum)		na	na
Consensus (Maximum)		na	na

Unemployment rate [(c)]

	2021-22	2022-23 (f)	2023-24 (f)
2022-23 Budget	3.8	3 3/ 4	4 1/ 2
RBA		3.4	3.7
Deloitte Access Economics [(b)]		3.7	4.2

	2021	2022 (f)	2023 (f)
IMF[(b)(g)]	5.1	3.6	3.7
OECD[(b)(g)]		4.1	4.0
Consensus (Mean)[(b)]		3.7	3.8
Consensus (Minimum)[(b)]		3.4	3.1
Consensus (Maximum)[(b)]		4.0	4.7

Wage Price Index [(e)]

	2021-22	2022-23 (f)	2023-24 (f)
2022-23 Budget	2.6	3 3/ 4	3 3/ 4
RBA		3.4	3.8
Deloitte Access Economics[(d)]		3.2	3.7

	2021	2022 (f)	2023 (f)
IMF[(d)]	1.9	na	na
OECD		na	na
Consensus (Mean)[(d)]		2.9	3.7
Consensus (Minimum)[(d)]		2.7	3.4
Consensus (Maximum)[(d)]		3.5	4.4

Table 4: Comparison of forecasts for global economy and trade

Australian Exports[(a)]

	2021-22	2022-23 (f)	2023-24 (f)
2022-23 Budget	0.0	7	5
RBA [(i)]		9.8	2.8
Deloitte Access Economics		8.7	3.8

	2021	2022 (f)	2023 (f)
IMF	-2.1	3.8	7.4
OECD [(g)]		-0.3	3.9

Australian Imports[(a)]

	2021-22	2022-23 (f)	2023-24 (f)
2022-23 Budget	7.7	11	3
RBA [(i)]		6.2	3.0
Deloitte Access Economics		7.3	3.4

	2021	2022 (f)	2023 (f)
IMF	6.5	13.7	5.9
OECD [(g)]		10.2	4.8

World GDP growth[(a)(f)]

	2021	2022 (f)	2023 (f)
2022-23 Budget	6.1	3	2 3/ 4
Deloitte Access Economics		3.0	2.2
IMF		3.2	2.7
OECD [(h)]		3.0	2.2
World Bank		2.9	3.0
Consensus (Mean)		2.7	1.7
Consensus (Minimum)		na	na
Consensus (Maximum)		na	na

China[(a)]

	2021	2022 (f)	2023 (f)
2022-23 Budget	8.1	3	4 1/ 2
Deloitte Access Economics		3.0	4.5
IMF		3.2	4.4
OECD [(h)]		3.2	4.7
World Bank		4.3	5.2
Consensus (Mean)		3.2	4.8
Consensus (Minimum)		2.6	2.5
Consensus (Maximum)		4.5	6.0

United States[a]

	2021	2022 (f)	2023 (f)
2022-23 Budget	5.9	1 3/4	1
Deloitte Access Economics		1.6	0.6
IMF		1.6	1.0
OECD [h]		1.5	0.5
World Bank		2.5	2.4
Consensus (Mean)		1.7	0.2
Consensus (Minimum)		1.4	-0.7
Consensus (Maximum)		1.9	1.0

Euro area[a]

	2021	2022 (f)	2023 (f)
2022-23 Budget	5.2	3	1/ 2
Deloitte Access Economics		3.0	0.2
IMF		3.1	0.5
OECD [h]		3.1	0.3
World Bank		2.5	1.9
Consensus (Mean)		3.0	0.0
Consensus (Minimum)		2.6	-1.6
Consensus (Maximum)		3.2	1.1

(a) Percentage change on the preceding year.
(b) Unemployment rate is year average.
(c) Unemployment rate is for the June quarter for 2022-23 and 2023-24; and the December quarter for 2022 and 2023.
(d) CPI and WPI percentage change on the preceding year.
(e) CPI and WPI seasonally adjusted through the year to the June quarter.
(f) World growth rates calculated using GDP weights based on purchasing power parity.
(g) Forecasts are from the previous OECD Economic Outlook Report, June 2022.
(h) Forecasts are from the most recent OECD Economic Outlook Interim Report, September 2022.
(i) Forecasts are through the year to the June quarter.
Note: (f) refers to forecast years.

Source: Treasury October 2022-23 Budget forecasts; National Income, Expenditure and Product, June 2022; RBA Statement on Monetary Policy August 2022; Deloitte Access Economics September 2022 Business Outlook; IMF October 2022 World Economic Outlook Update; OECD Economic Outlook Report June 2022; OECD Economic Outlook Interim Report September 2022; World Bank June 2022 Global Economic Prospects; October 2022 Asia Pacific Consensus Forecasts and October 2022 Consensus Forecasts.

LABOUR MARKET AND WAGES

Headline Statement

- The Australian labour market remains tight but is expected to ease over the forecast period, with slowing employment growth and the unemployment rate rising to 4½ per cent in June 2024 as economic activity slows.
- Employment will continue to grow and the unemployment rate is forecast to return to the assumed NAIRU of 4 ¼ per cent by 2025-26.
- Nominal wages growth is forecast to strengthen and falling real wages are expected to grow again in 2023-24 as inflation eases.

Key Points

- Australia is experiencing very tight labour market conditions, with only around one unemployed person for every job vacancy and the unemployment rate near a 50-year low.
- The unemployment rate is forecast to rise to 4½ per cent by the June quarter of 2024 as a higher population sees more people both employed and looking for work.
  - This is still below its pre-pandemic level of around 5 per cent and jobs will continue to grow across the forecast period.
- Nominal wages growth is expected to reach 3¾ per cent by June 2023 – the fastest pace since 2012 – in response to tight labour market conditions and high inflation.
- Real wages are expected to continue to fall in 2022-23 as inflation outpaces nominal wage growth. Real wages are expected to return to modest growth in 2023-24.

Policy actions

- The Government has supported the Fair Work Commission's decision to increase wages for Australia's lowest paid workers.

- The decision awarded a 5.2% pay increase to national minimum wage workers.
- The Government also supported a pay rise for aged care workers through its submission on the Aged Care Work Value Case to the Fair Work Commission and will provide funding to support any resulting increases to award wages.

Key sensitivities

- The Budget outlook for the labour market is a downgrade since PEFO. At 4½ per cent in 2023-24, the unemployment rate forecast is higher than at PEFO (3¾ per cent in 2023-24).
  - This reflects higher population forecasts and a weaker per capita demand outlook. The number of employed persons is higher than at the PEFO.
  - Compared to PEFO, the Budget forecasts suggest an additional 16,000 employed persons in the June quarter 2024 and an additional 56,000 employed persons in the June quarter 2026.
- Real wages are expected to continue to fall in 2022-23, as nominal wage growth remains below inflation in the near term. Easing inflation over the next two years and strengthening nominal wage growth is expected to result in modest real wage growth (based on both the Wage Price Index and AENA) in 2023-24.
  - The level of real wages is forecast to trough in 2022-23, falling to around 2010 levels. They are not expected to return to current levels until 2025-26.
- Despite a pickup in nominal earnings growth, high inflation and modest wages growth has seen real wages fall sharply, by around 3.5 per cent over the past year.
- A further inflationary shock is likely to delay the expected return to positive growth in real wages.

Background

Table 1: Labour Force and Wage Parameters[a]

Parameter	Outcomes	Forecasts			
	2021-22	2022-23	2023-24	2024-25	2025-26
Employment	3.3	1¾	¾	1	1¼
Unemployment Rate	3.8	3¾	4½	4½	4¼
Participation Rate	66.6	66¾	66½	66¼	65¾
Wage Price Index	2.6	3¾	3¾	3¼	3½
Consumer Price Index	6.1	5¾	3½	2½	2½

(a) Employment, the wage price index and the consumer price index are through the year growth to the June quarter. The unemployment rate and participation rate are for the June quarter. Source: ABS Labour Force, Australia; Wage Price Index, Australia; Consumer Price Index, Australia and Treasury.

Table 2: Recent Labour Market Outcomes

	June 2022	July 2022	August 2022	September 2022
Unemployment rate (per cent)	3.5	3.4	3.5	3.5
Unemployment ('000 Persons)	499	480	491	499
– Change ('000 Persons)	*–45.6*	*–19.5*	*10.8*	*8.8*
Employed total ('000 Persons)	13,590	13,554	13,590	13,591
– Change ('000 Persons)	*68.4*	*–36.7*	*36.3*	*0.9*
Participation rate (per cent)	66.7	66.4	66.6	66.6

Source: ABS Labour Force.

Labour Market

- Strong labour demand has seen a record 13.6 million people working, with 0.7 million gaining employment over the past year.
- Employment is expected to continue to increase, but the expected ¾ per cent growth in 2023-24 is only half that forecast at PEFO.
  - The employment-to-population ratio is expected to decline to 63¾ per cent in 2023-24, from a record high 64¼ per cent across much of 2022-23.
- The tight labour market sees the participation rate currently elevated at 66.6 per cent and the unemployment rate at a low 3.5 per cent.
  - The participation rate is forecast to be 66¾ per cent in 2022-23 – around its record high – before moderating to 66½ in 2023-24.
- The unemployment rate is expected to remain low in the near-term, at 3¾ per cent in the June quarter 2022-23, before rising to 4½ per cent in 2023-24.

- The unemployment rate is expected to remain below the estimated non-accelerating inflation rate of unemployment (NAIRU) of 4¼ per cent in 2022-23. In 2023-24 and 2024-25, the unemployment rate is forecast to rise slightly above the NAIRU, before converging back in 2025-26.

- The IMF expects unemployment to rise more strongly in the US and UK than in Australia, with unemployment rising to 5 per cent or more in those countries. The Bank of England recently forecast that UK unemployment will reach more than 6 per cent.

  – Australia's labour market fared relatively well during the pandemic and recovered quickly. Employment growth in Australia has been faster than any major advanced economy.

- COVID-19-related absenteeism has affected around 2 per cent of the workforce (or around a quarter of a million people) over the three months to July, consistent with what was expected at PEFO.

  – Future waves of COVID-19 are likely to sustain increased absenteeism, but the overall impact across the economy is expected to be small, potentially resulting in marginally higher levels of employment to offset increased sick leave and slightly higher inflation.

  – Treasury analysis suggests that rates of long COVID absenteeism increased halfway through the year, to around 12 per cent of COVID absences, or around 31,000 workers per day. This is up from around 5 per cent in April.

Wages

- Earnings have picked up over the past year, consistent with tight labour market conditions. WPI outcomes also indicate that wage pressures in the economy have been building and broadening across sectors.

- This can also be seen in the 4.4 per cent increase in the national accounts measure of average earnings (AENA) per hour through to year to June, which captures the wage response to strong cyclical conditions, including overtime, bonuses and job switching.

  Nominal wages (as measured by the WPI) are expected to grow by 3¾ per cent in 2022 23, marking the highest pace of wages growth since the mining boom.

HOUSING MARKET AND HOUSING AFFORDABILITY

Headline Statement

- Housing prices have continued to fall in recent months since peaking in April, however home ownership rates have fallen as the prior growth in housing prices has outpaced income.
- Mortgage serviceability has worsened as interest rates have risen, adding further pressure to housing affordability.
- Rental market conditions have become extremely tight, with record low vacancy rates and rising rents putting pressure on rental affordability.
- Residential construction activity continues to be constrained by supply disruptions, including material and labour shortages, wet weather, and absenteeism.

Key Points

- National housing prices have fallen by 6.0 per cent since their peak in April 2022, after rising by 26.2 per cent since the onset of the pandemic. Housing prices are expected to decline further, following continued interest rate rises.
  - Based on the median expectation of the 4 major banks, housing prices are assumed to fall by 7.7 per cent over 2022 and by 8.5 per cent over 2023.
- Over recent decades, home ownership rates have fallen as housing prices have risen by more than income, raising concerns for new home buyers' ability to enter the market. The ratio of household debt to income has increased from around 115 per cent in 2001 to 188 per cent in June 2022, adding further constraints on affordability.
  - New loan commitments to owner-occupier first home buyers are 48.0 per cent lower than their January 2021 peak, falling below pre-pandemic levels.
    - First home buyer new loan commitments as a share of total owner-occupier new loan commitments has fallen from its peak of 42.5 per cent in August 2020 to 31.5 per cent in September 2022.

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  - Despite the recent falls in housing prices, deposit hurdles remain elevated, with the number of years needed to save for a 20 per cent deposit rising to 11.1 for capital cities and 10.7 for regional areas in the June quarter 2022. Mortgage servicing costs have also risen amid continued interest rate rises.

- National advertised rents have risen by 19.7 per cent since the onset of the pandemic. As migration patterns return to their pre-pandemic trends, further pressures are expected to be added to the already tight market.

- Construction costs and completion times have escalated due to material and labour shortages and these constraints are likely to be exacerbated by heavy rainfall and flooding.

  - Input costs to house construction have risen 16.0 per cent through the year to September 2022. This has added to the financial pressures felt by construction firms, many of which operate using fixed price contracts, and has increased the risk of insolvency.

  - Capacity constraints are likely to remain in place through 2023, weighing on activity.

Policy Commitments

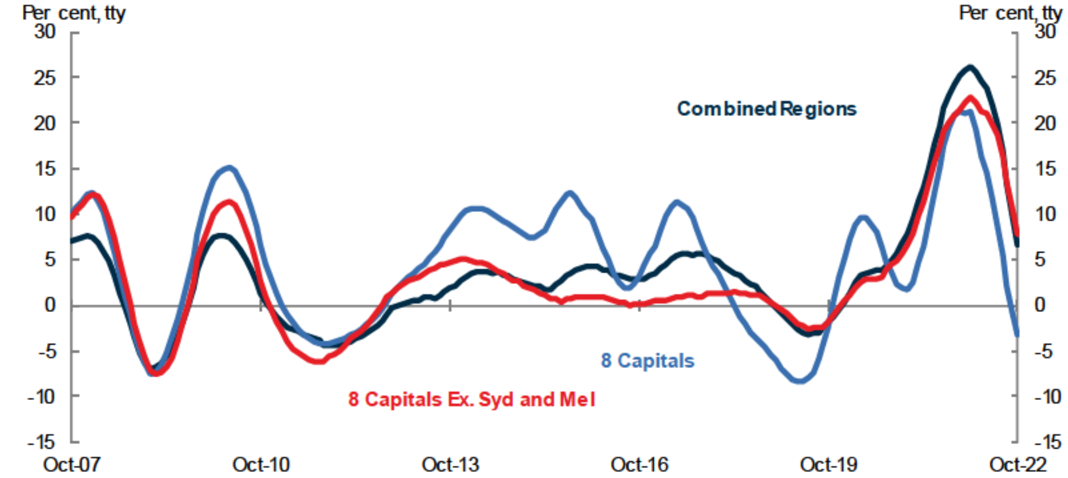
- To tackle these challenges, the new Housing Accord sets an initial, aspirational target of one million new, well-located homes over 5 years from 2024, across all states and territories. Further detail and other commitments can be found in **SB22-000301**.

Background

Housing prices

- National housing prices have continued to fall since their recent peak in April 2022 as interest rate rises have reduced demand. Although falls have been broad-based, prices in capital cities have fallen at faster rate than regions.(**Chart 1**).

Chart 1: Housing price growth



Source: CoreLogic; ABS Residential Property Price Indexes: Eight Capital Cities; Treasury.

  - Nominal housing prices in Australia have risen by 30.8 per cent over the pandemic according to CoreLogic, compared to the OECD average of 34.8 per cent (**Table 1**). Recent data for Canada, United States, euro area, and New Zealand show a deceleration in yearly growth.

  - Looking forward, declines in prices are expected to continue, owing to weaker demand, affordability constraints, and continued monetary policy tightening.

Table 1: Nominal housing price growth by country

Country	TTY to June quarter 2022 (%)	Change from December quarter 2019 to June quarter 2022 (%)
Australia*	14.0	30.8
United States	17.7	42.5
Canada	16.7	39.4
Euro area	9.3	20.2
United Kingdom	10.6	22.4
New Zealand**	13.3	42.5
OECD***	16.8	34.8

Source: OECD, CoreLogic, Refinitiv.

* Growth calculated using the quarterly average of monthly index values.

**Latest OECD data for New Zealand is March quarter 2022.

***Only OECD countries with data available as of June quarter 2022 are used in this aggregation.

Table 2: Private sector forecasts for housing price growth

Organisation	Forecast Date	Measure	TTY to Dec growth (%) 2022	2023
NAB	6 October 22	8 capital cities dwellings	-7.3	-11.4
ANZ	16 August 22	8 capital cities dwellings	-8	-9
Westpac	19 August 22	5 capital cities dwellings	-6	-8
CBA	26 August 22	8 capital cities dwellings	-8	-3
Median			**-7.7**	**-8.5**

Source: ANZ, CBA, NAB, Westpac.

Home ownership rates and first home buyers

- ABS data shows the national home ownership rate in 2019-20 was 66 per cent, down from 71 per cent in 1999-00. The share of owners who own outright (not paying a mortgage) has also fallen to 30 per cent from 39 per cent in 1999-00.

- According to the OECD Affordable Housing Database, Australia's home ownership rate in 2020 was 66.4 per cent. By comparison, the United States had a homeownership rate of 68.6 per cent, while the UK had a rate of 71.0 per cent.

- There are two hurdles to home ownership – the deposit hurdle and mortgage serviceability.

  - The deposit hurdle remains elevated with the average time required by the median household to save a 20 per cent deposit based on saving 15 per cent of household income is 11.1 years for capital cities and 10.7 years for regional areas, as at the June quarter 2022. This compares with the ten year average of 9.5 years for capital cities and 7.9 years for regional areas.

  - Mortgage serviceability has been deteriorating due to the prior period of strong housing price growth and rising interest rates amid weaker income growth. For example, the HIA Affordability Index, which represents the ratio of income to mortgage repayments, has deteriorated, falling 2.4 per cent lower than its 25-year average in the June quarter 2022.

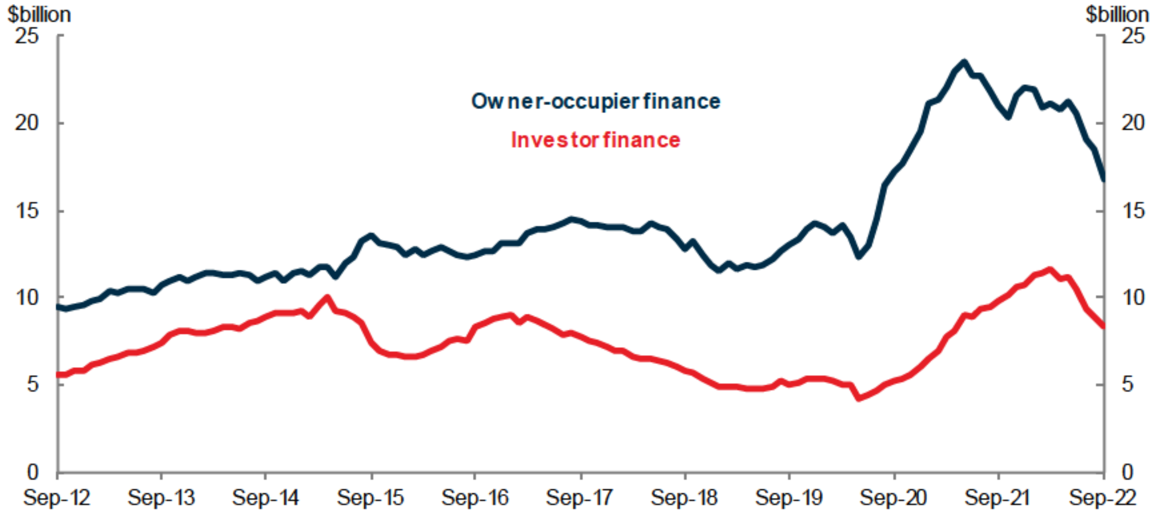
- First home buyer activity has been declining since peaking in January 2021, in line with monetary policy tightening and weak consumer sentiment. New loan commitments are expected to continue to trend downwards, following consecutive interest rate rises (**Chart 2**).

  - The number of new loan commitments to owner-occupier first home buyers fell by 8.3 per cent in September 2022.

- The cost to households of buying a new home has risen, while completion times have increased.

  - CPI new dwelling prices recorded their largest annual rise since the series commenced in 1999, rising by 20.7 per cent through the year to the September quarter 2022. Price rises continue to be driven by increases in costs for labour, materials and freight.

Chart 2 – New loan commitments



Source: ABS Lending Indicators.

Rental market conditions

- Rental market conditions have tightened over the past year, reflected by falling vacancy rates and rising advertised rents. This has reduced rental affordability, with pressures expected to continue to build amid limited supply and increases in net overseas migration.
  - The REIA combined capital city vacancy rate fell by 0.4 percentage points to be 2.1 per cent in the June quarter 2022. This is below the five-year average of 2.7 per cent. More recent data from SQM indicates the national vacancy rate fell to 0.9 per cent in September.
  - National advertised rents rose by 10.0 per cent through the year to October 2022, with a 10.3 per cent rise in capital cities compared with a 9.3 per cent rise in regional areas.
    - The sharp increase in advertised rents reflects preferences for more home living space and smaller household sizes, increases in net overseas migration, record high labour force participation, stimulus during the pandemic, and constrained supply.
- Average rental costs across all renters in capital cities (not only those in new rentals), as measured in the CPI, are slower to respond to tight conditions in the rental market.
  - CPI rents rose by 2.8 per cent over the year to the September quarter 2022, contributing 0.2 percentage points to annual CPI inflation.
- We continue to expect the observed strength in advertised rents and stronger population growth to drive a pickup in CPI rents over the forecast period.

Table 3: CPI and advertised rents, through the year growth

	CPI rents TTY to Sep 2022	**Advertised rents** TTY to Oct 2022
Sydney	1.6	10.4
Melbourne	1.2	9.0
Brisbane	4.8	13.5
Perth	8.3	9.6
Adelaide	4.4	13.0
Hobart	5.5	6.8
Darwin	9.7	5.9
Canberra	5.4	5.9
8 Capitals	2.8	**10.3**

Source: ABS, CoreLogic.

Residential construction activity

- Dwelling investment has declined for 3 consecutive quarters, falling 2.9 per cent in the June quarter 2022 to be 4.6 per cent lower through the year. The decline was driven by a 3.8 per cent fall in new and used dwelling investment and a 1.6 per cent fall in alterations and additions.
  - As at June quarter 2022, there were around 100,000 detached houses under construction, which will continue to support dwelling investment. However, material and labour shortages, absenteeism and wet weather continue to constrain residential construction activity.
- Dwelling investment grew by 3.2 per cent in 2021-22, however in the October Budget, Treasury forecasts a fall of 2 per cent in 2022-23, and a further fall of 1 per cent in 2023-24. Rising interest rates are expected to lower housing demand with capacity constraints continuing to limit growth in the near term.
  - The cash rate has risen 275 bps since May 2022. Rising interest rates and falling house prices will see activity decline even as the backlog of houses under construction is worked off.
  - A pick-up in net overseas migration is expected to partially offset this decline as developers are likely to increase work in the medium-high density sector.
- Material costs are rising owing to strong demand, labour shortages and supply chain disruptions.
  - The ABS Producer Price Index shows material input costs for the house construction industry rose by 16.0 per cent over the year to the September quarter 2022.
    - : The annual increase was driven by timber, board and joinery (up 21.2 per cent), other metal products (up 16.4 per cent) and other materials (up 12.5 per cent).
- Labour costs are also rising amid elevated demand for construction workers.

- – Job vacancies in the construction industry have fallen slightly from their peak in May 2022, but remain around twice their pre-pandemic level, suggesting greater-than-usual difficulty in finding appropriately skilled labour.
  - – The ABS Wage Price Index (WPI) shows construction wages grew by 3.4 per cent over the year to June quarter 2022, a faster pace than the 2.6 per cent rise in the overall WPI in original terms.
- Liaison suggests that rising costs are also causing financial stress for some construction firms.
  - – Insolvency is rising in the residential construction sector. In August 2022, the number of companies in the construction sector that entered external administration increased, to be around 51 per cent higher than the pre-pandemic baseline.

Financial stability

- The Council of Financial Regulators (CFR) has been monitoring financial stability risks associated with residential mortgages.
  - – Declines in asset prices are unlikely to pose direct financial stability risks, because most property owners have strong equity positions.
- APRA expects higher interest rates and weakening housing market conditions will likely see a moderation in risky behaviours, such as high debt-to-income lending.
- The RBA's October 2022 *Financial Stability Review* found:
  - – Banks in Australia remain liquid and very well capitalised.
  - – Large capital buffers mean banks are well positioned, should non-performing loans pick up from their very low levels in the period ahead.
  - – Banks and non-banks continue to have ready access to wholesale funding.
- For more information on household debt and mortgage payments, please see the brief on *Monetary Policy and the Impact of Rising Interest Rates.*

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SB22-000328

GLOBAL ECONOMIC CONDITIONS

Headline Statement

- The global economic environment has deteriorated and the risk of recession has increased across major advanced economies. Inflation is at decade-high levels and central banks have lifted interest rates, constituting the fastest synchronised tightening of monetary policy in the inflation targeting era. The outlook for China has weakened.
- Inflationary pressures have persisted and intensified in most advanced economies, resulting from the after-effects of the pandemic and disruptions to global energy supply stemming from Russia's invasion.
- Global growth has been downgraded and is expected to slow to 3 per cent this year and 2¾ per cent in 2023, before picking up to 3 per cent in 2024.
- The outlook is uncertain and the balance of risks is tilted to lower growth and higher inflation.

Key Points

- Rising inflationary pressures, further monetary policy tightening, and the impact of COVID-19 outbreaks on the Chinese economy, have clouded the global outlook. Russia's invasion of Ukraine adds further uncertainty to an already uncertain global environment.
- Global inflation has significantly surprised on the upside in most advanced economies and central banks are tightening monetary policy more aggressively to prevent inflationary pressures from broadening and becoming entrenched in expectations.
  - Headline inflation in some countries has eased in recent months but price increases have become more broad-based, with core inflation remaining persistently high in many advanced economies.

- Spill-over effects from the synchronised tightening in monetary policy could exacerbate financial vulnerabilities and see a sharper than forecast slowdown across multiple countries simultaneously.

- Despite a rebound in the September quarter, China's growth prospects have fallen owing to continuing COVID-19 lockdowns and a downturn in the property market. The prospect of ongoing outbreaks and lockdowns in China will weigh on global growth and poses risks for the recovery of global supply chains.
- As the global economy is buffeted by a range of challenges, the risk of recession has increased across major advanced economies.
  - The US economy contracted for two consecutive quarters in the first half of the year, but the labour market so far remains robust. While GDP for the third quarter showed a 0.6 per cent expansion, the outlook for growth has deteriorated significantly as a result of the increased pace of monetary policy tightening in response to stubbornly high inflation.
  - The US is expected to avoid the large increase in unemployment that would accompany a significant recession, given continued solid momentum in consumer spending and payrolls, however the outlook is uncertain and risks are tilted to the downside.
  - In the euro area, rising energy and food prices stemming from the war in Ukraine have driven the highest levels of inflation in its history. Gas prices remain the key source of intensifying pressures for real household incomes and consumer spending. Further disruptions to Russian energy supplies increase the likelihood of recession.
  - Similarly, the United Kingdom economy is likely to enter a recession in late 2022, with recent data indicating that the economy likely contracted in the September quarter.
- Treasury's forecasts for global growth are broadly in line with recently published forecasts from the IMF for 2022 and 2023, but are stronger than the OECD for 2023.
  - The OECD Interim Economic Outlook in September forecast global growth of 3 per cent in 2022 but downgraded growth in 2023 to 2.2 per cent from 2.7 per cent in June 2022.
  - The IMF World Economic Outlook in October forecast global growth of 3.2 per cent in 2022 but downgraded growth in 2023 to 2.7 per cent from 2.9 per cent in July 2022.

Background

International economy forecasts[(a)]

	Outcome	Forecasts (Calendar Years)					
	2021	2022		2023		2024	
		PEFO	October Budget	PEFO	October Budget	PEFO	October Budget
Australia	4.9	4 3/4	4	2	2	2 1/2	1 1/2
China	8.1	4 3/4	3	5 1/4	4 1/2	5	4 1/2
India	8.3	8 1/4	7 1/4	6 1/2	5 3/4	7 1/4	6 3/4
Japan	1.7	2 1/2	1 1/2	1 1/2	1 1/2	1/2	1
United States	5.9	3 1/2	1 3/4	2 1/2	1	2	1 3/4
Euro area	5.3	3 1/2	3	2 1/4	1/2	1 1/2	1 1/2
United Kingdom	7.5	4 1/4	4 1/4	2	-1/4	1 1/2	1 1/2
Other East Asia (b)	4.0	4 1/4	4 1/2	4 1/2	4	4	4 1/4
Major trading partners	6.2	4 1/4	3	4	3	3 3/4	3 1/4
World	6.0	3 3/4	3	3 3/4	2 3/4	3 1/2	3

a) World and other East Asia growth rates are calculated using GDP weights based on purchasing power parity (PPP), while growth rates for major trading partners are calculated using goods and services export trade weights.
b) Other East Asia comprises 6 of the Association of Southeast Asian Nations, including Indonesia, Malaysia, the Philippines, Thailand, Vietnam and Singapore, along with Hong Kong, South Korea and Taiwan.

Source: National statistical agencies, Refinitiv and Treasury.

- **China**'s economy is forecast to grow by 3 per cent in 2022, and 4½ per cent in 2023 and 2024. Outbreaks of COVID-19 between March and May 2022 prompted large lockdowns that severely affected economic growth, however the economy bounced back strongly in the September quarter. Authorities are now more sensitive to small outbreaks and likely to maintain a strict approach to COVID-19 for some time, creating uncertainty for consumers and a weak outlook for domestic consumption.
  - Chinese authorities are easing macroeconomic policy settings in contrast to tightening monetary policy elsewhere. Elevated government spending on infrastructure may support growth this year but is likely to be offset by a structural decline in the property sector. Alongside weakening demand for Chinese exports, risks are to the downside.
- The **United States** economy is forecast to grow by 1¾ per cent in 2022, 1 per cent in 2023, and 1¾ per cent in 2024. Despite recent solid momentum, growth prospects have deteriorated significantly given the rapid pace of monetary policy tightening.
  - In 2023, inflation is expected to moderate slowly as pandemic-related supply and demand imbalances resolve and tighter monetary policy takes effect. Growth is expected to slow significantly, with unemployment to rise, although not to levels that would accompany a deep recession. However, the outlook is uncertain and risks are tilted to the downside.
- The **euro area** economy is forecast to grow by 3 per cent in 2022, ½ a per cent in 2023 and 1½ per cent in 2024. Growth has been strong so far in 2022, however a pronounced slowing as a result of rising energy and food prices is expected. This has driven the highest levels of inflation in the euro area's history. Inflation will weigh on real household incomes and limited energy supplies will likely see reduced production. Fiscal support is anticipated to somewhat soften the overall impact. However, the war in Ukraine continues to exacerbate these concerns and further energy supply or price shocks place the euro area at high risk of recession.

- The **United Kingdom**'s economy is forecast to grow by 4¼ per cent in 2022, then contract by a ¼ of a per cent in 2023 before growing by 1½ per cent in 2024. While the economy grew strongly in the first quarter of 2022, growth is expected to slow sharply, and the inflation outlook has deteriorated due to higher gas prices and domestic inflationary pressures. Economic activity is expected to contract in late 2022 due to high inflation and higher interest rates weighing heavily on real household consumption. However, uncertainty around the outlook is exceptionally high given the unknown details of the Government's fiscal package and the unfavourable market reaction to the initial proposal.

- **Japan**'s economy is forecast to grow by 1½ per cent in 2022 and 2023, and 1 per cent in 2024. Japan's economic outlook has deteriorated in 2022 from slowing overseas demand, higher energy prices, and supply issues from China's strict approach to COVID-19. Japan's economy is likely to recover somewhat as supply constraints resolve and tourism resumes.

- The economies of **Other East Asia** are forecast to grow collectively by 4½ per cent in 2022, 4 per cent in 2023, and 4¼ per cent in 2024. The recovery in international tourism will support growth. But persistently high inflation, and lower global demand pose risks to the region. Synchronised global monetary policy tightening could prove disruptive to growth.

- **India**'s economy is forecast to grow by 7¼ per cent in 2022, followed by 5¾ per cent in 2023 and 6¾ per cent in 2024. A strong recovery in domestic demand coupled with strong government spending is expected to drive growth. However, stubbornly high inflation, rising interest rates and weaker activity in the US and Europe pose key risks to growth.

INFLATION

Headline Statement

- Inflation is forecast to be more persistent than expected in the July Ministerial Statement, remaining elevated at 3½ per cent in the June quarter 2024, reflecting expectations for higher electricity and gas prices.
- Inflation is expected to return to the Reserve Bank's inflation target in 2024-25.

Key Points

- Inflation is forecast in the October Budget to peak at 7¾ per cent in the December quarter of 2022, driven by ongoing housing (new dwellings and rents), food and energy price growth.
  - The annual September quarter CPI outcome of 7.3 per cent was slightly stronger than the 7 per cent forecast in the Budget. The extra strength largely reflects the timing of electricity subsidies, which are expected to broadly balance out in the December quarter.
- Inflation is then forecast to ease to 5¾ percent by June 2023, 3½ per cent by June 2024 and 2½ percent by June 2025, as global supply side pressures moderate and as tighter monetary policy weighs on demand.
  - Energy prices are forecast to stay higher for longer reflecting higher global prices persisting longer than anticipated at the time of the July Statement as well as temporary domestic market disruptions.
  - Treasury has assumed domestic retail electricity prices will increase by an average of 20 per cent in late 2022, largely based on increases in Default Market Offers from 1-July and associated increase to market offers, and by a further 30 per cent in 2023-24. Gas prices are assumed to rise by up to 20 per cent both this year and next.
- The after-effects of the pandemic and Russia's invasion of Ukraine has seen global inflation rise rapidly and we are now witnessing the fastest synchronised monetary policy tightening in the inflation targeting era.

- Global shocks have driven global food prices 50 per cent higher and caused global energy prices to double since the start of the pandemic.
- Domestic weather events have added to the rising cost of fruit and vegetables. Treasury estimates that the March floods alone increased fruit and vegetable prices by around 8 per cent. Based on preliminary analysis, the October floods are forecast to add 0.1 percentage points to inflation in the December quarter 2022 and again in the March quarter 2023.
- New dwelling prices have also been pushed up by wet-weather, material shortages and insufficient labour to meet the surge in demand.
- The outlook for inflation remains uncertain and there are significant risks:
  - On the upside, there are risks of further disruptions to global energy markets. A faster than expected pick-up in wages growth would add to underlying pressures.
- On the downside, tighter monetary policy in Australia and globally than is currently expected could result in a quicker return of inflation to target. A faster unwinding of supply shocks could also bring inflation back to target sooner.

Policy Commitments

- The Government's 5-point plan for responsible and targeted cost-of-living relief will avoid placing upward pressure on inflation and will add to the supply side of the economy.
  - Key policies included in the plan include:
    - increases to child care subsidy rates;
    - cutting the cost of medicines for around 3.6 million Australians
    - expanding the Paid Parental Leave scheme to reach 26-weeks in 2026
    - delivering more affordable housing; and
    - getting real wages moving again.
  - In particular, direct effects of Childcare, medicines and fee-free TAFE policies are estimated to marginally reduce inflation within these CPI categories in late 2023.

Key sensitivities

- Inflation is expected to be more persistent than forecast in the July Ministerial Statement, owing high and persistent global inflation and expectations for further electricity and gas price increases in 2023.
- The forecast for annual headline CPI has been upgraded by ¾ of a percentage point in 2023-24, driven by a 1 percentage point upgrade to the contribution of electricity and gas since the July Statement.
- Global and domestic energy market disruptions are expected to persist, pushing consumer prices higher for longer than anticipated at the time of the July Statement.
- Higher energy prices globally are adding to domestic challenges owing to ageing electricity assets and a long period of inadequate policy certainty.

Background

Table 1: Consumer Price Index forecasts

Parameter	Outcomes	Forecasts			
	2021-22	2022-23	2023-24	2024-25	2025-26
Budget 2022-23 October	6.1	5 ¾	3 ½	2 ½	2 ½
Ministerial Statement	6.1	5 ½	2 ¾	2 ½	2 ½
PEFO	4 ¼ (f)	3	2 ¾	2 ¾	2 ½

Note: Through-the-year growth rate to the June quarter.
Source: ABS, Treasury

Electricity and gas

- The recent spikes in wholesale **electricity and gas** costs are yet to be fully reflected in household bills. Electricity prices rose by 3.2 per cent in the September quarter 2022, as an underlying 15.6 per cent rise was largely offset by subsidies in WA, QLD and the ACT. More pronounced price rises are expected to impact the CPI largely from December as state-based electricity subsidies are assumed to unwind.
  - Combined electricity and gas prices are expected to contribute ¾ of a percentage point to headline CPI in 2022-23 and 1 percentage point in 2023-24.

Table 2: Estimated median households electricity bills in the National Electricity Market (NEM)

Region	Estimated median annual bill		Change from April to Oct	
	April 2022	October 2022	$	%
NEM	**$1,295**	**$1,589**	**$294**	**23%**
NSW	$1,460	$1,848	$388	27%
SA	$1,520	$1,830	$310	20%
SEQ	$1,290	$1,620	$330	26%
Vic	$1,187	$1,390	$204	17%
Tas	$2,125	$2,500	$375	18%

Note: Estimates are based on preliminary data to 10 October 2022 covering new market offers published on government-run comparator websites (Energy Made Easy and Victoria Energy Compare).
Source: ACCC estimates

- Internationally, consumer electricity price growth since pre-pandemic has increased by as much as 60 per cent in the UK. Consumer gas prices in the euro area and UK are over 80 per cent higher since the start of the pandemic. Further international increases are likely.
  - The forecast increases to electricity and gas prices in Australia would see price rises by June 2024 roughly similar to those already experienced internationally.

Table 3: International consumer energy price growth, relative to pre-pandemic levels (Dec-19)

Country	Gas CPI	Electricity CPI
Euro area (September 2022)	89.2%	53.2%
United Kingdom (September 2022)	81.2%	63.0%
United States (September 2022)	58.9%	26.6%

Source: Refinitiv, National Statistical Agencies.

Food

- Local floods and severe weather are expected to continue to drive fresh produce prices higher, with **food** prices in total expected to contribute 1½ percentage points to the peak of inflation in December quarter of 2022.
  - Fruit and vegetable prices are expected to remain elevated following recent floods, with prices estimated to be around 8 per cent higher than they would be otherwise. See *Issues Brief IB59 – South east floods September and October 2022*.

Petrol

- Oil prices rose sharply following Russia's invasion of Ukraine, resulting in sharply higher **petrol** prices earlier this year. The national average price peaked at 212.5 cents per litre in March and again at 212.1 in July. Prices have fallen 16 per cent from their peak, to 178.6 cents per litre in mid-October.
  - In recent months, falling global oil prices, a rapid contraction in refinery margins and improving production have provided some relief. The automotive fuel component of the CPI fell by 4.3 per cent in the September quarter 2022, although remains 18.0 per cent higher than a year ago.
  - The return of standard fuel excise rates is expected to contribute ½ of a percentage point to the peak in headline inflation in the December quarter 2022. In the March Budget 2022-23 the temporary halving of the excise was estimated to reduce headline inflation by ¼ of a percentage point (this estimate did not include secondary GST impacts, indexation of the excise and changes in the underlying price of petrol).

Rents

- **Rents** are expected to pick up considerably in the next two years, with growth peaking at nearly 6 per cent through the year to the June quarter of 2023, contributing ¼ percentage point to through-the-year inflation. This reflects 10 per cent growth in advertised rents over the past year and a tight rental market given population growth and limited growth in the housing stock.

Table 4: International inflation

COUNTRY	Headline inflation	Core inflation	Measure of core inflation	Comparison to Australia
United States (September 2022)	8.2%	6.6%	Excluding food and energy	More elevated goods demand and less responsive labour supply, which has increased inflationary pressure. Strong contribution from rising rents
United Kingdom (September 2022)	10.1%	6.5%	Excluding energy, food, alcohol and tobacco	More severe energy price inflation, increasing domestic wage pressure
Euro Area (September 2022)	9.9%	4.8%	Excluding energy, food, alcohol and tobacco	More severe energy price inflation
Japan (September 2022)	3.0%	3.0%	Excluding fresh food	Government price controls and subsidies on energy and food staples, slow growth and ageing population
New Zealand (September quarter 2022)	7.2%	6.3%	Excluding food and energy	Food and rent a larger contributor

Source: Refinitiv, National Statistical Agencies

SB22-000330

COMMODITY PRICES

Key talking points

- Commodity prices have remained higher for longer than expected, boosting nominal GDP and budget revenues in the near term, but they remain volatile and we can't rely on them remaining elevated.
  - The reduction in Russian energy supply to Europe has seen a sharp rise in global energy prices with **gas and thermal coal prices reaching new record-highs**.
  - The housing downturn in China has seen **iron ore and metallurgical coal price decline sharply** but remain above long-term fundamental levels.
- **Commodity prices are assumed to decline to levels consistent with long-run fundamentals** – consistent with the long-standing budget assumption to ensure we are not baking in short-term volatility in commodity prices.
  - The October budget assumes that prices decline over two quarters, reaching long-term fundamental levels by the end of the March quarter 2023.

Key facts and figures

Developments in commodity markets

- The prices for **thermal coal** and **LNG** have remained elevated since PEFO reflecting the global impact of the disruption in Russian energy supply to Europe (Annex – Table A).
  - Australian thermal coal is trading at almost four times its ten-year average.
  - LNG spot prices are currently around three times their ten-year average.
- The prices for **iron ore** and **metallurgical coal** have fallen by around 40 per cent and 44 per cent since PEFO, respectively (Annex – Table A), in line with a slowdown in economic activity in China.

- The price of **oil** (Tapis) has been volatile as markets balance the prospects of lower global demand against the risk of supply disruptions related to OPEC+ output decisions. The oil price is around US$103 per barrel, roughly 9 per cent below its level at PEFO (Annex – Table A).

Commodity price assumptions and comparison with PEFO

- Spot prices for all bulk commodities have been higher, on average, than the commodity glide paths implied by the 2022 PEFO assumptions (Annex – Table A).
- The starting assumption is higher for thermal coal and LNG, but lower for iron ore, metallurgical coal and oil – reflecting recent spot price movements (Annex – Table B).

Terms of trade

- The terms of trade reached a record-high in 2021-22, growing by 12 per cent. The terms of trade are forecast to remain elevated in 2022-23 before declining by 20 per cent in 2023-24, in line with Treasury's commodity price assumptions.

Risks

- The key downside risk for commodity prices is China's domestic property downturn and a possible a recession in major advanced economies.
  - China is the world's largest consumer of iron ore and the second largest consumer of oil, meaning that widespread and lasting lockdowns would reduce global demand and prices.
- There are substantial upside risks to commodity prices.
  - Further disruptions to Russian gas supply would put even more pressure on the price of energy commodities such as thermal coal and LNG.
  - The long term impacts of interruption to Russian energy supply to global markets remains uncertain and could result in structurally higher prices.
  - The OPEC+ decision on 5 October to reduce global oil output is likely to increase the price of oil – both by reducing supply and by increasing the risk premia. The impact of Russian sanctions from December is likely to also put upwards pressure on prices.
  - Wet weather conditions linked to another La Niña this year could reduce the volume of Australian metallurgical and thermal coal, putting further upwards pressure on prices.

Sensitivities

- *Budget Statement 2* includes analysis of the impact of sustained elevated commodity prices, with the price of iron ore and coal held flat for one quarter before declining to long-term fundamental levels at the end of June 2023.
- The value of nominal GDP would be $43.8 billion higher over 2022-23 to 2024-25, and tax receipts would be $9.9 billion higher over the same period (see Table 1).

Table 1: Sensitivity analysis of a later fall in coal and iron ore spot prices

	2022-23	2023-24	2024-25	Total
Nominal GDP ($billion)	35.0	8.8	0.0	43.8
Tax receipts ($billion)	2.5	6.5	0.9	9.9

Annex

Table A: Developments in commodity markets[1]

	Current spot price, US$ *(per cent change since PEFO)*	Average difference in spot price to PEFO glide path, US$ *	2022-23 October Budget Glide path start point *(16 Sep 22)*	2022-23 October Budget Glide path end point *(from 1 April 23)*	Key developments
Iron ore (US$/tonne, FOB)	$83.6 *(-40%)*	$20 (+24%)	$91	$55	• The fall in iron ore and metallurgical coal prices reflects weak steel demand in China amidst ongoing COVID-19 restrictions and a domestic property downturn.
Metallurgical coal (US$/tonne, FOB)	$287.3 *(-44%)*	$62 (+23%)	$271	$130	• Metallurgical coal prices remain above their ten-year average (US$176 per tonne) as supply disruptions related to the Russian invasion have supported prices.
Thermal coal (US$/tonne, FOB)	$397.9 *(+22%)*	$253 (+165%)	$438	$60	• EU members, along with the UK, have banned imports of Russian coal and are seeking alternative supplies. • This is driving up global prices, with Australian thermal coal trading at almost four times its ten-year average.
Oil (US$/barrel)	$103.2 *(-9%)*	$8 (+7%)	$108	$100	• The price of oil (Tapis) has been volatile, trading between US$100 and US$130 per barrel, as markets balance the prospects of lower global demand against the risk of supply disruptions related to OPEC+ output decision
LNG (spot prices – US4/MmBtu) *(EUV - US$/tonne)*	$29.9 (+13%)	$19 (105%)	*$934*	*$630*	• Disruptions of natural gas flows from Russia to Europe have driven up LNG spot prices, which are currently around three times their ten-year average. • Only around 10 per cent of our LNG exports are traded on the spot market, with the remainder sold on long-term contracts that are linked to the oil price. The EUV is a weighted average of these two factors.

*Average difference between average spot price and PEFO glide path over the period 20 April 2022 to 18 October 2022.

[1] Spot prices are from Argus Media and updated on **18 October 2022**. The PEFO spot prices were as at **20 April 2022**. Iron ore and coal prices are US$ per tonne, free-on-board; the oil price is US$ per barrel; the LNG price is US$ per million metric British Thermal Unit.

SB22-000331

INEQUALITY

Headline Statement

- Income and wealth inequality in Australia were relatively stable over the decade to 2019-20.

Key Points

- The main source of data on the distribution of household income and wealth in Australia is the ABS Survey of Income and Housing (SIH), with the latest data being for 2019-20 (July 2019 to June 2020).
- More timely data suggests that income inequality has not worsened during the pandemic.
- The distribution of wealth is much less equal than the distribution of income. Timely data on wealth inequality is limited.
- Income inequality in Australia is close to the average of other advanced economies, while wealth inequality is lower than average.
- Income and wealth typically vary over the life course. Economic mobility across a person's life in Australia is relatively high, particularly for incomes.
- Some metrics quoted in mainstream media, such as the wealth held by the top 200 wealthiest individuals, do not use comprehensive data and can be unreliable.

Policy Commitments

- Treasury will continue to undertake work and consultation with stakeholders to develop a Measuring What Matters Statement for delivery in mid-2023.
  - This Statement will build on the material presented in Budget Statement 4, such as the OECD Framework for measuring progress and wellbeing that includes a measure of income inequality.

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Background

Measuring Inequality

- Income and wealth inequality at a point in time are typically measured using the Gini coefficient.[1] A lower value of the Gini coefficient indicates a more equal distribution.
  - Other metrics include the ratio of incomes at selected income percentiles (e.g. P90/10 and P80/20), or trends in the distribution of income and wealth within quintiles.
  - Other measures may better capture the distribution of economic wellbeing, and the mobility of individuals and households.
- The main source of data on income and wealth inequality in Australia is the ABS Survey of Income and Housing (SIH). The SIH is conducted roughly every two years, with the latest results being for 2019-20.
  - The latest survey was conducted between July 2019 and June 2020 and does not fully capture the effects of bushfires and COVID-19 on Australian households.
  - From 2023-24, a new Living Costs in Australia Survey (LCAS) will collect the majority of income, housing, wealth, and expenditure data previously available through the SIH and Household Expenditure Survey. Some data previously collected through these surveys will be replaced by administrative data held by the public sector.

Income Inequality

- Income inequality has been relatively stable over the past decade according to standard measures that adjust for household size and composition ('equivalised') (Table 1).
  - Aside from income, consumption can also be a useful, or better, indicator of household wellbeing, particularly when capturing in-kind transfers from the government.
  - When using an expansive measure of final consumption, a 2018 Productivity Commission report found that overall inequality (Gini coefficient) is about 30 per cent lower compared to the disposable household income measure.

Table 1: Equivalised Disposable Household Income Inequality Metrics

	2009-10	2011-12	2013-14	2015-16	2017-18	2019-20
Mean income per week ($, 2019-20)	1,034	1,062	1,099	1,078	1,094	1,124
Gini coefficient	0.329	0.320	0.333	0.323	0.328	0.324
P90/P10	4.24	4.10	4.07	3.91	3.98	4.00
P80/P20	2.70	2.61	2.56	2.62	2.57	2.60

Source: ABS Survey of Income and Housing.

[1] The Gini coefficient measures the extent to which the distribution of income or wealth among households deviates from a perfectly equal distribution. It ranges in value from 0 (perfect equality) to 1 (perfect inequality).

- The impact of the COVID-19 pandemic on inequality was mitigated by support payments targeting vulnerable households during the height of the pandemic.
  - Previous Treasury analysis showed that government support policies, including the Coronavirus Supplement, Economic Support Payments and JobKeeper Payment, supported incomes throughout 2020, particularly at the lower end of the income distribution where employment losses were largest.
  - Support payments have evolved in line with the pandemic health restrictions. They have included the COVID-19 Disaster Payment for those affected by lockdowns or other public health orders, Pandemic Leave Disaster Payment for those losing income due to isolation, quarantine or care and now the High-Risk Settings Pandemic Payment targeted at workers in high-risk settings (aged, disability, First Nations and hospital care).
  - ACOSS/UNSW used preliminary SIH data to show that an increase in income support payments for the lowest and second lowest quintiles prevented a rise in income inequality in 2020.
- Poverty is commonly associated with income inequality but is somewhat subjective to measure given the many different choices of benchmark.
  - Using HILDA Survey data, Bankwest Curtin Economics Centre found that 3 million Australians (11.8 per cent of the population), including 750,000 children, lived below a relative poverty line in 2020 – 350,000 fewer people than in 2019.
    - The poverty line was defined in the report as half of median income after housing costs have been paid – hence it is a relative rather than an absolute benchmark. In 2020, this poverty line was $453.50 per week for a single person and $680.24 per week for a couple with no children.
- Without monetary and fiscal support provided it is likely that higher unemployment and associated economic scarring would have led to higher income inequality.
- Australia's progressive tax and transfer system is highly targeted and substantially reduces income inequality.
  - In 2015-16, the lowest income quintile received the highest share of social assistance benefits and transfers, while the highest income quintile paid around 50 per cent of all taxes on income and production.
  - A 2018 Productivity Commission report showed that income tax and government transfers typically lower the Gini coefficient by around 30 per cent.

Wealth Inequality

- The distribution of wealth is less equal than the distribution of income, indicated by a higher Gini coefficient (Table 2). Wealth inequality was also relatively stable over the decade to 2019-20.

- Housing is the main component of household assets and liabilities – around 56 and 90 per cent in 2019-20, respectively. As a result, trends in housing prices have a strong bearing on measured wealth inequality.

Table 2: Household Net Worth Inequality Metrics

	2009-10	2011-12	2013-14	2015-16	2017-18	2019-20
Mean net worth ($'000, 2019-20)	878.2	842.5	892.4	992.9	1,053.2	1,042.0
Gini coefficient	0.602	0.593	0.605	0.605	0.621	0.611
P90/P10	49.16	53.84	52.25	59.16	70.83	61.13
P80/P20	10.93	11.61	12.07	12.32	13.70	12.81

Source: ABS Survey of Income and Housing.

- Wealth data has relatively long lag times and little timely data is available, making it difficult to assess the full impact of COVID-19 on wealth inequality.
  - As of September 2022, Australian housing prices were 4.8 per cent below their peak in April 2022. Weaker demand has been driven by falls in owner-occupier and investor activity amid ongoing interest rate rises and weak consumer sentiment. New loan commitments to owner-occupier first home buyers are 43.3 per cent lower than their January 2021 peak and below pre-pandemic levels.
  - The median balanced superannuation fund returned an average of 13 per cent in 2020-21 financial year and 2 per cent in 2021-22.
  - Equity markets strengthened over much of 2021, with the ASX 200 ending the year around 4 per cent above its pre-pandemic peak (February 2020). Since then, Australian equities have declined by nearly 11 per cent since the start of 2022.
- Some metrics quoted in mainstream media, such as the wealth held by the top 200 wealthiest individuals or by billionaires, do not use comprehensive data and can be sensitive to short-run fluctuations in asset prices.
  - A January 2022 Oxfam report found that the wealth of Australia's billionaires (as per the Forbes Billionaires List) doubled over the first two years of the pandemic. (At $255 billion, the report found this was more than the combined wealth of the poorest 30 per cent of Australians.)

Other Types of Inequality

- Studies suggest that the pandemic has had disproportionate health impacts on people from lower income backgrounds and minority groups.
  - The Australian Institute of Health and Welfare (AIHW) reported in July 2022 that the COVID-19 mortality rate was nearly 3 times higher for people in the lowest socioeconomic areas compared to those in the highest, for both males and females, between the start of the pandemic and 30 April 2022.

- : The reasons are complex, but the differences do not appear to be driven by aged care facilities being over-represented in lower socioeconomic areas.

  – COVID-19 death rates were 2.5 times as high for people born overseas as those born in Australia.

- According to the AIHW, First Nations people were at substantially increased risk of being affected by the COVID-19 pandemic and cases are likely underrepresented due to data gaps.

- Treasury will continue to undertake work and consultation with stakeholders to develop a Measuring What Matters Statement for delivery in mid-2023.

  – This Statement will build on the material presented in Budget Statement 4, such as the OECD Framework for measuring progress and wellbeing.

Intergenerational Mobility

- Australia is among the more socially mobile countries when considering the persistence of economic outcomes from one generation to the next.

  – An Australian child born in the bottom 20 per cent in the early 1980s had a 12.3 per cent chance of reaching the top 20 per cent by the early 2010s, compared to 7.5 per cent in the United States.

- The Productivity Commission (PC) recently estimated that wealth transfers – mostly inheritances – totalled over $120 billion in 2018, more than doubling in real terms since 2002.

  – The PC found that inheritances account for about a third of measured intergenerational wealth persistence (IWP) i.e. the tendency of wealthier parents to have wealthier children.

  – However, the report also found that despite projected growth in wealth transfers, they were “unlikely to significantly worsen wealth inequality in Australia in the coming decades”.

Inequality and Economic Growth

- Over recent decades, Australia’s strong economic performance has improved living standards for the average Australian household.

  – A 2018 Productivity Commission report on inequality noted that sustained economic growth since the early 1990s has greatly improved living standards for Australians, with average incomes, consumption and wealth growing across the distribution.

  – Each generation has, on average, had higher incomes and greater accumulated wealth than their predecessors at the same age.

  – Australian households are on average wealthier than households in most other developed countries, partly due to Australia’s system of compulsory superannuation.

- Sustained economic growth and reliable access to employment – complemented by skills and education improvements – are essential to maintaining economic opportunity for future generations.

- Conversely, worsening inequality can have both positive or negative impacts on economic growth: the overall impact is unclear.
  - Inequality could weigh on growth if limited financial resources prevent people from investing in their health and education and hence making the most of their talents.
  - Inequality can support growth if it increases the returns to effort and innovation, and people respond to these increased returns.
  - OECD and IMF cross-country analysis suggests that higher inequality is negatively associated with future economic growth. However, a recent paper shows that this is only true for countries with high poverty rates (above 30 per cent), which is not the case for Australia (Breunig and Majeed 2020).

CLIMATE MODELLING

Headline Statement

- As part of the 2022-23 October Budget, the Government provided $63.6 million to 2029-30 to restore Treasury's role in modelling climate risks and opportunities for the Australian economy.

Key Points

- The Government's October 2022-23 Budget funds a significant capability uplift within Treasury, including the establishment of a new Climate and Industry Modelling Branch within Macroeconomic Group.
  - This delivers the Government's election commitment, under the Powering Australia plan, to restore Treasury's role in modelling climate risks and opportunities for the Australian economy.
- The quantum of funding received ($29.8 million over four years, and $6.9 million ongoing) ensures that Treasury is sufficiently resourced to model and advise on the various impacts of climate change and the Government's wide-ranging climate policy agenda.
  - Recruitment is underway and the new function is expected to be fully staffed (around 30 ASL) by end-2022.
- Treasury last engaged in a large-scale climate modelling exercise – focussed primarily on mitigation – almost a decade ago.
- There lies a substantial task in developing the analytical and modelling capability that Treasury will need to provide economic advice on the breadth of climate-related questions facing government.
  - Understanding the economic impacts of domestic and global climate change mitigation policies remains an essential question as we progress further along the path of net zero transition.

- However, as recent flood events have reinforced, better-understanding the economic impacts of the physical impacts of climate change on the Australian economy and its regions, is now also fundamental.

- Treasury's restored modelling capability will allow for the incorporation of longer-term climate impacts into future Budgets and Intergenerational Reports.

  - The October 2022-23 Budget lays the groundwork for this, identifying the numerous channels climate change can impact Australia's economy and fiscal position. This will be built upon and expanded in future Budgets and next year's Intergenerational Report (timing and details of which are still being decided).

- In establishing this new capability, we will work closely with domestic and international experts from government, academia and the private sector.

  - As part of this first step, Treasury is working closely with s 47C, 47E(d) [redacted] and an external consultant (Deloitte s 47C, 47E(d) [redacted]) to build our modelling capability.

  - Treasury's contract with Deloitte (posted on AusTender on [TBC], and valued at $167,000) represents an early part of this process.

  - In recent years, Deloitte has developed significant capability in modelling the impacts of climate change policy and, particularly, the physical risks of climate change. Treasury is looking to learn from this experience, and adapt Deloitte's approaches to our modelling frameworks.

  s 47C, 47E(d) [redacted]

- We are co-ordinating closely across government – with DCCEEW, PM&C, CSIRO, and many others agencies, given climate change touches most policy portfolios in one way or another.

  - This will ensure Treasury's restored capability, which targets economic modelling and analysis, complements the scientific and policy program delivery responsibilities and development plans of other agencies.

Background

- The October 2023-23 Budget measure to “restore Treasury’s role in modelling climate risks and opportunities” supports:
  - The establishment of the Climate and Industry Modelling Branch.
  - Approximately 30 Treasury ASL to ensure delivery of capability and analysis at a pace consistent with the implementation of the Government’s climate agenda.
  - Access to data and specialist expertise from academia and the private sector, to support the capability build including immediate priorities.
  - Enhanced information technology to facilitate modelling and data analysis.
- The Branch is expected to be composed of four units.
  - The global macroeconomic modelling unit will provide advice on the impacts of international mitigation policies, global climate shifts, and market regulatory shifts on the Australian economy.
  - The domestic macroeconomic modelling unit will provide advice on the impacts of domestic mitigation and adaptation policies, and the physical risks of climate change, on the Australian economy, budget, industries and households.
  - An industry modelling unit and separate regional modelling unit will provide advice on the effect of domestic mitigation and adaptation policies, and the physical risks of climate change, on Australian sub-sectors and regions.

The challenges of climate modelling

- Modelling climate change – particularly climate change impacts (physical risks, costs) – is highly complex, and an evolving field of macroeconomics.
  - The impact of climate change and transition (mitigation and adaptation) on the size and structure of the Australian economy will depend on evolving factors (e.g. demand shifts, other countries’ actions, technological developments and policy timing).
  - There are numerous impact transmission channels: direct (e.g. physical effects) and indirect, (e.g. the flow-on effects of global transition to reduce emissions).
  - Adding to the complexity, climate change impacts are, and will remain, heterogeneous across Australian regions.
  - Single-model exercises only capture certain of these elements.

Deloitte procurement

- Deloitte has been contracted for a 12-month period to provide external expertise to assist with Treasury’s rebuilding of its modelling capability and expertise to respond to an range of climate change- and energy-related requests for advice.

– This assistance is expected to include close and collaborative model development and knowledge transfer, as well as transfer of relevant data and modelling assets.

: We are still in the process of early scoping discussions with Deloitte and have not issued any tasking in relation to this longer-term capability-build.

s 47C, 47E(d)

– The current value of Treasury's contract with Deloitte is $167,000.00 (including GST).

Table 1: Timeline of procurement

Date	Activity
26 July 2022	Deeds of confidentiality sent to potential suppliers
6 September 2022	RFQ sent to potential suppliers (selected from the Financial and Economic Analysis subpanel of the Whole of Government Management Advisor Services Panel)
16 September 2022	RFQ closing date
28 September 2022	Evaluation report finalised and endorsed by the Delegate
29 September 2022	First meeting with Deloitte s 47C, 47E(d)
10 October 2022	Work order signed by Deloitte
11 October 2022	Work order signed by Treasury
TBC	Contract posted on AusTender

- Deloitte have a dedicated team, including several former Treasury staff, with substantial experience and expertise in economic and climate modelling. They have pursued significant investment in developing a bespoke suite of climate, economy and energy modelling capability, which they have deployed for a broad range of research (private and public).

– This includes analysis on regional and sectoral impacts of climate change and climate change policy, the economic opportunities of transition to net zero by 2050 (for the BCA in 2021), and the physical risks of climate change.

s 47C, 47E(d)

MONETARY POLICY AND IMPACT OF RISING INTEREST RATES

Refer questions on the RBA's monetary policy operations and outlook to the RBA.

Headline Statement

- The RBA has raised interest rates to respond to higher inflation. Most households and businesses are well-placed to handle higher rates, but some will find it challenging.

Key Points

- The current cash rate target is 2.85 per cent, up 275 basis points since the RBA began increasing the cash rate in May.
- The RBA Board has signalled further increases are likely, to ensure that inflation remains within the 2 to 3 per cent target band over time. The size and timing of future interest rate increases will be guided by the data, and by the outlook for inflation and the labour market.
- Households will face different challenges as interest rates change.
  - Households who rely on income from their savings will be earning more in interest.
  - Borrowers will see increases to their debt repayments.
- Many households are well placed to handle a significant increase in the cash rate, but some lower income households and recent borrowers will find it more difficult.
- Since the RBA began increasing the cash rate in May:
  - Homeowners with an average mortgage of $330,000 have had to find an extra $507 a month for their mortgage repayments.
  - For Australians with a $500,000 mortgage, monthly repayments have increased by $769.

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Additional Information

How are overseas central banks responding to developments?

- Central banks in most advanced economies have raised policy rates rapidly, in response to persistently high inflation.
- In the United States, Canada, and New Zealand, inflation and wages growth are both higher than in Australia.
  - Central banks in these economies have indicated they are looking to constrain demand to bring inflation back to target and ensure inflation expectations remain anchored.
  - The US Federal Reserve is aiming to bring inflation down and keep inflation expectations solidly anchored at 2 per cent. It has increased the federal funds rate target range by 375 basis points since March 2022. Further increases are expected.
  - The Bank of Canada aims to keep inflation between 1-3 per cent. It has increased its overnight rate 350 basis points since March 2022. Further increases are expected.
  - The Reserve Bank of New Zealand aims to keep inflation between 1-3 per cent. It has increased its overnight cash rate 325 basis points since October 2021. Further increases are expected.
- Inflation is also high in the United Kingdom and the Euro Area, largely driven by food and energy price shocks stemming from the war in Ukraine.
  - The Bank of England and European Central Bank have sought to tighten policy to bring inflation back to target and ensure inflation expectations remain anchored.
  - The UK's consumer price index rose by 10.1 per cent in the year to September. The BoE aims to keep inflation at 2 per cent. It has increased its bank rate by 290 basis points since December 2021. The BoE projects the UK to enter recession from Q4 2022.
  - Inflation in the euro area is expected to remain high for an extended period. The ECB aims to keep inflation at 2 per cent. It has increased its key policy rate 200 basis points since July 2022. Further increases are expected.

Will higher interest rates have an impact on financial stability?
(See also BPB – Macro-Financial Risks to the Outlook)

- The Council of Financial Regulators is closely monitoring the effects of rising interest rates on the household sector.
- The RBA's October 2022 Financial Stability Review (FSR) found that bank balance sheets in Australia are expected to remain resilient to an increase in loan arrears under most plausible scenarios.
  - Financial stability risks have increased over recent months as global financial conditions tighten, growth forecasts are revised down, and geopolitical tensions disrupt energy markets. A turn in the global credit cycle is also evident.

- Banks in Australia remain liquid and very well capitalised.
- Large capital buffers mean banks are well positioned, should non-performing loans pick up from their very low levels in the period ahead.
- Banks and non-banks continue to have ready access to wholesale funding.
- Banks are well positioned to meet APRA's 'unquestionably strong' capital framework that will come into effect in January 2023.

- The FSR acknowledged that a substantial tightening in global financial conditions could cause financial stability risks to become more severe.

How will higher interest rates impact government debt sustainability?

- Low and stable inflation is important for maintaining a strong and sustainable economy, and so is critical to ensuring a sustainable debt path.
- Changes in RBA policy rates do not affect the interest coupon payments on outstanding government bonds.
  - Higher interest rates can translate into higher interest payments as debt is refinanced.
- The Budget contains a box on how Australian bond yields will affect government debt servicing (Budget Paper 1, Box 3.4, pages 84–85).

How will higher interest rates impact house prices?
(See also SB22-000327 – Housing Market and Housing Affordability)

- In the April Financial Stability Review, the RBA assessed that a 200-basis point increase in rates could lower real housing prices by around 15 per cent over a two-year period.
- The major banks are currently forecasting a median decline of 7.7 per cent in 2022, followed by a fall of 8.5 per cent in 2023.
- The current downturn follows a period of very strong housing price growth in response to low interest rates.
- Declining asset prices is an intended transmission mechanism for monetary policy.

Is household debt at record levels?

- It is true that Australian households are highly indebted.
  - Australians were carrying $2.2 trillion in housing debt as of June 2022.
  - And Australia's household debt to income ratio was 187.5 per cent in the June 2022 quarter – the highest on record.
  - Australia's household debt is also high by international standards (second only to Switzerland), at 118.4 per cent of GDP.

How will a higher cash rate affect borrowers, overall?

- Most households are well placed to handle significant increases in the cash rate.
- Most debt is held by those who are well placed to service it. Almost three-quarters of mortgage debt is owed by households in the top 40 per cent of the income distribution.
  - These high-income households have larger loans than average but can draw on higher incomes and higher savings buffers to repay them.
- Households in the lowest income quintiles are more likely to be outright owners than mortgage-holders.
  - In the Lowest Quintile, only 17 per cent of households have a mortgage and 44 per cent own outright. Many of these are likely to be retirees and age pensioners.
  - In the Second Quintile, 28 per cent have a mortgage. And 35 per cent own outright.
  - Across all quintiles, 36 per cent of households have a mortgage and 31 per cent own outright.
- The RBA has published extensive analysis about how households at various income levels would respond to changes in the cash rate.
  - At a cash rate of 2.6 per cent, household income remaining after tax and essential living expenses is estimated to be between 5 and 13 per cent lower than before the RBA started tightening, depending on households' income and loan size.

What kind of buffers do households have to higher mortgage costs?

- The RBA's October Financial Stability Review reported household mortgage prepayment balances in offset and redraw accounts were sufficient to cover 20 months' worth of required payments as of August 2022. However, this is down from 22 months in April 2022.
  - A little less than 40 per cent of all borrowers have buffers of 3 months or less. These borrowers may be on fixed-rate terms, or have disincentives to make excess payments such as investors, or are new first home buyers who have had less time to make excess repayments.

How will a higher cash rate affect vulnerable borrowers?

- Higher rates are more acutely felt by households with larger outstanding amounts, longer maturities, and lower initial interest rates.
  - First home buyers, and recent buyers of all types, often display some or all of these characteristics.
  - Fixed-rate mortgages account for about 35 per cent of outstanding housing credit, with two-thirds due to expire by the end of 2023. These borrowers are shielded for the time being from interest rate rises.

- Increases in repayments, in addition to higher inflation and modest wage growth, may significantly reduce the disposable income of lower income households with a mortgage.
  - On average, households in the lowest income quintile with an owner occupier mortgage spent almost half of their gross income on housing in 2019-20 (compared with 16 per cent across all households with a mortgage).
- There have been limited signs in the official data of a pick-up in financial stress across Australian households to date.
  - The proportion of loans that are non-performing remains at historic lows, at 0.78 per cent of credit outstanding in the June 2022 quarter.
  - But experience across households has been uneven.
  - Some increase in financial stress in the period ahead is likely, lagging behind increases to interest rates.
- Households may have to reduce their consumption to manage the cost of higher mortgage repayments.
  - In Australia, consumption growth has remained resilient to date. However, there are emerging signs of a moderation in consumer spending overseas.
- Some borrowers may be able to avail themselves of hardship arrangements with their bank.

The 275 basis point rise in interest rates is larger than serviceability buffer applied by APRA. Does this mean that borrowers now can't afford to repay their loans?

- Most mortgages have been assessed to verify that borrowers can repay loans at interest rates, <u>at least</u> 250 basis points higher than the rate initially offered by the bank.
  - In practice, some banks will have also used additional assessments, like a floor rate.
- The 250 basis point standard applied to borrowers for about 18 months between May 2019 and October 2021. Before and since, the requirements have been more rigorous:
  - Loans initiated before May 2019 were assessed for whether they could be repaid if the interest rate on the loan was 7 per cent.
  - Loans initiated after November 2021 were assessed for whether the borrower could repay at an interest rate <u>at least</u> 300 basis points higher than the rate initially offered by the bank.
- Many households have built up large financial buffers and are benefiting from stronger nominal income growth.
- It's reasonable to assume that some first home buyers who borrowed under the 250 basis point standard may not have large buffers, and some will struggle.

- The RBA published research recently that among First Home Buyers who purchased in 2021 and 2022:
  - : Just over 50 per cent have prepayment buffers of less than three months, and
  - : About 18 per cent have loan to value ratios above 80 per cent.
- Questions about how the standard was determined should be addressed to APRA.

Is mortgage stress resulting in a higher level of distressed sales?

- I'm aware of media reporting quoting SQM Research (AFR, 02/11/22) stating that "the number of distressed listings nationwide has jumped by more than 15 per cent since interest rates started rising in May".
  - The number of listings increased from 5,753 in May 2022 to 6,658 in October 2022. This equates to a change from 2.6 per cent of all listings in May to 2.8 per cent of all listings in October.
  - I'm advised that this research takes a broad definition of "distressed".

How did Treasury estimate an average outstanding mortgage size of $330,000?

- The amount of outstanding mortgage debt is published by APRA on a quarterly basis. The number of borrowers is estimated by the ABS on an annual basis. The calculation divides one by the other, with minor adjustments to align the figures to the same time frame.
- We're not aware of the ABS or APRA publishing a recent statistic of the "average outstanding mortgage". The ABS "average mortgage" figures are for new lending each month.

What about businesses?

- The RBA assesses that most businesses are well-placed to service their debts.
  - SMEs with high debt-to-income or low cash buffers may struggle to service their debt if their profitability declined.

Appendix 1: Mortgage Tables

Table 1: Impact of rising interest rates on mortgage repayments by loan size

Outstanding Loan Balance (Existing borrowers, 25 years remaining on loan)	Monthly Repayment at 1 May 2022	Monthly Repayment at 2 November 2022	Cumulative Increase in Monthly Repayment since 1 May 2022
	Cash Rate 0.1%	Cash Rate 2.85%	
	Retail Rate 2.86%	Retail Rate 5.61%	
$200,000	$934	$1,241	$307
$300,000	$1,401	$1,862	$461
$330,000	$1,541	$2,048	$507
$400,000	$1,868	$2,483	$615
$500,000	$2,335	$3,103	$769
$600,000	$2,802	$3,724	$922
$700,000	$3,269	$4,345	$1,076
$800,000	$3,736	$4,965	$1,230
$900,000	$4,203	$5,586	$1,383

The average existing owner-occupier loan is estimated to be approximately $330,000.

Table 2: Impact of rising interest rates on new mortgage repayments by state and territory

State/ Territory	Outstanding Loan Balance (New borrowers, 30 years remaining on loan)	Monthly Repayment at 1 May 2022	Monthly Repayment at 2 November 2022	Cumulative Increase in Monthly Repayment on equivalent amount since 1 May 2022
		Cash Rate 0.1%	Cash Rate 2.85%	
		Retail Rate 2.86%	Retail Rate 5.61%	
(AUS)	**$588,441**	$2,437	$3,382	$945
NSW	**$743,869**	$3,080	$4,275	$1,195
VIC	**$599,598**	$2,483	$3,446	$963
QLD	**$519,009**	$2,149	$2,983	$834
WA	**$464,408**	$1,923	$2,669	$746
SA	**$471,835**	$1,954	$2,712	$758
TAS	**$470,233**	$1,947	$2,702	$755
ACT	**$585,170^**	$2,423	$3,363	$940
NT	**$464,490^**	$1,923	$2,669	$746

^Latest data point is from August 2022.

FOI 3204
Document 11

SB22-000334

RBA CAPITAL POSITION

Headline Statement

- *This brief covers the capital position of the RBA in its Annual Report 2022. Refer questions that do not relate to the Government's role to the RBA.*

Key Points

- The RBA has recorded an accounting loss of $36.7 billion for 2021-22 and is in a net equity position of negative $12.4 billion, as a result of purchasing bonds under the unconventional policy measures implemented in response to the pandemic.
- This will mean the RBA will not pay a dividend to the Commonwealth in FY 2022-23. The October 2022 and March 2022 Budgets forecast that the RBA will not pay any dividends to the Commonwealth over the forward estimates[1].
- To restore its capital position, the Treasurer supports the general approach of the RBA retaining future earnings rather than paying them as dividends to the Commonwealth. This will be subject to the Treasurer's approval in each financial year.
- This result does not represent a failure of the RBA, as the policies implemented by the Bank supported the economy during a period of great uncertainty. A number of central banks in other countries have large bond portfolios that, if marked-to-market, would result in substantial accounting losses and, potentially, negative equity.

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[1] *October 2022 Treasury Portfolio Budget Statement* – Table 3.9, p. 57.

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Additional Information

Why is the Reserve Bank in negative equity?

- In response to the pandemic, the RBA significantly increased the size of its balance sheet by buying government bonds through its yield curve target, term funding facility, and bond purchase program. This helped to support the economy during a period of great uncertainty.
  - Reviews of the yield curve target and the bond purchase program both indicated that they successfully reduced long term government bond yields, which supported the economic recovery.
- As bond yields have risen, the market value of the bonds held by the bank has declined. The RBA uses marked-to-market accounting which captures this decline, and so has recorded an accounting loss of $36.7 billion in 2021-22.
  - This is an unrealised loss only. If the bonds are held to maturity (which the RBA Board has indicated it intends to do), any unrealised losses will be recouped over the life of the RBA's bond holdings.

Does negative equity compromise the Bank's ability to do its job?

- The negative equity position does not affect RBA operations, nor its ability to operate effectively or perform its policy functions.
  - This is because unlike a normal business, there are no going concern issues with a central bank in a country like Australia.
  - The RBA will always have the means to meet its obligations (by creating money).
  - Under the *Reserve Bank Act 1959*, the Government also provides a guarantee against the Bank's liabilities.
- There is precedent for central banks operating normally in analogous circumstances:
  - Some central banks have incurred negative capital positions in pursuit of policy objectives and maintained these positions for many years without impinging on their policy or operational effectiveness. Examples include the central banks of Chile and the Czech Republic in recent years, and the Swiss National Bank in the 1970s.

    At the moment, several central banks around the world would see substantial accounting losses and potentially negative equity if they marked-to-market their bond portfolios like the RBA does.

Does the Government need to recapitalise the Reserve Bank?

- The Board has communicated to the Government that it does not see a capital injection as necessary to rebuilding its capital position.
  - The Board has indicated to the government that it expects future profits will be retained by the Bank until the Bank's capital is restored.

- The RBA Board's intention is to restore its capital position by retaining future distributable earnings rather than paying them out to the Government as a dividend.
- The Treasurer supports this general approach, noting that this will be reviewed every year as per the *Reserve Bank Act 1959*.

- I'm aware of views of Professor Warwick McKibbin, that positive equity would be better for the RBA's credibility, and the government should make incremental capital injections over the next five years or so.
  - The Treasurer has endorsed the RBA Board's general approach to restoring the equity position over time, by retaining future earnings.

Does negative equity compromise the Bank's independence?

- No. As per the *Statement on the Conduct of Monetary Policy* the Government recognises and respects the Reserve Bank's independence.
- It is generally agreed that having a well-capitalised central bank is best practice.
  - This is because it supports independence by buffering against financial losses which may be incurred in pursuit of otherwise optimal policy outcomes.
  - Capital also supports independence by giving the Bank a resource to meet its commitments.
- However, it is widely accepted that a high or even positive level of capital is not necessary from a practical perspective.
  - For example, the US Federal Reserve and Bank of England maintain low levels of capital relative to assets (though their accounting rules differ, making comparison with the RBA difficult).

Does this result mean the public will be receiving less money due to a decade of lost dividends?

- It is true that without RBA dividends, the Government's underlying cash balance is lower than otherwise. In the 10 years up to and including the 2020-21 financial year, the RBA paid dividends totalling $13,048 million.
- This should not be considered in isolation as a cost of the unconventional policies implemented by the RBA during the pandemic. This is because these policies worked alongside other monetary and fiscal policies in preventing a sharper economic downturn and contributing to the economic recovery which has seen Australia achieve the lowest unemployment rate in almost 50 years.
  - The total financial cost of the Bond Purchase program will be known only once the last of the purchased bonds matures in 2033.
- No dividend was forecast over the forward estimates in the March 2022-23 Budget.

The RBA is in a negative equity position of $12.4 billion and the Reserve Bank Reserve Fund target is $20.8 billion. Does this mean the cost to the public is $33.2 billion?

- No, the amount the RBA will need to recuperate will likely be lower. This is because the majority of the Bank’s domestic bonds are now carried on the balance sheet at a discount to their face value, so that capital gains are expected to be realised as these bonds mature. This will add to the Bank’s distributable earnings in future periods.

- As the Bank's bond portfolio matures, Exchange Settlement balances will fall, and the Bank will move back towards a situation with positive income and much less exposure to interest rate risk. This will occur in particular when bonds purchased to support the three-year yield target mature and when funds lent under the Term Funding Facility are repaid.

- The target balance in the RBRF is not a minimum level of capital that needs to be maintained at all times but rather a benchmark for the Board to consider when providing advice to the Treasurer regarding the Bank's capital and dividends.

Background Information

Exchange of Letters Between RBA Governor and Treasurer

- On 11 July 2022, RBA Governor Phil Lowe wrote to the Treasurer to advise him of the RBA's financial result for 2021-22. The Governor noted that "it would be helpful if the Government would make a statement supporting" the general approach to the restoration of the Bank's capital.

- On 24 August 2022, the Treasurer responded (MS22-001476) with:
  - *"I support the RBA Board's general approach to retaining the Bank's capital over time. However, I note that under the Reserve Bank Act 1959, the amount withheld each year will be at my discretion. I am comfortable with you including my endorsement in any messaging around the capital position, including in the RBA annual report."*
  - *"I also support the RBA Board's assessment that a capital injection is not necessary since the Bank's capital can be restored over time. I agree with the Board's judgment that the RBA will be able to continue to operate effectively, even in the event of further losses over the next few years."*

Breakdown of 2021-22 Accounting Loss

- The RBA made underlying earnings of $8.2 billion in 2021-22, compared with $4.2 billion in 2020-21. It made $44.5 billion in unrealised valuation losses and $0.4 billion in realised valuation losses. All together making up the $36.7 billion accounting loss.

2013 capital injection

- Exchange rate increases led to falls in the RBA's unrealised gains over 2009 to 2011. This led to the RBRF falling to $1.3 billion in 2010-11 (around 2 per cent of assets at risk, compared to a target of 10 per cent of assets at risk). No dividends were paid to the government in 2009-10, 2010-11 and 2012-13.

- Successive RBA annual reports noted that capital buffers would need to be rebuilt over several years. By 2012-13 the RBRF increased to $2.4 billion (3.6 per cent of assets at risk).

- In 2013-14 the Government made a one-time grant of $8.8 billion which was transferred to the RBRF, lifting the balance to $11.2 billion (15.7 per cent of assets at risk).
  - At the time, Treasurer Joe Hockey said that the RBA grant would "strengthen the financial position of the Reserve Bank of Australia", and that it "does not mean that the solvency of the Reserve Bank, or its ability to perform its vital functions, is in any way under threat".[2]
  - RBA Governor Glenn Stevens said that the RBA would have been comfortable building capital back up over several years, but that the grant put them in a better position to deal with unpredictable risks, and meant that the RBA would be paying dividends to the government over the next few years.[3]

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[2] The Hon Joe Hockey MP, Media Release, 23 October 2013.

[3] Sydney Morning Herald, 2013, 'Joe Hockey blowing hundreds of millions to make himself look good'

Composition and Distribution of Reserve Bank Profits ($m)

	Composition of profits (a)				Distribution of profits				
					Transfer to/from (-)				
	Underlying earnings	Realised gains or losses (-)(b)	Unrealised gains or losses (-)	Accounting profit or loss (-)	Unrealised profits reserves	Asset revaluation reserves	Reserve Bank Reserve Fund Balance	Dividend Payable	Accumulated Losses
2000/01	1,629	1,200	320	3,149	320	-5	6,152	2,834	0
2001/02	1,400	479	-11	1,868	-11	-10	6,152	1,889	0
2002/03	1,238	1,157	-222	2,173	-222	-2	6,285	2,264	0
2003/04	882	-188	1,261	1,955	1,261	0	6,285	694	0
2004/05	997	366	-1,289	74	-1,289	0	6,285	1,363	0
2005/06	1,156	4	933	2,093	933	-17	6,286	1,177	0
2006/07	1,381	72	-2,846	-1,393	-2,475	-3	6,286	1,085	0
2007/08	2,068	614	-1,252	1,430	27	0	6,286	1,403	0
2008/09	2,150	4,404	2,252	8,806	2,252	0	6,863	5,977	0
2009/10	866	-128	-3,666	-2,928	-2,248	0	6,183	0	0
2010/11	897	-1,135	-4,651	-4,889	-23	0	1,317	0	0
2011/12	710	405	-39	1,076	-20	0	1,913	500	0
2012/13	723	-135	3,725	4,313	3,725	0	2,501	0	0
2013/14	9,242(c)	790	-640	9,392	-640	-3	11,159	1,235	0
2014/15	832	2,622	3,434	6,888	3,434	0	12,729	1,884	0
2015/16	1,223	3,389	-1,729	2,883	-1,729	0	14,119	3,222	0
2016/17	960	322	-2,179	-897	-2,179	-4	14,119	1,286	0
2017/18	845	-176	3,178	3,847	3,178	0	14,119	669	0
2018/19	1,167	412	2,970	4,549	2,970	-106	14,119	1,685	0
2019/20	1,399	1,168	-79	2,488	-79	0	14,119	2,567	0
2020/21	4,157	-240	-8,249	-4,332	-8,249	-1	15,366	2,671	0
2021/22	8,198	-353	-44,545	-36,700	-502	4	0	0	-20,836

(a) As originally published.
(b) Excludes gains or losses realised from the sale of fixed assets that had been held in asset revaluation reserves.
(c) Includes the Commonwealth grant of $8,800 million.
Source: RBA Annual Reports.

FOI 3204
Document 12

SB22-000335

REVIEW INTO THE RESERVE BANK OF AUSTRALIA

Headline Statement

- The independent review of the Reserve Bank of Australia (RBA) commenced on 20 July 2022 and will provide its final report to Government in March 2023.
- The Review is about renewing and revitalising the RBA, not revolutionising it.
- The Review is currently listening to all views as it formulates its positions.
- At the 2022-23 October Budget, $2.7 million was allocated to fund the Review of the RBA under Government priorities in the Treasury portfolio. Funding is for 2022-23, terminating on 30 June 2023.

Key Points

- The Review is considering:
  - monetary policy arrangements in Australia including the RBA's objectives and policies, and the interaction of monetary policy with fiscal and macroprudential policy;
  - the RBA's governance, including its communication and the structure, expertise and composition of its board; and
  - the RBA's culture, management and recruitment practices.
- The Review published an Issues Paper on 15 September 2022, which poses key questions that the Review will consider.
- A panel of three experts from Australia and overseas – independent of the RBA and outside of Treasury – are leading the Review:
  - Carolyn Wilkins, an external member of the Financial Policy Committee of the Bank of England, and former Senior Deputy Governor to the Bank of Canada;

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- Professor Renee Fry-McKibbin, one of Australia's leading macroeconomists and Interim Director of the Crawford School of Public Policy at the Australian National University; and
- Dr Gordon de Brouwer PSM, an eminent Australian economist and Secretary for Public Sector Reform with 35 years' experience in public policy and administration.

Appointments process and remuneration

- On 16 July 2022 the Treasurer agreed to appoint the panel of three experts and agreed to their remuneration.
  - The Treasury provided advice on a daily fee to remunerate panel members for their service. To calculate these fees, Treasury reviewed similar roles and fee payments as determined by the Remuneration Tribunal, as well as the experience and technical expertise of the panel members.
  - Travel costs for all panellists match tier two travel as determined by the *Remuneration Tribunal (Official Travel) Determination 2019*. This entitles panel members to business class travel on both domestic and overseas flights.
- Deeds of Engagement for Ms Wilkins and Professor Fry-McKibbin commenced 19 July 2022 and conclude 30 June 2023, three months after the final report is due. This extra time allows them to continue to work on an ad-hoc basis if required to follow up on any details in the report and response to Government.
- Dr de Brouwer received a congratulatory letter from the Treasurer dated 28 July 2022 providing engagement details.

Consultation

- The Review is consulting extensively with domestic and global experts and members of the public, including by inviting submissions.
  - Submissions to the Review opened on 15 September 2022 and will close on 31 October 2022.
  - The Panel and Secretariat of the Review are undertaking extensive one-on-one consultation. The Review Panel have so far met over 80 stakeholders including current and former board members and staff of the RBA; business, union and community groups, and local and overseas monetary policy experts.

- The Review has commissioned surveys of current and former RBA staff, which commenced on Monday 17 October and close on Wednesday 2 November. These will be followed up by focus groups with RBA staff.
- The Review is surveying Australian business economists on their views about RBA communications.
- The Review has commissioned four papers by academic experts.
- The Review is undertaking a series of focus groups with members of the public.

Resources and Spending

- The Review Secretariat is comprised of Treasury resources, RBA Secondees and APRA Secondees. Treasury staff comprise one SES Band 2 Head of Secretariat, 2x EL2, 4x EL1, 2x APS 6 and one APS 5.
  - APRA secondees comprise one full time secondee at the EL2 equivalent level, and one EL2 equivalent secondee pro rata two days per week paid by APRA and cost recovered by Treasury at an agreed pro rata salary rate.
  - RBA secondees comprise one SES Band 1 equivalent, one EL2 equivalent and one APS6 equivalent with no cost recovery to Treasury.
  - The review comprises one Contractor at the EL1 equivalent on a part time basis for three days per week commenced 27 September 2022.

Contracts

- The RBA Review has entered into the following contracts. Contracts have been published on Austender, unless noted below. As at 30 September 2022, no funds had been spent under these contracts.

Purpose	Supplier	Amount (inc GST)
Survey of current and former RBA staff	Big Village	$58,527.15
Expert paper on monetary policy instruments	Prof Athanasios Orphanides	$28,428 ($US 15,000)* *Contract being finalised, yet to be published on Austender.

Expert paper on monetary policy frameworks	Prof Andrew Levin	$28,428 ($US 15,000)* *Contract being finalised, yet to be published on Austender.
Expert paper on the interaction of fiscal and monetary policy	Prof Eric Leeper	$28,428 ($US 15,000)* *Contract being finalised, yet to be published on Austender.
Expert paper on central bank governance	Prof Prasanna Gai	$50,000
Focus groups with members of the public	EY	$48,235

Costs to date

- As at 30 September 2022 staff costs to the RBA Review as follows:

Treasury staff	s 47F
APRA Staff	
Contractors	
RBA	
Total Staff Costs	**$360,478**

- As at 30 September 2022, further operational expenses for domestic travel, travel allowances, meals and incidentals and accommodation are:

August	$9,251
September	$80,797
International	$21,864
Total	**$111,912**

Policy Commitments

- The Review of the Reserve Bank of Australia is a commitment of the Government from the 2022 election.

Background

- The RBA has served Australia well, having contributed to relatively strong macroeconomic outcomes over more than two decades alongside mostly low and stable inflation.
  - While the RBA failed to meet its inflation target in years prior to the pandemic, one of the potential explanations is that structural changes, such as an aging population, lower productivity growth and greater risk aversion, have lowered the 'neutral rate' of interest.
- The three-person Panel for the Review was selected to bring a balance of domestic and international expertise in macroeconomics, monetary policy and public policy.
  - Treasury provided a shortlist of candidates based on these requirements, and the Treasurer selected the Panel following discussions with candidates.
  - The Panel will be supported by a secretariat comprising Treasury staff and secondees from the RBA and APRA.
- There is widespread support for a review of the RBA, from international institutions including the IMF and OECD, as well as academics, think tanks and economic commentators.
  - RBA Governor Philip Lowe was consulted on the Review and has welcomed it.
- The Review will consider reviews of other central banks, including the US Federal Reserve, the Bank of Canada, the Bank of England, the Reserve Bank of New Zealand and the European Central Bank.
- The Review is to be conducted over a shorter period than recent reviews of other central banks – over about 8 months, compared with 18 months for reviews of the US Federal Reserve and the European Central Bank.
  - This balances the need to allow time for a thorough review, while delivering in time to inform appointments processes in 2023 – including for Wendy Craik (May 2023), Mark Barnaba (August 2023) and Governor Philip Lowe (September 2023).
- This Review will be the first wide-ranging examination of the RBA's functions since the adoption of inflation targeting in the early 1990s and formal independence in 1996.
  - The 1981 Campbell Inquiry into the Australian financial system led to a gradual movement towards market-based methods of implementing monetary policy and away from a system of direct controls on banks. The Inquiry also recommended floating the Australian dollar, which set in place the conditions for greater monetary independence.
  - The 1983-84 **Australian Financial System Review Group** reconsidered and largely reaffirmed the Campbell inquiry's recommendations.
  - The 1997 **Wallis Inquiry into the Australian financial system** transferred banking supervision from the RBA to the newly created Australian Prudential Regulation Authority and led to the creation of a new Payments System Board.

- The 2014 **Murray Inquiry into the Australia financial system** found that Australia's regulatory architecture did not need major change and that the role of the RBA remained appropriate.
- The 2021 **Review of the Australian Payments System**, led by Scott Farrell, considered current governance and regulation of the payments system. It recommended changes to enable the RBA to better regulate new and emerging payments systems.

Attachment A: Terms of Reference

The Review of the Reserve Bank of Australia (RBA) is designed to ensure that Australia's monetary policy arrangements and the operations of the Bank continue to support strong macroeconomic outcomes for Australia in a complex and continuously evolving landscape.

1. The Review will assess Australia's monetary policy arrangements:

    1.1. The RBA's objectives, as outlined in the *Reserve Bank Act (1959)* and in the *Statement on the Conduct of Monetary Policy*, including the continued appropriateness of the inflation targeting framework.

    1.2. The interaction of monetary policy with fiscal and macroprudential policy, including during crises and when monetary policy space is limited.

        1.2.1. This will include Australia's macroprudential governance arrangements, but exclude APRA's statutory role or functions.

2. It will also assess the following aspects of the RBA:

    2.1. Its performance in meeting its objectives, including its choice of policy tools, policy implementation, policy communication, and how trade-offs between different objectives have been managed.

    2.2. Its governance (including Board structure, experiences and expertise, composition and the appointments process) and accountability arrangements.

    2.3. Its culture, management and recruitment processes.

3. The Review will exclude the RBA's payments, financial infrastructure, banking, and banknotes functions.

4. The Review will consult extensively with domestic and global experts and members of the public.

5. The Review will take account of analysis conducted in prior reviews of other central banks, including the US Federal Reserve, the Bank of Canada, the Reserve Bank of New Zealand and the European Central Bank.

6. The Review may invite and publish submissions and seek information from any persons or bodies.

7. A final report, with a set of clear recommendations to Government, is to be provided to the Treasurer no later than March 2023.

Attachment B: Treasurer media release

20 July 2022

REVIEW OF THE RESERVE BANK

Today I announce the first wide-ranging review of the Reserve Bank of Australia since the current monetary policy arrangements were instituted in the 1990s.

This delivers on our commitment to conduct a broad-based review of the setting of monetary policy in Australia.

The Reserve Bank is a crucial economic institution which has served Australia well for more than six decades.

This is all about ensuring we have the world's best and most effective central bank into the future.

Australia is facing a complex and rapidly changing economic environment, as well as a range of long-term economic challenges.

This is an important opportunity to ensure that our monetary policy framework is the best it can be, to make the right calls in the interests of the Australian people and their economy.

The Review will consider the RBA's objectives, mandate, the interaction between monetary, fiscal and macroprudential policy, its governance, culture, operations, and more.

The Terms of Reference for the Review are attached and available online.

A panel of three experts from Australia and overseas, independent of the RBA and outside of the Treasury Department, will lead the Review:

- Carolyn Wilkins, an external member of the Financial Policy Committee of the Bank of England and former Senior Deputy Governor to the Bank of Canada;
- Professor Renée Fry-McKibbin, one of Australia's leading macroeconomists and Interim Director of the Crawford School of Public Policy at the Australian National University; and
- Dr Gordon de Brouwer PSM, an eminent Australian economist and Secretary for Public Sector Reform with 35 years' experience in public policy and administration in Australia including at Treasury and the Reserve Bank of Australia.

The Panel will be supported by a secretariat with Treasury and other staff.

The Review will produce a final report with recommendations to Government by March 2023.

It will consult with domestic and global experts, former members of the Board, and members of the public and will seek submissions to ensure a wide range of opinions are considered.

It will draw on some of the world's best and brightest experts to ensure the RBA has the right objectives, policies, governance and culture for the future.

For the terms of reference or for more information, visit the Review of the Reserve Bank of Australia website.

Attachment C: Issues Paper Media Release

Reserve Bank of Australia Review releases Issues Paper and calls for Public Submissions

15 September 2022

The Review of the Reserve Bank of Australia today released an Issues Paper which poses key questions about the Reserve Bank of Australia's (RBA) monetary policy objectives, performance, governance and culture.

Interested organisations and individuals are invited to make submissions for consideration by the Review.

The Review Panel – comprising Renée Fry-McKibbin, Carolyn Wilkins and Gordon de Brouwer – is seeking views from people across Australia and abroad on the questions posed within the Issues Paper, and anything else that is relevant to the Review's Terms of Reference.

Panel Member, Carolyn Wilkins said the opening of public submissions marked an important opportunity to hear from the Australian public as well as experts.

"Australia's monetary policy arrangements and the work of the RBA impact the economic prosperity of all Australians.

"The public submissions process provides everyone with an interest in the Review the chance to share their views with us.

"We are keen to hear from a wide range of people so we can consider the issues from all perspectives," Ms Wilkins said.

The Review Panel will take the opportunity later this year to reflect what it has heard through the consultation process back to the Australian community, before finalising its recommendations to Government. The Panel's final report is due by March 2023.

The Issues Paper is available on the RBA Review website. Submissions may also be lodged online via the RBA Review website.

Media enquiries

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FOI 3204
Document 13

SB22-000292

TREASURY RESOURCING – 2022-23 OCTOBER BUDGET

Headline Statement

- Treasury received increased funding compared to the 2022-23 March Budget due to new measures announced in the 2022-23 October Budget.

Key Points

- Treasury's annual appropriations for 2022-23 are:
  - Departmental – $344.2 million (operating) and $3.8 million (capital)
  - Administered – $81.2 million (operating) and $171.2 million (capital).
- Included in these amounts are:
  - $15.5 million for new Departmental measures (totalling $57.5 million over the forward estimates, refer to Table 2 under Background)
  - $1.2 million in new Administered measures (totalling $11.5 million over the forward estimates, refer to Table 3 under Background).
- Treasury also administers $192.5 billion in special appropriation and special account funding, predominantly used to make payments to the states.
- Departmental operating appropriations for 2022-23 also include $3.3 million in other variations, totalling $25.8 million over the forward estimates.
- The following table summarises changes in Treasury's departmental operating funding in the 2022-23 October Budget:

Table 1: Treasury Departmental operating appropriations across the forward estimates

$ million	**2022-23**	**2023-24**	**2024-25**	**2025-26**
2022-23 March Budget	325.4	271.6	249.9	243.3
2022-23 October Budget	344.2	294.1	270.7	264.6
Change	**+18.8**	**+22.5**	**+20.8**	**+21.3**

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Background

- All items under Key Points reflect estimates from Treasury's Resource Statement in the October *2022-23 Portfolio Budget Statements* .

Table 2: 2022-23 October Budget Departmental measures and estimates variations

$'000	2022-23	2023-24	2024-25	2025-26	4 Year Total	BP2 Measure Ref
Departmental measures						
An Ambitious and Enduring APS Reform Plan	(114)	(275)	(303)	-	**(692)**	p169
Contributions to the International Monetary Fund's Poverty Reduction and Growth Trust and Resilience and Sustainability Trust	(295)	(598)	(598)	(598)	**(2,089)**	p88
Outcomes of the Jobs and Skills Summit	4,387	295	-	-	**4,682**	p82
Restoring Treasury's Capability on Climate Risks and Opportunities – modelling and reporting standards	8,845	9,402	8,501	8,332	**35,080**	p190
Safer and More Affordable Housing	5,718	5,691	5,575	5,623	**22,607**	pp191-2
Savings from External Labour, and Savings from Advertising, Travel and Legal Expenses	(6,917)	-	-	-	**(6,917)**	p83
Supporting Small Business Owners	4	174	65	-	**243**	p193
Treasury – additional funding	2,071	-	-	-	**2,071**	pp193-4
Youpla Group Funeral Benefit Program – establishment	1,817	662	-	-	**2,479**	p194
Departmental measures	**15,516**	**15,351**	**13,240**	**13,357**	**57,464**	
Other variations	**3,257**	**7,120**	**7,566**	**7,872**	**25,815**	
Changes	**18,773**	**22,471**	**20,806**	**21,229**	**83,279**	

Table 3: 2022-23 October Budget Administered measures (annual appropriations only)

$'000	2022-23	2023-24	2024-25	2025-26	4 Year Total	BP2 Measure Ref
Administered measures						
Safer and More Affordable Housing[1]	2,483	145	147	148	**2,923**	pp191-2
Supporting Small Business Owners	(5,052)	6,672	2,977	(750)	**3,847**	p193
Youpla Group Funeral Benefit Program – establishment	3,758	952	0	0	**4,710**	p194
Administered measures	**1,189**	**7,769**	**3,124**	**(602)**	**11,480**	

1. Safer and More Affordable Housing also includes the cost implications of the Housing Australia Future Fund and the Help to Buy scheme, which are not funded from Treasury's annual appropriations.

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SB22-000294

GENDER BALANCE ON TREASURY BOARDS

Headline Statement

- The Government is committed to the target of 50 per cent representation of women on Australian Government Boards.
- As at 30 June 2022, women held 46.3 per cent of board positions across the Treasury portfolio.
  - The latest publicly available data for gender balance reporting is from 31 December 2021. The then Minister for Women announced the results to the media in February 2022, stating that women held 50.2 per cent of Australian Government board positions. For the same period, women held 47.7 per cent of Treasury portfolio board positions.
  - The decrease of 1.4 per cent from Treasury's December 2021 data to June 2022 was attributable to the wind up of the Financial Adviser Standards and Ethics Authority Ltd (FASEA). When FASEA was wound up early this year, there were 5 female members and 3 male members on the board.
- Since the beginning of the 47th Parliament, 73 per cent of the gender balance reportable appointments made to the Treasury portfolio have been women.
- Since 2013-14, the overall percentage of women on boards within the Treasury portfolio has increased by 12.1 per cent.

Treasury Portfolio	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
% of women in positions	34.2%	36.4%	39.7%	41.3%	42.3%	43.3%	41.8%	45.8%	**46.3%**
% of women to new appointments	37.1%	40.0%	53.3%	40.6%	47.3%	42.9%	31.6%	50.0%	**45.5%**
% of women in Chair and Deputy Chair positions^	^	^	^	28.6%	25.0%	25.8%	23.3%	26.6%	**32.3 %**

^ *Chair and Deputy Chair data is not available for the years prior to 2016-17.*

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Key Points

- Treasury continues to work with portfolio ministers to ensure progress towards the Government's gender balance on boards target continues.
- Ongoing initiatives to improve gender balance on boards within the Treasury portfolio include:
  - building an up-to-date and gender diverse talent pool through the online Treasury Portfolio Board Appointment Register (the Register) and active use of the Government's BoardLinks database;
  - regular communication with key stakeholders about the Government's gender balance on boards target, and Treasury's progress towards the target; and
  - information on the Government's gender balance on boards target being provided to portfolio ministers to inform each appointment process.

Background

- The Australian Government has committed to a gender diversity target of women holding 50 per cent of Government board positions overall and to consider options in government to achieve that target for Chair and Deputy Chair positions and to boost board representation in portfolios that are lagging.

- For the current government, appointments have been made to 11 gender balance reportable positions within the Treasury portfolio – 8 women and 3 men have been appointed.

Entity	Role	Women	Men
Australian Competition and Consumer Commission	Deputy Chair(1)	1	
Australian Prudential Regulation Authority	Chair (1) Deputy Chair (1) Members (2)	3	1
Commonwealth Grants Commission	Members (2)	2	
Reserve Bank Board	Member(1)		1
Reserve Bank Review Panel	Reviewers (3)	2	1
Total		8	3

- See over for the publicly available gender balance figures by portfolio (Note that data is from 30 June 2021 which is the latest publicly available gender balance report).

LATEST PUBLICLY AVAILABLE DATA
Sourced from the Gender Balance on Australian Government Boards Report 2020-2021

Figure 1: Gender balance of overall Australian Government board positions as at 30 June 2021, by portfolio

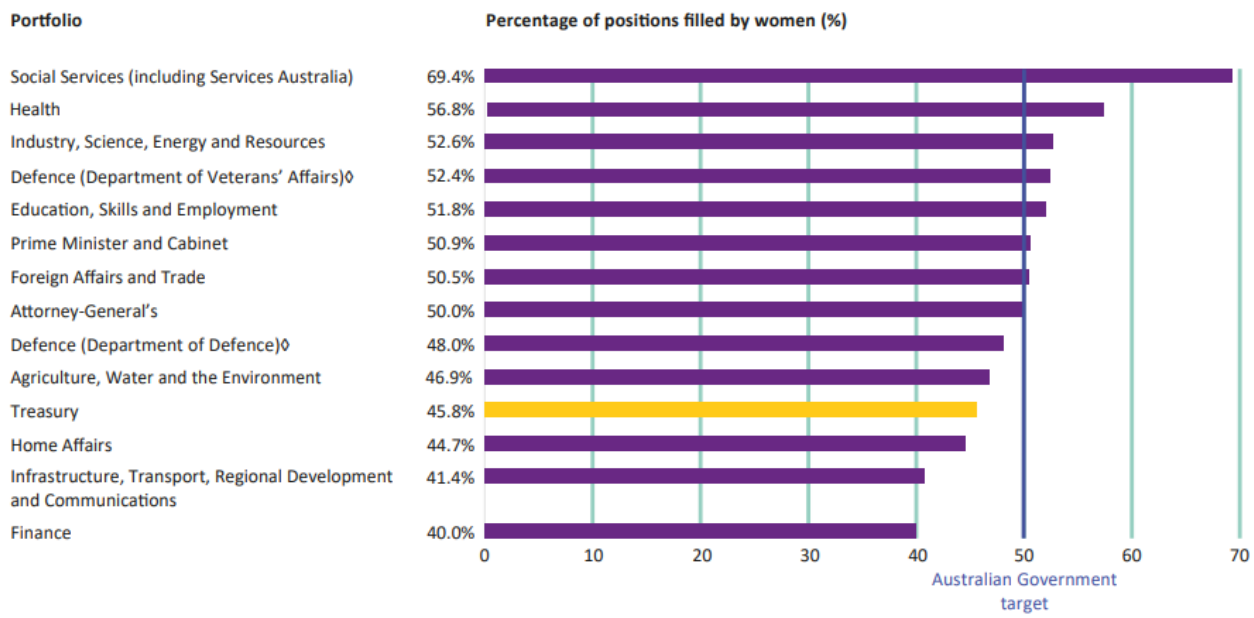
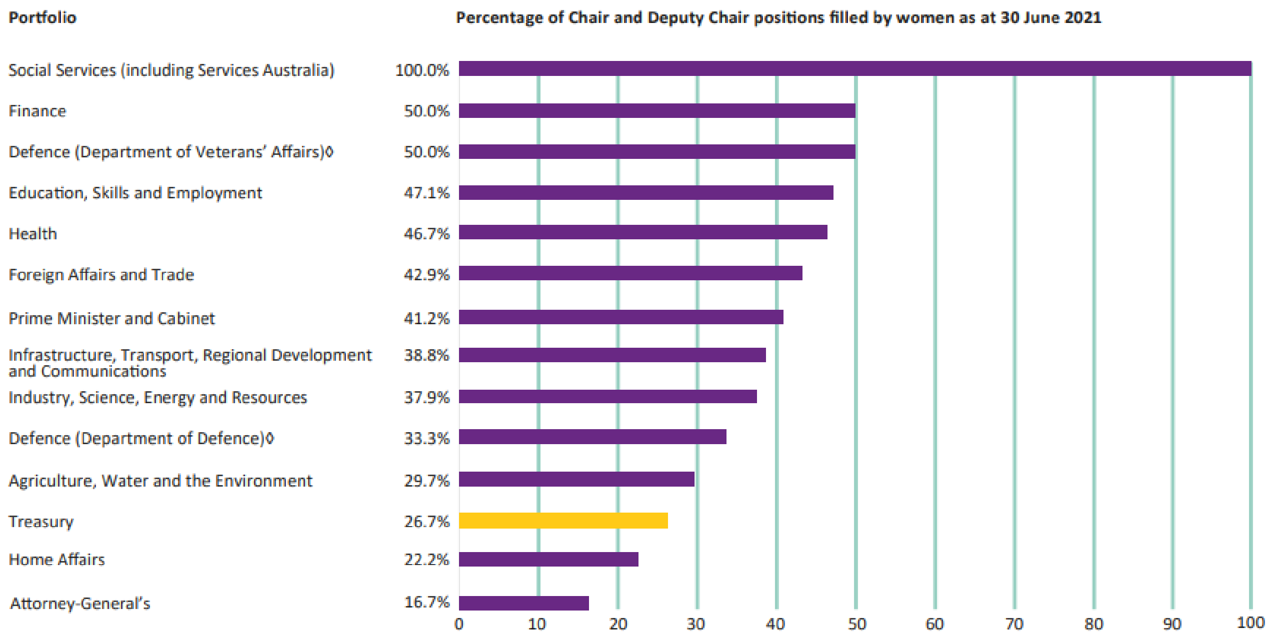


Figure 2: Gender balance of Australian Government board Chair and Deputy Chair positions as at 30 June 2021, by portfolio



FOREIGN INVESTMENT OVERVIEW, INCLUDING BENEFITS & REFORM

Headline Statements

- Australia welcomes and remains an attractive destination for foreign investment.
- Foreign investment will be critical to assist in delivering on the national priority areas, including infrastructure, developing our critical minerals and critical technologies capabilities, boosting Australia's manufacturing capabilities and delivering large-scale clean energy capacity. All of these things will support Australia achieving its net zero emissions target by 2050.
- Treasury continues to prioritise improvements to the foreign investment framework and its screening processes to ensure timely decisions on investment into Australia are in our national interest and safeguards our national security.
- Treasury is actively working to increase transparency and build trust in its foreign investment regulatory processes through increased engagement activities, improving timeliness of our screening processes and being more transparent.

Foreign investment's value to Australia

- Foreign investment plays an important and beneficial role in the Australian economy.
  - It helps drive economic growth, creates skilled jobs, improves access to overseas markets and enhances productivity. Without foreign investment, production, employment and income would all be lower.
- Australia attracts investment because it offers significant economic opportunities and has a highly skilled and educated workforce, close proximity to dynamic and fast-growing markets, abundant natural resources and world-class industry capabilities.

- Our attractiveness is reflected in relatively high Foreign Direct Investment inflows.
- Foreign Direct Investment into Australia averaged 2.7 per cent of GDP in the four years to 2021 – compared with 1.3 per cent for the OECD and 1.4 per cent for the G20.

- In the 2021-22 financial year, foreign investment approval data shows the U.S, Canada and Singapore are our top three investor countries.
- In 2021, mining, real estate and the financial services sectors had the highest levels of foreign direct investment.

Top six foreign investment countries

- Last published data (Treasury Annual Report 2021-22 FY):

Country	Value ($b)	Percentage
United States	118.9	35%
Canada	31.8	9%
Singapore	24.2	7%
China	7.2	2%
Japan	7.2	2%
United Kingdom	6.5	2%

Which Australian industries attract foreign direct investment

- Last published data - 2021 (ABS catalogue 5352.0):

Industry	Value ($b)	Percentage
Mining & quarrying	360.6	34%
Real estate activities	136.9	12.9%
Financial & insurance activities	122.8	11.6%
Manufacturing	116.6	11%
Wholesale & retail trade	60.8	5.7%
Information & communication	34.1	3.2%

Improvements to the foreign investment framework and processes

- Treasury continuously reviews the foreign investment framework and its approach to screening and compliance to improve its efficiency and effectiveness.
  - We receive regular feedback about the framework through our active program of engagement with investors and their advisers.
- Treasury is taking active steps to process investment proposals in a timely manner.
  - The median processing time for Treasury-managed investment proposals in 2021-22 was 52 days. In 2022-23 to 30 September, 2022, Treasury's processing times have greatly improved to be around 44 days.
    - This drop is attributable to improved efficiency in processing proposals through continuous improvements in Treasury's foreign investment review, compliance, governance and national security functions.
    - In addition to efficiency gains across Treasury, enhanced experience and improved capability of the Treasury officers reviewing proposals (and in the agencies Treasury consults) has also resulted in reduced median processing times.

- Treasury has a longstanding commitment to accommodate commercial deadlines when it is informed of these.

- Delivery of the Foreign Investment Digital Transformation is a priority for Treasury. We have partnered with Deloitte Australia to build the new ICT platform to streamline and enhance application and screening processes.

New reporting to enhance transparency

- The Treasury will be releasing a new quarterly data report on foreign investment regulation in November 2022.
  - This was a commitment made by the Secretary to the Treasury in his evaluation of the Foreign Investment Reforms, which was published on 14 February 2022.
  - The report is designed to increase public information about foreign investment regulation in Australia, and enhance transparency of the regulatory activities of the Treasury and the ATO.
  - It will set out key performance data concerning the operation of Australia's foreign investment regulatory system, and will be published 4-6 weeks after the end of the relevant quarter.
    - The report is being finalised now.
  - Separately, annual statistics relating to Australia's foreign investment screening framework are set out in the Treasury's Annual Report each year.
    - Foreign investment statistics are set out in an appendix to the Treasury 2021-22 Annual Report (see pages 221 - 233).
    - There will no longer be a separate annual report published for the Foreign Investment Review Board (FIRB) as *t*here is no legislative obligation for the FIRB to publish a specific annual report or to do so in a specific form.

Recent reforms to the foreign investment framework

Doubling of foreign investment fees and penalties

- Consistent with the Government's election commitment, foreign investment application fees doubled from 29 July 2022.
  - The Government said, when announcing these changes, that the increased fees will support the Government's home ownership policies and cut the cost of buying a home for Australians.
- Foreign investment application fees ensure the cost of administering Australia's foreign investment framework is not borne by the Australian public.
  - The average number of proposals received prior to the new fee structure was 35 per week. There was a short-term increase in the number of proposals received – 188 in the week before the new fees came into effect on 29 July 2022. Proposals received have since returned to levels consistent with before the fee change.

Penalties

- From 1 January 2023 penalties relating to breaches of Australia's foreign investment rules by foreign investors for all types of residential property in Australia will be doubled.

  The affected penalties would include those for:

FATA provision	Current maximum penalties*	Proposed maximum penalties*
Section 88: developers selling new properties to foreign investors without advertising them	Imprisonment for 10 years, or 15,000 penalty units (or 150,000 penalty units in the case of a corporation), or both	Imprisonment for 10 years, or 30,000 penalty units (or 300,000 penalty units in the case of a corporation), or both
Section 94: foreign investors acquiring residential properties without first notifying the Treasurer	Greatest of the following: • the capital gain that was or would be made	Greatest of the following: • double the capital gain that was or would be made on

<table>
<tr><td>Sections 95 and 95A: foreign investors acquiring interests in established residential dwellings while prohibited</td><td rowspan="2">on disposal of the residential property
• 25 per cent of the consideration for the residential acquisition
• 25 per cent of the market value of the interest in the residential property</td><td rowspan="2">disposal of the residential property
• 50 per cent of the consideration for the residential acquisition
• 50 per cent of the market value of the interest in the residential property</td></tr>
<tr><td>Section 96: foreign investors contravening a condition of a no objection notification or exemption certificate involving residential land</td></tr>
<tr><td>Section 97: foreign investors contravening a condition of a no objection notification or exemption certificate involving residential land</td><td rowspan="2">250 penalty units</td><td rowspan="2">500 penalty units</td></tr>
<tr><td>Sections 115D, 115DA, and 115G: foreign investors failing to meet their obligations relating to vacancy fees</td></tr>
</table>

- The doubling of penalties will be implemented by Schedule 1 to the Treasury Laws Amendment (2022 Measures No. 3) Bill 2022. The Bill has been passed by the House of Representatives and has been referred to the Senate Economics Legislation Committee which is scheduled to report by 17 November 2022.

Revenue from fees and penalties

- The total estimated additional revenue for this measure is $457.4 million over the forward estimates, with $455 million relating to doubling fees and $2.3 million for penalties.
  - Total fee revenue (including vacancy fees) collected in the 2020–21 financial year was $87.9 million, a decline from the $94 million in the 2019–20 financial year.

- Total foreign investment fee revenue is expected to increase by $100 million in the 2022–23 financial year following the fee doubling, and by $115 million the year after.

Potential impacts of fee increases

- Previous fee increases have not had a significant impact on the number of foreign investment applications. When foreign investment fees were increased on 1 January 2021, the number of foreign investment applications continued to increase.
  - Fees are only one of the considerations for investors, and not the main consideration.
  - Application fees remain small in proportion to the overall value of an investment.
  - The maximum fee for a commercial investment over $50 million will generally be less than 0.06 per cent of the total transaction value under the new fee schedule.
  - When acquiring residential property valued up to $2 million, the additional fee payable would generally be equivalent to around 1.3 per cent of the total transaction value.

Streamlining the foreign investment framework

- A number of regulatory amendments to streamline the framework for investors commenced on 1 April 2022.
- These changes were contained in the Foreign Acquisitions and Takeovers Amendment Regulations 2022 that was made on 31 March 2022. These were subject to public consultation from 14 February 2022 to 25 February 2022. They were released for consultation alongside the 2022 Foreign Investment Reforms Discussion Paper (which received submissions from 14 February 2022 to 11 March 2022).
- These changes included:
  - amending the definition of a 'moneylending agreement' and 'moneylending business'
  - extending the moneylending exemption
  - narrowing the definition of 'an Australian media business'
  - increasing the foreign ownership threshold to 10 per cent for unlisted Australian land entities
  - introducing an exemption for foreign persons where their holdings in an entity increase but their proportional percentage does not

- clarifying the meaning of a ‘rights issue’
- clarifying the foreign custodians exemption which exempts companies that provide custodian services to foreign persons from screening when the companies only hold the legal interests but not the equitable interests in the assets.

Background

Stakeholder engagement

- Treasury is actively working to increase transparency and build trust in the foreign investment regulator process through increased engagement activities and improving timeliness of processing. These activities are undertaken in conjunction with the Foreign Investment Review Board (FIRB).
- Treasury engages with foreign investors and their advisers, as well as government stakeholders, in response to enquiries about the foreign investment framework and applications to ensure it keeps pace with industry developments. Treasury is also focussed on providing education about the role of compliance in the foreign investment framework.

FIRB Stakeholder Engagement

- As of 26 October 2022, the FIRB and its members have met with around 33 different stakeholders this calendar year, either in FIRB meetings or at specific events. These include:
  - 8 investors;
  - 3 industry peak bodies;
  - 5 mining, resource and energy investors;
  - 12 Australian Government agencies;
  - 1 state government agency;
  - 2 academic research bodies; and
  - 2 foreign government representatives.
- In 2022, FIRB meetings have taken place five times in Canberra and once each in Melbourne and Perth, with one meeting scheduled in Sydney (November) and one in Canberra (December).
- Upcoming stakeholder engagement in November and December is likely to include energy groups, investment group representatives and government departments.

Foreign Investment Division Stakeholder Engagement

- The Foreign Investment Division has regular engagement across government and the business sector as part of its functions in engaging with investors, intermediaries, other Commonwealth departments and agencies as well as state and territory government agencies on investment proposals, regulatory and compliance activities and broader foreign investment policy issues.
  - We engage regularly with our Australian Government counterparts, including the Australian Taxation Office, the Departments of the Prime Minister and Cabinet, Home Affairs, Defence and the national intelligence agencies. We have 28 government consultation partners – including state and territory governments.
  - Treasury has frequent engagement with investors, their advisers, industry peak bodies and other stakeholders to discuss specific proposals and to discuss market conditions and the application of the foreign investment framework.

- In 2021-22 formal consultations occurred in relation to the Evaluation of the Foreign Investment Reforms and amendments to the Foreign Acquisitions and Takeovers Regulations.
- Treasury is a member of the Foreign Investment Stakeholder Group, a stewardship forum administered by the ATO that brings together stakeholders from across the foreign investment system.
- Treasury also engages with its foreign investment regulatory counterparts in other countries.
- The First Assistant Secretary of the Foreign Investment Division also sits on the Foreign Investment Review Board (FIRB) as an Executive Member and, as part of this role, engages with investors, industry stakeholders and other government bodies.

TREASURY LEGISLATION PROGRAM

Headline Statement

- The Treasury has one of the largest legislation programs in the Commonwealth comprising a broad range of primary and subordinate law measures necessary to implement the Government's economic agenda and to maintain key regulatory frameworks.

Key Points – *data as at 30 September 2022*

Legislation introduced or delivered in the 47th Parliament

- Since the commencement of the 47th Parliament on 26 July 2022, the Government has introduced **12 Treasury portfolio Bills containing 21 measures** (additional information is at **Attachment A**).
- Seven of the 21 measures introduced into Parliament seek to implement the Government's **election commitments** on the following matters:
  - an electric car discount;
  - increasing penalties for anti-competitive behaviour;
  - strengthening unfair contract terms provisions;
  - doubling foreign investment penalties;
  - removing discrimination against faith-based superannuation products;
  - expanding eligibility for downsizer contributions; and
  - establishing a compensation scheme of last resort.
- One of the 12 Bills introduced into Parliament has received **Royal Assent**, namely the Treasury Laws Amendment (2022 Measures No. 1) Bill 2022.

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- The Federal Executive Council has considered and made **four regulations containing four measures**, with all registered on the Federal Register of Legislation:
  - Superannuation Industry (Supervision) Amendment (Annual Members' Meetings Notices) Regulations 2022;
  - Competition and Consumer Amendment (Consumer Data Right Measures No. 2) Regulations 2022;
  - Australian Charities and Not-for-profits Commission Regulations 2022; and
  - Superannuation Legislation Amendment (Broadening Contribution Rules) Regulations 2022.
- **Seventy-three non-tied legislative instruments** were registered on the Federal Register of Legislation.
  - To support the transparency of Minister-made legislation in place in the portfolio, Treasury has a practice of registering all such instruments on the Federal Register of Legislation.

Legislation introduced or delivered in the 46th Parliament

- In the 46th Parliament, Treasury delivered 910 legislative measures, including 247 primary law measures across 102 Bills.
- Treasury Bills accounted for 20 percent of all Government Bills introduced in the 46th Parliament.

PRIMARY LEGISLATION INTRODUCED IN THE 47TH PARLIAMENT

BILLS IN THE HOUSE OF REPRESENTATIVES

Bill Package Details								House of Representatives Progress					
Bill name/s	**Schedule**	**Measure Title**	**Measure ID**	**Introducing Minister**	**Division**	**Law Effect Date**	**Published financial impact**	**Sitting Period**	**Category**	**Introduced House**	**Bill Status In Parliament**	**Date referred to Committee**	**Committee report due**
Treasury Laws Amendment (Australia-India Economic Cooperation and Trade Agreement Implementation) Bill 2022	1	India DTA - stopping Australian tax on fees for technical services paid to non-resident Indian firms for providing services in Australia	TSY/46/1123	Assistant Treasurer and Minister for Financial Services	CITD	Tax years commencing on or after the coming into force of the Agreement	$145.0 million over the forward estimates (2022-23 to 2025-26)	2022 Spring	T	28/09/2022	28/09/2022- Second reading moved		
Financial Sector Reform Bill 2022 **Financial Services Compensation Scheme of Last Resort Levy Bill 2022** **Financial Services Compensation Scheme of Last Resort Levy (Collection) Bill 2022** **Financial Accountability Regime Bill 2022**	1-2	FSRC - Financial Accountability Regime - Extending the BEAR to all APRA Regulated firms (Recs 6.7, 6.8, 3.9, 4.12, 6.6)	TSY/45/673	Assistant Treasurer and Minister for Financial Services	FSD	Six months after Royal Assent for the banking industry, 18 months after Royal Assent for the insurance and superannuation industries	Nil	2022 Spring	T	8/09/2022	28/9/22- Third reading agreed to	28/09/2022	20/10/2022
	3	FSRC - Recommendation 7.1 - Supplementary Ramsey Report - Compensation scheme of last resort	TSY/45/560			The day after Royal Assent. The operator of the scheme can begin to make compensation payments under the scheme from 1 July 2023	2022-23: -$2.7m 2023-24: $0.5m 2024-25: -$0.1m 2025-26: -$1.6m						
	4	Credit Reform - Government Response to the Small Amount Credit Contracts Review	TSY/45/160			The amendments generally commence six months from Royal Assent, however the anti-avoidance measures commence the day after Royal Assent	Nil						
Treasury Laws Amendment (2022 Measures No. 3) Bill 2022 **Foreign Acquisitions and Takeovers Fees Imposition Amendment Bill 2022** **Income Tax Amendment (Labour Mobility Program) Bill 2022**	1	Doubling foreign investment penalties	TSY/47/0003	Assistant Treasurer and Minister for Financial Services	FID	1/01/2023	Estimated to increase receipts by $2.3 million over the four years from 2022-23	2022 Spring	T	8/09/2022	28/9/22- Second reading debate	28/09/2022	17/11/2022
	2	Data Sharing to Support State and Territory Major Disaster Responses.	TSY/47/0061		PITCHD	Royal Assent	Nil						
	3	AGD measure - Amendment to the Coronavirus Economic Response Package Omnibus (Measures No. 2) Act 2020	TSY/47/0037		LMPD	1/01/2023	Nil						
	4	Tax treatment of New Pacific and Labour Mobility Program (PALM program)	TSY/46/935		PITCHD	1/07/2022	Was estimated to increase receipts by $165.0 million over the then forward estimates period						
	5	Faith-Based Products	TSY/47/0031		RAID	Royal Assent	Nil						
Treasury Laws Amendment (More Competition, Better Prices) Bill 2022	1	ACL - Unfair Contract Terms Amendments	TSY/46/540	Assistant Minister for Competition Charities and Treasury	MCD	Twelve months after Royal Assent	Nil	2022 Spring	T	28/09/2022	28/09/22- Second reading moved		
	2	Better competition for Businesses - increasing penalties for anti-competitive behaviour by increasing the maximum fine from $10 million to $50 million	TSY/47/0012	Assistant Minister for Competition Charities and Treasury	MCD	Royal Assent	Estimated to have the following impact on the underlying cash balance over the forward estimates period: 2022-23: Nil, 2023-24: Nil, 2024-25: 7.2m, 2025-23: 55.4m Estimated to have a positive impact on the underlying cash balance of $117.5 million in 2026-27, and an ongoing positive impact.						

PRIMARY LEGISLATION INTRODUCED IN THE 47TH PARLIAMENT

BILLS IN THE SENATE

Bill Package Details									Senate Progress					
Case Manager	Bill name/s	Schedule	Measure Title	Measure ID	Introducing Minister	Division	Law Effect Date	Published financial impact	Sitting Period	Category	Introduced Senate	Bill Status In Parliament	Date referred to Committee	Committee report due
	Treasury Laws Amendment (Electric Car Discount) Bill 2022	1	Electric Car Discount	TSY/47/0001	Treasurer	PITCHD	1/07/2022	Estimated to have -$205 million financial impact over the forward estimates	2022 Spring	T	8/09/2022	8/9/2022- Second reading moved	28/07/2022	6/09/2022
	Treasury Laws Amendment (2022 Measures No. 2) Bill 2022	1	Shadow Economy – assisting businesses to meet their reporting obligations	TSY/46/189	Assistant Treasurer and Minister for Financial Services	PITCHD	Three months following Royal Assent	Nil	2022 Spring	T	26/09/2022	26/9/2022 Second reading moved		
		2	Shadow Economy – introducing a sharing economy reporting regime	TSY/46/144		CITD	1/07/2023	The measure is estimated to have a cost to the budget of $30.8 million						
		3	Reducing compliance costs for individuals claiming self-education expense deductions	TSY/46/633		PITCHD	Income tax amendments apply to assessments for the 2022-23 income year and later income years. The FBT apply to the FBT year starting on 1 April 2023 and to later years	Estimated to have a negligible impact on receipts over the forward estimates period						
		4	Increased powers for the Administrative Appeals Tribunal in relation to small business taxation decisions	TSY/46/635		PITCHD	The day after Royal Assent	It is estimated that the proposal will have a small but unquantifiable cost to cash receipts						
		5	Expanding eligibility for downsizer contributions	TSY/47/0010		RAID	First day of first quarter following Royal Assent	Schedule 5 to the Bill is estimated to decrease receipts by $20.0 million over the forward estimates						

BILLS RECEIVED ROYAL ASSENT

Bill name/s	Schedule	Measure Title	Measure ID	Introducing Minister	Division	Law Effect Date	Published financial impact	Sitting Period	Category	Royal Assent	Act Details
Treasury Laws Amendment (2022 Measures No. 1) Bill 2022	1	Cyclone Seroja – Tax Treatment of Qualifying Grants	TSY/46/964	Assistant Treasurer and Minister for Financial Services	PITCHD	1/07/2021 Expected to have no impact on receipts over the forward estimates period	Expected to have no impact on receipts over the forward estimates period	2022 Spring	T	9/08/2022	Act No. 35 of 2022
	2	Winding up the Superannuation Complaints Tribunal	TSY/46/800	Assistant Treasurer and Minister for Financial Services	RAID	Day after Royal Assent	Nil				
	3	Tax exemption FIFA Women s World Cup 2023	TSY/46/805	Assistant Treasurer and Minister for Financial Services	PITCHD	1/07/2020 Estimated to have an unquantifiable impact on receipts over the forward estimates period	Estimated to have an unquantifiable impact on receipts over the forward estimates period				
	4	Minor and technical amendments (Primary)	TSY/46/901	Assistant Treasurer and Minister for Financial Services	LD	Various, including retrospective to 5 April 2022	Unquantifiable but expected to be small				

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SB22-000336

FISCAL OUTLOOK

Headline Statement

- The Budget delivers responsible cost of living relief, takes pressure off inflation, and begins the hard task of budget repair.
- By returning almost all of the near-term upgrade in tax receipts to the Budget, gross and net debt as a share of GDP are lower that forecast at PEFO in each year of the forward estimates.

Key Points

- Australia faces a significant fiscal challenge.
  - The Pre-election Economic and Fiscal Outlook (PEFO) showed gross debt at close to one trillion dollars, its highest level in over 70 years as a share of the economy.
  - The PEFO projected deficits for at least the next decade.
  - Since PEFO, the fiscal challenge has grown with rising interest rates and higher service delivery costs.
- The Government has improved the underlying cash balance by $42.7 billion over 4 years by returning over 90 per cent of the upgrade in tax receipts to budget.
  - Total receipts (including decisions) have been revised up by $157.7 billion over 4 years, largely reflecting stronger tax receipts. Tax receipts have been revised up by $142.0 billion over 4 years, reflecting strong employment outcomes and higher-than-expected commodity prices.
  - Total payments (including decisions) have been revised up by $115 billion over 4 years. This is driven by higher inflation increasing indexed payments, higher debt interest costs and higher essential services costs.

- Policy decisions are modest, roughly budget neutral over the next 2 years, to avoid adding to inflation pressures. Policy decisions reduce the underlying cash balance by $9.8 billion over 4 years.

- Spending pressures have increased debt and deficits over the medium term.
  - This reflects the use of a more prudent productivity growth assumption, higher debt interest costs and an upwards revision in estimated NDIS costs based on the latest actuarial assessment.

Table 1. Underlying cash balance

	Estimates				
	2022-23 $b	2023-24 $b	2024-25 $b	2025-26 $b	Total $b
2022 PEFO	-77.9	-56.5	-47.1	-42.9	**-224.5**
% of GDP	*-3.4*	*-2.4*	*-1.9*	*-1.6*	
2022-23 October Budget	-36.9	-44.0	-51.3	-49.6	**-181.8**
% of GDP	*-1.5*	*-1.8*	*-2.0*	*-1.8*	
Change from 2022 PEFO to 2022-23 October Budget	**41.1**	**12.5**	**-4.3**	**-6.6**	**42.7**

Table 2. Gross debt

	Estimates			
	2022-23 $b	2023-24 $b	2024-25 $b	2025-26 $b
2022 PEFO	977.0	1056.0	1117.0	1169.0
% of GDP	*42.5*	*44.6*	*44.9*	*44.7*
2022-23 October Budget	927.0	1004.0	1091.0	1159.0
% of GDP	*37.3*	*40.8*	*42.5*	*43.1*
Change from 2022 PEFO to 2022-23 October Budget	**-50.0**	**-52.0**	**-26.0**	**-10.0**
percentage points	*-5.1*	*-3.8*	*-2.3*	*-1.6*

Background

Changes in the underlying cash balance

- The deficit is estimated to be -$36.9 billion (1.5 per cent of GDP) in 2022-23, an improvement of $41.1 billion (1.9 percentage points of GDP) since PEFO. The improvement is projected to moderate from 2023-24 alongside slowing economic activity and declining commodity prices.

- The UCB is projected to be a deficit of 1.9 per cent of GDP in 2032-33, compared to a deficit of 0.7 per cent of GDP at PEFO.

- Parameter and other variations since PEFO have improved the UCB by $42.2 billion in 2022-23, and by $52.5 billion over the 4 years to 2025-26. This reflects an increase in receipts, partially offset by an increase in payments.

- Policy decisions since PEFO have reduced the UCB by $9.8 billion over the 4 years to 2025-26.

Payments

- Total payments are expected to increase from 25.9 per cent of GDP in 2022-23 to 27.1 per cent of GDP in 2025-26. Since PEFO, total payments have increased by $17.6 billion in 2022-23 and by $115 billion over the 4 years to 2025-26.

- Payments are projected to continue to rise across the medium term to be 27.9 per cent of GDP in 2032-33. This compares to 26.5 per cent at PEFO by the end of the medium term.

- Parameter and other variations since PEFO have increased payments by $15.1 billion in 2022-23 and by $92.2 billion over the 4 years to 2025-26, the largest upwards revision over 4 years on record.

- New policy decisions since PEFO have increased total payments by $2.5 billion in 2022-23 and $22.9 billion over the four years to 2025-26.

Receipts

- Since PEFO, total receipts are expected to increase by $58.7 billion in 2022-23, and by $157.7 billion over the 4 years to 2025-26. Total receipts are projected to reach 26.0 per cent of GDP in 2032-33.

- Policy decisions in this Budget have increased total receipts by $1.4 billion in 2022-23 and by $13.1 billion over the 4 years to 2025-26.

- Parameter and other variations have increased total receipts by $57.3 billion in 2022-23 and $144.6 billion over the 4 years to 2025-26.

Tax receipts

- Strong corporate profits and higher commodity prices compared to PEFO are resulting in higher company tax receipts, driving a higher tax-to-GDP ratio in the near term.

- Tax receipts are expected to be 22.7 per cent of GDP in 2022-23. Tax receipts are expected to be 23.4 per cent of GDP in 2025-26 and rise over the medium term, reaching 24.1 per cent of GDP by 2032-33.

- The combination of parameter and other variations and policy decisions have increased tax receipts by $142 billion over 4 years.

- Parameter and other variations have increased tax receipts since PEFO by $53.9 billion in 2022-23 and by $132.5 billion over the 4 years to 2025-26. The upward tax receipts revision is primarily driven by high Australian dollar commodity prices and elevated employment. However, the improvement moderates as commodity prices decline. Around two-thirds of the increase in receipts due to parameter and other variations occurs in the first two years of the forward estimates.

- Policy decisions taken since PEFO increased tax receipts by $9.5 billion over the 4 years to 2025-26. Key receipt measures can be found in Attachment C.

Non-tax receipts

- Non-tax receipts are expected to be 1.8 per cent of GDP in 2022-23 and increase to 1.9 per cent of GDP in 2032-33.

- Since PEFO, parameter and other variations increase non-tax receipts by $3.3 billion in 2022-23, and by $12.2 billion over the 4 years to 2025-26. This movement is driven by higher-than-expected earnings from the Future Fund, higher earnings from interest on cash deposits due to the rise in short term interest rates, and an expected increase in petroleum royalties.

- Policy decisions are expected to increase non-taxation receipts by $0.9 billion in 2022-23, and by $3.5 billion over the 4 years to 2025-26. The largest contributor for this movement is driven by the expected earnings of the Housing Australia Future Fund.

Gross debt

- Gross debt is estimated to be 37.3 per cent of GDP ($927 billion) at 30 June 2023, lower than the estimate of 42.5 per cent of GDP ($977 billion) at PEFO.

- Gross debt as a share of GDP is projected to be lower across each year of the forward estimates than projected at PEFO. The improvement in gross debt is primarily driven by the improved outlook for the underlying cash balance in the near term, partially offset by the impact of higher yields on Australian Government Securities and additional balance sheet commitments.

- Gross debt is expected to exceed $1 trillion dollars during 2023-24, the same year as estimated at PEFO. It is estimated to be $52.0 billion lower at 30 June 2024 than at PEFO.

- Gross debt is then expected to stabilise in the last three years of the medium term at 46.9 per cent of GDP. Higher debt than PEFO reflects an increased borrowing requirement driven by higher payments and debt servicing costs, as well as the lower productivity growth assumption.

Net debt

- Net debt is estimated to be 23.0 per cent of GDP ($572.2 billion) at 30 June 2023, lower than the estimate of 31.1 per cent of GDP ($714.9 billion) at PEFO. This reflects the Government's decreased borrowing requirement resulting from the expected improvement in the underlying cash balance and a decrease in the market value of existing debt due to higher yields.

- Net debt is expected to worsen over time to reach 31.9 per cent of GDP by 30 June 2033, in line with an increase in the borrowing requirement.

Yields and interest

- The cost of borrowing has risen since PEFO. This is a significant contributor to the deterioration in the medium-term Budget position.

- The assumed 10-year bond yield over the forward estimates for the October Budget is 3.8 per cent, compared to 2.3 per cent at PEFO.

  – The 10-year yield is assumed to rise to 4.3 per cent by the end of the medium term, around 70 basis points higher than projected at PEFO.

- Projected Debt servicing costs have risen in line with the increase in yields.

  – Total interest payments are expected to increase from 0.8 per cent of GDP in 2022-23 to 1.8 per cent of GDP in 2032-33.

  – Net interest payments are expected to increase from 0.5 per cent of GDP in 2022-23 to 1.5 per cent of GDP by 2032-33.

FISCAL STRATEGY

Headline Statement

The immediate focus of the Government's Economic and Fiscal Strategy is to ensure fiscal policy avoids adding to inflationary pressures in the economy and beginning budget repair. As inflation pressures recede, the focus will shift to stabilising and then reducing debt as a share of the economy.

Key Points

- The Government outlines its Fiscal Strategy in Box 3.1 of Budget Statement 3 (p75).
- The Government has committed to achieving the strategy through:
  - Directing the majority of improvements in tax receipts to budget repair
  - Limiting growth in spending until gross debt is on a downwards trajectory
  - Making investments that grow the economy and expand productive capacity and improve the quality of spending.
- The October 2022-23 Budget delivers on the strategy by:
  - Improving the Budget position by a cumulative $47.2 billion over the forward estimates, by returning over 90 per cent of the upgrade to tax receipts (excluding GST) from parameter and other variations to the budget.
  - reducing gross debt-to-GDP in 2022-23 and keeping it lower than projected at PEFO in each year of the forward estimates. By 30 June 2026, gross debt is projected to be 1.6 percentage points of GDP lower than PEFO.
  - Largely offsetting new policy decisions over the first 2 years of the budget when inflationary pressures are expected to be greatest.

- Identifying $28.5 billion in budget improvements, by ending wasteful spending, ensuring spending is better aligned with government priorities, and making improvements to the fairness and transparency of our tax system.
- Limiting real payments growth to 0.3 per cent over the forward estimates, compared to an average of 3.3 per cent over the period prior to the Global Financial Crisis (2000-01 to 2008-09) and 1.7 per cent over the period prior to the pandemic (2011-12 to 2018-19).

- These actions help ensure fiscal policy is not working against monetary policy efforts to dampen inflation and are a meaningful first step in repairing the budget and improving the quality of spending.
- Budget repair will continue to be pursued in a responsible manner, consistent with the objective of maintaining full employment and the delivery of essential services.
- Further work will be required to continue to build fiscal buffers to respond to future shocks and manage growing cost pressures. Achieving this will require a national conversation about how the services Australians need are funded.
- The Government will continue the task of reviewing programs to identify savings. This will ensure programs are efficient, effective, and focussed on national priorities.

Background

- Gross debt is higher over the medium-term projection period than at PEFO, stabilising at 46.9 per cent of GDP in the last 3 years of the medium term. By 3032-33, gross debt is 6.7 percentage points higher than at PEFO.
  - The deterioration in debt over the medium term largely reflects increased debt servicing costs, a lower and more realistic assumption about productivity growth and an updated actuarial evaluation of the costs of delivering the NDIS.

Box 3.1: The Government's Economic and Fiscal Strategy

The Government's Economic and Fiscal Strategy will make the economy more resilient and put the budget on a more sustainable footing over time.

The strategy is focused on the objectives of strong, inclusive and sustainable economic growth, full employment, growing real wages, ensuring women's economic participation and equality, and improving living standards for all Australians.

The immediate priority is to ensure fiscal policy is not adding to inflationary pressures and to begin budget repair. Over time, the focus will shift to achieving measured improvements in the budget position to stabilise and reduce gross debt as a share of the economy.

These objectives will be achieved by investments that grow the economy and expand productive capacity, and budget discipline that restrains spending growth and enhances the quality of spending. The budget will be improved in a manner consistent with the objective of maintaining full employment, while continuing to deliver essential services.

Putting the budget on a more sustainable footing will ensure the Government has the fiscal buffers to withstand economic shocks and better manage the fiscal pressures from an ageing population and climate change.

These commitments will be underpinned by the following elements:

- Allowing tax receipts and income support to respond in line with changes in the economy and directing the majority of improvements in tax receipts to budget repair.
- Limiting growth in spending until gross debt as a share of GDP is on a downwards trajectory, while growth prospects are sound and unemployment is low.
- Improving the efficiency, quality and sustainability of spending.
- Focusing new spending on investments and reforms that build the capability of our people, expand the productive capacity of our economy, and support action on climate change.
- Delivering a tax system that funds government services in an efficient, fair and sustainable way.

GOVERNMENT SPENDING AUDIT

Headline Statement

- The Government Spending Audit led by Department of Finance identified $22 billion in duplicative and low priority spending over four years.
- The Treasury contributed three staff and Budget Policy Division expertise to the Audit.
- Detailed questions regarding the Audit process and Budget improvement measures outcomes should be directed to Department of Finance.

Key Points

- The Government committed to a line-by-line Audit to repair the budget and improve the efficiency, quality and sustainability of Commonwealth spending.
  - This included review of the former Government's 2022-23 March Budget and 2022 PEFO measures.
- The Department of Finance established a Taskforce in early-June 2022 to action the Government's commitment.
  - The Audit was conducted across all portfolios with input from ministers and agencies. It focussed on the quality of spending, uncommitted funding and duplicative measures.
  - The Audit helped identify $22 billion in savings and reprioritisation of existing spending over the forward estimates.
- Examples of policy decisions to improve the budget include:
  - making responsible investment decisions in the National Water Grid Fund, including not proceeding with or deferring projects until business cases are completed and viable pathways to delivery are determined ($1.7 billion)

- ceasing additional funding for the Modern Manufacturing Initiative ($250 million)

- re-profiling funding for projects in the *Infrastructure Investment Program* to better align the investment with construction market conditions ($6.5 billion)

- reducing spending on external labour, advertising, travel and legal expenses ($3.6 billion).

- The Audit provides a basis for ongoing efficiencies and discipline in future budgets.

- Treasury supported the Audit.

  - Treasury provided three staff – an EL2 and 2 EL1s (June to October).

  - Budget Policy Division in Treasury provided expertise and advice to the Taskforce and assisted in the Budget reporting arrangements.

Policy Commitments

- In *Labor's Plan for a Better Future*, the Government committed to a waste and rorts audit within the first year following the election, to identify opportunities to repair the budget and improve the quality of Commonwealth spending. This included a review of the 2022-23 March Budget and 2022 PEFO Measures from the former government.

Background

The Audit scope and process

- The Audit included, but was not limited to, spending that:
  - was inconsistent with public expectations
  - was not well targeted or not delivering the intended outcomes
  - duplicated or overlapped other spending – including by other levels of government
  - was not supported by a clear need (and/or business case)
  - did not support the Government's priorities to:
    - : create jobs and boost participation
    - : invest in lifting productivity
    - : generate new business investment
    - : increase wages and grow incomes, and
  - could be delivered in an alternative or more cost effective way.
- The Audit Taskforce received detailed expenditure data from Commonwealth agencies including information on:
  - grant programs and other administered programs and initiatives that could be abolished, refocused or consolidated – including contracted, uncontracted and uncommitted funding
  - payment programs that could be rationalised or reformed.
- Portfolio Ministers also wrote to the Minister for Finance with developed proposals for savings or reprioritisation of existing spending.

Staffing

- The Finance Audit Taskforce comprised 10 FTE staff, seven from Finance (including an SESB1 lead) and three seconded from Treasury.
  - Treasury secondees commenced in late-June 2022 and included an EL2 and 2 EL1s.
- Treasury's Budget Policy Division also supported the Audit, providing expertise, review and input during the process.
  - Treasury also provided regular updates and advice to support the Treasurer.

– Treasury's Budget Policy Division maintained an internal Taskforce liaison – approximately two FTE (0.25x SESB1, 0.5x EL2 and 1.25x EL/APS staff) for this purpose. Treasury absorbed this ASL and staff also worked on other Budget related matters.

Savings

- Questions regarding savings identified by the Audit should be referred to Finance, as the lead agency.

Previous Government measures

- Some example policy decisions to redirect previous Government's measures and fund priority initiatives over the forward estimates are in Table 1. A full list of measures can be found in Budget Paper No. 2 – Budget Measures.

Table 1: Example policy decisions to redirect previous Government measures

Portfolio	Measure	Value
Climate Change, Energy, Environment and Water (provision of funding)	Partial reversal of *Energy and Emissions Reduction*	$325.9 million
	Reversal of *Future Proofing Australia's Unique Landscapes, Animals and Plants*	$100.0 million
	Redirection of *Water – supporting the Murray Darling-Basin*	$97.0 million
	Partial reversal of *Emissions Reduction and New Investments under the Technology Investment Roadmap*	$89.9 million
Infrastructure (redirecting funding to regions through *Responsible Investment to Grow our Regions*)	Redirecting savings identified from the *Energy Security and Regional Development Plan*	$1.4 billion
	Redirecting savings identified from the *Regional Accelerator Program*	$1.7 billion
	Redirecting savings identified from the *Community Development Grants Programme*	$920 million
	Redirecting savings identified from the *Building Better Regions Fund*	$252 million
Infrastructure (cancellation and redirection of funding to *Building a Better Future Through Considered Infrastructure Investment*)	Reallocation of projects under the *Infrastructure Investment Program*	$790 million
	Urban Congestion Fund and Commuter Carpark Fund	$671 million

- The Audit also identified a range of unlegislated measures that are not expected to pass Parliament (see Table 2). The reversal of these measures is expected to cost $1.6 billion over four years from 2022-23 (Budget Paper No.2 – Budget Measures refers).

Table 2: List of unlegislated measurers for reversal

Budget	Measures
2016–17 Budget	Mobility Allowance – transition to the National Disability Insurance Scheme and Compulsory Rent Deduction Scheme – establishment
2016–17 MYEFO	Pension Supplement – changes to the payment of the Pension Supplement for permanent departures overseas and temporary absences
2017–18 Budget	Strengthening Australian Citizenship Arrangements; Australian Consumer Law Review – introducing a Statutory Definition of Voluntary Recall and Increasing penalties for Failure or Refusal to Notify a Voluntary Recall; Better Targeting of Assistance to Support Jobseekers (Drug Testing Trial and Remove Impairment Table 6 components); Aligning the Pensioner Education Supplement and Education Entry Payment; Better Targeting of the Relocation Scholarship; Liquid Assets Waiting Period – Increasing self-reliance and Enhanced Residency Requirements for pensioners
2018–19 Budget	Encouraging Lawful Behaviour of Income Support Recipients and National Disability Insurance Scheme – continuity of support (implement grandfathering for existing Mobility Allowance recipients component)
2019–20 Budget	New Regional Visas – population package
2019–20 MYEFO	Grid Reliability Fund – establishment and Drug Testing Trial Policy – amendments
2021–22 Budget	New Employment Services Model (Aligning payment commencement arrangement component) and Apply a Consistent Four-year newly Arrived Resident's Waiting Period Across Payments
2021–22 MYEFO	Improving confidence in the Electoral Process (Voter Integrity component)

Media statements (prior to Budget)

- On 28 July, the Treasurer in the Ministerial Statement on the Economy noted that "Building our resilience against future shocks means starting to deal with the low-quality spending embedded by the previous Government. That starts with the Audit of Waste that the Minister for Finance and I, and our departments, have begun. Going through the Budget line-by-line and making sure that spending is about building value. Because right now, every household has to make tough decisions about what they can and cannot afford – and it shouldn't be any different for their government. And because the Budget should be about high-quality investments in the right priorities."

- On 18 July 2022, the Treasurer noted that "one of the expected outcomes of our audit into rorts and waste in the Budget is to see where we can trim spending, which has been allocated for political reasons, not economic reasons by our predecessors. And from time to time, you will ask me whether that will be a key task of the first Budget. And I say no, it will be the key task of every Budget – to make sure that we are getting maximum bang for buck from taxpayer dollars…"

- On 23 June 2022, the Prime Minister noted in an interview on the ABC 7.30 Report that "the theme [of the first Budget] will be one, getting rid of some of the waste and the rorts that are in the Budget and secondly, as well, fulfilling Labor's commitments that we made at the election".

- On 1 June 2022, the Treasurer noted in a Press Conference, Parliament House in relation to the Audit that “the work has begun with Treasury, and Finance and with Katy Gallagher” and that “the rorts and waste audit will be an opportunity for us to direct money from unproductive political purposes into more productive economic purposes”.

SB22-000339

GST ENTITLEMENTS TO THE STATES

Headline Statement

- Across the forward estimates, increased GST receipts largely reflect upgrades to the outlook for consumption subject to GST. This is partially offset by a decrease in GST receipts from dwelling investment, which has been downgraded in 2024-25 and 2025-26 in response to higher expected interest rates and moderating housing prices.

Key Points

- In 2022-23, GST payments to the states and territories are estimated to be $87.3 billion.
  - This is $3.4 billion (4.1 per cent) higher than estimated in the 2022-23 March Budget.
  - GST payments are forecast to grow by 9.7 per cent or $8.5 billion between 2022-23 and 2025-26 to $95.8 billion.
- Increased GST receipts largely reflect upgrades to the outlook for consumption.
- The 2018 HFE reforms are estimated to deliver $19 billion to states over the forward estimates.
  - This includes annual, indexed Commonwealth injections to the GST pool and transitional payments under the no worse off guarantee.
  - The guarantee ensures during the transitional period that no state will get less than it would have under the old GST distribution system.

Policy Commitments

- The Government is continuing to implement the 2018 Horizontal Fiscal Equalisation (HFE) reforms to provide additional funding of GST revenue among the states.

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Background

- Legislative reforms to the GST distribution system (known as HFE reforms) were passed by Parliament on 14 November 2018.
- In 2021-22, the system began its transition to a more stable and predictable equalisation standard which reduces the volatility in states' GST payments.
  - The Government provided short-term transitional GST payments until 2021-22 to ensure no state's GST relativity effectively fell below 0.7 (or 4.66024 for the NT).
  - In 2021-22, the distribution of the GST among the states began transitioning over a six-year period to a new equalisation standard based on states having a fiscal capacity at least as high as the stronger of NSW or Victoria.
  - From 2021-22, the Government will inject $600 million annually into the GST pool, followed by an additional $250 million annually from 2024-25, indexed each year to grow in line with the growth in the GST pool.
  - In 2022-23, an in-system GST relativity floor of 0.7 will be introduced. This floor will permanently increase to 0.75 from 2024-25.
  - During the transition period between 2021-22 and 2026-27, the Government will guarantee that each state and territory will get the cumulative better of the old GST distribution system or the new system over this period.
  - The Productivity Commission will conduct a review of the updated system by December 2026 to assess whether it is operating efficiently, effectively and as intended.

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Key facts and figures

Table 1: GST payment estimates changes since 2022-23 March Budget

$m	2022-23 October Budget	2022-23 March Budget	Change
2021-22	76,454	75,558	896
2022-23	87,297	83,885	3,412
2023-24	90,582	87,609	2,973
2024-25	93,762	91,985	1,777
2025-26	95,776	93,641	2,135

**Note: GST payments includes entitlements, HFE transition and top-up payments.*

Table 2: Change in GST payments by state 2021-22 to 2022-23

$m	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2021-22	22,313	17,466	16,062	5,447	6,998	3,211	1,517	3,440	76,454
2022-23	26,204	19,397	18,510	6,228	7,797	3,493	1,692	3,976	87,297
Change	**3,891**	**1,932**	**2,448**	**781**	**799**	**282**	**175**	**536**	**10,843**
	17.4%	**11.1%**	**15.2%**	**14.3%**	**11.4%**	**8.8%**	**11.5%**	**15.6%**	**14.2%**

Table 3: Change in GST payments by state: 2022-23 comparison between 2022-23 October Budget and the 2022-23 March Budget

$m	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2022-23 Budget (Oct)	26,204	19,397	18,510	6,228	7,797	3,493	1,692	3,976	87,297
2022-23 Budget (Mar)	25,456	18,889	17,811	5,868	7,378	3,201	1,539	3,743	83,885
Change	**748**	**508**	**699**	**359**	**419**	**292**	**153**	**233**	**3,412**
	2.9%	**2.7%**	**3.9%**	**6.1%**	**5.7%**	**9.1%**	**10.0%**	**6.2%**	**4.1%**

Table 4: GST payments by state

$m	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2021-22									
Entitlement	22,249	17,410	16,029	3,332	6,996	3,211	1,515	3,440	74,181
Top-up payment	-	-	-	2,115	-	-	-	-	2,115
HFE transition payment	64	56	33	0	2.66	0	2	0	158
Total	22,313	17,466	16,062	5,447	6,998	3,211	1,517	3,440	76,454
2022-23									
Entitlement	24,717	18,176	17,547	6,228	7,477	3,404	1,609	3,965	83,122
HFE transition payment	1,486	1,222	962	0	320	89	83	12	4,174
Total	26,204	19,397	18,510	6,228	7,797	3,493	1,692	3,976	87,297
2023-24									
Entitlement	25,556	18,912	18,237	6,482	7,744	3,526	1,671	4,120	86,248
HFE transition payment	1,535	1,274	995	0	328	95	86	21	4,334
Total	27,091	20,186	19,232	6,482	8,071	3,621	1,757	4,141	90,582
2024-25									
Entitlement	26,154	19,465	18,733	7,177	7,931	3,620	1,722	4,246	89,048
HFE transition payment	1,671	1,401	1,083	0	352	99	93	15	4,714
Total	27,825	20,866	19,816	7,177	8,282	3,719	1,815	4,262	93,762
2025-26									
Entitlement	27,341	20,470	19,643	7,525	8,279	3,786	1,813	4,448	93,305
HFE transition payment	874	737	568	0	184	52	49	8	2,471
Total	28,215	21,206	20,212	7,525	8,463	3,837	1,862	4,456	95,776

TOTAL PAYMENTS TO STATES AND NEW FUNDING TO THE STATES

Headline Statement

- In 2022-23, the Australian Government will provide an estimated $170.2 billion in payments to state and territory governments (the states).

Key Points

- Total payments to the states in 2022-23 are estimated to be $170.2 billion and include:
  - $29.1 billion for health, including $26.5 billion in hospitals and public health funding and $1.8 billion through the National Partnership on COVID-19 health response
  - $29.8 billion for education and skills, including $26.8 billion for Quality Schools
  - $14.0 billion for infrastructure
  - $87.3 billion in GST-related payments.
- This is an increase of 3.9 per cent ($6.4 billion) compared with the 2021-22 payments provided to the states ($163.9 billion).
- Total Australian Government payments to the states in 2022-23 are equivalent to 6.9 per cent of GDP, comprising 3.3 per cent of GDP in payments for specific purposes and 3.6 per cent of GDP in general revenue assistance.

Policy Commitments

- Funding to the states announced in the October 2022-23 Budget includes:
  - $8.1 billion over ten years for major transport infrastructure projects.
    - : This includes the Suburban Rail Loop East in Melbourne, the Bruce Highway and other important freight highways such as the Tanami Road and Dukes Highway.

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- $759.9 million in funding in 2022-23 to extend the National Partnership on COVID-19 Response to 31 December 2022.
- $550.1 million towards a $1.0 billion one year interim National Skills Agreement, which will deliver 180,000 fee-free TAFE places in 2023, as a first step to providing 480,000 fee free TAFE places over the next 4 years.
- $265.0 million for the Schools Upgrade Fund and the $192.0 million Student Wellbeing Boost.

Background

- Table 1: Changes to state payments by type since 2021-22 FBO

	2021-22 FBO ($b)	2022-23 Oct Budget ($b)	Change ($b)	Change (per cent)
Specific Purpose Payments	86.4	81.8	(4.6)	(5)
National Health Reform funding[1]	29.9	28.4	(1.5)	(5)
Quality Schools	25.0	26.8	1.7	7
Infrastructure funding	8.3	14.0	5.7	69
National Housing and Homelessness	1.6	1.6	0.0	2
GST-related payments	76.5	87.3	10.8	14
Other General Revenue Assistance	1.1	1.2	0.1	7
Total Commonwealth funding	**163.9**	**170.2**	**6.4**	**4**

1 Includes funding of $5.8 billion in 2021-22 and $1.8 billion in 2022-23 for the National Partnership on COVID-19 Response. This funding to support the COVID-19 public health response complements funding under the 2020-25 Addendum to the National Health Reform Agreement.

- Table 2: Changes in payments to the states since the 2022-23 March Budget.

Changes in payments to the states since the 2022-23 March Budget

	2022-23	2023-24	2024-25	2025-26
Specific purpose payments				
$m	141	-2,041	-273	4,605
per cent	0.2	-2.4	-0.3	5.7
GST-related payments				
$m	3,412	2,973	1,777	2,135
per cent	4.1	3.4	1.9	2.3
Other General Revenue Assistance				
$m	253	170	118	135
per cent	28.0	21.4	17.3	26.1
Total				
$m	**3,806**	**1,102**	**1,623**	**6,874**
per cent	**2.3**	**0.6**	**0.9**	**3.9**

- Table 2.2 of Budget Paper No. 3, *Federal Financial Relations October 2022-23*.

Table 2.2: Payments for specific purposes by sector and category, 2022–23 to 2025–26

$million	2022-23	2023-24	2024-25	2025-26
Health				
National Health Reform funding(a)	28,367	28,325	30,030	31,982
National Partnership payments	756	615	634	319
Total health payments	29,123	28,940	30,665	32,301
Education				
Quality Schools funding	26,787	28,286	29,462	30,587
National Partnership payments(b)	787	785	544	408
Total education payments	27,575	29,071	30,006	30,995
Skills and workforce development				
National Skills and Workforce Development SPP	1,608	1,661	1,694	1,724
National Partnership payments	664	231	134	137
Total skills and workforce development payments	2,272	1,893	1,829	1,861
Community services				
National Partnership payments	2,089	1,240	58	60
Affordable housing				
National Housing and Homelessness funding	1,646	1,630	1,661	1,689
National Partnership payments	832	76	1	1
Total affordable housing payments	2,478	1,706	1,662	1,690
Infrastructure				
National Partnership payments(b)	13,981	15,241	15,554	14,757
Environment				
National Partnership payments(b)	2,336	1,751	434	148
Contingent payments				
National Partnership payments	47	..	..	..
Other				
Business support	410	-	-	-
National Partnership payments(b)(c)	1,475	3,626	3,750	3,328
Total other payments	1,886	3,626	3,750	3,328
Total payments for specific purposes	**81,788**	**83,467**	**83,956**	**85,140**

a) Includes $1.8 billion in total for the COVID-19 public health response in 2022–23.

b) Includes financial assistance grants for local government, payments direct to local government and/or payments funded through appropriations including but not limited to section 16 of the *Federal Financial Relations Act 2009*.

c) Excludes business support payments.

Key sensitivities

- **National Health Reform Agreement (NHRA) (excludes COVID-19 Response)**: NHRA funding for 2022-23 has decreased by $658.7 million since the March 2022-23 Budget. More states are expected to be eligible for the 2021-22 minimum funding guarantee (which affects 2022-23 NHRA funding entitlements), expected to be finalised before the next Budget.

- The Administrator of the National Health Funding Pool provides current financial year payment advice to the Treasurer. This advice includes hospital services activity estimates informed by information provided by the states.

- Due to the lower activity, NHRA funding has also decreased in each year of the forward estimates when compared with the March 2022-23 Budget. Despite lower funding, growth is expected to reach the 6.5 per cent national funding cap in each year after 2022-23. s 47B(a) [redacted]

- States want the Government's NHRA national funding cap (6.5 per cent growth per annum) lifted until 30 June 2025. This could have a significant cost into the medium-term. If asked you could mention:

  – In the Budget, the Government delivered on its election commitments to better support Australia's health care system. In particular, the implementation of the Urgent Care Clinics will reduce pressure on hospital emergency departments and make it easier for Australian families to see a doctor or nurse when they require urgent but not life threatening care.

  – The Government faces significant cost pressures, with many payments growing faster than the economy. This includes NDIS, aged care and medical benefits. Commonwealth funding for the NDIS is the second fastest growing payment, increasing on average by 13.8 per cent per year (2022-23 to 2032-33).

- There is considerable volatility in states' estimates of hospital activity for 2022-23 with substantial constraints mainly due to workforce and continued impacts of COVID-19.

s 47D [redacted]

- **National Partnership on COVID-19 Response (NPA)**: States are concerned the NPA is slated to expire on 31 December 2022 and are seeking an extension to 30 June 2023. The Government is considering a strategy for transitioning the COVID-19 health response to sustainable, long-term arrangements to reflect the changing pandemic environment and Australia's increased protection against COVID-19 (i.e. vaccines and treatments). The NPA will be considered in this context.

- The $4.0 billion decrease in funding from 2021-22 ($5.8 billion) to 2022-23 ($1.8 billion) mostly reflects the expected decrease in Commonwealth funding to the states for activity to manage the pandemic undertaken outside of hospital settings.

POPULATION

Headline Statement

- COVID-19 led to a sharp decline in Australia's population growth in 2020-21, which slowed to the lowest rate in over a century. Population growth has started to recover following the easing of international travel restrictions in late 2021.

Key Points

- In 2020-21, Australia experienced the lowest population growth rate in over a century at just 0.1 per cent.
- The latest population figures, released on 26 September 2022, showed Australia's population growth rate increased by 0.9 per cent in the year to March 2022.
- Australia's population growth is forecast to increase to 1.1 per cent in 2021-22 and 1.4 per cent in 2022-23, as net overseas migration recovers.
- Population growth is then projected to gradually slow from 2024-25, reaching 1.2 per cent by the end of the medium-term in 2032-33, reflecting long-running trends of declining fertility and population ageing.
- Australia's estimated resident population is forecast to grow from 25.7 million at 30 June 2021 to 27.4 million by 30 June 2026, and to 29.9 million by 30 June 2033.

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Background

Net overseas migration

- Net overseas migration (NOM) is forecast to increase from -85,000 in 2020-21 to 150,000 in 2021-22. It is then forecast to reach 235,000 in 2022-23 and thereafter remain at that level, reflecting pre-COVID trends.

- Since the 2022-23 March Budget, the outlook for NOM has improved by 109,000 in 2021-22 and by 55,000 in 2022-23.

  - The recovery in migrant arrivals has occurred faster than previously expected in the latest ABS data. More students have returned to Australia from offshore online study, and the latest visa grants data shows an improved outlook for student arrivals over the next year.

  - The latest ABS data shows fewer departures than previously expected, predominantly of temporary migrants, especially international students and working holiday makers. Fewer arrivals during the pandemic and a consequently lower stock of temporary migrants is expected to weigh on future migrant departures. The recovery in temporary migrant departures is now expected to be delayed compared to the 2022-23 March Budget.

- The NOM forecasts are higher than the permanent Migration Program largely because of a recovery in temporary migration as international students, working holiday makers and other temporary migrants return to Australia.

  - NOM includes movements of permanent visa holders, temporary visas holders and Australian citizens. In the past, NOM has generally been higher than the outcome of the permanent Migration Program because of an increasing number of temporary visa holders in Australia.

- Humanitarian migration also contributes to NOM beyond the permanent program, while Australian citizens generally detract from NOM (although this outflow was temporarily reversed at the onset of the pandemic).

- The permanent migration program for 2022-23 has been increased from 160,000 to 195,000, with priority given to offshore applicants, to help ease workforce and skills shortages. Skill stream places will increase to 142,400, continuing to comprise around 70 per cent of the permanent Migration Program.

- The Government has allocated an additional $36.1 million dollars to support a surge capacity of 500 staff for 2022-23 processing of the backlog. The number of visas awaiting processing has fallen from nearly 1 million in June 2022 to 872,000 in October 2022.

  - There is a dedicated taskforce for the Temporary Skill Shortage visa, assessing health and education sector applications. The number of applications waiting in the queue has fallen for 11 straight weeks, despite rising demand from employers.

Fertility

- Australia's total fertility rate has not been adversely impacted by the pandemic, despite some quarterly volatility in births in 2020 and 2021.
  - The total fertility rate is assumed to be 1.66 babies per woman in 2021-22 and then to fall to 1.62 babies per woman by 2030-31, reflecting a long running trend of families having children later in life and having fewer children when they do.

Mortality

- Australia has experienced low mortality during the pandemic compared to many other advanced economies. However, as COVID-19 infection rates increased significantly from the beginning of 2022, deaths from COVID-19 and other causes have also increased in Australia.
- COVID-19 is assumed to have a temporary effect on mortality rates in Australia, increasing the number of deaths by 8,800 in 2021-22 and 8,800 in 2022-23, compared with the 2022-23 March Budget. From 2023-24 onwards, mortality rates are assumed to continue to improve at the annualised rate observed over the last three decades.

Net internal migration

- In addition to affecting population growth, COVID-19 is affecting the distribution of the Australian population due to a disruption of the historical settlement patterns of NOM and net interstate migration.
  - Population growth has slowed the most in Victoria and New South Wales, states that have historically received a larger share of their population growth from NOM. The other states (especially Queensland) experienced smaller declines in growth, with many people who typically would have moved to Victoria or New South Wales deciding to remain in their state.
  - In 2020-21 border closures, lockdowns and uncertainty around the pandemic reduced the number and changed the patterns of interstate migration. This is expected to continue, with the overall number of interstate moves forecast to not return to pre-COVID levels until 2023-24.

Table 1. Population by state, year ending 30 June

million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(b)	Australia
2020-21 (a)	8.094	6.548	5.218	2.750	1.803	0.568	0.454	0.249	25.683	25.688
2021-22	8.149	6.614	5.302	2.780	1.822	0.575	0.460	0.255	25.956	25.961
2022-23	8.228	6.720	5.390	2.824	1.845	0.582	0.467	0.258	26.313	26.318
2023-24	8.319	6.841	5.467	2.866	1.865	0.588	0.474	0.262	26.682	26.687
2024-25	8.412	6.959	5.545	2.908	1.883	0.595	0.483	0.265	27.050	27.055
2025-26	8.504	7.077	5.623	2.949	1.901	0.601	0.492	0.268	27.416	27.421

(a) Historical data, sourced from ABS, *National, state and territory population, March 2022*.

(b) 'Total' is the sum of the states and territories shown, and excludes Jervis Bay Territory, Christmas Island, the Cocos (Keeling) Islands and Norfolk Island.

Table 2. Population growth by state, year ending 30 June

per cent	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	AUS
2020-21 (a)	0.0	-0.9	0.8	1.2	0.5	0.8	0.6	0.1	0.1
2021-22	0.7	1.0	1.6	1.1	1.1	1.3	1.5	2.2	1.1
2022-23	1.0	1.6	1.7	1.6	1.2	1.1	1.5	1.4	1.4
2023-24	1.1	1.8	1.4	1.5	1.1	1.1	1.5	1.3	1.4
2024-25	1.1	1.7	1.4	1.4	1.0	1.1	1.9	1.3	1.4
2025-26	1.1	1.7	1.4	1.4	1.0	1.1	1.8	1.3	1.4

(a) Historical data, sourced from *ABS, National, state and territory population, March 2022*.

Table 3. Net overseas migration, year ending 30 June

	2020-21(a)	2021-22	2022-23	2023-24	2024-25	2025-26
Net overseas migration, Australia	-85,000	150,000	235,000	235,000	235,000	235,000

(a) Outcome in *National, state and territory population, March 2022* (ABS).

SB22-000342

DISCOUNT RATES

Headline Statement

- Delivering a social discount rate that reflects market conditions will improve cost-benefit analysis and result in better project prioritisation.

Policy Commitments

- At Budget Estimates on 1 June 2021, Treasury committed to develop a Commonwealth view on the central discount rate for assessing infrastructure projects.
- Treasury has undertaken extensive research and analysis, and consulted with industry stakeholders, the States and Territories, and other Commonwealth agencies.
- The existing 7 per cent discount rate was based on an analysis of real long-term bond rates. We are continuing to monitor market developments to inform our advice on discount rates.
- Infrastructure Australia's Board is responsible for deciding whether to adopt a revised rate.
  - Any changes to the social discount rate within Infrastructure Australia's Assessment Framework will involve consultations with States and Territories and an implementation period.
  - An independent review of Infrastructure Australia is underway, including of its functions, the advice and products for which it is responsible, and relationship with the work of state-level infrastructure bodies.

Background

- Discount rates are one input into the economic evaluation of projects. Discount rates are used to convert the value of costs and benefits over the life of a project into present value terms, which allows comparison of projects with different cost and benefit profiles.

- Care should be taken not to over-weight the role of discount rates in project selection. Discount rates are one parameter among many affecting the 'societal impact' criterion of IA's broader assessment of business cases, which includes:

  – Strategic fit – 'is there a clear rationale for the proposal?'

  – Societal impact – 'what is the value of the proposal to society and the economy?'

  – Deliverability – 'can the proposal be delivered successfully?'

- While it is recognised that transformational projects can generate wider regional economic development, the broader issue of measuring spill-over benefit streams is outside the purview of a discount rate review.

Commonwealth position

- At Budget Estimates on 1 June 2021, Treasury committed to develop a Commonwealth view on the discount rate for infrastructure projects by August 2021.

- On 26 August 2021, Treasury shared a draft paper on discount rates with State and Territory officials for discussion. A list of discount rates currently used by the States and Territories is at **Attachment A.**

- Treasury is collaborating with States and Territories and working towards bringing a settled paper to the Council on Federal Financial Relations (CFFR) for endorsement. This process is continuing.

- Treasury's paper on Estimating a Social Discount Rate for Australian Infrastructure [not publicly available] at that time recommended that jurisdictions:

  – apply a social opportunity cost of capital approach (using the capital asset pricing model methodology) to estimate the discount rate because it is credible, observable and fit for purpose

  – lowering the current 7 per cent real discount rate for cost-benefit analysis of infrastructure projects to a central estimate of 5 per cent (with sensitivity testing at 3 per cent and 7 per cent)

    : There was no credible evidence that would justify adopting an alternative discount rate for projects in different locations.

  – review the discount rate every five years to ensure that the discount rate continues to reflect contemporary economic and financial market conditions

: This should be led by the Productivity Commission in consultation with the Commonwealth and State and Territory Treasuries.

: Jurisdictions agreed the Productivity Commission may also be called upon to consider conducting interim reviews of the discount rate if significant economic events necessitate an earlier review.

Consultation

- Stakeholders, including the National Farmers Federation, unanimously support using the same discount rate for metropolitan and regional projects as there is no basis to suggest that people in regional areas value the future differently.

- As part of its review, Treasury consulted Commonwealth agencies, State Treasuries, industry bodies, think tanks, institutional investors and academic experts (**Attachment B**), including by hosting informal roundtables, multilateral meetings with state treasuries, and a workshop with Infrastructure Australia to discuss implementation matters if the discount rate were to be revised.

Next Steps

- Treasury is yet to formally provide advice on the appropriate rate to Infrastructure Australia, as CFFR has not considered the proposed new rate. We are continuing to monitor market developments to inform a settled paper.

- Treasury notes that Infrastructure Australia was open to views on the timeframe for transitioning to a new rate. Until then, Infrastructure Australia will continue to assess projects using a 7 per cent discount rate with a sensitivity range of 4 per cent to 10 per cent, and will continue to work proactively with jurisdictions on a reasonable and pragmatic pathway forward.

Discount rates currently used in Australia

State	Discount Rate	Sensitivity Analysis
NSW	**7%**	3% and 10%
VIC	Category 1: **4%** - public programmes (e.g. education, health and justice). Category 2: **7%** - public transport, roads and housing. Category 3: **varies** for commercial investments	4% and 9% for Category 2
QLD	**7%**	4% and 10%
WA	**7%**	4% and 10%
SA	**7%** Depending on risk, discount rates vary between **2.7-6.7%** or IA at **7%** if deemed appropriate	+/- 2% of chosen discount rate
TAS	**7%**	3% and 10%
ACT	**7%**	3% and 10%
NT	**7%**	3% and 10%

ATTACHMENT B

List of stakeholders consulted

Treasury conducted targeted outreach and harnessed a range of views that contributed to the recommendations and work reflected in this report.

- Collaboration across Australian Government agencies, departments and statutory bodies

  - Australian Government Actuary
  - Australian Office of Financial Management
  - Department of the Prime Minister and Cabinet
  - Department of Finance
  - Department of Infrastructure, Transport, Regional Development, Communications and the Arts, including the Bureau of Infrastructure and Transport Research Economics
  - Infrastructure Australia
  - Productivity Commission
  - Reserve Bank of Australia

- Discussions with peak bodies, private sector representatives, institutional investors, asset managers, sovereign wealth funds, academics, think thanks, consultancies, and various stakeholders

  - ACIL Allen
  - Australian Chamber of Commerce and Industry
  - Australian Super
  - Business Council of Australia
  - Cbus
  - Economic Society of Australia, including Professor John Quiggin (University of Queensland)
  - First State Super
  - Future Fund
  - Grattan Institute
  - IFM Investors
  - Industry Super
  - National Farmers Federation
  - Pottinger

SECURE JOBS

Headline Statement

- The Government will provide $61.8 million over four years from 2022-23 to deliver the Secure Australian Jobs Package which aims to increase wages, improve job security and enhance the workplace relations system.

Key Points

- The 2022-23 Budget contains the Secure Australian Jobs Package which is comprised of a range of measures which implement either Election Commitments or outcomes from the Jobs and Skills Summit.
  - Specific details on many of the individual measures can be found in the Fair Work Legislation Amendment (Secure Jobs, Better Pay) Bill 2022 which Minister Burke presented to Parliament on 27 October 2022.
  - The Bill has been referred to a Senate Committee. Detailed questions on the measures are best directed to DEWR through that process.
- The package aims to address injustices in Australia's labour market, improve job security and incomes, and expand access to the benefits of workplace bargaining for more employees and businesses.
- Employers and employees generally have strongly aligned incentives to improve productivity, and to increase both profits and wages, these measures are intended to help employers and employees work together to agree outcomes.

Policy Commitments

- **Fair Work Commission Expert Panels**: Establish two new Expert Panels in the Fair Work Commission for Pay Equity and Care and Community Sector to provide expertise in assessing pay equity claims (Election Commitment). Funding: $20.2 million over 4 years from 2022-23 (and $5.3 million per year ongoing)

- **Recommendation 28 of the Respect@Work Report:** Introduce an express prohibition on sexual harassment in the Fair Work Act (Election Commitment) Funding: $15.1 million over 4 years from 2022-23 (and $3.8 million per year ongoing)

- **Small Claims Procedures:** Enhance small claims procedures to assist workers in recovering unpaid work entitlements, including by increasing the threshold for small claims from $20,000 to $100,000. (Election Commitment) Funding: $6.4 million over 4 years from 2022-23 (and $1.9 million per year ongoing), (Note the $7.9 million in BP2 is a gross funding amount, as there is $1.5million in receipts, net funding is $6.4 million over 4 years).

- **Support for Bargaining Representatives:** Grant funding to unions and employer representatives to improve safety, fairness and productivity in workplaces through the Productivity, Education and Training Fund. (Summit Outcome) Funding: $8.9 million over 3 years from 2023-24

- **Paid Family and Domestic Violence Leave-Small Business:** Funding to help small business employers understand and implement the new Family and Domestic Violence leave entitlement. Funding: $3.4 million over 4 years from 2022-23 (While this specific measure is not an election commitment it supports the implementation of a commitment).

- **Bargaining Support for Small business:** Funding for the Fair Work Commission to provide advice and assistance to support the uptake of enterprise bargaining for small businesses (Summit Outcome) Funding: $7.9 million over 4 years from 2022-23.

- **Gender Equity and Job Security:** Add job security and gender equity as objects in Fair Work Act (Election Commitment). This has nil financial impact.

- **Legislate a Statutory Equal Remuneration Principle:** Introduce a statutory equal remuneration principle, like that which exists in Queensland, and clarify that gender-based assumptions must not be taken into account in assessing work value. Intended to make it easier for applicants to mount a successful work value case (Election Commitment). This has nil financial impact.

- **Prohibit Pay Secrecy Clauses:** Prohibit pay secrecy clauses in employment contracts – providing more transparency on pay to facilitate pay equity claims (Election Commitment). This has nil financial impact.

- **Limiting Fixed-Term Contracts*:** Statutory limitation to prevent the use of fixed-term contracts for more than two consecutive contracts (or 2 years) (Election Commitment). This has nil financial impact.

- **Stronger Protections for Workers:** Introduce additional attributes (gender identity, intersex status and breastfeeding) which will be protected against adverse action and discrimination (Summit Outcome). This has nil financial impact.

- **Provide Stronger Access to Flexible Working Arrangements:** Strengthen the National Employment Standards to require clear process to be followed by employers when employees request flexible working arrangements (Summit Outcome). This has nil financial impact.

- **Sunset "Zombie Agreements":** Sunset outdated agreements made prior to the commencement of the Fair Work Act 2009 (Summit Outcome, this was also a policy of the Morrison Government). This has nil financial impact.

- **Remove Unnecessary Complexity, Simplify the Better Off Overall Test:** Simplify the Better Off Overall Test by streamlining the enterprise agreement process and consideration by the Fair Work Commission of whether an employee is better off under the proposed award (Summit Outcome). This has nil financial impact.

- **Increase Capacity of Fair Work Commission to Help Parties Reach Agreements:** Amend the Fair Work Act to increase Fair Work Commission capacity to deal with bargaining disputes by reducing the level of disputation required in order to access arbitration. Intended to deal with intractable disputes earlier to provide parties with a resolution (Summit Outcome). This has nil financial impact.

- **Improving Access to Single and Multi-Employer Agreements*:** Remove unnecessary limitations on access to single and multi-employer-agreements. Changes in the Bill include: improved access to arbitration for intractable disputes, expanded access to the Single Interest and Supported Bargaining (previously the Low-Paid bargaining) streams, and making it easier for employees to apply to the Fair Work Commission for authorisations to bargain or to adopt an existing multi-employer agreement. (Summit Outcome). This has nil financial impact.

Background

- Enterprise bargaining coverage has declined over the past decade. This package aims to reinvigorate bargaining to increase wages, in part by making it easier to reach agreements that benefit both firms and employees.
  - Employers and employees generally have strongly aligned incentives to improve productivity, and to increase both profits and wages. The package contains a range of measures to help employers and employees to work together to agree outcomes and engage in bargaining.
- Treasury has not modelled the economic impact of the package.
  - The impact will ultimately depend on the agreements made by employers and employees and decisions made by the Fair Work Commission.
  - These outcomes would be challenging to model, due to the assumptions that need to be made about the behaviour and decisions of independent parties, as well as the interaction between various measures in the Bill.
  - While Australian evidence is scarce, international evidence suggests that firm-level bargaining (as opposed to more centralised forms of bargaining) is associated with higher productivity growth, by allowing productivity to be aligned with wages and conditions, and by improving matching of firms with workers. The package aims to increase incentives to bargain, which could lead to greater opportunities for agreements that deliver productivity gains.
- On Thursday 13 October 2022, the Productivity Commission (PC) released its sixth and final Interim Report for its Productivity Inquiry, featuring discussion of workplace relations policy settings. In its report, the PC provides commentary on a number of issues that are covered by the Secure Jobs package (noting that it had not seen the package), including the BOOT, multi-employer bargaining and protected industrial action. The PC's commentary included risks and benefits of various regulatory settings. Briefing on the report had been provided to the Treasurer.
- Some elements of the package affect aspects of the system which the PC has cautioned against changing, including protected industrial action and bargaining orders. The Bill includes several measures to mitigate the risk of adverse outcomes.
  - A number of changes are being made to improve dispute resolution and facilitate agreements between employers and employees, prior to industrial action, including mandating conciliation and giving the Fair Work Commission greater ability to arbitrate disputes.
  - The Fair Work Commission will have a role in determining access to single and multi-employer bargaining. Entry requirements to multi-employer bargaining will be specific to each stream and include safeguards, including consideration of the public interest or appropriateness of coverage of an agreement.

Insecure work in Australia

- A well-functioning labour market depends on both the quantity and quality of jobs available. As the nature of work in Australia has changed over time, there has been growing interest in whether employment is becoming less secure or more precarious.
- The concept of precarious employment has many dimensions, including how workers feel about their job security, how much control workers have over their work schedule, and working conditions. There is no single measure that tells the whole story, and all must be considered in the context of an individual's preferences.
- In general, measures that give a broad sense of economic insecurity — such as variability in income or hours worked — and of workers' perceptions of their job security are preferred to focusing on 'type' of work, for example, whether an employee is casual or part-time.
  - While the latter forms of employment can be less secure, they also offer flexibility and there are many reasons why an employee might prefer these work types.
- A significant proportion of Australians experience economic uncertainty in the form of variable work hours and income.
  - Around 24 per cent of employees report experiencing variable income from one pay period to the next. Low wage earners, those who work fewer hours and workers aged under 25 and over 65 experience higher rates of variability in hours and income.
- Perceptions of job security are highly cyclical — declining when spare capacity in the labour market increases and vice versa — but have generally trended lower in Australia over the past two decades.
  - The average self-assessed probability of job loss has increased from 10.4 per cent in 2001–2010 to 11.5 per cent in 2011–2020. Over the same period, the average share of workers with job retention certainty declined from 60 per cent to 53 per cent.
  - Some cohorts routinely report feeling less secure in their jobs than others. For example, the share of workers with job retention certainty tends to be lower for men, workers on fixed-term and casual contracts and non-union members.
- The prevalence of types of work that can be associated with lower job security have been broadly stable over recent decades at the macroeconomic level.
  - 23.5 per cent of employees are casual. This proportion grew during the 1990s but has declined gradually since.
  - Workers on fixed (fixed-term or fixed event) contracts account for around 4 per cent of all employees.
  - Multiple job holders account for around 6.4 per cent of employed persons.
  - There are about 1 million people employed as independent contractors in Australia (about 7.8 per cent of all employment).

FOI 3204
Document 25

SB22-000356

INFRASTRUCTURE

Headline Statement

- In the 2022-23 October Budget, the Government is investing more than $120 billion in transport infrastructure over the next ten years.

Key Points

- In the 2022-23 October Budget, the Government is providing an additional $8.1 billion over 10 years from 2022-23 ($3.6 billion over four years from 2022-23) for priority infrastructure projects across Australia to improve urban and regional rail, roads, freight and public transport systems.
- This brings total investment in the Infrastructure Investment Program to $92.9 billion over 10 years from 2022-23, as part of the pipeline of more than $120 billion in total infrastructure investment (including equity, loans and other grants – **Attachment A**).
- The Government will reprofile $6.5 billion of funding for existing projects within the Infrastructure Investment Program to beyond the forward estimates to better align with market capacity and ease inflationary pressures, while maintaining the Government's overall funding commitment to the projects.
- This investment will be partially offset from:
  - the cancellation and reallocation of 20 projects under the Infrastructure Investment Program ($1.3 billion over 10 years from 2022-23)
  - the cancellation and reallocation of 23 projects under the Urban Congestion Fund and Commuter Car Park Fund ($1.5 billion over 10 years from 2022-23)
  - the cessation of the National Faster Rail Agency ($9.0 million over four years from 2022-23)

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Policy Commitments

Building a Better Future Through Considered Infrastructure Investment
(Budget Paper 2, pp.160-161)

- A summary of the savings and spends included in the measure is included at **Attachment B** and a summary of the new funding by State is at **Attachment C.**
- The profile in the measure shows a $4.7 billion net improvement to the underlying cash balance in the forward estimates, comprising:
  - $3.6 billion additional spending over the forward estimates,
  - $1.8 billion of cancellations and reallocations of projects including under the Infrastructure Investment Program, Urban Congestion Fund and Commuter Carpark Fund over the forward estimates, as well as
  - $6.5 billion from of reprofiling funding for existing projects under the Infrastructure Investment Program to beyond the forward estimates to better align investments with industry and market capacity constraints.
- The Minister for Infrastructure, Transport, Regional Development and Local Government has referred to $9.6 billion in infrastructure election commitments in the 2022-23 October Budget. This figure was then used in a tweet by the Treasurer on Monday 17 October. It includes:
  - approximately $6.5 billion of the $8.1 billion outlined in the *Building a Better Future Through Considered Infrastructure Investment* measure
  - the Middle Arm Sustainable Development Precinct equity investment (part of the *Responsible Investment to Grow our Regions* measure)
  - funding that was included in the 2022-23 March Budget for several projects
  - other election commitment projects such as airport upgrades

Background

- The total national infrastructure investment pipeline will increase from $120 billion at the time of the 2022-23 March Budget to $123 billion over 10-years. This net increase is primarily driven by:
  - an increase of $8.1 billion to grant funding through the Infrastructure Investment Program (IIP), largely to deliver on election commitments, and
  - the removal of $5.2 billion of contingent liabilities (unprofiled).
- In the March 2022-23 Budget, a $5.2 billion contingent liability was recorded for East West Link in Victoria and Perth Freight Link in Western Australia in the Statement of Risks (BS8). These contingent liabilities have been removed in this budget.
- Market capacity constraints have meant that many projects funded by different levels of government have been unable to be delivered on time and budget. Heightened levels of investment in infrastructure projects may exacerbate market capacity issues.
- The cancellation of low-priority projects and re-profiling of funding for existing projects within the Infrastructure Investment Program along the 10-year pipeline will partially mitigate this risk.
- Some major new project commitments, including Suburban Rail Loop in Melbourne, have been made without a detailed business case assessed by Infrastructure Australia. An independent review of Infrastructure Australia is due to be completed by late 2022. All government-funded projects will be subject to standard processes, such as contracted milestones, to ensure value for money.

Attachment A: National Infrastructure Investment Pipeline – Change from PEFO

Table 1: Impact of Government decisions on the infrastructure investment pipeline

Funding allocation	PEFO 2022 2022-23 TO 2031-32 ($ million)	October Budget 2022-23 TO 2031-32 ($ million)
Infrastructure Investment Program grant funding	84,804.4	92,904.9
Financial assistance grants (Untied local road grants)	9,742.5	10,140.7
Total equity allocations	17,303.0	18,100.8
Other infrastructure investments	2,597.2	1,854.7
Total investment allocation without contingent liabilities	**114,447.1**	**123,001.1**
Contingent liabilities (East West Link in Victoria and Perth Freight Link)	5,160.0	0.0
Total investment allocation	**119,607.1**	**123,001.1**

Source: Figures have been provided the *Department of Infrastructure, Transport, Regional Development, Communications and Arts.*

Table 2: Total Infrastructure Investment Pipeline as at October Budget 2022-23

	Forward Estimates ($m)	10 Year Total ($m)
Funding Allocation	**2022-23 to 2025-26**	**2022-23 to 2031-32**
Infrastructure Investment Program	**55,077.9**	**92,904.9**
Grant funding under the Infrastructure Investment Program includes payments to states for projects and subprograms, payments to the Australian Rail Track Corporation and non-state entities for infrastructure projects.		
Financial Assistance Grants (untied local road grants)	**3,177.6**	**10,140.7**
Equity Investment	**15,082.3**	**18,100.8**
Equity investment includes Melbourne to Brisbane Inland Rail, Western Sydney Airport, Moorebank Intermodal Terminal and the Victorian Intermodal Terminal.		
Other Infrastructure Investments	**1,854.7**	**1,854.7**
Grant funding for other infrastructure investments includes the Local Roads and Community Infrastructure Program, the Inland Rail Interface Improvement Program and Supplementary Local Roads funding to South Australia.		
Total Investment	**75,192.5**	**123,001.1**

Attachment B: Funding profiles for Infrastructure Measures

Table 3: Funding Profiles for Infrastructure Measures

($m) UCB	2022-23	2023-24	2024-25	2025-26	Total FEs	Total
Building a Better Future Through Considered Infrastructure Investment						
Additional Infrastructure Investment						
Australian Capital Territory	0.0	0.0	0.0	0.0	**0.0**	**0.0**
New South Wales	-133.0	-169.1	-211.8	-220.7	**-734.6**	**-1,410.8**
Northern Territory	-40.0	-45.0	-30.0	-30.0	**-145.0**	**-550.0**
Queensland	-2.0	-52.0	-120.2	-295.0	**-469.1**	**-2,071.3**
South Australia	-30.0	-40.0	-45.0	-45.0	**-160.0**	**-460.0**
Tasmania	-10.0	-23.0	-17.0	-15.0	**-65.0**	**-78.0**
Victoria	-15.0	-42.8	-451.5	-1,028.5	**-1,537.8**	**-2,566.3**
Western Australia	-58.5	-67.5	-34.6	-41.0	**-201.6**	**-634.8**
National Programs	5.452	-5.431	-14.1	-274.1	**-288.1**	**-348.1**
Total additional investment	**-283.1**	**-444.7**	**-924.1**	**-1,949.3**	**-3,601.2**	**-8,119.2**
Re-profile						
Total	2,826.1	4,442.0	1,800.0	-2,542.3	**6,525.9**	**-2,712.4**
Savings						
Infrastructure Investment Program	104.7	313.1	364.7	343.6	1,126.2	**1,308.2**
Urban Congestion Fund	217.1	266.7	91.5	95.5	670.8	**1,457.4**
National Faster Rail agency	1.2	2.6	2.6	2.6	9.0	**9.0**
Total	**323.1**	**582.4**	**458.8**	**441.7**	**1,805.9**	**2,774.6**
Total Measure Impact	**2,866.1**	**4,579.6**	**1,334.7**	**-4,049.8**	**4,730.6**	**-8,056.9**
Other Infrastructure and Transport Measures						
Aviation Measures	-31.6	-68.3	-40.0	0.0	**-139.9**	**-139.9**
Tourist and Heritage Rail	0.0	-1.6	-1.7	-1.7	**-5.1**	**-6.9**
2032 Olympic Games	-1.9	-2.5	-2.3	-2.3	**-9.0**	**-24.7**
Driving the Nation - (Real-World Testing of Vehicle Efficiency)	-0.2	-0.3	-3.5	-3.5	**-7.5**	**-7.5**
Strategic Fleet	-6.3	0.0	0.0	0.0	**-6.3**	**-6.3**
Total	**-40.0**	**-72.7**	**-47.5**	**-7.5**	**-167.7**	**-185.2**
Heavy Vehicle Road User Charge						
Treasury	-38.3	-57.5	-59.8	-60.0	**-215.7**	**-215.7**
Total	**-38.3**	**-57.5**	**-59.8**	**-60.0**	**-215.7**	**-215.7**

Attachment C: State and Territory projects – new spending

Table 4: 10-Year total new funding by State and Territory

	NSW[1]	Vic	Qld	SA	WA	Tas	NT	ACT	National[2]	Total
Project funding										
Funding ($m)	1,411	2,566	2,071	460	635	78	550	0	330	8,101
No. projects	25	13	16	5	8	6	6	3	2	84
State and Territory shares										
% of new funding	17	32	26	6	8	1	7	0	4	100
% of total no. projects	30	15	19	6	10	7	7	4	2	100

Notes:
1) Includes $500 million for High-Speed Rail Corridors
2) Includes $80 million for Heavy Vehicle Rest Areas Program and $250 million Local Roads and Community Infrastructure Program

Joint Media Release

The Prime Minister and the Minister for Infrastructure, Transport, Regional Development and Local Government announced $9.6 billion in additional funding in a joint media release on 16 October 2022. Table 5 further disaggregates that additional resourcing by State and Territory.

Table 5: Additional resourcing by State and Territory

State	New IIP projects ($m)	Existing IIP projects ($m)	Other programs ($m)	Announced total[1] ($m)
New South Wales	858	140	0	**1,000**
Victoria	2,570	0	0	**2,570**
Queensland	1,270	190	110	**1,570**
South Australia	460	200	0	**660**
Western Australia	635	35	0	**670**
Tasmania	78	493	114	**685**
Northern Territory	550	0	1,940	**2,500**
Total				**9,600**

Notes: 1) Totals were announced in the media release and figures may not add due to rounding.

IMPROVEMENTS IN CLIMATE TRANSPARENCY IN THE OCTOBER 2022-23 BUDGET

Headline Statement

- This Budget includes an increased focus on climate change with discussion of risks and opportunities and a new approach to reporting climate spending.

Key points

Climate reporting in the October 2022 Budget

- This Budget takes a more holistic approach to climate reporting by:
  - Acknowledging the risk climate change poses to the economic outlook
  - Outlining the uncertain impacts climate change will have on our fiscal position
  - Providing transparency of climate spending across portfolios
  - Reporting on climate-related indicators of progress, alongside measures like GDP

What is the total climate-related expenditure in this Budget?

- Table 3.7 in Budget Statement 3 (Fiscal Strategy and outlook) in Budget Paper 1 highlights key Government climate-related expenditure in this Budget to 30 June 2030 (extracted in Attachment A).

- There is over $24.9 billion of climate-related expenditure in this Budget (to 30 June 2030) across four categories:
  - **Supporting the transformation to net-zero** – reducing emissions and investing in the opportunities presented by a low-carbon economy.
  - **Adapting to climate change and improve climate resilience** – spending to support Australia manage the physical impacts of climate change.
  - **Re-establishing our international climate leadership** – International climate engagement, spending to support how we engage through international fora and with other jurisdictions.

- **Building Australian Government capability** – Governance and institutions, investing in the capabilities of Government to ensure it effectively delivers on its objectives and enable a national approach on climate change.

- The aggregate expenditure figure does not include ongoing expenditure that was initiated in previous years, or new non-financial measures.
- Future budgets will build on this approach, better incorporating ongoing spending and improving the sophistication of categorisation. This will take time due to the complexities involved.
  - Treasury developed the new approach to identifying and classifying climate-related expenditure in consultation with the Department of Finance and the Department of Climate Change, Energy, the Environment and Water. Initial discussions were also held with some other agencies.
  - Treasury will undertake further development of the methodology in consultation with other agencies.

How does the reporting of climate spending in this Budget differ from past Budgets?

- Budgets between 2014-15 and March 2022-23 included a climate spending section as part of the Debt Statement.
  - The section included a table showing select Government spending on climate initiatives, a table showing this spending as a proportion of total debt, and text highlighting selected measures related to climate change.
  - The climate spending figure was not disaggregated and did not represent a complete record of climate spending.
- This Budget replaces the climate spending section of the Debt Statement with new content in Budget Statement 3, along with a discussion of the risks (fiscal, transition and physical) and opportunities of climate change.
- Budget Statement 3 includes Table 3.7 which summarises key government spending on climate across four categories.
  - These categories provide a simple framework for understanding why each measure counts as climate spending.
  - The table is replicable as it aligns with figures in other Budget documents.

How is climate incorporated in other October 2022-23 Budget Statements?

- Climate features in the following Budget Statements in Budget Paper 1:
  - **Budget Statement 4 (Measuring What Matters)** – discusses the importance of a stable climate and healthy environment to wellbeing and discusses potential indicators, such as emissions, to understand the climate impact on quality of life; and
  - **Budget Statement 9 (Statement of Risks)** – provides information on how climate change could affect the Budget and notes that specific risks will be included in the future when their potential impact on the Budget exceeds the materiality threshold over the forward estimates.

Policy commitments

- The table at Attachment A summarises the Government's key climate spending commitments in this Budget.
- One of the categories focuses on building the Australian Government's climate capability.
  - The Government has committed the APS to reach net zero emissions by 2030 and will restart emissions reporting for public sector entities.
  - It is also rebuilding Treasury's climate economic modelling capabilities and restoring the Climate Change Authority.
- Increased transparency of climate in the Budget complements the Government's other key accountability mechanism, the Annual Climate Change Statement to Parliament.

Background

- Climate change was included in the Debt Statement following an agreement between the Australian Greens and the former Government.
  - The approach was criticised as opaque and confusing.
    - The climate spending table in the Debt Statement did not present a complete record of climate-related expenditure. It primarily represented spending by the Clean Energy Finance Corporation (CEFC), the Clean Energy Regulator (CER) and the Australian Renewable Energy Association (ARENA).
    - The text accompanying the table highlighted selected policy measures relating to climate change.
    - It was unclear what was and was not included as climate spending, and it was difficult to replicate the table using figures in other Budget papers.
- The *Climate Change Act 2022* legislates emissions reduction targets, the role of the Climate Change Authority, and mandates the Annual Climate Change Statement to Parliament.
  - The Annual Statement will cover progress towards achieving targets and the effectiveness of the Government's climate policies in meeting emission reduction targets.

ATTACHMENT A – KEY GOVERNMENT EXPENDITURE ITEMS ON CLIMATE IN BUDGET PAPER 1, BUDGET STATEMENT 3 (TABLE 3.7)

Value of key climate-related spending measures over 2022-23 to 2029-30

Climate-related spending	**Committed Funding**
Total[(a)]	$m 24,917.4
Supporting the transformation to net zero	**23,478.7**
Payments	
Powering Australia – Establishing the Powering the Regions Fund	1,900
Powering Australia – Driving the Nation Fund – establishment	275.4
Powering Australia – Community Batteries for Household Solar	224.3
Support for Energy Security and Reliability[(b)]	137.1
Carbon Capture Technologies for Net Zero and Negative Emissions – establishment	134.7
Building a Better Future through considered Infrastructure Investment - Electric Bus Charging Infrastructure in Perth	125.0
Powering Australia – Solar Banks	102.2
New Energy Apprenticeships	94.8
Powering Australia – Rewiring the Nation[(b)]	90.5
First Nations Community Microgrids Program	83.8
Townsville Hydrogen Hub	71.9
Supporting Australian Industry (selected)[(c)]	65.6
Energy Efficiency Grants for Small and Medium Sized Enterprises	62.6
Powering Australia – Commonwealth Fleet Leases[(b)]	39.9
Carbon Farming Outreach Program	20.3
Support for the Australian Energy Regulator to Implement Regulatory Changes – Energy Ministers Post 2025 Reforms[(b)]	16.1
Powering Australia – Driving the Nation Fund – establishment - On-road emissions and fuel consumption testing	14.0
New Energy Skills Program	9.6
Powering Australia – Development of Australia's Seaweed Farming	8.1
Enabling a Low Emissions Future and Supporting Green Markets	2.2
Establishing Offshore Renewables in Australia	0.5
Balance sheet investments	
Powering Australia – Rewiring the Nation	20,000.0
Adapting to climate change and improving climate resilience	**948.3**
Payments	
Disaster Ready Fund	630.4
Reef 2050 Long-term Sustainability Plan – implementation	96.9
Shovel Ready Catchment and Reef Restoration Projects	91.8
Murray-Darling Basin – compliance and science	51.9
Plan for Disaster Readiness – rising insurance premiums	25.3
Improving Drought Readiness, Resilience and Preparedness	20.8
Engaging with First Nations Peoples on Climate Change	15.9
Coastal Marine Ecosystems Research Centre (Central Queensland University)	15.3

Value of key climate-related spending measures over 2022-23 to 2029-30 (continued)

Climate-related spending	Committed Funding $m
Re-establishing our international climate leadership	**295.8**
Payments	
Additional Official Development Assistance – Indonesia climate and infrastructure partnership	200.0
Australian Infrastructure Financing Facility for the Pacific – expansion – Pacific Climate Infrastructure Financing Partnership	50.0
Australia's International Climate Step-Up	45.8
Building Australian Government climate capability	**194.6**
Payments	
Restoring the Climate Change Authority and Delivering Annual Climate Change Statements to Parliament[b]	101.5
Restoring Treasury's Capability on Climate Risks and Opportunities – modelling and reporting standards[b]	63.6
Commonwealth Climate Risk and Opportunity Management Program	9.3
An Ambitious and Enduring APS Reform Plan – APS Net Zero	7.1
Prime Minister and Cabinet – additional resourcing – National Framework for Economic Transformation	6.9
Establishing a National Health Sustainability and Climate Unit to Inform the National Health Response to Climate Change	6.2
Total[a][d]	**24,917.4**

(a) This table summarises the Government's key climate-related spending commitments in this Budget to 30 June 2030. Some measures extend beyond 30 June 2030 – the total spending commitment covering the entire duration of these measures is set out in Budget Paper No. 2, Budget Measures 2022–23.

(b) In this table, the spending commitment for this measure includes both initial and ongoing funding to 30 June 2030. Due to the inclusion of ongoing funding to 30 June 2030, the spending commitment presented in this table may differ from the total spending commitment set out in Budget Paper No. 2, Budget Measures 2022–23.

(c) This includes components for supporting the low emissions transition of the Nyrstar Hobart zinc smelter, Ingham's Carbon Zero Certified Business Model, and feasibility studies for the creation of Whaleback Energy Park and upgrades at the Norske Skog Boyer mill.

(d) Measures may not add due to rounding.

ADVANCING GENDER EQUALITY

Headline Statement

- Treasury is supporting the Government's commitment to advance gender equality as a national priority.

Key Points

- Treasury is involved in a range of activities to support the Government's agenda, including:
  - supporting the Treasurer as Chair of the Council on Federal Financial Relations, which has women's economic participation and security as a priority area
  - contributing to the work of the recently established Women's Economic Equality Taskforce and collaborating with the Office for Women
  - applying a gender lens to forthcoming work, including the Employment White Paper, and
  - participating in the Gender Data Steering Group, which is convened by the Department of the Prime Minister and Cabinet and the ABS.
- Treasury also led the development of the *October 2022-23 Women's Budget Statement*, with significant contributions from other agencies, including the Office for Women and the Department of Social Services.
- The Women's Budget Statement includes a range of research and analysis on issues related to women's workforce participation, the gender pay gap, violence against women and health and wellbeing.
- Treasury has also been working with the Department of Education on the terms of reference for both the Australian Competition and Consumer Commission (ACCC) inquiry into the drivers of prices of child care and the Productivity Commission's review into early education and care sector. *[Questions about the ACCC inquiry should be referred to Markets Group and Macroeconomic Group for the PC review]*

2022-23 October Budget Commitments [See Attachment A for further details]

- Key Budget measures to advance gender equality include:
  - **$4.7 billion** over four years from 2022-23 to deliver cheaper early childhood education and care, including $4.6 billion to increase Child Care Subsidy rates from July 2023 for approximately 1.26 million families (96 per cent of families who use child care), with no family worse of.
  - **$531.6 million** over four years from 2022-23 to progressively expand Paid Parental Leave from 20 to 26 weeks by July 2026.
- The Budget also includes several initiatives to complement proposed pay equity reforms to the workplace relations system currently before the parliament (Fair Work Legislation Amendment (Secure Jobs, Better Pay) Bill 2022).
- On women's safety, the Government will deliver **$1.7 billion** over six years ($1.5 billion over four years) to support implementation of the new *National Plan to End Violence Against Women and Children 2022–32*.
  - This includes funding to implement Respect@Work recommendations.

Background

October 2022-23 Women's Budget Statement

- The most recent Women's Budget Statement has an overarching theme of advancing gender equality and includes three specific focus areas: women's economic equality; ending violence against women; and gender equality, health and wellbeing.
- The Statement was developed within Treasury, with contributions from a wide range of agencies across the Commonwealth, as well as the Workplace Gender Equality Agency. Secondees from the Office for Women, Department of Employment and Workplace Relations, Department of Social Services and the Department of Health joined Treasury to assist with drafting. The Statement also included an overview of gender impact assessments that the Office for Women undertook on selected policy proposals throughout the Budget.

Women's Economic Equality Taskforce

- The independent Women's Economic Equality Taskforce has been established to advise the Government on future investments and priorities – including through the development of the National Gender Equality Strategy. The Taskforce is chaired by Sam Mostyn AO, president of Chief Executive Women, and includes 12 other eminent women.
- It will advise on the development of gender responsive budgeting and the National Strategy to Achieve Gender Equality. It will also examine the optimum 'use it or lose it' Paid Parental Leave model.
- As the Taskforce only met for the first time on 21 September 2022, it did not have input to the most recent Women's Budget Statement hat stage. Treasury officials have met with the Taskforce and will continue to discuss how best to collaborate on next steps.

Key economic statistics

Metric	Reference period; source	Men	Women	Difference (women relative to men)
Workforce participation rate	September 2022; ABS Labour Force	71.0 per cent	62.3 per cent	-8.7 percentage points
Unemployment rate	September 2022; ABS Labour Force	3.5 per cent	3.6 per cent	+0.1 percentage point
Underemployment rate	September 2022; ABS Labour Force	5.0 per cent	7.1 per cent	+2.1 percentage points
Average full-time earnings, base salaries	May 2022; ABS Average Weekly Earnings	$1872.90 per week	$1609.00 per week	$263.90 per week; 14.1 per cent This is the national **gender pay gap**.

See Attachment A for further details about Budget measures.

Attachment A

Overview of key measures from Women's Budget Statement

Plan for Cheaper Child Care *[Lead agency: Department of Education]*

- The October Budget provides $4.7 billion over four years from 2022-23 (and $1.7 billion per year ongoing) to deliver cheaper child care. This includes $4.6 billion to increase Child Care Subsidy rates from July 2023 for all eligible families earning less than $530,000.
  - This will make child care more affordable for about 96 per cent of families who use formal care (1.26 million families); no families will be worse off.
- Families will continue to receive the existing higher subsidy rates of up to 95 per cent for any second and subsequent children in care aged 5 and under.
- Treasury estimates that the changes will increase hours worked by women with young children by up to 1.4 million hours per week in 2023-24, equivalent to an extra 37,000 full-time workers.
  - Questions about modelling of the participation and productivity effects should be referred to Macroeconomic Group.

Expanding Paid Parental Leave *[Lead agency: Department of Social Services] [Questions about modelling of the participation and productivity effects should be referred to Macroeconomic Group]*

- The October Budget provides $531.6 million over four years from 2022-23 to progressively expand the Paid Parental Leave scheme from 20 to 26 weeks by July 2026.
- A 'use it or lose it' component will remain to encourage more fathers and partners to take leave.
  - The Women's Economic Equality Taskforce will examine the optimum 'use it or lose it' model.
  - Single parents will be able to take the full number of weeks each year.
- Gender equality under the scheme will also be improved by removing the current requirement that the primary claimants of parental leave must be the birth parent.
- Eligibility will be expanded from 1 July 2023 through the introduction of a $350,000 family income test, which will allow parents to access leave if they exceed the individual income limit of $156,647.
- Paid Parental Leave is paid at the rate of the national minimum wage (currently $812.60 per week).

Women's safety funding *[Lead agencies: Office for Women and Department of Social Services]*

- The Government is delivering $1.7 billion over six years ($1.5 billion over four years) from 2022-23 to support women's safety and implement the new *National Plan to End Violence Against Women and Children 2022–32* (released on 17 October 2022).
- This includes:
  - $1.3 billion in March 2022 Budget measures, with variations to some initiatives.
  - Approximately $400 million in new funding, including:
    - : $169.4 million to fund 500 new frontline service and community workers to support women in crisis
    - : $100 million of investment returns from the Housing Australia Future Fund to fund crisis and transitional housing options for women and children (provided within five years)
    - : $65 million for consent and respectful relationship education
    - : $57.6 million to implement Respect@Work recommendations

- : $3.4 million to provider advice to small business on the proposed 10 days of paid family and domestic violence leave in the *Fair Work Act 2009*
- : $3 million for the National Family Violence Prevention Legal Services Forum to deliver legal and non-legal support to First Nations communities

Gender equity workplace relations reforms *[Lead agency: Department of Employment and Workplace Relations]*

- The Fair Work Legislation Amendment (Secure Jobs, Better Pay) Bill 2022 – introduced into the parliament on 27 October 2022 – would amend the *Fair Work Act 2009* to introduce the following pay equity reforms:
  - Introduce a statutory equal remuneration principle to make it easier for women in low paid sectors to make pay equity claims.
  - Require the Fair Work Commission to consider gender equity when it sets and adjusts minimum wages.
- The October Budget provides $20.2 million to establish two new expert panels in the Fair Work Commission on Pay Equity and the Care and Community Sector to provide expertise in assessing pay equity claims and award variations.
- The Bill would also amend the Fair Work Act to expressly prohibit sexual harassment in the workplace. The October Budget provides the Fair Work Commission and Fair Work Ombudsman $15.1 million to promote compliance and enforcement of this prohibition.

JOBS AND SKILLS SUMMIT AND EMPLOYMENT WHITE PAPER

Headline Statement

- The Jobs and Skills Summit brought together over 140 Australians, including unions, employers, civil society and governments, to address shared economic challenges.
- The Summit was the start of a national conversation that will inform the Government's Employment White Paper.
- As a result of the consensus reached at the Summit, 36 immediate actions are being taken to build a bigger, better-trained, and more productive workforce.
- The Summit also laid out priorities for further work and future action. These are outlined in the Jobs and Skills Summit Outcomes document published on 2 September 2022.
- A multi-agency Taskforce has been established in Treasury to deliver the Summit and prepare the Employment White Paper.

Summit Key Points

- Ministers held over 100 roundtables to inform discussions at the Summit.
- Treasury's Employment Taskforce also engaged with a range of organisations including representatives from unions, business and civil society.
- Summit participants were invited by the Treasurer, in close consultation with the Prime Minister and other ministers.
    - Participants were selected to ensure diverse views, sectors, backgrounds and experiences of the labour market were represented at the Summit.
- 146 participants from unions, employers, civil society and governments attended the Summit (see Attachment A).
    - The invitation list included First Nations Australians, people with disability, union representatives (32), business peak bodies (27) and businesses (23).

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- The Treasurer invited representation from crossbench MPs and party leaders.
- Attendees came from around the country and a number of attendees were based in regional or remote areas of Australia.

- The Summit program was developed by the Treasurer in consultation with the Prime Minister and coordinating ministers. It included 15 sessions over 2 days.
  - Coordinating ministers were responsible for designing their sessions at the Summit, including speaker selection. Sessions at the Summit were led by Ministers Gallagher, Burke, Rishworth, O'Connor, O'Neil, Husic and McAllister (on behalf of Minister Bowen).
  - The program featured 53 speakers from diverse backgrounds, along with the Prime Minister, Treasurer and coordinating ministers.
- As at 7 November 2022, we expect the total direct cost of the Summit to be less than $280,000.
- Funding of $4.7m has been provided in the 2022-23 Budget (PBS p22) for the work of the Employment Taskforce, including for delivery of the Summit.

Summit Outcomes

- The Summit resulted in agreement to 36 priorities for immediate action and 37 areas for further work (see Outcomes Document at Attachment B).
  - Informed by the significant consultations undertaken with stakeholders in advance of the Summit, ministers considered and agreed on parameters for a range of possible outcomes, which were then settled during the Summit and reflected in the Outcomes Document.
- Attachment C summarises how Summit outcomes are presented in the 2022-23 Budget. There is $76.5 million in the Budget for immediate outcomes from the Summit, in addition to:
  - $997 million including for major skills commitments partially offset by $448 million extra revenue
  - $15.4 million for areas of further work.
- Summit outcomes are being progressed by relevant departments and ministers with funding appropriated accordingly.

Employment White Paper

- The White Paper will build on the outcomes of the Jobs and Skills Summit and have an overarching focus on the objectives of full employment and productivity growth for the benefit of all Australians, along with women's economic participation and equality.
- The White Paper Terms of Reference were published (to the Treasury website) on 29 September 2022.
- Treasury called for public submissions in response to the White Paper Terms of Reference on 29 September 2022. At 7 November 2022, 11 submissions had been received. Submissions close on 30 November 2022.

Key Dates

Treasury Employment Taskforce established	June 2022
Treasurer announced date and location of Summit	11 July 2022
Summit invites commenced (sent progressively)	10 August 2022
Issues paper published	17 August 2022
Ministerial roundtables held	July – August 2022
Jobs and Skills Summit	1-2 September 2022
White Paper Terms of Reference published White Paper submissions opened	29 September 2022
White Paper submissions close	30 November 2022
Anticipated White Paper publication	September 2023

Australian Government

Jobs + Skills Summit

Jobs and Skills Summit

1-2 September 2022

Participants

	Name	Organisation
1	Dylan Alcott	Australian of the Year
2	Mohammad Al-Khafaji	Federation of Ethnic Communities' Councils of Australia
3	The Hon Daniel Andrews MP	Victorian Government
4	Luke Anear	SafetyCulture
5	Julia Angrisano	Finance Sector Union
6	John Azarias	The Lysicrates Foundation
7	Cr Anne Baker	Isaac Regional Council
8	Adam Bandt MP	Leader of the Greens
9	Brad Banducci	Woolworths
10	Dr Alison Barnes	National Tertiary Education Union
11	Andrew Barr MLA	Australian Capital Territory Government
12	Karen Batt	Community and Public Sector Union
13	Dale Beasley	SA Unions

14	Debby Blakey	HESTA Super Fund
15	Anna Bligh AC	Australian Banking Association
16	Professor Jeff Borland	University of Melbourne
17	Poul Bottern	National Australian Apprenticeship Association
18	Alexi Boyd	Council of Small Business Organisations Australia
19	Saviour Buhagiar	Uniting NSW/ACT
20	Annie Butler	Australian Nursing and Midwifery Federation
21	Simon Butt	Master Builders Australia
22	Christy Cain	Construction Forestry Maritime Mining and Energy Union
23	Steven Cain	Coles
24	Debra Cerasa	Jobs Australia
25	Distinguished Professor Sara Charlesworth	RMIT University
26	Scott Charlton	Transurban
27	Melinda Cilento	Committee for Economic Development of Australia
28	Michael Clifford	Queensland Council of Unions
29	Greg Combet AM	Industry Super Australia
30	Scott Connolly	Australian Council of Trade Unions
31	Tania Constable PSM	Minerals Council of Australia

32	Christine Cooper	Independent Education Union
33	Professor Allan Dale	Cooperative Research Centre for Developing Northern Australia
34	Helen Dalley-Fisher	Equality Rights Alliance
35	Jon Davies	Australian Constructors Association
36	Emma Dawson	Per Capita
37	Robyn Denholm	Tech Council of Australia
38	Elly Desmarchelier	Every Australian Counts
39	Georgie Dent	The Parenthood
40	Mark Diamond	Rail, Tram and Bus Union
41	Jenny Dodd	TAFE Directors Australia
42	Lin Hatfield Dodds	Benevolent Society
43	Melissa Donnelly	Community and Public Sector Union
44	Distinguished Professor Alan Duncan	Bankwest Curtin Economics Centre
45	Adrian Dwyer	Infrastructure Partnerships Australia
46	Gerard Dwyer	Shop, Distributive and Allied Employees' Association
47	Ben Eade	Manufacturing Australia
48	Brent Eastwood	JBS Foods
49	Terese Edwards	National Council of Single Mothers & their Children

50	Sam Elsom	Sea Forest
51	Scott Farquhar	Atlassian
52	Stephen Ferguson	Australian Hotels Association
53	Dr Cathy Foley AO PSM	Office of the Chief Scientist
54	Steve Fordham	Blackrock Industries
55	Dr Andrew Forrest AO	Fortescue Metals Group, The Minderoo Foundation
56	Distinguished Professor Anthony Forsyth	RMIT University
57	Andrew Fraser	Griffith University
58	The Hon Natasha Fyles MLA	Northern Territory Government
59	Pat Garcia	Catholic Health Australia
60	Professor Ross Garnaut	University of Melbourne and Zen Energy
61	Dr Ben Gauntlett	Australian Human Rights Commission
62	Professor Sue Gordon	Flinders University
63	John Grimes	Smart Energy Council
64	Correna Haythorpe	Australian Education Union
65	Mike Henry	BHP
66	Luke Hilakari	Victorian Trades Hall Council
67	Leanne Ho	Economic Justice Australia

68	Carolyn Hodge	People with Disability Australia
69	Christine Holgate	Toll Group Express
70	Dr Joanna Howe	University of Adelaide
71	Lauren Hutchins	Health Services Union
72	Catriona Jackson	Universities Australia
73	Kate Jenkins	Australian Human Rights Commission
74	Fiona Jose	Cape York Institute
75	Matt Journeaux	Australasian Meat Industry Employees Union
76	Alan Joyce AC	Qantas Group
77	Michael Kaine	Transport Workers Union
78	Tal Karp	The Y Australia
79	Tim Kennedy	United Workers Union
80	Alison Kitchen	KPMG
81	Dr Sharlene Leroy-Dyer	Australian Council of Trade Unions
82	The Hon David Littleproud	Leader of the Nationals
83	Megan Lilly	Australian Industry Group
84	Catherine Livingstone AO	Expert
85	Jenny Macaffer	Adult Learning Australia

86	Edwina MacDonald	Australian Council of Social Service
87	Erin Madeley	Media, Entertainment and Arts Alliance
88	The Hon Peter Malinauskas MP	South Australian Government
89	Professor Shelley Mallett	Brotherhood of St. Laurence
90	Jill McCabe	Professionals Australia
91	Professor John McCallum	National Seniors Australia
92	Professor Shae McCrystal	University of Sydney
93	Samantha McCulloch	APPEA
94	The Hon Mark McGowan MLA	Western Australian Government
95	Andrew McKellar	Australian Chamber of Commerce and Industry
96	Sally McManus	Australian Council of Trade Unions
97	Sarah McNamara	Australian Energy Council
98	Wayne Miller	Ceduna Aboriginal Corporation
99	Carmel Monaghan	Ramsay Health Care
100	Mark Morey	Unions NSW
101	Sam Mostyn AO	Chief Executive Women
102	John Mullen	Telstra
103	Jessica Munday	Unions Tasmania

104	Steve Murphy	Australian Manufacturing Workers' Union
105	Christine Nixon AO APM	Royal Australian College of General Practitioners
106	Liam O'Brien	Australian Council of Trade Unions
107	Michele O'Neil	Australian Council of Trade Unions
108	Teri O'Toole	Flight Attendants Association of Australia
109	Kelly O'Shanassy	Australian Conservation Foundation
110	Margy Osmond	Tourism & Transport Forum
111	Samantha Page	Early Childhood Australia
112	The Hon Annastacia Palaszczuk MP	Queensland Government
113	Kellie Parker	Rio Tinto
114	The Hon Dominic Perrottet MP	NSW Government
115	Yasmin Poole	Youth advocate
116	Robert Potter	Australian Services Union
117	Anthony Pratt	Visy
118	Mina Radhakrishnan	:Different
119	Tim Reed	Business Council of Australia
120	Jade Ritchie	Unions NT
121	Dr Abul Rizvi PSM	Expert

122	The Hon Jeremy Rockliff MP	Tasmanian Government
123	Luke Rycken	Australian Youth Affairs Coalition
124	Paul Schroder	AustralianSuper
125	Cr Linda Scott	Australian Local Government Association
126	Rob Scott	Wesfarmers
127	Tom Seymour	PricewaterhouseCoopers
128	Alex Simpson	Westcoast Renewable Energy
129	Fiona Simson	National Farmers' Federation
130	Sally Sinclair	National Employment Services Association
131	Carolyn Smith	Unions WA
132	Professor John Spoehr	Flinders University, Factory of the Future
133	Jodie Taylor	Supply Nation
134	Kane Thornton	Clean Energy Council
135	Kasey Tomkins	Unions ACT
136	Pat Turner	Coalition of Peaks
137	Ainslie van Onselen	Chartered Accountants Australia and New Zealand
138	Daniel Walton	Australian Workers' Union
139	Kate West	Arup

140	Jennifer Westacott AO	Business Council of Australia
141	Troy Williams	Independent Tertiary Education Council Australia
142	Innes Willox	Australian Industry Group
143	Danielle Wood	The Grattan Institute
144	Michael Wright	Communications, Electrical and Plumbing Union
145	Micky Wunungmurra	Arnhem Land Progress Aboriginal Corporation
146	Paul Zahra	Australian Retailers Association

Three additional seats were available for crossbenchers to utilise.

Australian Government

Jobs + Skills Summit

Jobs + Skills Summit

Outcomes

1–2 September

Jobs and Skills Summit September 2022 – Outcomes

The Jobs and Skills Summit brought Australians together to work constructively on the challenges and opportunities facing the Australian labour market and economy. As a result of the consensus reached at the Summit, immediate actions will be taken to build a bigger, better trained, and more productive workforce – to help deliver secure jobs with growing wages, boost incomes and living standards and create more opportunities for more Australians. The Summit has also laid out priorities for further work and future action.

Key to these outcomes are the objectives of full employment and growing productivity for the benefit of all Australians – they are at the centre of the Government's economic agenda. This also means embedding women's economic participation and equality as a key economic imperative. We will work towards reducing barriers to employment and advancement so that all Australians benefit from a strong economy.

A better skilled, better trained workforce

Immediate actions

The Government and states and territories agreed to:

- A $1 billion one-year National Skills Agreement that will provide additional funding for fee-free TAFE in 2023, while a longer-term agreement that drives sector reform and supports women's workforce participation is negotiated
- Accelerate the delivery of 465,000 additional fee-free TAFE places, with 180,000 to be delivered next year, and with costs shared with the states and territories on a 50:50 basis

The Government will:

- Legislate Jobs and Skills Australia as a priority based on tripartite governance
- Establish the Jobs and Skills Australia work plan in consultation with all jurisdictions and stakeholders, to address workforce shortages and build long term capacity in priority sectors

Areas for further work

The Government and states and territories will:

- Kick-start skills sector reform and restart discussions for a 5-year National Skills Agreement based on guiding principles agreed by the National Cabinet and Skills Ministers
- Develop a comprehensive blueprint with key stakeholders to support and grow a quality VET workforce

The Government, in partnership with states, territories and stakeholders will:

- Reinvigorate foundation skills programs to support workers and vulnerable Australians to gain secure employment choices
- Explore options to improve the apprenticeship support system and drive-up completions
- Include specific sub-targets for women in the Australian Skills Guarantee and ensure

Complementary existing commitments

- $1.2 billion Future Made in Australia Skills Plan
- Up to 20,000 additional Commonwealth-supported university places for under-represented groups in areas of skills shortages
- Establish an Australian Universities Accord to drive lasting reform at our universities
- Boost quantum technology research and education
- One in ten workers on major government projects to be an apprentice, trainee or cadet through the Australian Skills Guarantee
- Train 10,000 New Energy Apprentices and fund a New Energy Skills Program
- Establish Jobs and Skills Australia, an independent body to strengthen workforce planning

A better skilled, better trained workforce

Immediate actions	Areas for further work	Complementary existing commitments
• Task Jobs and Skills Australia, once established, to commission a workforce capacity study on the clean energy workforce	the Guarantee includes a focus on the need for digital skills • Work together to reform the framework for VET qualifications and micro-credentials to ensure they are most relevant to labour market needs. Micro-credentials, including work-based learning will be placed in a proper framework and be able to be 'stacked' into full VET qualifications	

Addressing Skills Shortages and Strengthening the Migration System

Immediate actions	Areas for further work	Complementary existing commitments
The Government will: • Increase the permanent Migration Program planning level to 195,000 in 2022-23 to help ease widespread, critical skills shortages • Provide $36.1 million in additional funding to accelerate visa processing and resolve the visa backlog • Increase the duration of post study work rights by allowing two additional years of stay for recent graduates with select degrees in areas of verified skills shortages to strengthen the pipeline of skilled labour in Australia, informed by advice from a working group • Extend the relaxation of work restrictions for student and training visa holders until 30 June 2023 to help ease skills and labour shortages • Widen the remit of the National Housing Infrastructure Facility, making up to $575 million available to invest in social and affordable housing. The funding can be used	The Government will conduct a review of the purpose, structure and objectives of Australia's migration system to ensure it meets the challenges of the coming decade. The Government will also progress work to: • Assess the effectiveness of the skilled migration occupation lists • Expand pathways to permanent residency for temporary skilled sponsored workers • Raise the Temporary Skilled Migration Income Threshold (TSMIT) following broad engagement on equitably setting the threshold and pathway for adjustment • Reform the current labour market testing process following consultation with unions and business • Bring forward a package of reforms to address migration worker exploitation during 2023 • Examine the potential for industry sponsorship of skilled migrants	• Implement the recommendations of the Migrant Workers' Taskforce to tackle migrant worker exploitation • Encourage more migration from our region by reforming the Pacific Australia Labour Mobility scheme and creating a new Pacific engagement visa • Under the one-year National Skills Agreement the Government is providing (unmatched) $50 million to modernise TAFE technology infrastructure and $24 million to support vulnerable students to be successful

Addressing Skills Shortages and Strengthening the Migration System

Immediate actions	Areas for further work	Complementary existing commitments
to partner with other tiers of government and social housing providers, and to attract private capital including from superannuation funds	• Embed a role for Jobs and Skills Australia's analysis of skill shortages in setting priorities of the skilled migration program • Consider policies to address regional labour shortages and how to improve small business access to skilled migration All levels of government will work together to ensure infrastructure, housing and social services are well-planned to meet the needs of a growing population	

Boosting Job Security and Wages, and Creating Safe, Fair and Productive Workplaces

Immediate actions	Areas for further work	Complementary existing commitments
Business, unions and Government committed to work proactively together to: • Strengthen tripartism and constructive social dialogue in Australian workplace relations • Revitalise a culture of creativity, productivity, good faith negotiation and genuine agreement in Australian workplaces • Establish a tripartite National Construction Industry Forum to constructively address issues such as mental health, safety, training, apprentices, productivity, culture, diversity and gender equity in the industry The Government will update the Fair Work Act to create a simple, flexible and fair new framework that: • Ensures all workers and businesses can negotiate in good faith for agreements that benefit them, including small businesses, women, care and community services sectors, and First Nations people	In consultation with unions and business, the Government will: • Consider options to support the Fair Work Commission build cooperative workplace relationships • Consider how to best help employer representatives and unions to improve safety, fairness and productivity in workplaces • Amend relevant legislation to give workers the right to challenge unfair contractual terms • Initiate a detailed consultation and research process on the concept of a living wage, reporting back in late 2023. • Initiate a detailed consultation and research process considering the impact of workplace relations settings (such as rostering arrangements) on work and care, including childcare	• Include gender pay equity and job security in the objects of the Fair Work Act and legislate a statutory equal remuneration principle to improve the way pay equity claims can be advanced under the Fair Work Act • Legislate same job, same pay • Establish two new expert panels in the Fair Work Commission for pay equity and the care and community sector • Prohibit pay secrecy clauses, and give employees a right to disclose their remuneration if they wish • Set an objective test in legislation for determining when a worker is casual • Extend the powers of the Fair Work Commission to include "employee-like" forms of work, allowing it to make orders for minimum standards for new forms of work, such as gig work • Limit the use of fixed-term contracts

Boosting Job Security and Wages, and Creating Safe, Fair and Productive Workplaces

Immediate actions	Areas for further work	Complementary existing commitments
• Ensures workers and businesses have flexible options for reaching agreements, including removing unnecessary limitations on access to single and multi-employer agreements • Allows businesses and workers who already successfully negotiate enterprise-level agreements to continue to do so • Removes unnecessary complexity for workers and employers, including making the Better Off Overall Test simple, flexible and fair • Gives the Fair Work Commission the capacity to proactively help workers and businesses reach agreements that benefit them, particularly new entrants, and small and medium businesses • Ensures the process for agreement terminations is fit for purpose and fair, and sunsets so called 'zombie' agreements	• Consider allowing the Fair Work Commission to set fair minimum standards to ensure the Road Transport Industry is safe, sustainable and viable. • Ensure workers have reasonable access to representation to address genuine safety and compliance issues at work • Consider possible improvements to Modern Awards and the National Employment Standards	• Establish a right to superannuation in the National Employment Standards • Criminalise wage theft • Enhance the Fair Work Act compliance and enforcement framework, including the small claims procedure though increasing civil penalties for breaches to ensure workers' wages are protected • Implement recommendation 28 of the Respect@Work Report by expressly prohibiting sexual harassment in the workplace and enabling the Fair Work Commission to resolve disputes relating to workplace sexual harassment • Restore balance to our Fair Work institutions • Establish the Secure Australian Jobs Code to prioritise secure work in government contracts and ensure that government purchasing power is being used to support

Boosting Job Security and Wages, and Creating Safe, Fair and Productive Workplaces

Immediate actions	Areas for further work	Complementary existing commitments
The Government will also update the Fair Work Act to: • Provide proper support for employer bargaining representatives and union delegates • Provide stronger access to flexible working arrangements and unpaid parental leave so families can share work and caring responsibilities • Provide stronger protections for workers against adverse action, discrimination, and harassment The Department of Employment and Workplace Relations will commence detailed consultations with business and unions on these matters next week.		business that engage in fair, equivalent, ethical and sustainable practices

Promoting Equal Opportunities and Reducing Barriers to Employment

Immediate actions	Areas for further work	Complementary existing commitments
The Government will: • Provide Age pensioners with a temporary upfront $4,000 income bank credit to allow them to work and earn more before their pension is reduced • Strengthen existing reporting standards to require employers with 500 or more employees to commit to measurable targets to improve gender equality in their workplaces • Require businesses with 100 employees or more to publicly report their gender pay gap to the Workplace Gender Equality Agency • Require the Australian Public Service to report to the Workplace Gender Equality Agency and to set targets to improve gender equity in the public service • Strengthen the Respect@Work Council by giving business and unions a permanent seat at the table, along with government and civil	The Government will: • Work with other levels of government to explore further options on place-based approaches that drive co-ordination at the local level and address barriers to employment among disadvantaged groups and the long-term unemployed • Continue to work with stakeholders to expedite the development of new remote and disability employment service models • Work with members of the National Closing the Gap Agreement to examine a Closing the Gap policy partnership on economic participation of Aboriginal and Torres Strait Islander people The Government and states and territories will: • Identify priority areas where government can collaborate to support better outcomes across the early childhood education and	• Introduce gender responsive budgeting, and apply gender impact analysis on decision-making processes, and deliver an annual Women's Budget Statement • Establish a Women's Economic Equality Taskforce to provide independent advice and inform the National Strategy to Achieve Gender Equality • Support to help end family, domestic and sexual violence, including 500 new community sector workers to support women in crisis, including 250 new workers in rural, regional and remote areas • Ten days of paid family and domestic violence leave in the National Employment Standards (legislation introduced on 28 July 2022) • Deliver 4,000 new social housing properties for women and children fleeing family and domestic violence and older women on low incomes who are at risk of homelessness

Promoting Equal Opportunities and Reducing Barriers to Employment

Immediate actions	Areas for further work	Complementary existing commitments
society to support women's safety and respect at work • Put in place a Carer Friendly Workplace Framework which includes a self-assessment tool and learning modules, for businesses to be recognised as a carer friendly workplace • Partner with the Tech Council of Australia to develop and deliver a free national virtual work experience program, which will build awareness of tech careers and support early stage-talent pathways for those who face heightened barriers to employment • Provide additional funding to the ABS to strengthen information on the barriers and incentives to work through the Labour Force Survey The Government will work to improve disability employment outcomes through: • A Visitor Economy Disability Employment pilot to deliver place-based employment outcomes by connecting small businesses,	care (ECEC) system, with a particular focus on workforce shortages • Develop through National Cabinet, a long-term vision for early childhood education and care reform to better support parents' workforce participation as a national priority Government, business, unions and the community to develop a set of best practice principles to guide meaningful work experience opportunities and workplace based mentoring programs for people experiencing disadvantage. The philanthropic sector has committed to partner with government on its Early Years Strategy over ten years, pending co-development of an investment dialogue. The Government will work with the sector, including philanthropic foundations, to create a whole of government approach to improve early childhood development and education	• Increase Child Care Subsidy rates from July 2023 and raising the maximum family income threshold • A Productivity Commission review of the childcare sector and an Australian Competition and Consumer Commission inquiry into childcare prices • Support and, if successful, provide funding to support increases to award wages for aged care workers through the Government's submission at the Fair Work Commission • Develop a whole-of-government Early Years Strategy • A Disability Employment Centre for Excellence to improve ideas and increase capacity among employment services • Replace the Community Development Program with a more effective program • Double the number of Indigenous Rangers to 3,800 and set a gender equality target for rangers

Promoting Equal Opportunities and Reducing Barriers to Employment

Immediate actions	Areas for further work	Complementary existing commitments
employment service providers and jobseekers with disability • Signing a Memorandum of Understanding with the Business Council of Australia to develop an Economic Initiative Pilot aimed at increasing employment and improving career pathways of people with a disability • Better embedding employment in National Disability Insurance Scheme plans, to ensure participants who want to work are supported to do so		• Work with Australia's largest 200 employers on public reporting and improving employment levels of First Nations employees • Set a target to increase First Nations employment in the Australian Public Service to 5 per cent by 2030 • Establish a Select Committee of the House of Representatives to examine the implementation of Workforce Australia

Maximising jobs and opportunities in our industries and communities

Immediate actions	Areas for further work	Complementary existing commitments
The Government will: • Implement a Digital and Tech Skills Compact, with business and unions, to deliver 'Digital Apprenticeships' that will support workers to earn while they learn in entry level tech roles, with equity targets for those traditionally under-represented in digital and tech fields • Deliver 1,000 digital traineeships, in the Australian Public Service, over four years, with a focus on opportunities for women, First Nations people, older Australians, and veterans transitioning to civilian life Companies that sign up to the Compact are expected to commit to employing a proportion of their new employees through a Digital Apprenticeship scheme, once implemented Summit participants supported broader commitments from the business community to boost future technology jobs and training, and	The Government will: • Support clean energy supply chain resilience and jobs growth by increasing Australia's value adding, and clean energy manufacturing industries, including through the National Reconstruction Fund • Review STEM programs to attract and retain more women, First Nations people, Australians in regions, those who are culturally and linguistically diverse, people with a disability and Australians from low socio-economic backgrounds into STEM careers • Examine ways to build scale in local manufacturing The Government, states and territories will agree a common set of principles for an orderly transition to the net zero economy The Government committed to a coordinated approach with industry, unions, local governments and communities to assist	• $15 billion National Reconstruction Fund to create secure well-paid jobs, drive regional development, and invest in our national sovereign capability • Invest in cleaner and cheaper energy through the Powering Australia plan • Provide investment certainty to businesses through legislating Australia's emission reductions targets and delivering stable policies like a reformed safeguard mechanism • $20 billion Rewiring the Nation plan to rebuild and modernise the grid • New Energy Apprenticeships plan to support 10,000 apprenticeships • Work with states and territories on development of a National Energy Workforce Strategy to identify current and future skills gaps in the energy sector, and provide a plan to ensure Australia has the skilled workforce it needs

Maximising jobs and opportunities in our industries and communities

Immediate actions	Areas for further work	Complementary existing commitments
commitments to cross-jurisdictional energy transition workforce planning. The Commonwealth and South Australian Government will co-chair a South Australian Defence Industry Workforce and Skills Taskforce to support delivery of Australia's defence capabilities, including critical maritime capabilities such as frigates and submarines	affected workers and regional communities prosper in a clean energy future The Government will work with investors, including superannuation funds to leverage greater private capital into national priority areas, including housing and clean energy Government, industry and unions will pursue solutions to better skill, attract, protect and retain workers in the agriculture sector through a tripartite agriculture workforce working group	• Establish a First Nations Clean Energy Strategy, through the National Energy Transformation Partnership, co-designed with states and territories • Partner with the Queensland Government to create a Battery Manufacturing Precinct • Improve reporting of climate and nature related financial risks

Note: The list of other complementary government commitments includes some of the key policies announced by the Government during and since the May federal election. It is not intended to provide an exhaustive list of all government commitments in these areas.

Attachment C - Jobs & Skills Summit Outcomes

13 outcomes **across all five of the broad topic areas highlighted by the Summit** are in the Budget, others require legislative change to progress, and/or consultation and collaboration with other parties (i.e., those that require tripartite governance). Some actions do not require Budget funding.

There is no visible progress on 10 outcomes – these are highlighted green in the table.

Outcome heading	Outcome description	Budget Measure
A better skilled, better trained workforce		
National Skills Agreement	A $1 billion one-year National Skills Agreement that will provide additional funding for fee-free TAFE in 2023, while a longer-term agreement that drives sector reform and supports women's workforce participation is negotiated	**107745 – Fee-free TAFE and TAFE Technology Fund**
Delivery of additional fee-free TAFE places	Accelerate the delivery of 465,000 additional fee free TAFE places, with 180,000 to be delivered next year, and with costs shared with the states and territories on a 50:50 basis	**107745 – Fee-free TAFE and TAFE Technology Fund** Around 180,000 fee-free TAFE places will be delivered in 2023 as part of a one-year National Skills Agreement with the states and territories commencing 1 January 2023, which was an outcome of the Jobs and Skills Summit
Legislate Jobs and Skills Australia	Legislate Jobs and Skills Australia as a priority based on tripartite governance	**107644 – Jobs and Skills Australia – Establishment** The Government will provide $12.9 million over 3 years from 2022-23 to establish Jobs and Skills Australia to provide national leadership and advice on Australia's labour market, and skills and training needs. Jobs and Skills Australia will provide data analytic capability and will work in partnership with state and territory governments, industry, employers, unions, and training providers.
Establish the Jobs and Skills Australia work plan	Establish the Jobs and Skills Australia work plan in consultation with all jurisdictions and stakeholders, to address workforce shortages and build long term capacity in priority sectors	*As per above.
Commission a workforce capacity study	Task Jobs and Skills Australia, once established, to commission a workforce capacity study on the clean energy workforce	**107698 -New Energy Skills Program** The Government will provide $9.6 million over 4-5 years from 2022-23 to support a new mentoring program to help train and support new energy apprentices, the development of fit-for-purpose training pathways, and a capacity study by Jobs and Skills Australia to evaluate Australia's workforce needs to transition to a clean energy economy.
Addressing Skills Shortages and Strengthening the Migration System		

Increase permanent Migration Program	Increase the permanent Migration Program planning level to 195,000 in 2022-23 to help ease widespread, critical skills shortages	Detailed composition of 2022-23 permanent Migration Program will be published after 2022-23 October Budget. Migration review – currently finalising terms of reference and appointing eminent people.
Accelerate visa processing	Provide $36.1 million in additional funding to accelerate visa processing and resolve the visa backlog	**107677 – Outcomes of the Jobs and Skills Summit** $42.2 million over two years from 2022-23 for the Department of Home Affairs to increase visa processing capacity and raise awareness of opportunities for high skilled migrants in Australia's permanent Migration Program
Post study work rights for international students	Increase the duration of post study work rights by allowing two additional years of stay for recent graduates with select degrees in areas of verified skills shortages to strengthen the pipeline of skilled labour in Australia, informed by advice from a working group	**In progress** - working group is due to provide advice to Government on 28 October 2022 regarding unresolved policy issues, including the select degrees.
Relaxation of work restrictions for student and secondary training visa holders	Extend the relaxation of work restrictions for student and training visa holders until 30 June 2023 to help ease skills and labour shortages	The Government will extend the relaxation of work restrictions for student visa holders and secondary training visa holders until 30 June 2023.
National Housing Infrastructure facility	Widen the remit of the National Housing Infrastructure Facility, making up to $575 million available to invest in social and affordable housing. The funding can be used to partner with other tiers of government and social housing providers, and to attract private capital including from superannuation funds	**108085 – Safer and More Affordable Housing** Broaden the remit of the National Housing Infrastructure Facility to directly support new social and affordable housing in addition to financing critical housing infrastructure, with no financial impact, as announced at the Jobs and Skills Summit
Boosting Job Security and Wages, and Creating Safe, Fair and Productive Workplaces		
Strengthen tripartism and constructive social dialogue	Strengthen tripartism and constructive social dialogue in Australian workplace relations	The Government will provide $8.9 million over three years to workers and business representatives through reinstating the Productivity, Education and Training Fund (PET Fund) and providing funding to the Safe Work Australia union and employer members.
Revitalise a culture of creativity	Revitalise a culture of creativity, productivity, good faith negotiation and genuine agreement in Australian workplaces	To be progressed through Secure Jobs, Better Pay package, and other workplace relations reforms planned for 2023.
Establish a tripartite National Construction Industry Forum	Establish a tripartite National Construction Industry Forum to constructively address issues such as mental health, safety, training, apprentices, productivity, culture,	**Under consideration.**

	diversity and gender equity in the industry	
Ensures all workers and businesses can negotiate	Ensures all workers and businesses can negotiate in good faith for agreements that benefit them, including small businesses, women, care and community services sectors, and First Nations people	To be progressed through Secure Jobs, Better Pay package.
Negotiate enterprise-level agreements	Allows businesses and workers who already successfully negotiate enterprise-level agreements to continue to do so	To be progressed through Secure Jobs, Better Pay package.
Removes unnecessary complexity for workers and employers	Removes unnecessary complexity for workers and employers, including making the Better Off Overall Test simple, flexible and fair	To be progressed through Secure Jobs, Better Pay package.
Fair Work Commission	Gives the Fair Work Commission the capacity to proactively help workers and businesses reach agreements that benefit them, particularly new entrants, and small and medium businesses	**107677 – Outcomes of the Jobs and Skills Summit** $7.9 million over 4 years from 2022-23 for the Fair Work Commission to support the uptake of enterprise bargaining for small businesses.
Process for agreement terminations	Ensures the process for agreement terminations is fit for purpose and fair, and sunsets so called 'zombie' agreements	To be progressed through Secure Jobs, Better Pay package.
Update the Fair Work Act	Provide proper support for employer bargaining representatives and union delegates	To be progressed through Secure Jobs, Better Pay package, and other workplace relations reforms planned for 2023.
Update the Fair Work Act	Provide stronger access to flexible working arrangements and unpaid parental leave so families can share work and caring responsibilities	Flexible work approval process to be progressed through Secure Jobs Better Pay package. Reforms to unpaid parental leave to be considered in the future.
Update the Fair Work Act	Provide stronger protections for workers against adverse action, discrimination, and harassment	To be progressed through Secure Jobs, Better Pay package.
Flexible options	Ensures workers and businesses have flexible options for reaching agreements, including removing unnecessary limitations on access to single and multi-employer agreements	To be progressed through Secure Jobs, Better Pay package.
Maximising jobs and opportunities in our industries and communities		

Implement a Digital and Tech Skills Compact	Implement a Digital and Tech Skills Compact, with business and unions, to deliver 'Digital Apprenticeships' that will support workers to earn while they learn in entry level tech roles, with equity targets for those traditionally under-represented in digital and tech fields	**In progress** - Draft terms of reference, proposed list of members and invitation letters are being progressed.
Deliver 1,000 digital traineeships	Deliver 1,000 digital traineeships, in the Australian Public Service, over four years, with a focus on opportunities for women, First Nations people, older Australians, and veterans transitioning to civilian life	**107677 – Outcomes of the Jobs and Skills Summit** $11.5 million over 4 years from 2022-23 to the Australian Public Service Commission to establish an APS Digital Traineeship Program to support early to mid-career transitions into digital roles
South Australian Defence Industry	The Commonwealth and South Australian Government will co-chair a South Australian Defence Industry Workforce and Skills Taskforce to support delivery of Australia's defence capabilities, including critical maritime capabilities such as frigates and submarine	**107677 – Outcomes of the Jobs and Skills Summit** The Government will also establish a South Australian Defence Industry Workforce and Skills Taskforce, within the existing resources of the Department of Defence, to support the growth of a skilled defence industry workforce in South Australia.
Promoting Equal Opportunities and Reducing Barriers to Employment		
Improve gender equality	Strengthen existing reporting standards to require employers with 500 or more employees to commit to measurable targets to improve gender equality in their workplaces	**Requires legislative change** to the Workplace Gender Equality Act 2012 (Cth). OFW has commenced legislative drafting process; introduction and passage likely Autumn 2023 sittings.
Gender pay gap	Require businesses with 100 employees or more to publicly report their gender pay gap to the Workplace Gender Equality Agency	**Requires legislative change** to the Workplace Gender Equality Act 2012 (Cth). OFW has commenced legislative drafting process; introduction and passage likely Autumn 2023 sittings.
Improve gender equity in the public service	Require the Australian Public Service to report to the Workplace Gender Equality Agency and to set targets to improve gender equity in the public service	**Requires legislative change:** The Anti-Discrimination and Human Rights Legislation Amendment (Respect At Work) Bill 2022 was introduced on 27 September 2022 (not yet passed). It amends the Workplace Gender Equality Act 2012 to require Commonwealth companies and entities report to WGEA.
Strengthen the Respect@Work Council	Strengthen the Respect@Work Council by giving business and unions a permanent seat at the table, along with government and civil society to support women's safety and respect at work	**Not yet commenced.**
Carer Friendly Workplace Framework	Put in place a Carer Friendly Workplace Framework which includes a self-assessment tool and learning modules, for businesses to be recognised as a carer friendly workplace	**107677 – Outcomes of the Jobs and Skills Summit** $2.0 million over 3 years from 2022-23 to develop a Carer Friendly Workplace Framework to assist employers to develop and adopt practices to support employees with caring responsibilities to enter and

		remain in the workforce, with the cost of this component met from within the existing resourcing of the Department of Social Services.
Partner with the Tech Council of Australia to develop and deliver a free national virtual work experience program,	Partner with the Tech Council of Australia to develop and deliver a free national virtual work experience program, which will build awareness of tech careers and support early stage-talent pathways for those who face heightened barriers to employment	**Not yet commenced.**
Additional funding to the ABS	Provide additional funding to the ABS to strengthen information on the barriers and incentives to work through the Labour Force Survey	**107677 – Outcomes of the Jobs and Skills Summit** $4.0 million over 4 years from 2022-23 to the Australian Bureau of Statistics to increase the frequency and detail of data measuring the barriers and incentives to participating in the labour market.
A Visitor Economy Disability Employment pilot	A Visitor Economy Disability Employment pilot to deliver place-based employment outcomes by connecting small businesses, employment service providers and jobseekers with disability	**Not yet commenced, but see media release (DSS, DFAT/Austrade).**
Signing a Memorandum of Understanding with the Business Council of Australia	Signing a Memorandum of Understanding with the Business Council of Australia to develop an Economic Initiative Pilot aimed at increasing employment and improving career pathways of people with a disability	**Not yet commenced.**
Embedding employment in National Disability Insurance Scheme plans	Better embedding employment in National Disability Insurance Scheme plans, to ensure participants who want to work are supported to do so	**Work has commenced on actions arising from the Summit (NDIA)**
Age pensioners	Provide Age pensioners with a temporary upfront $4,000 income bank credit to allow them to work and earn more before their pension is reduced	**107746 – Jobs and Skills Summit – incentivise pensioners into the workforce** The Government will provide $61.9 million over 2 years from 2022-23 to provide Age and Veterans pensioners a once-off credit of $4,000 to their Work Bonus income bank.

FOI 3204
Document 29

SB22-000298

MULTINATIONAL TAX INTEGRITY (ELECTION COMMITMENT)

Headline Statement

- The Government is making sure multinationals pay their fair share of tax. The measures are targeted to limiting tax deductions relating to interest and royalties and improving tax transparency for large multinationals.
- The Government's multinational tax integrity package is estimated to raise around $953 million over the 4 years to 2025-26. This comprises $715 million (interest limitation) and $245 million (royalties).

Key Points

- The difference in estimated financial impacts between the costing for the multinational tax package and the pre-election costing ($1.9 billion) reflects:
  - improvements to the modelling approach, corrections to tax timing assumptions, and changes to policy specifications.
- The costing also includes an increase in payments to administer the measures.

<u>2022-23 Budget measure: estimated financial impact</u>

($m) UCB	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**Total**
Thin cap: interest limitation	-1.3	-3.6	369.7	349.8	**714.6**
Royalties: Denying deductions for payments relating to intangibles	0.0	34.7	109.2	99.4	**243.3**
Tax transparency	-0.3	-2.9	-1.3	-0.6	**-5.1**

- Treasury will consult on exposure draft legislation, in line with our standard practice, prior to the measures commencing from 1 July 2023.

Policy Commitments

- These measures follow through on the Government's election commitment to make sure multinationals pay their fair share of tax.

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Background

- The multinational tax integrity package announced in the Budget implements a Government election commitment – *Plan to Ensure Multinationals Pay Their Fair Share of Tax*.

- The integrity package targets specific tax deductions and increases corporate tax disclosures (enhanced tax transparency). The package comprises three elements:

  – Interest limitation: amends the thin capitalisation rules to limit debt-related deductions in line with profits (30 per cent of EBITDA). This also includes changes to the alternative arm's length debt test to disallow related party debt deductions.

    : Following consultation, the 30 per cent EBITDA rule was amended to allow denied interest deductions (amounts greater than the 30 per cent EBITDA threshold) to be carried forward for up to 15 years.

    : Tightening the arm's length debt test reflects that the use of related party interest is a simple form of profit shifting (reflected in the 2016 BEPS Action report), while continuing to support investment activity funded by genuine commercial (third-party) debt.

  – Royalties: denies income tax deductions for payments made to related parties in relation to intangibles held in low or no tax jurisdictions.

    : Following consultation, the definition of a 'low or no tax jurisdiction' was amended to include jurisdictions with a tax rate of less than 15 per cent, or jurisdictions with a preferential patent box regime without sufficient economic substance.

  – Transparency: enhanced public disclosures on tax arrangements.

    : Following consultation, the commitment on material tax risk – disclosures relating to companies' business activity in low tax jurisdictions, with tax rate less than 15 per cent – was altered to instead require companies to disclose information on their subsidiaries.

    : This change was considered by some stakeholder to be a more bright line (factual) test, that avoids a subjective classification of an entity's tax status. It was suggested by civil society groups. The UK has a similar disclosure policy.

- Broadly, the amendments to the election commitments reflect feedback from stakeholders and bring the measures more in line with OECD guidance.

Affected entities (economy wide)

- Interest limitation: multinational entities in Australia **and** any inward/outward investor, in line with the current thin capitalisation regime.

  – Financial entities will continue to be subject to their existing thin capitalisation rules.

- Royalties: significant global entities (annual global income of at least $1 billion).

- Transparency: significant global entities (country-by-country reporting); Australian public companies (subsidiary information); all entities (for Commonwealth tenders greater than $200,000).

<u>Implementation</u>

- The Budget measures apply from 1 July 2023 (subject to legislative priorities), specifically:
  - Interest limitation: applies to income years commencing on or after 1 July 2023, on an income tax assessment basis.
  - Royalties: applies to payments from 1 July 2023.
  - Transparency: applies to income years commencing on or after 1 July 2023.

<u>Public consultation</u>

- Phase 1: The Budget measures, as announced, were informed by a Treasury discussion paper released for public consultation (5 August 2022 – 2 September 2022).
- Phase 2: Treasury will consult on exposure draft legislation prior to implementation.

KEY BUDGET MEASURES – CORPORATE TAXATION

Headline Statement

- The tax measures announced in the Budget deliver sensible Budget repair and ensure corporations pay their fair share of tax.

Key Points

- We are implementing our election commitments to **ensure multinationals pay their fair share of tax** by limiting tax deductions. And we are holding large companies to account on tax transparency (see SB22-000298).
  - The Government's multinational tax integrity package will improve the Budget position by $953 million over the forward estimates period.
- The Government is also improving the tax **integrity of off-market share buy-backs** by aligning their treatment with on-market share buy-backs. This will close a loophole that has allowed listed companies to buy back shares at a discount to their market price at a cost to government revenue that is no longer sustainable.
  - This measure will improve the Budget position by $550 million over the forward estimates period.
  - This follows recent Treasury consultation on a related measure of the former Government to prevent companies from **funding franked distributions from capital raisings**.
- This Budget also makes significant savings by **addressing the backlog of unlegislated measures announced by the previous Government** – reversing eight legacy tax and superannuation measures that the previous Government announced but failed to enact (see also SB22-000299).
  - In addition, not proceeding with the previous Government's measure to allow taxpayers to **self-assess the effective life of intangible depreciating assets** will increase receipts by $550 million over the four years from 2022-23.

Background

Off market share buy backs

- This proposal aligns the tax treatment of OMSBBs with on market share buy-backs for listed public companies.

- Currently, in an OMSBB, the shareholder's receipt is treated as a mixture of dividends and capital. This allows companies to buy back their shares at a discount, by treating the franking credits shareholders are entitled to on the dividend component as part of the purchase price.

  – The largest OMSBB was in 2018, when BHP paid just $7.3 billion to purchase $8.5 billion worth of shares. At the time, the market price of BHP's shares was A$32.14 while BHP offered to buy back their shares for only A$27.64.

- This measure will ensure that companies can no longer use the current favourable tax treatment for OMSBBs to help subsidise the purchase of their own shares.

  – The share price paid under an OMSBB will effectively revert to market value and shareholders will only benefit from future dividend imputation credits proportionate to their post-buy-back shareholding.

Benefits

  – This proposal will remove income and capital gains tax distortions influencing how and when listed public companies return capital or dividends to shareholders.

  – It ensures listed public companies can only distribute franking credits to resident shareholders in proportion to each shareholder's economic interest in the company.

  – It ensures capital gains tax is levied appropriately on capital gains realised by selling shares as part of a share buy-back.

Sensitivities

  – Companies will still be able to use both on- and off-market share buybacks as capital management tools. This measure means the tax treatment of off-market share buy-backs will no longer distort companies' capital management decisions.

  – Shareholders who benefit most from the franking credits attached to an OMSBB may argue the policy is effectively a tax increase or a winding back of dividend imputation. Companies can still return excess capital to shareholders by paying special dividends with franking credits attached. Shareholders will continue to benefit in full from franking credits, including refundability.

Franked distributions funded by capital raisings

- Treasury recently consulted on another measure to improve the integrity of companies' capital management – the franked distributions funded by capital raisings measure announced by the former Government in the 2016-17 MYEFO.

- This measure prevents companies from making franked distributions funded by capital raising for no other reason other than to release franking credits, which comes at a cost to the Budget. The distributions of concern occur on an ad hoc basis, outside of established business or industry practice.

Benefits

  – This improves the integrity of the imputation system as it stops companies from entering into artificial and contrived arrangements in order to release excess franking credits, which is a cost to revenue.

Sensitivities

  – This measure was announced by the former Government in 2016-17 MYEFO. Following approval to proceed with the measure, exposure draft legislation was released for public consultation on 14 September 2022. The commencement date contained in the exposure draft was retrospective, with a significant period between announcement and release of details.

  – There were significant concerns raised by the public. Over 2,000 submissions were received, the majority of which were pro-forma submissions from individuals who were encouraged to submit by certain commercial asset managers. Concerns were raised over retrospectivity, policy objective and potential for the legislation as drafted to capture legitimate commercial practices. Treasury is considering the issues raised.

<u>Self-assessing the effective life of depreciating intangible assets</u>

- Reversing the measure to allow taxpayers to self-assess the effective life of depreciating intangible assets, such as patents, in-house software and certain copyrights and licences, is expected to save $550 million over the forward estimates, which would mostly have benefited large businesses.

  – In 2019-20, over two-thirds of the value of new intangible depreciating assets were reported by businesses in finance, telecommunications and mining, and over half of the value was reported by businesses with annual turnover above $5 billion.

  – Reversing the measure may be seen as unfair to taxpayers reliant on intangible assets, as taxpayers are able to self-assess the lives of tangible assets. However, the risk of misuse of depreciation deductions is greater for intangible assets than for tangible assets due to their relative mobility and divisibility of ownership, and the difficulty in determining their scope, value and effective lives.

  – It is unclear to what extent the previously announced measure would encourage additional investment.

ANNOUNCED BUT UNENACTED MEASURES OF PREVIOUS GOVERNMENT – UNLEGISLATED TAXATION AND SUPERANNUATION MEASURES

Headline Statement

- The Government is getting the Budget back on track by addressing the backlog of unlegislated taxation and superannuation measures announced by the previous Government.

Key Points

- The Government has worked through most of the backlog of more than 140 unlegislated measures in the Treasury portfolio announced by the previous Government, of which around half are tax measures.

- The Government will not proceed with the measure to allow taxpayers to self-assess the effective life of intangible depreciating assets, which is yet to be legislated and was due to commence on 1 July 2023. This will improve the Budget position by $550 million over the forward estimates period (see October 2022-23 Budget Paper No. 2, p. 10, SB22-000297).

- The Budget addresses a further eight legacy tax and superannuation measures the Government will not proceed with, and a further three with new start dates.

- Measures proceeding without change are not re-announced in the Budget.

- The Government is still working through the details of approximately 20 unlegislated measures.

Policy Commitments

- Reversing certain measures is consistent with the Government's commitment to Budget repair and eliminating wasteful spending.

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Background

Announced but unlegislated tax and superannuation measures in the October Budget

- The Government will not proceed with creating a new deductible gift recipient (DGR) category for providers of pastoral care and analogous wellbeing services in schools (refer to SB22-000344 *Budget Measures – Personal Taxation and Charities*)
  - This is estimated to increase receipts by <u>$43 million over the four years from 2022-23.</u>
  - The Government is instead committing $203.7 million for the Student Wellbeing Boost, which will fund schools to undertake activities to improve students' wellbeing and mental health, and will commission a Productivity Commission review of philanthropy to holistically review incentives for donating to the not-for-profit sector, including current DGR settings.
  - The Government has also announced its intention to expand eligibility for the National Schools Chaplaincy Program to secular providers from 2023, subject to the agreement of states and territories. The program provides $61.4 million each year.
- Reversing a further seven measures is estimated to have an unquantifiable budget impact. These measures are summarised in the table below.
- Additionally, there are three measures proceeding with new start dates, namely:
  - A new sharing economy reporting regime, commencing from 1 July 2023 for ride sourcing and short-term accommodation and 1 July 2024 for all other reportable transactions.
    - The impact of the deferral of this measure is a $13.6 million decrease in receipts over the forward estimate period, resulting in the net figure of $29.4 million that appears in the Budget Papers for unlegislated tax and superannuation measures (when taken from the extra $43 million in receipts for the DGR measure reversal).
  - Relaxation of the residency requirements for SMSFs to commence on income years on or after Royal Assent; and
  - Certain amendments to the taxation of financial arrangements to commence on income years on or after Royal Assent.

Announced but unenacted measures which are subject to further consideration

- The Government is also yet to announce a decision on around 20 measures announced by the previous Government. These include a Patent Box regime for the medical and biotechnology, low emissions technology, and agriculture sectors.

Measures not proceeding	**Description**
DGR category for pastoral care and analogous wellbeing service providers in schools (2021-22 MYEFO)	Refer to SB22-00034 Budget Measures – Personal Taxation and Charities.
Economy-wide cash payment limit (2018-19 Budget)	In recognition of increased and extended funding provided to the ATO to continue and extend ATO compliance and shadow economy programs, the Government has decided to not proceed with this measure. Restricting how cash can be used in the economy may also increase administrative burdens on all Australians and could detrimentally impact economic activity in remote and regional areas in particular.
Debt/equity tax rules —clarification of the scope of an integrity provision (2011-12 Budget, 2013-14 MYEFO)	Concerns expressed in 2011-12 by the Board of Taxation with the application of the debt/equity rules have been resolved administratively including through the release of guidance.
Ten Year Enterprise Tax Plan — taxation of financial arrangements regulation reform (2016-17 Budget, 2018-19 Budget)	The Government has agreed to instead only proceed with a more targeted measure of the former government entitled Taxation of Financial Arrangements — hedging and foreign exchange deregulation (see below).
Ten Year Enterprise Tax Plan — access to asset backed financing (2016-17 Budget)	Asset-based finance products are generally accommodated within Australian Taxation Office administrative practices.
Ten Year Enterprise Tax Plan — implementing a new suite of collective investment vehicles (CIV) (2016-17 Budget)	This measure comprised a corporate CIV and a limited partnership CIV. The corporate CIV was legislated and started on 1 July 2022. The Commonwealth does not have general legislative power with respect to partnership laws which are currently matters left to individual States and Territories.
Superannuation — three yearly audit cycle for some self-managed superannuation funds (SMSFs) (2018-19 Budget)	This measure would change the annual audit requirement to three-yearly for SMSFs with a history of good record-keeping and compliance. It was not well-supported by stakeholders during public consultation.
More Choices for a Longer Life — comprehensive income products in retirement (in part) (2018-19 Budget)	The relevant part of this measure would require retirement income product providers to report standardised metrics in product.

Measures with a new start date	**Description**	**Former start date**	**New start date**
Taxation of Financial Arrangements — hedging and foreign exchange (2021-22 Budget)	Technical amendments to facilitate hedging on a portfolio basis and ensure taxpayers are not subject to unrealised taxation on forex gains and losses unless elected.	1 July 2022	Income years on or after Royal Assent
Self-managed Superannuation Funds — relaxing residency requirements (2021-22 Budget)	Relaxes residency requirements for self-managed superannuation funds and small APRA-regulated funds.	1 July 2022	Income years on or after Royal Assent
Black Economy — introducing a sharing economy reporting regime (2019-20 MYEFO)	Requires electronic platforms to report identification and payment information on participating sellers to the ATO. Applies to: • ride-sourcing and short-term accommodation services; and • asset sharing, food delivery, tasking-based and other services.	1 July 2022 for ride sourcing and short-term accommodation 1 July 2023 for all other reportable transactions	1 July 2023 for ride sourcing and short-term accommodation 1 July 2024 for all other reportable transactions

TAXATION OF PETROLEUM PRODUCTS

Headline Statement

- Oil and gas companies are subject to a number of taxes and levies in Australia, including corporate income tax and the petroleum resource rent tax (PRRT).
- Treasury has recommenced its review of the Gas Transfer Pricing regulations, which was requested in the 2018 Government response to the recommendations of the Callaghan review of the PRRT. Treasury will consult with industry participants before finalising the review.

Key Points

- The PRRT is a tax on economic rents, levied at a rate of 40 per cent on the taxable profit of offshore petroleum projects. Oil and gas companies are also subject to corporate income tax, which is levied at 30 per cent.
- The 2022-23 October Budget forecasts PRRT to raise $2.6 billion in 2022-23, reflecting higher oil and gas prices. This is forecast to steadily decline over the following three years to $2 billion in 2025-26 as production at maturing fields decline and decommissioning expenses are incurred.
- The PRRT continues to be the key mechanism for taxing rents from offshore oil and gas production. The Government has not announced any plans to change the way the PRRT operates.
- Michael Callaghan undertook a comprehensive review of the PRRT in 2017. In response to Callaghan's recommendations, the former Government made changes to the uplift rates from 1 July 2019 to limit the scope for excessive compounding of deductions.
- The Callaghan Review suggested the GTP regulations likely undervalue the price of gas and recommended an in-depth review of the Gas Transfer Pricing (GTP) regulations. Treasury's review will advise the Government on whether the Regulations appropriately price gas for tax purposes and are fit-for-purpose into the future as new commercial arrangements emerge in the industry.

Public numbers on the PRRT

2022-23 October Budget PRRT forecasts ($m)

	2021-22	2022-23	2023-24	2024-25	2025-26
PRRT: *October* Budget	1,638	2,600	2,450	2,100	2,000
PRRT: *March* Budget	1,650	2,400	2,400	2,400	2,400

Source:2022-23 Budget, Budget Paper 1, [Table 4.7, page 127]

If asked about a windfall profits tax on oil and gas producers

- Treasury continues to monitor the international policy debate on windfall profits taxes on oil and gas, including the recently introduced UK windfall profits tax and proposals for an Australian export levy, such as that outlined in Professor Ross Garnaut's Gruen lecture at the Jobs and Skills Summit.
- Treasury provides advice on various taxation arrangements and has provided information on a windfall profits and similar proposals to the Treasurer to keep him informed. Treasury is continuing to consider the matters as relevant to understanding the operation of our tax system.

If asked about the status of the GTP review

- The GTP review was announced in November 2018. Treasury undertook consultation with the public, industry participants and other interested stakeholders, including the ATO and Department of Industry, Science and Resources.
- The GTP review was paused to divert resources to the COVID-19 economic recovery response in 2020. Treasury has recommenced work on the GTP review, including revisiting its previous dispositions and updating its analysis to consider recent developments in the LNG industry.
- Treasury plans to finalise the review in early 2023. Treasury will consult with industry participants again before this. Policy changes will be a matter for Government after the review is completed.

If asked about PRRT receipts from LNG projects and the impact of the surge in oil prices on PRRT revenue

- PRRT revenue has increased, partly due to the significant increase in the market price of oil.

- The increase in the market price of oil is not fully reflected in PRRT receipts in the near term because petroleum projects continue to have deductible expenditures that can be offset against payable PRRT, including deductible expenditure carried forward from prior years.

<u>If asked about PRRT carry forward losses</u>

- The latest taxation statistics show total PRRT carry forward expenditure of $283.7 billion for the 2020-21 income year.
  - The vast majority of carry forward expenditure ($262.8 billion or 93%) is from LNG projects, which have high capital costs.

<u>If asked about former Government's changes to PRRT</u>

- The former Government made changes to the uplift rates to limit the scope for excessive compounding of deductions:
  - For PRRT projects that successfully apply for a production licence after 1 July 2019, the general expenditure uplift rate will be Long Term Bond Rate (LTBR)+5 percentage points until 10 years from the financial year in which a project first earns assessable petroleum receipts, after which the uplift rate for remaining deductions will be LTBR.
  - For exploration expenditure incurred or transferred from 1 July 2019, the uplift rate will be LTBR+5 percentage points for 10 years from the time the expenditure is incurred, with any remaining augmented amount maintained in real terms by applying the GDP deflator until the expenditure is deducted.
  - Where exploration expenditure incurred before 1 July 2019 is deducted within a project at the uplift rate of LTBR+15 percentage points, the LTBR+15 percentage point uplift will apply until 1 July 2019 after which the uplift rate of LTBR+5 will apply.
- Onshore projects have been removed from the PRRT regime from 1 July 2019.

FOI 3204
Document 33

SB22-000301

HOUSING ELECTION COMMITMENTS

Headline Statement

- Australia faces a significant housing affordability challenge. In response, the Government is taking a national leadership role and implementing a housing agenda focussed on increasing supply, delivery of new social and affordable homes, and access to home ownership.

Key Points

- In the 2022-23 Budget, the Government is:
  - bringing states and territories, the Australian Local Government Association, and representatives from the superannuation and construction sectors together under a new Housing Accord;
    - The Accord sets an initial, aspirational target of one million new, well-located homes over 5 years from 2024, the Commonwealth committing to a further 10,000 affordable homes.
  - investing $10 billion through the Housing Australia Future Fund to support the delivery of 20,000 new social and 10,000 affordable homes to be built in the first five years of the Fund's operation;
  - expanding the remit of the National Housing Infrastructure Facility to provide up to $575 million of existing funds to invest in social and affordable housing;
  - working towards establishing the National Housing Supply and Affordability Council, to provide research and advice on solutions to Australia's housing affordability challenges;
  - commencing work on the National Housing and Homelessness Plan, which will set out how we will meet the demand for housing and better support vulnerable Australians, including those at risk of homelessness, over the short-, medium- and long-term;
  - expanding the role of National Housing Finance and Investment Corporation – to be renamed Housing Australia; and
  - continuing to develop the Help to Buy shared equity scheme to improve homeownership outcomes.

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Policy Commitments

Housing Accord

- The Government is bringing states and territories, the Australian Local Government Association, and representatives from the superannuation and construction sectors together under a new Housing Accord.
  - The Commonwealth will be contributing $350.0 million over 5 years from 2024–25 ($70 million each FY).

Safer and More Affordable Housing

- The Housing Supply and Affordability measure in the 2022-23 Budget include funding of $2,073.4 million over the forward estimates.

s 34(3)

[redacted]

- The Government will establish the $10 billion Housing Australia Future Fund. The Fund will allow 20,000 new social and 10,000 affordable homes to be built in the first five years of the Fund's operation.
  - Disbursements of $330 million will be used to fund acute housing needs.
- Boosting Social and Affordable Housing: The Government is expanding the role of the National Housing Infrastructure Facility to provide up to $575 million of existing funds to invest in social and affordable housing.

- The Government is working to establish the National Housing Supply and Affordability Council as a matter of priority, to ensure it can support development of the National Housing and Homelessness Plan and provide independent advice to Government on housing matters.
  - Under the Housing Accord, the National Housing Supply and Affordability Council will:
    - regularly advise on the suitability of the national target in consultation with the states and territories, and in response to ongoing monitoring of the capacity of the residential building industry;
    - work with residential development, building and construction industry representatives to provide data and updates on the deliverability of the Accord commitments and the housing supply pipeline;
    - review barriers to institutional investment, finance and innovation in housing (e.g. Build to Rent).
- The Government will expand the role of the National Housing Finance and Investment Corporation and rename it Housing Australia. Housing Australia will be the home of key national housing programs to improve policy delivery and effectiveness.

s 47C, s 47E(d)

[redacted]

- The Government established the Regional First Home Buyer Guarantee on 1 October 2022 to help 10,000 regional households a year to purchase a first home.

Other Housing Measures

- The Government will begin developing the National Housing and Homelessness Plan to bring together its policies and support coordination to ensure the housing market delivers better outcomes. Questions on the Plan should be referred to the Department of Social Services.
- The Government will also establish a Closing the Gap Housing Policy Partnership which will provide opportunities to work more effectively across governments to deliver on Closing the Gap commitments. Questions on Closing the Gap should be referred to the Department of Social Services.

Background

Breakdown of the Improving Housing Supply and Affordability measures in the 2022-23 Budget

Housing Accord

- The Accord sets an initial, aspirational target of one million new, well-located homes over 5 years from 2024.
  - This target will be largely delivered by the private sector, who are best placed to determine the types and location of houses that are required. However, governments and will work together and with other stakeholders where relevant to identify and remove barriers to investment, including through expediting planning, zoning and land release.
  - 'Well-located' is not defined however the Accord recognises that it is important homes are located close to work, schools and transport. The Government, states and territories will work collaboratively together to reach this target.
- The Government will provide $350 million over 5 years, with ongoing availability payments over the longer term, to deliver an additional 10,000 affordable dwellings. States and territories will also support up to an additional 10,000 affordable homes, increasing the dwellings that can be delivered under the Accord to 20,000.
- The combination of a more secure pipeline of supply and Government support through innovative financing will facilitate cost-effective superannuation and institutional capital investment in affordable housing.
  - In order to make projects commercially viable and attractive for investors (including superannuation funds), that gap between the revenues generated and the cost of provision has to be met by some form, or combination, of government subsidy.
  - The projects will be assessed on a case-by-case basis, ensuring any "availability" (or, "top up") payments will be delivered such that the Commonwealth contributes no more than is required to get projects off the ground, leveraging funding or in-kind contributions from state and territory governments and private capital providers.

Housing Australia Future Fund

- Over the first 5 years the Housing Australia Future Fund investment returns will build around:
  - 20,000 social housing properties – 4,000 of which will be allocated for women and children fleeing domestic and family violence and older women on low incomes who are at risk of homelessness.

- 10,000 affordable homes for the frontline workers like police, nurses and cleaners who kept us safe during the pandemic. This will mean they can live closer to where they work, and it will mean better services for everyday Australians.

- Additionally, in the first 5 years these investment returns will fund:

  - $200 million for the repair, maintenance and improvements of housing in remote Indigenous communities, where some of the worst housing standards in the world are endured by our First Nations people.

  - $100 million for crisis and transitional housing options for women and children fleeing domestic and family violence and older women on low incomes who are at risk of homelessness.

  - $30 million to build more housing and fund specialist services for veterans who are experiencing homelessness or at-risk homelessness.

- The $10 billion Housing Australia Future Fund will be financed by issued debt.

- The Government will allocate an initial $8.3 million over four years from 2022-23 to administer the Housing Australia Future Fund.

- Expected returns and the fund's risk tolerance will be settled with the Department of Finance.

- The establishment of the Housing Australia Future Fund and the subsequent timing of disbursements is subject to the passage of legislation.

Boosting Social and Affordable Housing

- The remit of the NHIF will be expanded by amending the eligibility requirements for new eligible projects to allow a wider range of projects to be financed by the NHIF.

- The expanded remit will seek to attract more institutional capital to the sector.

- This initiative will require no additional funding.

National Housing Supply and Affordability Council

- The Government has provided $15.2 million in the 2022-23 Budget to establish the National Housing Supply and Affordability Council.

- The Council will provide independent advice to Government on housing matters and support the development of the National Housing and Homelessness Plan.

- The Government intends to appoint an interim Council to commence its work in January 2023 while arrangements for a permanent Council are finalised. Legislation to establish the Council as a statutory body may be introduced in the future.

- The Council will initially be supported by a dedicated secretariat and research staff in the Treasury.

SB22-000344

BUDGET MEASURES – PERSONAL TAXATION AND CHARITIES

Headline Statement

- The 2022-23 October Budget contains several taxation and charities measures.

Key points

Deductible gift recipient measures

- The Government will list Australians for Indigenous Constitutional Recognition as a deductible gift recipient for donations received between 1 July 2022 and 30 June 2025. The listing of Australian Women Donors Network will be extended until 8 March 2028.
- The Government will not proceed with a measure to establish a deductible gift recipient category for providers of pastoral care and analogous wellbeing services in schools.
  - The Government is instead committing $203.7 million for the Student Wellbeing Boost, which will fund schools to undertake activities to improve students' wellbeing and mental health, and will commission a Productivity Commission review of philanthropy to holistically review incentives for donating to the not-for-profit sector, including current DGR settings.
  - The Government has also announced its intention to expand eligibility for the National Schools Chaplaincy Program to secular providers from 2023, subject to the agreement of states and territories. The program provides $61.4 million each year.

Electric Car Discount

- The Government's Electric Car Discount will cut taxes on electric cars to make them more affordable, and help to reduce Australia's transport emissions. It has two components:

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- Exempts from fringe benefits tax (FBT) eligible cars below the luxury car tax threshold for fuel efficient vehicles ($84,916 in 2022-23); and
- Removes tariffs for eligible cars with a customs value below the luxury car tax threshold for fuel efficient vehicles.

Compliance Programs

- ATO compliance programs provide additional funding to the ATO to better administer the tax system, focusing on non-compliance with existing rules and tax avoidance. When taxpayers meet existing tax obligations, all Australians benefit through higher revenue.
- Three programs are being extended — the Tax Avoidance Taskforce, the Shadow Economy Program and the Personal Income Tax (PIT) Compliance Program — and one program, administered by the Tax Practitioners Board, is being introduced.
- The extension of compliance programs in this Budget accounts for around 60 per cent of the increase, or $5.7 billion, in tax receipts due to policy decisions. They improve the Budget position by $3.7 billion (net of related payments) over the forward estimates.
  - In the 2021-22 MYEFO, extension of the Personal Income and Shadow Economy programs was estimated to increase receipts by $1.2 billion over the then forward estimates period.
  - In the 2022-23 March Budget, the extension of the Tax Avoidance Taskforce was estimated to increase tax receipts by $2.1 billion over the then forward estimates period. In that Budget, it was the largest measure to increase tax receipts.
- The extensions to the Tax Avoidance Taskforce and Shadow Economy programs were election commitments. Total estimated financial impacts for these programs over the forward estimates are consistent with the PBO's costing. There is some minor re-profiling between years.

Background

Deductible gift recipients – specific listing process

- Organisations may obtain deductible gift recipient status either by being endorsed by the ATO under one of 52 categories set out in tax law or through being specifically listed by name in the tax law.
- Specific listing is a policy decision by Government and subject to passage of legislation through Parliament. There are no application requirements or criteria set out in legislation for determining specific listing. The approach of successive governments has been to list organisations only in exceptional circumstances where an organisation does not meet the criteria for one of the categories.
  - 224 organisations are listed by name in the tax law.
- Information on the process for seeking listing is available on the Treasury website.
- A listed organisation may continue to receive deductible gifts until:
  - its listing sunsets, if it is listed for a defined period; or
  - its listing is removed by further changes to tax law.

Specific listing – Australians for Indigenous Constitutional Recognition

- Australians for Indigenous Constitutional Recognition (AICR) wrote to the Assistant Minister for Competition, Charities and Treasury on 20 June 2022 seeking listing as a deductible gift recipient.
  - AICR is a registered charity established to raise awareness about the Uluru Statement from the Heart and a constitutionally enshrined Voice to Parliament.
- Treasury's consideration of the request was routine. The application was comprehensive and further information was not sought from the organisation.
- Treasury provided advice to the Assistant Minister about the request on 7 and 26 July 2022.
- The listing of AICR does not contravene the provision of the Referendum (Machinery Provisions) Act prohibiting Commonwealth expenditure of money on the yes and no cases for a referendum. The listing confers a tax benefit on donors to AICR rather than being expenditure of money by the Commonwealth.

Specific listing – Australian Future Leaders Foundation

- In the 2021-22 MYEFO, the then government announced it would list Australian Future Leaders Foundation as a deductible gift recipient for donations made from 1 July 2021. Legislation giving effect to this came into force on 1 April 2022.
- The 2022-23 (March) Budget announced grant funding to the Foundation of $18 million over 5 years from 2021-22 and then $4 million per year ongoing. On 8 September 2022, the Treasurer stated the Government will not proceed with the grant.

- Treasury was not involved in this grant.

- The decision to not proceed with the grant does not affect the Foundation's specific listing, which is legislated.

Pastoral care deductible gift recipient category

- In the 2021-22 MYEFO, the then government announced it would create a deductible gift recipient category for pastoral care and analogous wellbeing services delivered to students in Australian primary and secondary schools to access DGR status.

- The Government has decided not to proceed with this measure.
  - The Government is instead committing $203.7 million for the Student Wellbeing Boost, which will fund schools to undertake activities to improve students' wellbeing and mental health, and will commission a Productivity Commission review of philanthropy to holistically review incentives for donating to the not-for-profit sector, including current DGR settings.
  - The Government has also announced its intention to expand eligibility for the National Schools Chaplaincy Program to secular providers from 2023, subject to the agreement of states and territories. The program provides $61.4 million each year.

Electric Car Discount

- On 27 July 2022, the Government introduced legislation to give effect to the FBT exemption from 1 July 2022. The Bill has passed the House of Representatives and is currently awaiting debate in the Senate.
  - The Senate Economics Legislation Committee reported on the draft legislation on 6 September 2022. The Greens, while supporting the Bill recommended two changes to remove plug in hybrid electric vehicles from the discount and extend the exemption to include personal electric vehicle charging infrastructure. The Opposition did not support the Bill.
  - A submission to the Senate inquiry noted that the biggest beneficiaries will be people in the highest income tax bracket, those with an annual taxable income above $180,000.
    - The mechanism chosen by the Government to deliver the electric car discount is by cutting tax – an exemption from FBT and the removal of import tariffs. In relation to the FBT exemption the saving to the employee is a reduction in personal income tax and by its nature provides a greater potential benefit to higher income earners and those spending more on an electric car.
    - Any employer and employee are eligible to take advantage of the discount and using the luxury car tax threshold as an eligibility cap limits the discount to more affordable electric cars and effectively caps the benefit available to higher income earners.

- Separately, the Government has progressed changes to remove tariffs from eligible electric cars.
  - A Notice of Intention to Propose Customs Tariff Alterations (No. 6) 2022 was signed on 18 July 2022 which removed tariffs on certain electric cars imported on or after 1 July 2022. A Customs Tariff Proposal (No. 5) 2022 was tabled in Parliament on 2 August 2022. An incorporation bill will be introduced at a later point.
- This measure is estimated to decrease receipts by $410 million and decrease payments by $65.0 million over the four years from 2022-23, at a total cost of $345.0 million.
- The electric car discount will be reviewed in three years.

Compliance Programs

- The extension of the PIT Compliance Program for two years will fund a combination of proactive (improved and modernised guidance products and community engagement), preventative (nudges and early engagement with taxpayers or their agents) and corrective activities (audits and adjustments) to address overclaiming of deductions, investors not correctly reporting, tax agent influence and omitted income. The PIT Program has been operating since 1 July 2018.
- The Tax Avoidance Taskforce has been operating since July 2016. Extending this Taskforce for a further year to 2026 and boosting its funding from 1 July 2022 will support the ATO to pursue new priority areas of observed business tax risks, complementing the ongoing focus on multinationals and large public and private businesses.
- The Shadow Economy (formerly Black Economy) Program has been operating since 1 July 2018. The Program combats active and deliberate unreported economic activity. Continuing the Program for a further three years to 2025–26 will protect revenue, strengthen the integrity of the tax system and provide a level playing field for business, protecting honest businesses from unfair competition.
- The Government will provide additional funding to the Tax Practitioners Board (TPB) for four years, from 1 July 2023, to conduct 3,000 additional compliance investigations, strengthening protections for 425,000 taxpayers who use tax agent services.

Receipts impacts

($m)	2022-23	2023-24	2024-25	2025-26	Total
Tax Avoidance Taskforce	277.0	535.4	729.0	1,308.5	2,849.9
Shadow Economy	0.0	403.7	714.5	940.7	2,058.9
PIT program	0.0	151.2	287.2	236.0	674.4
Tax Practitioners Board	0.0	9.1	25.0	47.8	81.9
Total	**277.0**	**1,099.4**	**1,755.7**	**2,533.0**	**5,665.1**
Total change in tax receipts due to policy decisions	488.3	1,653.7	3,123.6	4,282.1	9,547.7
As a percentage of change in tax receipts due to policy decisions	*57%*	*66%*	*56%*	*59%*	*59%*

UCB impacts (receipts net of payments)

($m)	2022-23	2023-24	2024-25	2025-26	Total
Tax Avoidance Taskforce	76.5	333.8	525.8	774.0	1,710.1
Shadow Economy	0.0	236.8	479.8	657.1	1,373.7
PIT program	0.0	111.3	246.8	236.0	594.1
Tax Practitioners Board	0.0	3.3	15.1	32.7	51.1
Total	76.5	685.2	1,267.5	1,699.8	3,729.0

- The Government reversed the former Government's decision to conclude an independent review of the ATO's term-limited compliance programs in 2022-23 because the majority of the ATO's terminating funding has been extended until 30 June 2026.

SB22-000305

BUDGET REVENUE FORECASTS

Headline Statement

- Since PEFO, parameter and other variations have increased tax receipts by $53.9 billion in 2022-23 and $132.5 billion over the four years to 2025-26, broadly in line with the upgrade to nominal GDP.

Key points

- Since PEFO, forecasts of total taxation receipts have been revised up $54.4 billion in 2022-23 and $142.0 billion across the forward estimates.
- The upward revision is driven by parameter and other variations (increases tax receipts by $132.5 billion over the four years to 2025-26), while policy decisions contribute $9.5 billion over the four years to 2025-26.
- Around two-thirds of the increase driven by parameter and other variations is in the first two years of the forward estimates.
    – The upward revision is driven by strong collections and an improvement in the short-term outlook of the nominal economy, reflecting high commodity prices and strong employment.
    – The near-term strength in tax receipts recedes in the later years of the forward estimates period as commodity prices decline and employment growth moderates.
- Excluding policy decisions, the largest upward revisions are to company income tax ($74.1 billion over the four years to 2025-26) and personal income tax ($47.6 billion over the four years to 2025-26). This reflects elevated commodity prices and strength in compensation of employees as a result of strong employment growth.
- The upgrade is consistent with the Final Budget Outcome for 2021-22, which showed tax receipts were $24.1 billion higher than expected at the 2022-23 March Budget.

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- Over half of this outcome was attributable to strength in company tax receipts, which are expected to remain strong over the first two years of the forward estimates consistent with higher corporate profits.
- Individuals and other withholding taxes also contributed to the higher outcome, reflecting higher-than-expected employment that is expected to continue over the forecast period.
- Tax receipts in the first three months of 2022-23 continue to perform strongly relative to the March 2022-23 Budget estimate, with tax receipts in September $16.2 billion above profile year-to-date.

- The tax-to-GDP ratio is forecast to be 23.4 per cent in 2025-26, up 0.5 percentage points since PEFO. By the end of the medium-term the tax-to-GDP ratio is expected to reach 24.1 per cent, in line with estimates at PEFO.
- There are significant downside risks to the tax receipts forecast. Rising global inflation, ongoing commodity price volatility and uncertainty surrounding households' and businesses response to the deteriorating economic environment present material risks to the forecasts.

Background

Detailed variations in receipt estimates **excluding policy decisions** (by key heads of revenue)

- Excluding policy decisions, **company tax** receipts have been revised up by $36.9 billion in 2022-23 and $74.1 billion over the four years to 2025-26.
  - This is largely the effect of elevated commodity prices that are expected to contribute to strong taxable profits in the resources sector in the short term. Lower utilisation of COVID-19 business support measures is also contributing to the upgrade.
- **Personal income tax** receipts have been revised up by $16.1 billion in 2022-23 and $47.6 billion over the four years to 2025-26.
  - **Income tax withholding** (tax collected primarily from salary and wages) has been revised up by $10.3 billion in 2022-23 and $28.9 billion over the four years to 2025-26. The upward revision reflects strong employment as well as higher nominal wages.
  - **Net other individuals** receipts have been revised up by $5.8 billion in 2022-23 and $18.7 billion over the four years to 2025-26, driven by higher dividend, net rental and small business incomes.
- **GST** receipts have been revised up by $3.1 billion in 2022-23 and $8.8 billion over the four years to 2025-26. The upward revisions reflect an upgrade to the outlook for consumption subject to GST, consistent with strong employment and higher nominal wages, partially offset by a decrease in GST receipts from dwelling investment in response to moderating housing prices.
- **Superannuation funds tax** receipts have been revised down $3.1 billion in 2022-23 but up by $1.2 billion over the four years to 2025-26. The downward revision in 2022-23 is driven by increased utilisation of franking credits and recent off-market share buy-back activity. Beyond 2022-23 growth in taxable member contributions is expected to increase tax receipts, consistent with strength in the labour market.
- **Excise and customs duties** have been revised up by $0.2 billion in 2022-23 and $2.4 billion over the four years to 2025-26. This reflects an upgrade for the alcohol excise receipts driven by stronger consumption of higher-taxed spirits and pre-mixed-beverages and higher import prices supporting higher customs duties, offsetting weakness in consumption of tobacco and some fuels.
- **Petroleum and resource rent tax** receipts have been revised up $0.2 billion in 2022-23 but down by $0.5 billion over the four years to 2025-26. The upgrade in 2022-23 reflects higher average Australia dollar oil and east coast gas prices. The downgrade beyond 2022-23 reflects an expected decline in production and prices, as well as the cost of decommissioning parts of the Bass Strait fields.

Table 1: Reconciliation of Australian Government general government tax receipts estimates from the 2022–23 March Budget (2022-23 October Budget Table 5.3)

	Estimates(b)				
	2022-23	2023-24	2024-25	2025-26	Total(a)
	$m	$m	$m	$m	$m
Tax receipts at 2022-23 March Budget	**508,400**	**541,757**	**566,625**	**598,233**	**2,215,015**
Changes from 2022-23 March Budget to 2022 PEFO					
Effect of policy decisions	-60	-120	-155	-155	-490
Effect of parameter and other variations	85	100	100	105	390
Total variations	25	-20	-55	-50	-100
Tax receipts at 2022 PEFO	**508,425**	**541,737**	**566,570**	**598,183**	**2,214,915**
Changes from 2022 PEFO to 2022-23 October Budget					
Effect of policy decisions	488	1,654	3,124	4,282	9,548
Effect of parameter and other variations	53,945	30,901	20,758	26,870	132,474
Total variations	54,434	32,554	23,881	31,152	142,021
Tax receipts at 2022-23 October Budget	**562,858**	**574,292**	**590,451**	**629,335**	**2,356,936**

a) Total is equal to the sum of amounts from 2022–23 to 2025–26.

b) In the 2022–23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation receipts to taxation receipts to reflect the change in the nature of these receipts. The taxation receipts and non-taxation receipts series in Statement 10: Historical Australian Government Data have been back-cast from 2014-15 for this change.

Table 2: Heads of revenue decomposition, revisions since 2022 PEFO[a]

	Outcome	Estimates				2022-23 to
	2021-22	2022-23	2023-24	2024-25	2025-26	**2025-26**
	$m	$m	$m	$m	$m	**$m**
Individuals and other withholding taxes						
Gross Income Tax Withholding	3,369	10,385	11,020	4,360	5,655	**31,420**
Gross Other Individuals	3,232	6,500	6,100	4,500	2,500	**19,600**
less: Refunds	-137	685	1,700	700	-3,600	**-515**
Total individuals and other withholding tax	6,737	16,200	15,420	8,160	11,755	**51,535**
Company tax	14,208	37,100	12,300	12,600	16,100	**78,100**
Superannuation fund taxes	1,986	-3,050	1,050	1,400	2,250	**1,650**
Other income taxes	-11	60	-370	-910	-1,320	**-2,540**
Fringe benefits tax	1	-140	-420	-610	-920	**-2,090**
PRRT	-12	200	50	-300	-400	**-450**
Income taxation receipts	**22,921**	**50,310**	**28,400**	**21,250**	**28,785**	**128,745**
Goods and services tax	716	3,101	2,720	1,570	2,020	**9,410**
Wine equalisation tax	-40	20	-10	-10	-10	**-10**
Luxury car tax	80	230	20	-10	-20	**220**
Excise and customs duty						
Fuel	100	-160	-80	-150	-190	**-580**
Tobacco	-346	-400	-100	-150	-250	**-900**
Alcohol	-31	650	710	920	820	**3,100**
Other customs duty	53	135	670	215	-275	**745**
Major bank levy	-46	0	0	0	-50	**-50**
Other indirect taxes	684	548	224	246	322	**1,341**
Indirect taxation receipts	**1,170**	**4,124**	**4,154**	**2,631**	**2,367**	**13,276**
Total tax receipts	**24,091**	**54,434**	**32,554**	**23,881**	**31,152**	**142,021**
Total tax receipts (excl. GST)	**23,220**	**51,334**	**29,854**	**22,341**	**29,162**	**132,691**

(a)The revisions since 2022 PEFO includes both measures and parameter and other variations

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SB22-000303

SMALL BUSINESS OUTLOOK

Headline Statement

- The outlook for the small business sector remains mixed as the recovery from the impacts of the pandemic, natural disasters and rising inflation drives up business costs. The latest data indicates small business confidence is improving, but conditions have edged down.

Key Points

- There are significant challenges facing Australia's economy. Global inflation has continued to prove much stronger and more persistent than expected, and central banks are tightening monetary policy more aggressively to prevent inflationary pressures from broadening and becoming entrenched in expectations. This challenging global economic outlook, combined with lower domestic real incomes, pose headwinds for the domestic outlook.
  - The issue of rising inflation, which is driving up the costs of doing business across the economy, is having a significant impact on the small business sector. This includes meeting costs associated with the purchasing and transportation of goods (and associated supply chain challenges) and rising energy costs (including electricity and gas).
- Small businesses across a range of industries continue to struggle to attract workers to fill existing vacancies amid the already tight labour market. The expectation is that wages growth will accelerate to its fastest pace in a decade by the end of 2023-24.
- Small business conditions edged down in the third quarter, led by softening conditions for the smallest firms. However, conditions remain strong among medium-sized and larger SMEs. SME confidence edged higher in the third quarter with the smallest firms reporting strong confidence.

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Business Conditions

- The National Australian Bank (NAB) has shown in its Australia wide SME Business Survey: Quarter 3 2022 that for non-farming SMEs, business conditions fell by 4 points to +13 index points.
  - By industry, conditions rose strongly in Transport and Storage by 25 points to +46 points. Conditions however fell in most industries, including in Property Services down 14 points to +13 points, and in Business Services down 11 points to +14 points.
- The NAB Monthly Business Survey has shown for all non-farming businesses in September 2022 that business conditions rose 3 points to +25 index. Conditions fell in WA, QLD, and slightly in SA but were steady or improving elsewhere.

Business Confidence

- The National Australian Bank (NAB) has shown in its Australia wide SME Business Survey: Quarter 3 2022 that for non-farming SMEs, business confidence increased by 2 points to +6 index points.
  - Business confidence increased in most industries, particularly Transport and Storage, up by 36 points to +23 index points. The largest increase in confidence was in the smallest firms.
- The NAB Monthly Business Survey has shown for all non-farming businesses in September 2022 that business confidence fell 5 points to +5 index points. Confidence was mixed across states, with SA and TAS improving but NSW and QLD lower.
- The latest MYOB Business Monitor (June 2022) shows that SMEs are feeling less confident about the economy in the coming year than they were six months ago. However, 41 per cent of SMEs expect an improvement in the economy.
- Roy Morgan Business Confidence data for September 2022 shows that business confidence rose by 4.7 points in the month to 100.7 index points – the first time the index has increased in consecutive months so far this year.
- Xero's Small Business Index for September 2022 shows that the index rose by 6 points in the month to 127 points indicating overall small business performance remains above average despite challenging macroeconomic conditions.

Background

NAB SME Business Survey

- This quarterly survey offers insights into factors affecting small and medium business conditions by state, industry and size. It captures SMEs in the non-farming sector in Australia with an annual turnover between $2 and $10 million.
- Fieldwork for this survey was conducted from 22 August 2022 to 8 September 2022, covering over 700 firms across the non-farm business sector.

NAB Monthly Business Survey

- The NAB Monthly Business Survey is based on a telephone survey of small, medium and large non-farming companies and presents findings on business confidence and outlook.
- Fieldwork for this survey was conducted from 23 to 29 September 2022, covering over 400 firms across the non-farm business sector.

MYOB Business Monitor

- The MYOB Business Monitor researches business performance and attitudes regarding areas such as profitability, cash flow, pipeline work, technology usage and the government.
- This report presents the summary findings from a national sample of 1,000 business owners, managers and directors (operators), conducted from 22 March to 21 April 2022 for non-employing and employing businesses.

Roy Morgan Business Confidence

- The latest Roy Morgan Business Confidence results for September 2022 are based on 1,359 interviews with a cross-section of Australian businesses from each state and territory.
- The survey began in May 2010, and now adds 12,000 new interviews each year, covering businesses from every industry of all sizes across Australia.

Xero Small Business Index

- Xero Small Business Index is a composite index showing improvements or declines in the performance of the small business economy relative to the average month. The Index comprises four key measures of small business: sales, time to be paid, jobs and wages.

FOI 3204
Document 37

SB22-000302

BUDGET MEASURES – SMALL BUSINESS

Headline Statement

- The Budget is delivering a Better Deal for Small Business. This includes:
  - Providing $62.6 million to support energy-intensive small and medium sized businesses improve their **energy efficiency**, helping to drive down their energy bills.
  - Extending small business **financial counselling and mental health supports** ($15.1million)
  - Making the **workplace relations** system easier for small businesses to navigate by:
    - removing complexity to help them reach agreements with their employees
    - providing bargaining support for small businesses, and
    - assisting small business employers to implement new family and domestic violence leave entitlements for their employees.
- The Government is also **strengthening unfair contract term protections** to help improve consumer and small business confidence when entering standard form contracts.

Key Points

- A number small business related measures were announced as part of the October 2022-23 Budget.

Key Measures

- The Government is responding to rising energy costs by committing $62.6 million to support small and medium-sized businesses in improving their energy efficiency and reducing energy use. These grants, administered by the Department of Climate Change, Energy, the Environment and Water, will empower small and medium-sized businesses to invest in cost-saving, energy efficient upgrades that will drive down power bills.

- Businesses are eligible if they have a turnover of less than $50M or less than 200 staff.
- Average grants are expected to be between $20,000-$25,000 for small businesses and $50,000 for medium businesses, and the program is expected to run for two years.

- The Government is providing $15.1 million to extend the tailored small business mental health and financial counselling programs, NewAccess for Small Business Owners and the Small Business Debt Helpline. These programs, administered by Treasury, have assisted many small businesses through the challenges of COVID-19 and recent natural disasters.
    - Established in 2020, they have supported 6,307 SMEs through Covid-19 and disasters.
- The Government is also simplifying processes and providing additional support to make workplace relations easier for small business to navigate:
    - Bargaining rules will be amended and improvements made to the Better Off Overall Test, making it easier to negotiate agreements.
    - $7.9 million over 4 years will be provided for the Fair Work Commission to support the uptake of enterprise bargaining for small businesses.
    - $2.1 million per year ongoing, to the Fair Work Commission for bargaining support for small business to help employees and businesses reach agreements
    - Access to multi-employer bargaining will be improved, including by supporting small business to voluntarily use multi-employer bargaining to simplify their workplace arrangements.
    - Support will be provided to Employer Representatives and Unions to Improve Safety, Fairness and Productivity in Workplaces. COSBOA will be eligible to apply for funding.

Other relevant Budget measures

- There are several Budget commitments directly targeted at small business, but many others that impact the overall business operating environment, and have indirect benefits to small business, such as:

- $871.7 million over 5 years from 2022-23 to provide 480,000 fee-free TAFE places, with around 180,000 fee-free TAFE places delivered in 2023 as part of a one-year National Skills Agreement,

- the establishment of Jobs and Skills Australia, to provide national leadership and advice on Australia's labour market, and skills and training needs,

- $4.7 billion over 4 years from 2022–23 (and $1.7 billion per year ongoing) to deliver cheaper child care, easing the cost of living for families and reducing barriers to greater workforce participation,

- $757.7 million over 5 years from 2022-23 to improve mobile and broadband connectivity and resilience in rural and regional Australia, under the Better Connectivity for Rural and Regional Australia Plan,

- An equity investment of $2.4 billion to NBN Co over 4 years from 2022-23 to upgrade the NBN to deliver fibre-ready access to a further 1.5 million premises by late 2025, and

- $3.4 million over 4 years will be provided for advice and support for small business employers to implement the new paid family and domestic violence leave entitlements.

Early stakeholder feedback

- Budget coverage in the media has been relatively subdued with respect to small business issues. However early feedback is positive.

- COSBOA has rated the Budget "7/10" and said:

    - "This budget delivers benefits for small business owners and sole traders in four key areas, namely: improved internet connectivity, small business mental health support, cost of living improvements to childcare support, and VET & skills planning".

    - With regard to NewAccess for Small Business Owners and the Small Business Debt Helpline, COSBOA said "We warmly welcome the funding of these programs and know they will be vital to support our small business operators going through hard times".

- ACCI stated that the Government:

    - "delivered a modest and practical budget that invests in growing local jobs and skills, makes inroads in restoring the nation's balance sheet, and works to safeguard Australia from renewed global turbulence."

s 47C, 47E(d)

[redacted]

s 34(3)

[redacted]

s 47C, 47E(d)

[redacted]

s 34(3)

[redacted]

FOI 3204
Document 38

SB22-000306

FRANCHISING

Headline Statement

- The Government is committed to an effective regulatory framework for the franchising sector, including establishing the Franchise Disclosure Register (Register).

- The Register has been established to provide information on franchisors and will be publicly searchable from 15 November 2022. This will promote transparency and address known information gaps in the franchising sector to assist people interested in being franchisees and support their due diligence on business opportunities.

Key Points

Franchise Disclosure Register

- Under recent Franchising Code reforms, all franchisors are required to create and maintain a public profile on the Franchise Disclosure Register by 14 November 2022.

- The public, including prospective franchisees, will then be able to search the Register from 15 November 2022.

- In addition to basic profile information, franchisors are currently being encouraged to voluntarily provide additional disclosure information to the Register. Regulatory amendments are being progressed to support mandating the provision of this additional disclosure information following the identification of a regulatory limitation for mandating this information.

- The Register is one of the remaining reforms to be implemented and is intended to address current information gaps in the franchise sector and to support due diligence activities for those considering entering into a franchise.

- In addition to basic business information like the name, address and contact details for franchisors, examples of the kinds of information that the Register will make available to prospective franchisees include information about:

- Restrictions on which suppliers they may use;
- payments and costs to establish the franchised business; and
- entitlement to goodwill and restraint of trade (or similar) clauses.

- The Register can be accessed via business.gov.au/franchising and provides access to a directory of franchised systems in Australia.
- Since 1 April 2022, franchisors have been able to login and register ahead of the 14 November 2022 deadline. The Register will make franchisor profiles and any additional disclosure information provided publicly searchable from 15 November 2022.
- Treasury is hosting and administering the Register. Enforcement of the Franchising Code (including the obligation to register) is the role of the ACCC.
- Minor regulatory amendments are presently being pursued to support the mandatory provision of additional disclosure information. These amendments are consistent with the underlying policy intent of the Register and will operate in addition to the basic obligation for franchisors to register by the November deadline.
- As at close of business 31 October 2022, approximately 197 franchisor profiles had been completed ready for public viewing from 15 November.

Future reviews of the Franchising Code

- There are a number of upcoming reviews scheduled for the Franchising Code including on automotive provisions, a post-implementation review of the Register commencing in late 2023 and a review of the code prior to sunsetting in early 2025.
- These reviews will provide an opportunity to consider the effectiveness of recent reforms.

Background

- The Franchising Code of Conduct (Franchising Code) is a mandatory code prescribed by regulation under the *Competition and Consumer Act 2010* (Cth) (CCA). It governs the relationship between franchisors and franchisees and contains disclosure rules to address information gaps suffered by franchisees, rules and requirements to address power imbalance, and mechanisms for dispute resolution.

- Policy responsibility for the Franchising Code rests with the minister with portfolio responsibility for small business, while the Assistant Minister for Competition, Charities and Treasury has policy responsibility for the industry codes framework under the CCA.

- The ACCC can take action in relation to breaches of the Franchising Code, and the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) also has a role under the Franchising Code to support parties in dispute to engage in alternative dispute resolution.

- As a result of the power imbalance between franchisors and franchisees, there is a history of reports and inquiries leading to regulatory reform. Many recent reforms to franchising respond to the 2019 *Fairness in Franchising* parliamentary report:

  – Amendments to the Franchising Code of Conduct (Franchising Code) were made in 2021 to:

    : **improve access to information**, for example by requiring franchisors to disclosure additional information about supplier rebates;

    : **better balance the rights of franchisors and franchisees**, for example by limiting the circumstances in which franchisors can require franchisees to undertake significant capital expenditure;

    : **improve access to justice**, for example by providing for multi-party mediation and giving ASBFEO power to assist parties to arbitrate their disputes; and

    : **improve protections for automotive franchisees**, for example by creating an obligation for compensation when manufacturers withdraw from the market or change the distribution model mid-term.

  – Amendments to increase penalties in the Franchising Code also took effect from 15 April 2022 to provide a strong deterrent against breaches of the Franchising Code, particularly by large multinational franchisors.

    : The maximum penalty available for breaches of certain provisions, including those targeting the automotive sector, has increased to $10 million (or 3 times the benefit gained, or 10 per cent of annual turnover) for corporate bodies.

Franchising Key Statistics

- Franchising is a $173.8 billion sector in Australia with around 1,250 franchise brands and over 94,000 franchisees. The sector employs an estimated 574,000 people (IBISWorld 2022). These franchisee numbers include an estimated 1500 new car dealers (AADA Dealernomics).

- Over the previous 12 months (October 2021 – September 2022), ASBFEO provided assistance to franchise participants, including assisting with 463 franchise related enquiries.

- Over the previous 12 months, 100 per cent of mediations facilitated by ASBFEO under the Franchising Code were reported to have been conducted in good faith, with an average 54 per cent resolution rate. The average cost of mediation was $2,741 (ASBFEO).

- Further, over the past 12 months (July 2021 – June 2022), the ACCC received approximately 316 contacts, or an average of 79 franchising contacts per quarter, compared to 97 per quarter in the previous year. Franchising contacts to the ACCC have reduced since 2019.

Mercedes-Benz Australia – legal action

- Mercedes-Benz franchisees are currently pursuing legal proceedings against their franchisor in the Federal Court.
- It is understood that a key issue in the proceedings is the carmaker's decision to move to a fixed price agency model in Australia in January 2022.
- Amendments made to the Franchising Code which took effect on 1 July 2021 expressly capture agency dealership models to make it clear that the protections of the Franchising Code still apply to those parties.
- These reforms support Australian new car dealers by helping to ensure that structural transitions are managed fairly and transparently.

PAYMENT TIMES TO SMALL BUSINESS

Headline Statement

- The Australian Government is committed to improving payment times for small businesses.

Key Points

- Long and late payment times for small businesses impedes cash flow, revenue and financing and, in turn, constrains jobs growth, investment and innovation across the sector.
- Three current measures aim to improve payment times for small businesses:
  - The Payment Times Reporting Scheme (the Scheme), where transparency around payment performance encourages large businesses and government enterprises to improve their payment practices.
  - The Payment Times Procurement Connected Policy, which leverages Australian Government procurement to improve payment times to small businesses in the supply chains of government contracts.
  - The Supplier Pay On-Time or Pay Interest Policy, which requires Australian Government agencies pay invoices in 20 calendar days (and eInvoices in 5 calendar days) or pay interest on late payments.
- Since the commencement of the Scheme on 1 January 2021, the average payment term for small businesses across all industries has remained stable at just over 36 days.
  - Data from reports published to the Payment Times Reports Register (as at the end of October 2022) indicate that entities are not meeting their own payment terms offered to small businesses. Using a benchmark of 80% of invoices (by number), only 47% of reports show payment within the terms offered, and only 31% of reports show actual payment within 30 days.

s 47C, s 47E(d)

[redacted]

- The payment performance of Australian Government agencies is monitored on an annual basis through the Supplier Pay On-Time Survey. The 2020–21 Survey showed that government agencies paid 93 percent of invoices from small businesses in 20 days.

Background

Election Commitment

- On 5 April 2022, the then shadow Small Business Minister, the Hon Richard Marles MP issued a joint media statement that if elected a Labor Government would ‘ensure small businesses are paid on time to sustain growth across the economy with a mechanism to ensure payment within 30 days’.

s 47C, s 47E(d)

[redacted]

<u>IF ASKED</u>: Is ensuring 30-day timeframes for small businesses appropriate policy for all industries?

- The Payment Times Reports Register shows that there are differences in payment terms and times across industries.

- The independent review of the *Payment Times Reporting Act 2020* that will be undertaken in the first half of 2023 will consider whether measures such as mandating one or more maximum periods for the payment of small business invoices could be more effective in improving those payment terms and practices.

- The findings and recommendations from this review will be informed by international evidence and stakeholder feedback on a range of policy instruments that may be used to improve payment times for small businesses.

Payment Times Reporting Scheme

- The Payment Times Reporting Scheme (the Scheme), enabled by the *Payment Times Reporting Act 2020* (the Act), commenced on 1 January 2021 and is administered by the Payment Times Reporting Regulator (the Regulator) in Treasury.

- The Scheme aims to improve payment times for small businesses by creating transparency around the payment performance of large entities operating in Australia. Encouraging these entities to improve their payment times will lead to fairer and faster payments to small businesses that in turn can help improve cashflow and provide more certainty for business planning.

- Under the Scheme, large businesses and government enterprises (known as reporting entities) must submit payment times reports to the Regulator every six months. These reports include information on their standard payment terms, actual payment performance, and the use of supply chain financing arrangements. These reports are made public on the Payment Times Reports Register (the Register), freely accessible on the PTRS website.
  - As at the end of October 2022, 15,980 reports have been published to the Register, representing 8,840 entities.
- The Small Business Identification (SBI) Tool is used by reporting entities to identify which small business suppliers they must report on.
  - The SBI Tool operates as a negative lookup tool that searches a database of ABNs for large and medium sized businesses (with incomes over $10 million in the most recent income years). Through exclusion from this database, the SBI tool identifies businesses as small businesses if they carry on an enterprise in Australia, have an ABN and their annual turnover was less than $10 million for the most recent income year.
- Small businesses have no regulatory obligations under the Scheme. Further, small businesses may opt out of being identified as 'small' in the SBI Tool – some small businesses may not wish to be identified as small as they feel it can hinder them commercially.

Payment Times Reporting Regulator

- The Regulator's core functions are to receive payment times reports from reporting entities every six months and to publish those reports on the Register. The Regulator sitting in Treasury does not mandate or enforce payment terms or times for large businesses.
- Where reporting entities do not submit payment times reports, or provide false or misleading information, there are a range of enforcement tools available to the Regulator, ranging from publishing non-compliance on the Register to commencing Court action for civil penalties.
- The Regulator takes an escalating approach to compliance and enforcement.
  - The Regulator will facilitate compliance and remediation for reporting entities that act in good faith and demonstrate a willingness to comply.
  - The Regulator may use compliance and enforcement powers in response to identified non-compliance, with a focus on non-compliance which is repeated, not remediated in a timely manner, the result of indifference or carelessness, or intentional.

MARKETS GROUP 2022-23 BUDGET MEASURES

Headline Statement

- Markets Group measures in the Budget cover a huge breadth of issues. Measures that contribute to integrity of the tax system, respond to developments such as the collapse of Youpla Group Funeral Benefits Program, and encourage downsizers by allowing them to contribute sale proceeds to their superannuation.

Markets Group Measures

More Competition, Better Prices – increase penalties (BP2 p.15)

- The Government will increase penalties for breaches of competition and consumer law to deter conduct that stifles competition and increases costs to consumers.
- Maximum penalties for corporations will increase from $10 million to $50 million per breach and from 10 per cent of annual turnover to 30 per cent of turnover during the period the breach took place.
- This measure is expected to have a positive impact of $62.6 million over the forward estimates and will deliver on part of the Government's Better Competition election commitment.

○ A bill to give effect to this commitment passed the Parliament on 27 October 2022.

Fighting Online Scams (BP2 p.188)

- The Government has committed to a new long-term, coordinated, whole-of-government approach to reduce scam losses for Australians.
- This will bring together resources from the private sector, Commonwealth, states and territories to enable better collaboration, information sharing and coordinated disruption of scams.

- The Government is making an initial investment of $12.6 million over 4 years to combat scams and online fraud. Funding includes:
  - $9.9 million over 4 years from 2022-23 to the Australian Competition and Consumer Commission to undertake initial steps for the phased establishment of a National Anti-Scam Centre;
  - $2.0 million in 2022-23 to the Department of Home Affairs to expand its arrangement with Identity Care Australia (IDCARE) to provide specialist identity recovery services, including counselling and support for victims to recover their identity; and
  - $0.7 million in 2022-23 to the Department of the Treasury to raise public awareness of the risk of scams.
- Questions regarding the $2 million funding for IDCARE should be directed to the Department of Home Affairs.

Modernising Business Registers – program funding, director ID sustainment and registry stabilisation (BP2 p.190)

- In addition to $480.5 million funding to date, the Government will provide funding of $166.2 million over 4 years from 2022-23 to continue detailed design and delivery of the Modernising Business Registers program that will consolidate over 30 business registers onto a modernised registry platform. Funding includes:
  - $80.0 million in 2022-23 for the Australian Taxation Office (ATO) and the Australian Securities and Investments Commission (ASIC) to continue design and delivery of the modernised registry platform; and
  - $86.2 million over 4 years from 2022-23 ($119.5 million over 6 years from 2022- 23 and $15.9 million per year ongoing) for ATO and ASIC to operate and regulate the Director Identification Numbers regime and maintain ASIC's registry systems.

Restoring Treasury's Capability on Climate Risks and Opportunities – modelling and reporting standards (BP2 pp.190)

- The Government has committed $6.2 million over 4 years from 2022-23 for the Treasury ($5.2 million) and the Australian Accounting Standards Board ($1 million) to develop and introduce climate reporting standards for large businesses and financial institutions, in line with international reporting requirements.

- This measure also redirects partial funding from the 2022-23 March Budget measure *Insolvency Reform – continuation.*
  - The former government provided $29.8 million over 4 years from 2022-23 for the measure (part of the funding was partially met within existing resources).

Youpla Group Funeral Benefits Program- establishment (BP2 p.194)

- The Government has established the Youpla Group Funeral Benefits Program to urgently address the immediate funeral expense claims that are not being paid because of the collapse of the Youpla Group.
- The Youpla Group Funeral Benefits Program pays a grant to people who would otherwise miss out on funeral benefits due to the collapse of the Youpla Group in March 2022. To be eligible for a grant, an applicant's deceased loved one must have been covered by a Youpla Group policy that was active on or after 1 April 2020.
- The program started on 7 September 2022 and will accept applications until 30 November 2023. The program is demand driven and not capped at any specific number of claims. The total cost for the program is estimated to be $7.2 million over the 2022-23 and 2023-24 financial years.

Expanding eligibility for downsizer contributions (BP2 p.20)

- The downsizer contribution allows people to make a one-off post-tax contribution to their superannuation of up to $300,000 per person from the proceeds of selling their home. This measure is estimated to decrease receipts by $20.0 million over the four years from 2022-23.
- The Government will allow more people to make downsizer contributions to their superannuation, by reducing the minimum eligibility from 60 to 55 years of age. Changes will apply prospectively from the start of the first quarter after Royal Assent of the enabling legislation.

Treasury – Additional Funding (BP2 pp.193-194)

- The Government is providing additional funding to support the delivery of Government priorities in the Treasury portfolio including:
  - $2.7 million in 2022-23 for the Treasury to support reviews of the regulatory framework for the Reserve Bank of Australia and Managed Investment Schemes. Part of the funding for these reviews will delivered from existing Treasury resources.

- Support for the Australian Securities and Investments Commission to administer the financial adviser exam, to be partially cost recovered from examination fees (costs are not for publication due to commercial sensitivities).

- This measure also redirects partial funding from the 2022-23 March Budget measure *Insolvency Reform – continuation.*
  - The former government provided $29.8 million over 4 years from 2022-23 for the measure (part of the funding was partially met within existing resources).
- See Background for more information about these items.

Multinational Tax Integrity Package – improved tax transparency (includes Consultation on Beneficial Ownership Register) (BP2 p.17)

- Consultation on reforms to increase transparency of beneficial ownership, including design elements of a publicly accessible register of beneficial owners.
  - (Note: this measure was not announced as part of the Budget, but the consultation paper will likely be published prior to Budget Estimates).

Providing certainty on unlegislated tax and superannuation measures announced by the previous government (BP2 pp.18-19)

- Includes the reversal of the following Markets Group measures:
  - The 2016-17 Budget measure that proposed to introduce a new tax and regulatory framework for limited partnership collective investment vehicles.
  - The 2018-19 Budget measure that proposed changing the annual audit requirement for certain self-managed superannuation funds (SMSFs).
  - The 2018-19 Budget measure that proposed introducing a requirement for retirement income product providers to report standardised metrics in product disclosure statements.
- And the deferral of the start dates for legacy tax and superannuation measures, including:
  - The 2021–22 Budget measure that proposed relaxing residency requirements for SMSFs, from 1 July 2022 to the income year commencing on or after the date of Royal Assent of the enabling legislation.

- See Background for more information about these measures.

<u>Treasury Measures – other portfolios</u>

DCCEEW – Murray-Darling Basin – water market reform (BP2 p.66)

- The Government will restore irrigators' confidence in Murray-Darling Basin water trading markets through greater transparency, integrity and market regulation by the Australian Competition and Consumer Commission.
  - *Note: funding for the water market reform measure, including ACCC funding, is not published in the Budget due to commercial sensitivities.*

DFAT - Pacific Security and Engagement Initiatives (BP2 pp.114-115)

- The Government will provide funding to support reliable and secure banking services in the Pacific. This is work being jointly coordinated between DFAT and Treasury.
- Further questions should be directed to DFAT as the measure is in their Portfolio Budget Statement.
  - *[If pressed]* It would not be appropriate to expand on the work in this forum, but officials would be happy to brief interested Senators *in camera*.

Education – Plan for Cheaper Child Care (BP2 pp.93-94)

- The Government will provide $10.8 million over 2 years from 2022-23 to the ACCC to undertake a 12-month inquiry into child care costs and prices. The inquiry will commence by 1 January 2023 and deliver a final report by 31 December 2023.
- The ACCC will examine the key elements that make up the costs of providing child care and the prices ultimately charged to families, including the impact of factors such as care type and geographical location, and factors affecting demand, supply, and competition in the market.

National Emergency Management Agency - Plan for Disaster Readiness – Rising insurance premiums (BP2 p.151)

- The Government will provide $25.3 million over 5 years from 2022-23 to the National Emergency Management Agency for initiatives to improve insurance affordability and availability issues driven by natural disaster risk.
- These initiatives include the establishment of new partnerships with the private sector, including the insurance industry, on risk reduction and insurance

affordability; the development of a national knowledge base of mitigations to reduce vulnerability to natural disasters; and work to improve consumer understanding of insurance products.

- The package will identify where the most pressing insurance issues are and how to best address them and support better targeted mitigation and resilience strategies.

Industry - Supporting the Supply of Australian Gas (BP2 p.157)

- The Government is providing $24.8 million over 8 years from 2023-24 to the ACCC to extend its Gas Inquiry to 2030. The ACCC reports on the supply and demand outlook and any projected shortfalls.
  - This supports Government decision-making on whether to activate the Australian Domestic Gas Security Mechanism (ADGSM), which has been extended to 2030.
  - The Government is also providing $18.7 million over 7 years from 2023-24 to enable the ACCC to move from twice-yearly to quarterly reports, in line with the move to quarterly ADGSM activation decisions.

Cross Portfolio – Government Spending Audit – Providing Certainty on Unlegislated Measures Announced by Previous Government (BP2 p.80)

- Includes the following Markets Group Announced but Unenacted Measures (ABUMs) (see Background for more information):
  - *Australian Consumer Law Review – introducing a Statutory Definition of Voluntary Recall and Increasing Penalties for Failure or Refusal to Notify a Voluntary Recall*

Background

<u>Treasury - Additional Funding (BP2 pp.193-194)</u>

Funding for ASIC to administer the financial adviser exam in 2023

- *If pressed:* The Government will provide s 47D, s 47E(d) over two years to enable the Australian Securities and Investments Commission (ASIC) to administer the financial adviser exam in 2023, with the cost to be partially cost recovered from examination fees (estimated to be s 47D, s 47E(d)).
  - ASIC is currently undertaking an open competitive tender process to engage an exam provider.
  - The Assistant Treasurer has indicated that Treasury will consider ways to improve the delivery of the exam.

Reverse: Insolvency Reform – continuation

- The Government has reversed the former government's March 2022-23 Budget measure *Insolvency reform – continuation* to partially redirect funding to Government priorities including to climate modelling and the development of climate reporting standards.
- The former government provided $29.8 million over 4 years from 2022-23 for the measure (part of the funding was partially met within existing resources). Funding included:
  - $22.0 million to implement reforms to unfair preference rules, including enhancing the Assetless Administration Fund, from 1 July 2023
  - $7.0 million to clarify the treatment of trusts with corporate trustees under Australia's insolvency laws
  - $0.8 million in 2022-23 to implement the Government's response to the recommendations of the *Independent Safe Harbour Review*.

Review of the Managed Investment Scheme Framework

- Treasury will undertake a review of the regulatory framework for managed investment schemes and report findings and options for reform to Government by early 2024.
- There have been several Parliamentary inquiries that have considered various issues arising about the regulatory framework for managed investment schemes. This review will amongst other things consider the recommendations in those reports and provide advice to Government about the changes that could be made to the regulatory framework for managed investment schemes, if any.

<u>Announced But Unenacted Measures (ABUMs)</u>

ABUM Reversal: Introduce a new tax and regulatory framework for limited partnership collective investment vehicles (BP2 pp.18-19)

- The Government has announced that it will not proceed with the 2016-17 Budget measure that proposed introducing a new tax and regulatory framework for limited partnership collective investment vehicles.

- A new corporate collective investment vehicle (CCIV) has commenced operation on 1 July 2022. Treasury expects that the new CCIV structure will become the favoured legal structure for new managed funds.

- The Government will continue to consider whether a limited partnership collective investment vehicle may be required in the future.

ABUM change in start date: Self-managed superannuation funds: Relaxing residency requirements (BP2 pp.18-19)

- In the 2021-22 Budget, the former Government announced a relaxing of residency requirements for self-managed superannuation funds (SMSFs) and small APRA-regulated funds (SAFs) by extending the central control and management test safe harbour from two to five years for SMSFs, and removing the active member test for both fund types. The measure was expected to commence on 1 July 2022.

- The measure will enable SMSF trustees to maintain their funds while overseas for longer periods of time, reflecting modern work and study patterns.

- The measure has a revised start date of 'the beginning of the income year commencing on or after the date of Royal Assent of enabling legislation'.

ABUM Reversal: Requirement for retirement income product providers to report standardised metrics in product disclosure statements (BP2 pp.18-19)

- This was one component of the 2018-19 Budget *Retirement Income Covenant* package, which included a requirement for funds to offer a standardised default retirement product. A default product was not part of the final Covenant, legislated in 2022, removing the need for this complementary measure to standardise reporting. It has no financial impact.

- Superannuation funds must still provide product disclosure as required for other financial investments.

ABUM Reversal: Superannuation - 3-year audit cycle for some self-managed superannuation funds (SMSFs) (BP2 pp.18-19)

- In the 2018-19 Budget the former Government announced a change to the annual audit requirement for SMSFs to a three-yearly requirement for SMSFs with a history of good record-keeping and compliance from 1 July 2019.

- During a public consultation process from 5 July 2018 until 31 August 2018 the measure was not well supported by stakeholders. Stakeholders raised concerns the measure would not reduce red tape and would potentially increase non-compliance with tax and regulatory obligations.

ABUM Reversal: Australian Consumer Law Review – introducing a Statutory Definition of Voluntary Recall and Increasing penalties for Failure or Refusal to Notify a Voluntary Recall (BP2 p.80)

- This 2017-18 Budget measure has been reversed in line with reform priorities that were agreed by Commonwealth, state and territory consumer ministers. These priorities include:
  - making unfair contract terms unlawful and subject to penalty;
  - increasing penalties for breaches of the ACL;
  - combating scams;
  - reforms to consumer guarantees and supplier indemnification provisions;
  - consulting on proposed reforms to unfair trading provisions; and
  - releasing a discussion paper on travel services.
- Decisions on future priorities (including voluntary recalls) will be considered once these immediate priorities have been progressed.

FOI 3204
Document 41

SB22-000309

FINANCIAL SYSTEM OVERVIEW

Headline Statement

- The Australian financial system remains resilient and is well-positioned to continue to support households and businesses, despite challenges presented by higher interest rates and inflation.

Key Points

- Persistently high inflation has prompted a rapid and synchronised tightening in monetary settings in advanced economies. Domestically, this may lead to financial difficulty for some borrowers.
- The financial system continues to be resilient and bank capital and liquidity positions remain strong. The Government will continue to monitor developments closely.
- Through-the-year credit growth has continued to increase and was 9.4 per cent in September (well above the 10-year average of 4.8 per cent).
  - Owner-occupier housing credit rose by 7.8 per cent in September compared to a year ago, though growth has eased over recent months.
  - Business credit growth remained strong, with business credit rising by 14.7 per cent in September compared to a year earlier (the highest through-the-year growth since 2008).
- Interest rates on mortgages and business loans have increased significantly over recent months, reflecting increases in the cash rate which has risen to 2.85 per cent, up from 0.10 per cent in April 2022.
  - The average lending rate on outstanding owner-occupier housing loans was 3.7 per cent in August 2022, up from 2.6 per cent in April 2022.

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Last updated: 3/11/2022 9:19:00 AM

- Recent bank merger activity:
  - In July 2022, Suncorp announced its intention to sell its banking business to ANZ. ANZ has not yet submitted an application to the Treasurer for approval.
  - In September 2022, the Treasurer approved the mergers of Heritage Bank with People's Choice and Greater Bank with Newcastle Permanent. Both mergers will be subject to a vote of their members.
- Australian equity and debt markets have been volatile in 2022, reflecting uncertain global economic conditions underpinned by rising interest rates, elevated levels of inflation and geopolitical conflict.

Background

Financial stability

- The Australian financial system, including the banking system at its core, has demonstrated a high degree of resilience during a period of significant pressure.

- The banking system entered the COVID-19 pandemic from a position of strength, supported by substantial capital and liquidity buffers built up since the GFC. In particular, the major banks have benefited from 'unquestionably strong' capital positions, which allowed them to support the flow of credit.

- Banks' capital positions have continued to trend higher over recent years are well in excess of regulatory capital requirements and APRA's 'unquestionably strong' benchmark.

  – In November 2021, APRA finalised reforms to the capital framework to embed 'unquestionably strong' levels of capital, support competition and meet internationally-agreed standards. The reforms will become effective in January 2023.

  – While there will be adjustments to risk weights, the reforms will not result in banks being required to raise additional capital.

Credit conditions

- Total credit increased by 9.4 per cent through the year to September 2022 compared to a year earlier (well above the 10-year average of 4.8 per cent).

- Owner-occupier housing credit rose by 7.8 per cent in September 2022 compared to a year earlier, though through-the-year growth has eased over recent months.

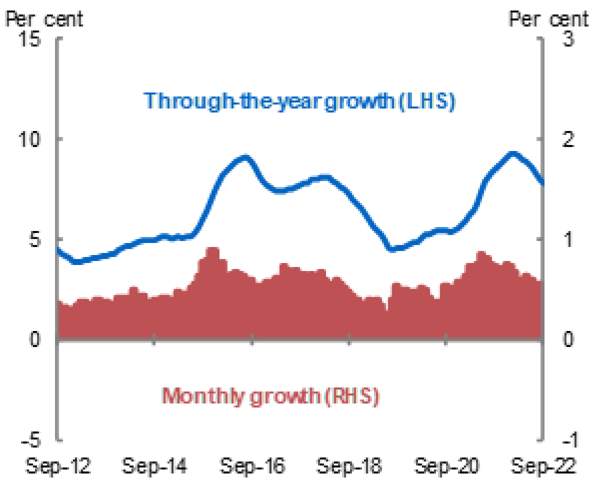
  – The value of new loan commitments for owner-occupier housing (excluding refinancing) was $16.8 billion in September 2022, down 19.9 per cent from a year earlier.

  – The value of new loan commitments for investor housing (excluding refinancing) was $8.3 billion in September 2022, down 15.3 per cent from a year earlier.

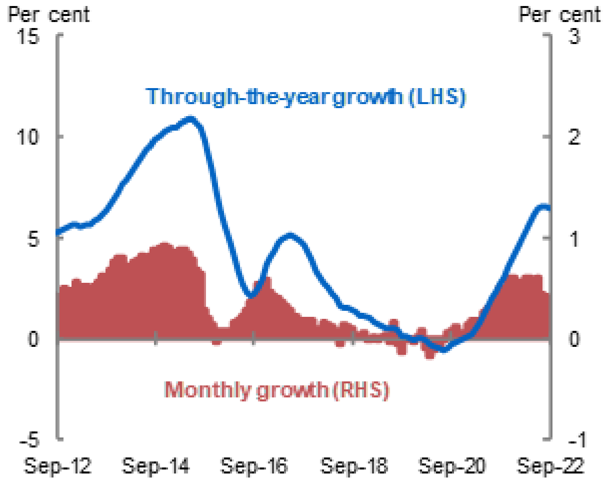
- Business credit rose by 14.7 per cent in September 2022 compared to a year earlier, the highest through-the-year growth since 2008.

  – Credit outstanding to small and medium enterprises (SMEs) rose by 8.7 per cent in August 2022 compared to a year earlier.

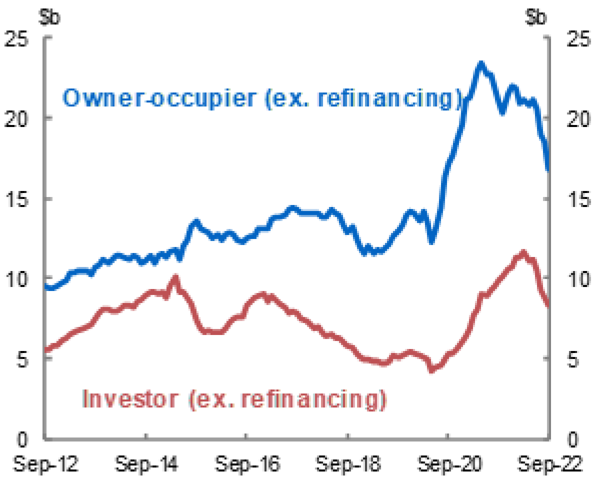
Owner occupier housing credit



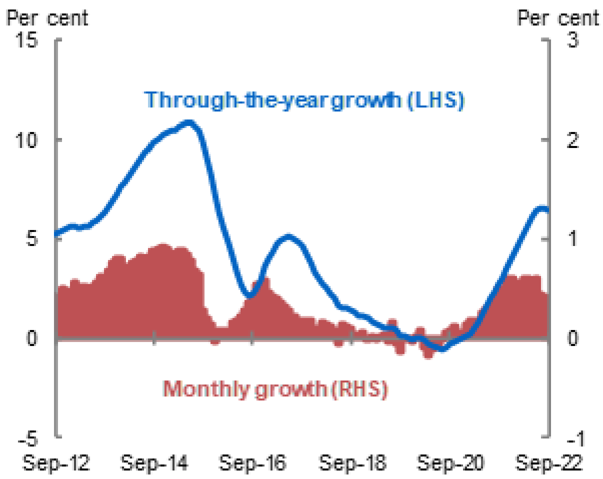
Investor housing credit



New housing finance commitments



Business credit



Source: ABS and RBA.

Housing

- National housing prices fell by 1.2 per cent in October 2022, to be 6.0 per cent lower than their April 2022 peak. Housing prices are still 18.7 per cent higher than March 2020.
- As in other developed countries, housing price growth has slowed amid consecutive interest rate increases.
  - Over the year to October 2022, national housing prices rose by 0.9 per cent, with a rise 6.6 rise in regional areas and a 3.1 per cent fall in capital cities.

- Nominal housing prices in Australia rose by 30.8 per cent over the pandemic according to CoreLogic, compared to 34.8 per cent in the OECD (Table 1). Recent data for Canada, United States, euro area, and New Zealand show a deceleration in yearly growth.

Table 1: Nominal housing price growth by country

Country	Through the year to June Quarter 2022 (%)	Change from pre-pandemic December 2019 to June quarter 2022 (%)
Australia*	14.0	30.8
United States	17.7	42.5
Canada	16.7	39.4
Euro area	9.3	20.2
United Kingdom	10.6	22.4
New Zealand**	13.3	42.5
OECD***	16.8	34.8

Source: OECD, CoreLogic, Refinitiv.
*Through-the-year growth calculated using the quarterly average of monthly index values.
**Latest OECD data for New Zealand is March quarter 2022.
***Only OECD countries with data available as of June quarter 2022 are used in this aggregation.

Interest rates

- Mortgage interest rates paid by borrowers continue to increase.
  - The average interest rate on outstanding owner-occupier mortgages was 3.7 per cent in August 2022, up from 2.6 per cent in April 2022.
- Interest rates for small, medium and large sized business lending have also risen recently.
  - The average lending rate on outstanding loans for small businesses was 5.2 per cent in August 2022, up from 4.1 per cent in April 2022.
  - The average lending rate on outstanding loans for medium businesses was 4.2 per cent in August 2022, up from 2.7 per cent in April 2022.
  - The average lending rate on outstanding loans for large businesses was 3.3 per cent in August 2022, up from 1.6 per cent in April 2022.

Non-performing loans

- The banking industry's non-performing loan ratio was 0.9 per cent in the June 2022 quarter, well below GFC levels.

Non-performing loans (NPLs) as a percentage of gross loans and advance

Source: APRA. Note: Quarterly data. APRA changed the reporting standard in 2022. Before 2022, NPLs are defined as the sum of 'impaired' and '≥90 days past due'.; Since 2022, NPLs are defined as any exposure that is in default.

Capital markets

- The main equity market index in Australia – the ASX200 – is down around 11 per cent year to date as of 14 October.
  - This compares with sharper falls in the major US and European market indices of around 20 to 35 per cent over the same period.
- Trading volumes on the ASX have at times been elevated over 2022, in large part in response to uncertain economic conditions.
  - Monthly equity trading volumes peaked at over 45 million trades in March 2022, before returning to more normal levels of around 36 to 38 million trades in recent months.
  - The amount of capital raised on Australia's financial markets has declined in 2022, amidst global economic uncertainty and following exceptionally high levels of capital raised in 2021 and 2020. Initial and secondary capital raised on the ASX in the September quarter 2022 totalled $20.5 billion, compared to $28.9 billion in the September quarter 2021. The number of initial public offerings is substantially down, but secondary capital raising is slightly up, indicating continued availability of capital for already listed companies.
- The Australian dollar bond market also remains a large provider of capital. Australian syndicated bond issuance, excluding sovereign syndications, totalled a record $76.6 billion in the first half of 2022, compared to $58.3 billion in the first half of 2021

- Bond issuance, particularly from non-financial corporate borrowers, has slowed in the second half of 2022 as the cost of funding in debt markets has risen in line with Australian and global interest rates. However, despite undergoing periods of volatility in 2022, the market remains viable for government and highly rated corporate borrowing.

Superannuation

- As at June 2022, total superannuation assets totalled $3.3 trillion or 144 per cent of GDP.
- Australia's superannuation system is the third-largest in the world and is responsible for managing the retirement savings of 16 million Australians.

Banking Competition

- Australia's banking market is relatively concentrated. However, competition for borrowers continues to be strong, with refinancing activity for housing loans higher than usual.
- As at September 2022, the four major banks accounted for:
  - 74 per cent of bank deposits, unchanged from a year ago;
  - 69 per cent of bank business credit, down 1 percentage point from a year ago; and
  - 75 per cent of bank housing credit, down 1 percentage point from a year ago.

SB22-000310

FINANCIAL SERVICES ROYAL COMMISSION IMPLEMENTATION

Headline Statement

- The Financial Services Royal Commission made 76 recommendations for reform: 54 recommendations directed to the Government, 12 to the regulators and 10 to the industry.
- Government's implementation of the FSRC is substantially complete. 45 recommendations have been completed with legislation having been introduced for a further 6 recommendations.
  - On 8 September 2022, the Government introduced the Financial Services Compensation Scheme of Last Resort Levy (Collection) Bill 2022 to establish a compensation scheme of last resort and extend the Banking Executive Accountability Regime (BEAR) implementing 6 legislative recommendations from Hayne Royal Commission.
  - The quality of advice review (which implements 2 recommendations) is due to report to Government on 16 December 2022.

Key Points

- 54 recommendations of the Royal Commission were directed to Government.
- The Government has drafted and introduced or passed 10 packages of Bills (consisting of 18 Bills) in Parliament in order to implement the recommendations of the Royal Commission.
  - The Government has also made 15 related subordinate instruments.

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Background

Completed recommendations:

- Recommendation 1.2 and 1.3: Mortgage broker best interests duty and remuneration.
- Recommendations 1.6, 2.7, 2.8, 2.9 and 7.2: Strengthening breach reporting.
- Recommendation 1.15: Enforceable code provisions.
- Recommendations 2.1, 2.2, 3.2 and 3.3: Strengthening protections for consumers under ongoing fee arrangements and prohibiting deduction of advice fee from superannuation accounts.
- Recommendations 2.3 and 2.6: Review of financial advice and ban on conflicted remuneration.
- Recommendation 3.1: No other role or office for trustees of Registrable Superannuation Entities (RSE).
- Recommendations 3.4, 4.1: No hawking of insurance and superannuation products
- Recommendations 3.8, 6.3, 6.4, 6.5: ASIC regulation of superannuation.
- Recommendation 4.3: Deferred sales model for add-on insurance.
- Recommendation 4.4: Cap on vehicle dealer commissions.
- Recommendation 4.5: Duty to take reasonable care not to make a misrepresentation to an insurer.
- Recommendation 4.6: Limiting avoidance of life insurance contracts.
- Recommendation 4.7: Application of unfair contract term provisions to insurance contracts.
- Recommendation 4.2: Removing the financial products exemption for funeral expenses policies.
- Recommendations 3.6 and 3.7: Ban on super funds treating employers and civil penalties for breach of covenants and like obligations.
- Recommendation 4.8: Removal of claims handling exemption for insurance.
- Recommendation 4.11: Require financial firms to co-operation with the Australian Financial Complaints Authority.
- Recommendation 2.4: Ending grandfathered commissions for financial advisers.
- Recommendation 6.9: Statutory obligation for ASIC and APRA to co-operate.
- Recommendation 6.11: Formalising ASIC meeting procedure.
- Recommendation 4.13: Review of the merits of universal terms for MySuper products.

- Recommendation 6.13: Regular capability reviews of ASIC and APRA.
- Recommendation 6.14: Establish the Financial Regulator Assessment Authority.
- Recommendation 1.1: To not amend the National Consumer Credit Protection Act 2009 (NCCP Act) obligation to assess unsuitability of credit contracts.
- Recommendation 1.9: No extension of the NCCP Act to small business lending.
- Recommendation 6.1: Retain twin peaks model of financial regulation.
- Recommendation 3.5: Stapling a person to a single default account.
- Recommendation 2.10: A new disciplinary system for financial advisers.
- Recommendation 7.3: Exceptions and qualifications.
- Recommendation 7.4: Fundamental norms.

Introduced recommendations

- Recommendations 3.9, 4.12, 6.6, 6.7, and 6.8: Extend the BEAR.
- Recommendation 7.1: Establish a compensation scheme of last resort.

Completed additional commitments made by the former government

- Additional commitment to recommendation 7.2: ASIC Enforcement Review recommendations on search warrants, telecommunications powers, licencing and banning.
- Additional commitment to recommendation 2.4: Commission ASIC to monitor and report on industry actions in the period leading to the end of grandfathered conflicted remuneration for financial advisers (1 July 2019 to 1 January 2021).
- Additional commitment to recommendation 4.2: Limiting the use of the term “insurer” and “insurance”.
- Additional commitment: Extension of legislation for design and distribution obligations to additional products.
- Additional commitment to recommendation 7.1: Fund the payment of unpaid determinations.
- Additional commitment to recommendation 7.1: Expanding AFCA’s remit to consider past disputes.
- Additional commitment: Review of the coordination and funding of financial counselling services.
- Additional commitment: Superannuation binding death benefit nominations for Indigenous people.
- Additional commitment: Review of the effects of vertical and horizontal integration in the financial system.

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SB22-000311

CONSUMER CREDIT

Headline Statement

- Safe and well-regulated markets for credit products that inspire confidence by consumers are an essential element of a well-functioning financial system.

Key Points

- The Government introduced the *Financial Sector Reform Bill 2022* (the Bill) into Parliament on 8 September 2022, which gives effect to the Government's response to the 2016 Review on Small Amount Credit Contract Laws.

- The Government is taking action to address the risks of consumer harm associated with buy-now-pay-later (BNPL) arrangements through consulting with industry and consumer groups to develop tailored solutions while ensuring that consumers and merchants will continue to realise the benefits of responsible BNPL use.

- The Government will also consult on options for responding to recommendation 1.7 of the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* that the point-of-sale exemption from consumer credit licencing should be repealed.

Policy Commitments

- On 12 July 2022, the Government announced that it will not proceed with the former government's proposals to change responsible lending obligation laws.

- On 12 July 2022, Assistant Treasurer and Minister for Financial Services announced that the Government will consult on ways to improve the regulation of buy now pay later, wage advance products and point of sale credit assistance.

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Small Amount Credit Contracts and Consumer Lease Reforms

- Schedule 4 of the Bill implements the recommendations of the 2016 Review of Small Amount Credit Contract (SACC) Laws . Key features of the Government's proposed package in relation to SACCs include:
    - Extending the protected earnings amount affordability protections to prevent all consumers from overcommitting to SACC repayments and reducing the existing repayments cap from 20 per cent of a person's gross income to 10 per cent of a person's net income.
    - Requiring SACC providers to have equal repayments and equal repayment intervals over the life of the loan
    - Prohibiting SACC providers from charging monthly fees in respect to any residual term of the loan where a consumer repays the loan early.
    - Prohibiting unsolicited offers to certain consumers to apply for a SACC.
    - Introducing a new prohibition on SACCs providers making referrals to unregulated credit providers.

- Key proposed changes to consumer lease laws include:
    - Capping the costs of consumer leases.
    - Extending protected earnings amount affordability protections to consumer leases, also with a 10 per cent net income limit.
    - Requiring lessors to disclose the base price of goods hired under the lease and the difference in total amount payable
    - Establishing a method to ensure consumers are only charged early termination fees that are appropriate and reasonable
    - Prohibiting door-to-door selling and unsolicited selling of consumer leases outside of their standard business premises.

- The Bill will also introduce new rules that prohibit schemes that are designed to prevent predatory lending schemes that are created to avoid the obligations in the Credit Act that apply to SACC providers and consumer lessors
    - The anti-avoidance provisions will also expand these provisions to include schemes created to avoid an Australian Securities and Investments Commission (ASIC) product intervention order.

BNPL reforms

- Following the announcement, Treasury has held bilateral meetings with key industry bodies, BNPL providers, consumer groups and the regulators. The Assistant Treasurer has announced in various interviews and speeches that the Government intends to issue an options paper later this year.
- The Government is committed to consulting widely to ensure that any regulatory reforms strike the balance between supporting innovation in the financial services sector and ensuring consumers are appropriated protected.

Responsible lending reforms

- The former Government introduced the *National Consumer Credit Protection Amendment (Supporting Economic Recovery) Bill 2020* on 9 December 2020. The Bill lapsed on 25 July 2022 upon the proroguing of Parliament.
  - The Bill proposed to remove existing responsible lending obligations from credit providers (other than for small amount credit contracts and consumer leases), relying instead upon Australian Prudential Regulatory Authority credit risk prudential standards for banks and putting in place equivalent standards for non-banks.
- The Government will not be progressing with those reforms.

Background

Small amount credit contracts (SACCs) and consumer leases

- SACCs are regulated by the *National Consumer Credit Protection Act 2009* (the Credit Act) and are often referred to as 'payday loans'. SACCs are loans of up to $2,000 to a consumer with the term of the contract being between 16 days and one year. Loans with terms less than 16 days are generally prohibited.
- Consumer leases are contracts for the hire of goods for personal purposes under which that person does not have a right to buy the goods. Novated leases, leases for period less than four months and leases for a business purpose are not regulated under the Credit Act.

The Review of Small Amount Credit Contract Laws

- On 7 August 2015, the previous Government established the Review to fulfil a statutory requirement under the Credit Act. The Review reported to the Government on 3 March 2016 and made 24 recommendations. The final report was tabled in Parliament on 19 April 2016.

Buy now pay later

- BNPL arrangements, such as Afterpay, are an alternative to traditional forms of credit and allows consumers to pay off goods and services in instalments. The business models involves a BNPL provider paying a merchant for goods or services and the consumer paying back the BNPL provider directly over time.
- Most BNPL arrangements operate under an exception under the Credit Act for very low cost continuing credit contracts. To fall under this exception they do not charge interest and only charge consumers fees for the provision of credit below prescribed fee caps ($200 in the first year; $125 for each following year).
- Consequentially, BNPL providers are not required to hold an Australian Credit Licence, conduct unsuitability assessment (i.e. responsible lending obligations), engage in credit reporting, or provide timely hardship assistance. However, BNPL arrangements are subject to some regulatory oversight, including:
  - The Product Intervention Power (PIP), which allows ASIC to modify or ban financial products where it identifies significant consumer detriment;
  - The Design and Distribution Obligation (DDO) regime; and
  - Consumer protection provisions in the ASIC Act, including misleading and deceptive conduct, unconscionable conduct and unfair contract terms.

OPTUS – DATA SHARING

Headline Statement

- On 11 October 2022, the Government made amendments to the *Telecommunications Regulations 2021* to enable Optus to share data with financial sector entities, to enhance protections for impacted consumers stemming from the Optus data breach.
- On 26 October, the Australian Government introduced the Privacy Legislation Amendment (Enforcement and Other Measures) Bill 2022 to significantly increase penalties for repeated or serious privacy breaches.
- Government regulators and financial institutions are continuing efforts to prevent fraudulent activity related to the breach.

Key Points

- The regulations enable telecommunications companies, such as Optus, to temporarily share government identifier information with regulated financial institutions, such as banks. This will allow financial institutions to implement enhanced safeguards for consumers affected by telecommunications data breaches.
  - The government identifier information includes drivers licence, Medicare and passport details of affected consumers.
- The regulations have been carefully designed with strong privacy and security safeguards:
  - The regulations permit financial institutions that are regulated by APRA, excluding branches of foreign banks, to receive the information;
  - The Communications Minister may specify additional data recipients if appropriate, but only entities that are related to or support an APRA-regulated entity;
  - Information can only be used to prevent or respond to cyber security incidents or related fraud;

- Entities that wish to receive the data must provide written commitments to the ACCC that they will comply with their obligations under the *Privacy Act* and attest to APRA that they meet APRA's information security prudential standards.

- Entities must further ensure the data requested is necessary and proportionate to respond to the data breach incident for which the information is requested;

- Approved recipients must satisfy robust information security requirements and protocols for any transfers and storage of the information; and

- Information received must be destroyed once it is no longer required.

- The Government will consider what options are available to make the information available to a wider range of financial institutions to enable them to further enhance protections for consumers from financial crime.

  - The Council of Financial Regulators' Cyber Security Working Group will examine and report on options for financial institutions to utilise an existing secure and privacy-protecting data sharing platform.

- The Minister for Communications is responsible for *Telecommunications Act 1997* and Attorney-General is responsible for the *Privacy Act 1998*.

Policy Commitments

- On 26 October, the Australian Government introduced the Privacy Legislation Amendment (Enforcement and Other Measures) Bill 2022 to significantly increase penalties for repeated or serious privacy breaches.

  - The Government is also considering options to enhance existing criminal justice responses to malicious actors who engage in serious cyber-attacks on Australians and Australian businesses.

Background

- On 22 September 2022, Optus experienced a data breach involving current and former customers' personal identification information involving up to 9.8 million customer records.
  - On 23 September, Optus formally notified the Office of the Australian Information Commissioner of the data breach, under the Notifiable Data Breaches scheme.
  - The data includes customers' names, dates of birth, phone numbers, email addresses, and, for a subset of customers, addresses, driver's licence, Medicare and passport numbers.
- Government agencies have worked extensively with Optus to identify which government identification documents have been compromised, and to notify customers and develop mechanisms to replace documents where needed.
- Financial institutions have increased fraud monitoring efforts and have implemented heightened controls on those accounts identified as at higher risk of compromise, including requiring additional identity verification.
- The Government has actively engaged with regulators, banks and financial industry associations to understand the measures banks have put in place to protect customers and to develop the new data sharing regulations.
- APRA has contacted its regulated-entities to reinforce the importance of hardened controls on high-risk processes and transactions and to encourage proactive engagement and communication with their customers.
- The ACCC is providing advice to consumers via its Scamwatch website. It is also providing information through small business networks, which will advise additional protections for consumers and reviewing verification processes.
- The ATO has established a task force to monitor possible identity fraud, assist people who believe their identity has been compromised or want to further secure their identity.

FOI 3204
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SB22-000313

YOUPLA - ABORIGINAL COMMUNITY BENEFITS FUND

Headline Statement

- On 7 September 2022 the Government established the Youpla Group Funeral Benefits Program to urgently address the immediate funeral expense claims that are not being paid as a result of the collapse of the Youpla Group.

Key Points

- The Youpla Group Funeral Benefits Program pays a grant to people who would otherwise miss out on funeral benefits due to the collapse of the Youpla Group in March 2022.
- To be eligible for a grant, an applicant's deceased loved one must have been covered by a Youpla Group policy that was active on or after 1 April 2020.
  - 1 April 2020 was the date at which the Youpla Group ceased issuing new policies due to its failure to obtain an Australian Financial Services Licence.
- The program started on 7 September 2022 and will accept applications until 30 November 2023. The program was initially administered by Treasury and is now being administered by the Business Grants Hub at the Department of Industry, Science and Resources.
- The program is demand driven and not capped at any specific number of claims. As at 21 October 2022, the program had received 100 applications, of which 59 had been paid for a total value of $577,000. Seven applications have been rejected due to ineligibility and the remaining 34 applications are being processed.
- The total cost for the program is estimated to be $7.2 million over the 2022-23 and 2023-24 financial years, which is comprised of $4.7 million in administered funding and $2.5 million in departmental funding.

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Policy Commitments

- The Government established the Youpla Group Funeral Benefits Program as an interim arrangement while it investigates what further steps are required to bring resolution in relation to the Youpla Group collapse.

Background

- The Youpla Group – formally known as the Aboriginal Community Benefit Fund – managed 4 funeral funds that provided insurance-like products to meet the costs of funerals to predominantly First Nations peoples.

- In March 2022, all 4 funeral insurance funds of the Youpla Group entered liquidation, impacting over 14,500 active fund members.

- 85 per cent of former Youpla fund members are in Queensland and New South Wales, with remaining members in all other jurisdictions across Australia.

- The 4 funeral funds were not licenced by the Commonwealth but 3 of the funds were regulated under the *Funeral Funds Act 1979* (NSW).

- The Youpla Group has repeatedly engaged in misleading and deceptive conduct and the unscrupulous hawking of its funeral expense products since it started in 1992.

- From April 2020, funeral expense providers, including the Youpla Group, were required to gain an Australian Financial Services License (AFSL). This was a recommendation of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission).

  – The Youpla Group did not obtain an AFSL and so was unable to issue new policies.

- Commonwealth regulation and oversight of the financial sector has increased significantly following the Royal Commission. Since the Royal Commission, laws have been changed to:

  – Strengthen unsolicited selling (anti-hawking) provisions;

  – Give ASIC new Product Intervention Powers; and

  – Impose new Design and Distribution Obligations.

- In August 2015, Youpla was excluded from Centrelink's Centrepay system as part of a range of consumer protection measures for Centrelink customers. This resulted in at least 6,000 fund members having their policies cancelled (many without their knowledge) for non-payment.

- The Australian Financial Complaints Authority (AFCA) has received over 1,000 complaints relating to the Youpla Group.

  – AFCA has paused its processing of these complaints, in line with its usual practice in relation to insolvent financial firms.

- The Australian Taxation Office took legal action in 2011 against the Vanuatu based underwriter (Crown Insurance Services) of the Youpla Group's funeral funds, which is owned by two former Youpla Group directors.

ASIC action

- In April 2022, ASIC started an investigation into the conduct of current and former directors of the Youpla Group and that investigation is ongoing.
- In October 2020, ASIC started Federal Court action against the Youpla Group companies and that is continuing with court approval, despite the companies' entering liquidation.

QUALITY OF ADVICE REVIEW

Headline Statement

- The Quality of Advice Review (the Review) is due to provide its final report to Government by 16 December 2022.
- The scope of the Review encompasses the key aspects of the financial advice regulatory framework and what changes can be made to enable the provision of high-quality, accessible, and affordable financial advice for retail clients.

Key Points

- The Review is being led by an independent reviewer, Ms Michelle Levy, and is being supported by a secretariat located within Treasury. The Review commenced on 11 March 2022.
  - The Treasury secretariat is made up of nine staff.
- An issues paper was released for public consultation from 25 March 2022 to 3 June 2022 which received 134 submissions. Submissions are available on Treasury's website.
- A paper setting out proposals for reform was subject to public consultation for four weeks from 29 August 2022 to 23 September 2022.
  - 178 submissions have been received. 149 of these are public submission with an additional 29 confidential submissions. These submissions will be available on the Treasury website.
  - The proposals received broad support from industry but a number of implementation risks were raised by industry and consumer groups.
- Treasury also engaged ORIMA Research to conduct a survey of financial advisers to understand their experiences with the regulatory regime. Over 3,300 advisers responded, with the results assisting in forming the Review's evidence base.

- To date, Ms Levy has held over 80 meetings with stakeholders to gain the views of industry and consumer groups.
  - More consultation with stakeholders will take place as the Review progresses.
- The Review will soon be undertaking targeted consultation on proposals that address conflicted remuneration exemptions, including commissions for general and life risk insurance.
  - ASIC has assessed a sample of life insurance advice files, which will form the basis for the Review’s findings on life insurance commission. The results of this assessment were received by the Treasury on 30 September 2022.

Background

Procurement

- The Review has procured the following services:

Supplier	Activity	Amount
Ms Michelle Levy	Independent Reviewer	$119,845 as of 19 October 2022
ORIMA Research	Survey of Financial Advisers	$35,200

- Ms Levy's daily fee is $1500
  - This scales down to $900 when she works between 2 and 3 hours in a day (60 per cent of the fee).
  - This scales down to $600 when she works less than 2 hours in a day (40 per cent of the fee).
- Ms Levy also undertook an overseas study tour where she visited regulators, policy makers, industry bodies and firms in Singapore, the United Kingdom, and United States of America.
  - She was supported by one member of the Treasury Secretariat on this tour.
  - The total cost of this tour was $65,130.44.

Scope of the Review

- The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) recommended “there should be a review by Government in consultation with ASIC of the effectiveness of measures that have been implemented by the Government, regulators and financial services entities to improve the quality of financial advice. The review should preferably be completed by 30 June 2022, but no later than 31 December 2022” (Recommendation 2.3).
- The scope of the Review encompasses the key aspects of the financial advice regulatory framework and what changes can be made to enable the provision of high-quality, accessible, and affordable financial advice for retail clients.
  - This scope is broader than what was envisaged by the Royal Commission where the emphasis was on the quality of advice (and consumer protections), rather than on affordability and accessibility.
- The scope of the Review includes a review of the Life Insurance Framework (LIF), including consideration of further reducing the cap on commissions for life risk insurance products (consistent with Recommendation 2.5 of the Royal Commission).

- Despite the LIF Review being rolled into the Review, ASIC remains responsible for the assessment of a sample of life insurance advice files, which will form the basis for the Review's findings on life insurance commissions.
- The Review will also consider whether the remaining exemptions to the ban on conflicted remuneration remain justified, including the exemptions for general insurance products and consumer credit insurance products and the exemptions for non-monetary benefits (consistent with recommendation 2.6 of the Royal Commission).
- Key exclusions from the scope of the Review include:
  - The professional standards for financial advisers.
    - The previous Government had already initiated a review of the education and training standards for financial advisers.
    - The Government has since committed to looking at reforms now to assist financial advisers in being able to meet the needs of their clients including the education requirements for experienced financial advisers.
  - Legislated definitions of 'retail client' and 'wholesale client'.
    - Implications of these classifications extend beyond finical advice. For example, these definitions are used to determine whether any entity providing financial services is required to have compensation arrangements in place or whether a company undertaking a capital raising needs to prepare a disclosure document.

SCAMS

Headline Statement

- Scams are costing Australians over $2 billion a year. The Government has committed to a range of new measures to combat scams and online fraud.

Key Points

- The Government has committed to a new long-term, coordinated, whole-of-government approach to fighting scams.
- This will bring together resources from the private sector, Commonwealth, states and territories.
- This measure delivers on the Government's *Plan for a Better Future* election commitment.

Policy Commitments

- The Government is making an initial investment of $12.6 million over 4 years to combat scams and online fraud. Funding includes:
  - $9.9 million over 4 years from 2022-23 for the Australian Competition and Consumer Commission (ACCC) to undertake initial steps for the phased establishment of a National Anti-Scam Centre;
  - $2.0 million in 2022-23 for the Department of Home Affairs to expand its arrangement with IDCARE to provide specialist services, including counselling and support for victims to recover their identity; and
  - $0.7 million in 2022-23 for the Department of the Treasury to raise public awareness of the risk of scams.
- $10.6 million of the cost of this measure will met from within the ACCC's existing resourcing.
- Funding of $2 million for IDCARE was included in the *Plan for a Better Future* (election costing).

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Background

Scams are proliferating in Australia

- Australians lost a record amount of more than $2 billion to scams in 2021.
- Scamwatch data for 2021 indicates:
  - people aged 65 and over lost $82 million (a 116% increase from 2020)
  - Indigenous Australians reported $4.8 million in losses (a 142% increase from 2020)
  - people from a culturally and linguistically diverse community lost $42 million (88% increase)
  - people with a disability lost $19.6 million (102% increase)

National Anti-Scam Centre

- The Anti-Scam Centre will bring industry and government together to enable rapid sharing of information and better-coordinated scam disruption and prevention, while recognising the private sector is the first line of defence against scams.
- Locating the Anti-Scam Centre in the ACCC leverages its existing capabilities and institutional knowledge of scams under its Scamwatch badge.
- This initial investment will enable the ACCC to enhance liaison and coordination across government, scope the optimal design of the centre and undertake preparatory work to establish improved IT systems and information-sharing capabilities.

Public Relations Campaign

- The public relations campaign will seek to leverage and amplify existing anti-scam education and awareness activities undertaken by regulators.
- It will help to grow awareness of the financial burden of scams for Australians, educate Australians on the types of scams they can fall victim to, and what they can do to protect themselves.

Strengthening industry codes

- The Government has also committed to strengthen codes to clearly define the private sector's responsibilities for protecting consumers.
- The timing of further announcements is a matter for the Government.

FOI 3204
Document 48

SB22-000315

NEWS MEDIA BARGAINING CODE REVIEW

Headline Statement

- The Government is considering the review's findings.

Key Points

- The report is likely to be released in coming weeks.

Review of the Code

- The legislation governing the Code required a report on its operations to commence within one year of it coming into force, that is, by, 2 March 2022.
- As set out in terms of reference released on 28 February 2022, Treasury has conducted the review, in consultation with the Department of Infrastructure, Transport, Regional Development, Communications and the Arts, the Australian Competition and Consumer Commission and the Australia Communications and Media Authority.
  - A consultation paper was issued on 1 April 2022 and 33 submissions were received (1 confidential) in response.
  - Stakeholder roundtables and bilateral meetings were conducted from July through to September.
- The consultation paper noted that the review was separate to the process in the Code for designating digital platforms and would not therefore consider whether individual digital platforms should be designated.
- Treasury provided the review report to the Assistant Treasurer on Friday, 4 November.
  - The report is statutorily required to be released within 28 days of being provided to Ministers, that is, by Friday, 2 December.

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The Code

- The News Media and Digital Platforms Mandatory Bargaining Code commenced on 3 March 2021.
- The Code aims to address bargaining power imbalances to ensure that digital platforms fairly remunerate news businesses for the content they generate, thereby helping to sustain public interest journalism in Australia.
- The Code provides incentives for digital platforms and news businesses to reach commercial deals outside of the Code.
  - If that is not possible, it provides a framework – following designation of a digital platform – for good faith negotiations and mediation between the parties.
  - Where agreement cannot be reached, it sets out an arbitration process to determine remuneration payable by a designated digital platform.
- The Code provides for the Minister responsible for the Code (the Assistant Treasurer) to designate digital platforms taking into account two criteria:
  - whether a significant bargaining imbalance exists between the platform and Australian news businesses; and
  - whether the platform has made a significant contribution to the sustainability of the Australian news industry through commercial agreements relating to news content.
- No digital platforms have been designated under the Code.
- Google and Meta have reached over 30 deals with a range of large, small and regional news businesses.
- Meta has not reached deals with SBS and The Conversation, who have called for it to be designated so they can access the compulsory arbitration process in the Code.

DIGITAL PLATFORMS – ACCC DIGITAL PLATFORM SERVICES INQUIRY

Headline Statement

- The Government is considering the recommendations from the Australian Competition and Consumer Commission (ACCC) Digital Platform Services Inquiry's fifth interim report.

Key Points

- The ACCC provided its fifth interim report (the Report) on the Digital Platform Services Inquiry 2020-2025 to the Government on 30 September 2022.
- The Report focuses on whether Australia's current competition and consumer protection laws are sufficient to address the issues identified in the course of the ACCC's Digital Platform Services Inquiry (2020-2025), Digital Advertising Services Inquiry (2020-2021) and Digital Platforms Inquiry (2017-2019).
- Timing of the release of the report is a matter for the Government.

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Background

- On 10 February 2020, the ACCC was directed to conduct an inquiry into competition and consumer issues arising in relation to digital platform services.
  - The services to be examined by the inquiry include internet search engines, social media, online private messaging, digital content aggregation platforms, media referral and electronic marketplaces.
  - The ACCC is required to release reports every six months until 2025, with the final report to be provided to the Treasurer by 31 March 2025.
- The ACCC requires the Treasurer's permission to publish the reports. Previous reports have generally been published within 28 days of submission to Government.

<u>Scope of the Inquiry</u>

- Matters to be considered by the inquiry include:
  - the intensity of competition in markets for the supply of digital platform services, with particular regard to the concentration of power, behaviour and changes in the services offered by suppliers, mergers and acquisitions and barriers to entry, expansion or exit;
  - practices of suppliers in digital platform services markets which may result in consumer harm;
  - market trends, including innovation and technology change, that may affect the nature, degree of market power and characteristics of digital platform services; and
  - developments in markets for the supply of digital platform services outside Australia.

<u>Reports and key findings</u>

- The ACCC has released the following interim reports:
  - Interim report No. 1 - September 2020 – Private messaging services
  - Interim report No. 2 - March 2021 – App marketplaces
  - Interim report No. 3 - September 2021 – Search defaults and choice screens; and
  - Interim report No. 4 - March 2022 – General online retail marketplaces
- Issues identified by the ACCC throughout the inquiry include:
  - The entrenched market power of Google, Meta and Apple as providers of search services, operating systems, app distribution, social media and advertising respectively;
  - Harms to consumers through online tracking, reduced privacy and data security, scams and reduced choice;

- Anti-competitive self-preferencing of products and services which influences consumers and limits rival firms to compete and offer products.

- The issues identified by the ACCC align with concerns raised in various international jurisdictions including the European Union, United Kingdom and United States.

Senate Inquiry

- On 26 September 2022, the Senate referred a review into the Influence of international digital platforms, to the Senate Economics References Committee for inquiry and report by the last sitting day of 2023.

- The motion was moved by Senator Andrew Bragg.

- The inquiry focuses on international digital platforms and their power and influence in Australia. The terms of reference include:

  – the market share of hardware and software services;

  – impact of vertical integration on consumer choice;

  – whether algorithms lack transparency, manipulate consumers and contribute to market power;

  – the collection and processing of children's data for the purpose of profiling and advertising;

  – the adequacy and effectiveness of regulation globally and in Australia; and

  – broader impacts of the concentration of market power on consumers, competition and macro-economic performance, and potential solutions.

ANNUAL MEMBERS MEETINGS

Headline Statement

- The Government is promoting meaningful transparency by ensuring superannuation members receive simple and clear information with the Annual Members' Meeting (AMM) notice.

Key Points

- AMMs provide members with the opportunity to directly engage with and question the trustees of their superannuation fund.
- Information provided with the AMM notice is intended to support members in preparing questions ahead of the meeting.
- The Government has amended the disclosure requirements for super funds to ensure members are provided with summarised information that better aligns with the intended purpose of the AMM notice.
  - Providing simple and clear information ahead of time will allow members to more-effectively engage with trustees during the meeting.
- The question and answer process in the meeting remains the primary method for members to obtain more detailed information.
- This disclosure to members is separate to the Australian Prudential Regulation Authority's (APRA) regulatory oversight of these matters.
- Treasury does not collect data on political donations or other expenditure by superannuation funds and has not provided any briefing to Government on this issue. This is a matter for APRA.
- The Office of Impact Analysis (OIA) formerly known as the Office of Best Practice Regulation (OBPR) advised that the amendments did not require a Regulatory Impact Statement (now Policy Impact Analysis) because they have been assessed to have no more than a minor regulatory impact.
  - The OBPR Reference Number is OBPR22-02488.

Policy Commitments

- Public consultation on draft regulations occurred from 15 July 2022 to 28 July 2022.
  - Treasury received 10 written submissions. All submissions are available on the Treasury website. There were no confidential submissions.
  - Senator Andrew Bragg and The Hon. Stuart Roberts MP both made written submissions against the changes.
- On 2 September 2022, the Superannuation Industry (Supervision) Amendment (Annual Members' Meetings Notices) Regulations 2022 (the Regulations) were registered.
- The Regulations amend the expenditure information provided with the AMM notice to:
  - remove itemised disclosure of fund expenditure (retained for political donations);
  - remove double-counting where an amount can be classified as both promotion expenditure and a political donation;
  - reduce content restrictions on the summary of aggregate expenditure; and
  - align the definition of 'related party' with the Australian Accounting Standards.
- There is no change to the itemised disclosure of political donations.
- The changes apply to meeting notices issued from 9 September 2022 for a year of income ending on or after 30 June 2022.

Background

- AMMs are an opportunity for fund members to hear from the trustee's board of directors and executives and ask questions about important topics such as fund performance and operations.
- The requirement to hold an AMM was introduced through the *Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No. 1) Act 2019*, which received Royal Assent on 5 April 2019.
- The AMM notice disclosure requirements were significantly extended by the former government through the *Superannuation Industry (Supervision) Amendment (Your Future, Your Super – Improving Accountability and Member Outcomes) Regulations 2021,* registered on 5 August 2021.
- The next meeting notices for most superannuation funds are required to be sent to members before 31 December 2022. The notice must be provided at least 21 days before the meeting.
  - Treasury understands that there are 10 funds who operate on an amended tax year.
    - : At 30 June 2021, there were 12 funds who operate on an amended tax year. Two of these funds have since exited.
- Treasury has recently completed a public consultation on a Minor and Technical Amendment to the *Superannuation Industry (Supervision) Act 1993* clarifying trustee's obligations with respect to the AMM notice for virtual meetings. This measure is unrelated to the recent changes to the AMM Regulations.

Media Coverage

- Media commentary has focused on:
  - Claims of reduced transparency in superannuation.
  - Perception that the changes are shielding information about fund's payments to unions.
  - Questioning the reduced regulatory burden citing that, to obtain aggregate figures, itemised figures must still be identified.
- This measure has attracted a number of Freedom of Information Requests (FOI), including from Senator Andrew Bragg. *[Refer any questions on these FOI requests to Treasury officials].*
- On 25 October 2022 Senator David Pocock moved to disallow the Regulations in the Senate which was resolved in the negative. The Regulations remain in effect.

YOUR FUTURE, YOUR SUPER

Headline Statement

- The Albanese Government is committed to strengthening Australia's world-class superannuation system, which is why we have tasked Treasury with reviewing whether the Your Future, Your Super (YFYS) measures, particularly the performance test, given concerns that is has caused unintended consequences for members.

Key Points

- The YFYS measures were implemented by the previous Government in 2021 with the aim to increase member engagement, reduce fees, increase performance, and hold trustees to account for their decisions.
- The Government is aware of concerns that the YFYS measures have had unintended consequences so has tasked Treasury to undertake a review of all four elements.
- To inform this review, Treasury recently held an extensive 6-week consultation process meeting a range of stakeholders from across the superannuation sector through bilateral meetings, roundtable discussions, and a technical working group on the performance test. The consultation period closed on 14 October 2022.

Policy Commitments

- The Government has committed to reviewing whether the YFYS measures have created unintended consequences for members, and to adjust how faith-based products are treated under the performance test.

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Background

Your Future, Your Super (YFYS) Review

- The *Treasury Laws Amendment (Your Future, Your Super) Act 2021* received royal assent on 22 June 2021 with supporting regulations made in August 2021. The YFYS measures, which are now law, are aimed at increasing member engagement, reducing fees, increasing performance, and holding trustees to account for the decisions they make.

- The YFYS measures involve four key elements to improve the superannuation system:

  - **Performance test** — Products are subject to an annual performance test with clear consequences. The test applied to MySuper products from 1 July 2021. The test was designed to protect members from underperformance by holding trustees accountable for the investment performance they deliver to members and encouraging trustees to reduce fees.

  - **YourSuper comparison tool** – MySuper products are displayed on a comparison tool which launched on 1 July 2021 and aims to assist members to choose a well-performing MySuper product. The objective of the tool is to empower members to make informed decisions about who manages their retirement savings.

  - **Stapling** – If a new employee does not choose a fund, then employers must check whether they have an existing 'stapled' superannuation fund before opening a new default superannuation account. Stapling started on 1 November 2021 and seeks to prevent the creation of unintended multiple accounts by ensuring superannuation follows individuals as they change jobs.

  - **Best financial interests duty (BFID)** – The BFID came into effect on 1 July 2021. The duty clarifies that it is the financial interests of members that trustees must be guided by when making decisions. This is particularly important given the universal coverage of superannuation.

- The Government made a commitment to review the YFYS measures to consider whether there have been any unintended consequences and implementation issues arising from any of the four elements.

- To inform this review, Treasury recently undertook an extensive 6-week consultation process seeking stakeholder feedback into the YFYS measures. Submissions closed on 14 October 2022.

  - During the consultation process Treasury met with a range of stakeholders from across the superannuation sector through bilateral meetings, roundtable discussions, and a technical working group on the performance test. The 12-member technical working group was comprised of independent economists, academics, investment advisers, and representatives from retail and not-for-profit super funds.

Performance Test

- The YFYS performance test (the test) for MySuper products came into effect on 1 July 2021.
- The test compares a product's returns and fees against benchmarks to determine if it passes (performing) or fails (underperforming).
- The test is intended to improve outcomes for members by:
  - Ensuring that members do not join persistently underperforming products;
  - Providing members with information to choose better performing products; and
  - Encouraging underperforming products to improve their performance, including through potential mergers with higher-performing funds.

<u>2022 Performance Test Results</u>

- The second annual performance test applied to 69 MySuper products in August 2022. This found that 5 products failed the test, representing 604,000 member accounts and nearly $28 billion in assets. Of the 5 products which failed:
  - 1 product, Westpac Group Plan MySuper failed for the first time.
  - 4 products failed for a second consecutive time and have been closed to new members until they pass a subsequent performance test. These products are:
    - AMG MySuper;
    - BT Super MySuper;
    - Energy Industries Superannuation Scheme Balanced (MySuper);
    - ACS Super LifetimeOne (Australian Catholic Superannuation Retirement Fund).
- Since the inception of the performance test in 2021, 14 products have failed. Of these products:
  - 4 have already exited the market;
  - 5 failed the 2021 performance test and passed the 2022 performance test;
  - 4 failed both tests; and
  - 1 passed the 2021 performance test and failed the 2022 performance test.

Faith-based products

- Currently, the performance benchmark can potentially penalise faith-based products for avoiding certain investments that fall outside their religious principles, for example armaments. This could lead to these funds ultimately being closed to new members, denying Australians of faith the option of investing their super in line with their religious beliefs.
  - Two notionally faith-based products have failed the performance test: Christian Super failed the 2021 test and Australian Catholic failed in both 2021 and 2022. Both funds are currently progressing mergers with other better performing funds (Australian Ethical and UniSuper, respectively).
- The Government has now introduced legislation in Parliament to adjust how faith-based products are treated under the test.
  - On 28 September, Treasury Laws Amendment (2022 Measures No. 3) Bill No.3 was referred to the Senate Economics Legislation Committee and the Senate Standing Committee for the Scrutiny of Bills. The report from the Senate Economics Legislation Committee is due by 17 November 2022.
- The proposed legislation seeks to:
  - Require trustees to 'self-identify' and apply to APRA for faith-based product status;
  - Subject faith-based products to a supplementary test that considers their faith-based investment strategy, if they fail the original test; and
  - Exempt faith based products from the consequences of failure if they pass the supplementary test.
- Exposure draft regulations to support this legislation have been released for public consultation. Draft regulations can be found on the Treasury website and consultation closed on 7 October 2022.
  - Treasury received 8 written submissions from a variety of stakeholders, the majority from industry peak bodies.
- These amendments are targeted squarely at the small number of faith-based superannuation funds that face the potential of being penalised for investing in accordance with their religious principles.
  - Members of faith-based products affected by the regulations represent around 1 per cent of total superannuation members.
  - The YFYS Review will provide an opportunity to assess the unintended consequences that the performance test benchmarks pose for other products.

UNPAID SUPERANNUATION

Headline Statement

- The Government announced as part of their election commitments to include a right to superannuation in the National Employment Standards and to set public targets for the recovery of unpaid superannuation by the Australian Taxation Office (ATO).

Key Points

- The Government's election commitments are aimed at reducing the incidence of unpaid superannuation.
  - The ATO estimate that in 2019-20 the superannuation guarantee (SG) gap after ATO compliance activities was 4.9 per cent of all SG liabilities.
  - The ATO estimate that $3.1 billion in unpaid SG was owed as at 30 June 2022. The ATO raised $1.1 billion in SG Charge on employers in 2021-22.
- The Treasurer has also announced publicly that the Government is developing a reform package to ensure individuals receive their superannuation guarantee entitlements.

Policy Commitments

- The Government will legislate to include a right to the SG within the National Employment Standards (NES) which will give Australian workers the power to pursue their unpaid superannuation as a workplace entitlement.
- The Government made a public commitment to set recovery targets for unpaid SG for the ATO and is currently working with the Treasury and ATO to develop these targets.

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Background

Policy Commitments

- On 23 August 2022 in an article in the AFR, the Treasurer Jim Chalmers announced there is a "*big problem with non-payment and non-compliance*" so the Government was working on "*a reform package to ensure people get the super they've earned*."

- Further details on the reform package and delivery timeframes have not been released publicly.

Senate Economics References Committee report

- On 30 March 2022 the Senate Economics References Committee published a final report based on their inquiry into 'Unlawful underpayment of employees' remuneration' titled 'Systemic, sustained and shameful.' The report made several recommendations to Government related to unpaid superannuation. The key recommendations were:

  - Recommendation 9: Consider amendments to require SG payments to be aligned with the payment of wages, and require SG payments to be made on every dollar earned.

  - Recommendation 10: Consider including superannuation in the NES.

  - Recommendation 11: Consider including superannuation in the Fair Entitlements Guarantee.

- The Government is currently in the process of considering the Committee's Report and preparing a formal response. The response is being prepared by the Department of Employment and Workplace Relations (DEWR) in consultation with the Treasury, Home Affairs and Finance portfolios.

Australian National Audit Office (ANAO) report

- On 28 April 2022 the ANAO published a performance audit report titled 'Addressing Superannuation Guarantee Non-Compliance.'

- The report concluded that the ATO's activities in addressing SG non-compliance and their risk-based SG compliance framework are partly effective.

- The report had the following recommendations:

  - Recommendation 1: The ATO implement a preventative, risk-based approach to SG compliance action.

  - Recommendation 2: The ATO assess its performance measures by setting public targets for measures, including the SG gap and providing explanations for results.

  - Recommendation 3: The ATO should make more use of its enforcement and debt recovery powers, develop performance measures for debt recovery, and consider incorporating debtors into the prioritisation of debt recovery actions.

- The ATO has agreed to the report's recommendations.

MILITARY SUPER – DOUGLAS DECISION

Headline Statement

- The Government is working towards introducing legislation as soon as possible to ensure veterans don't pay more tax due to the recent Full Federal Court decision in *Commissioner of Taxation v Douglas* (*Douglas)*.

Key Points

- In the *Douglas* decision, the Court determined that certain invalidity payments made after 20 September 2007 from the Defence Force Retirement and Death Benefits (DFRDB) Scheme and the Military Superannuation Benefits (MSB) Scheme should be taxed as superannuation lump sums rather than superannuation income streams.

- The *Douglas* decision directly affects around 14,150 veterans in the DFRDB and MSB schemes, with around 350 being made worse off in their end of year tax treatment. The Australian Taxation Office expects both of these figures to increase over time as veterans' circumstances change.

- The Government is acting to ensure that no affected veteran's income tax position is worse off as a result of the *Douglas* decision, on either a temporary or permanent basis. This was announced in a Joint Media Release by the Assistant Treasurer and Minister for Veterans Affairs' and Defence Personnel on 25 July 2022.

- The Government released a draft Bill for public consultation from 25 July to 5 August 2022. In addition to discussions with key stakeholders, the Government received 17 submissions from veterans' representatives, professional bodies and individuals.

- The draft Bill <u>retains</u> the *Douglas* decision specifically for the invalidity payments made on or after 20 September 2007 from the DFRDB Scheme and the MSB Scheme directly referenced by the Court's decision. Any veterans benefiting from the decision will retain the full tax benefits.

- For any veterans in the impacted schemes adversely affected, the draft Bill includes a new refundable tax offset to put them back in to the same annual tax position they would have been prior to the *Douglas* decision. To address higher fortnightly tax withholding that has occurred due to the decision, the Bill will also enable the ATO and Commonwealth Superannuation Corporation (CSC) to include the impact of the new offset in determining withholding arrangements.
- The Government has also decided to allow the *Douglas* decision to stand and the offset to apply to Spouse and Children's pensions paid following the death of a member of a DFRDB or MSB scheme affected by the Court's decision to ensure that these beneficiaries are no worse off.
- The Government will also ensure, where relevant, that *Douglas*-affected veterans retain any non-tax benefits that flow to them as a result of the Court's decision.
- The draft bill <u>retrospectively and prospectively reverses</u> the impact of the *Douglas* decision for all other schemes than the two schemes directly referenced in the Court's decision. This ensures that payments in all other schemes will continue to be taxed as income streams, while preserving the lump sum tax treatment for affected members of the DFRDB and MSB schemes.

Policy Commitments

- The Assistant Treasurer and Minister for Veterans' Affairs announced in a joint media release on 25 July 2022 that the Government would introduce legislation to ensure that veterans would not be made worse off due to a Federal Court decision.

Background

Full Federal Court's decision

- On 4 December 2020, the Full Federal Court handed down its decision on *Commissioner of Taxation v. Douglas.* The Court determined that benefits paid from schemes that are reviewable or cancellable should be treated as superannuation lump sums, rather than as superannuation income streams.

- The Court's decision also stated that benefits paid under an invalidity pension that commenced before 20 September 2007 (and have been continuously paid since that date) are to continue to be taxed as superannuation income streams. The outcome for each individual will depend on their personal circumstances.

Impacts of decision on veterans

- While most veterans are better off due to *Douglas*, the decision makes a minority worse off. The *Douglas* decision directly affects around 14,150 veterans in the DFRDB and MSB schemes, with around 350 being made worse off in their end of year tax treatment. The ATO expects these numbers to increase over time as veterans' circumstances change.

  – Additionally, for some other veterans affected by *Douglas*, the decision means more tax is withheld from their fortnightly pension, lowering their pension payments. However, these extra amounts withheld would be refunded later when they lodge their tax return for that year.

- The outcome of *Douglas* depends on an individual's personal circumstances. Relevant factors such as age, the nature of the benefit (e.g., disability or otherwise), size of payments, the tax component and any taxation offsets that might apply to those components determine the tax treatment of benefits. The interaction between the loss of income stream tax offsets and the capping of tax rates on lump sums can play out unfavourably for some individuals.

  – For example, for over 60s with lower value non-disability benefits, the loss of the 10% untaxed element income stream offset may result in a less favourable tax outcome.

  – Other taxpayers may find they use up all their low-rate caps that apply to lump sum benefits, and the taxation rates that apply thereafter are higher than the average rate applied to an income stream.

- In other cases, the Douglas decision results in lower taxable incomes. This has generally favourable flow-on effects for the veteran for other Commonwealth payments and obligations such as Child Care Subsidy and HECS/HELP.

Implementation of the Douglas decision to date

- The ATO has undertaken a remediation program to correct the tax treatment of past payments for affected veterans from the DFRDB and MSB schemes that arise from the *Douglas* decision, and assessed 2020-21 and 2021-22 income tax returns lodged by affected veterans in line with the *Douglas* decision.

  – Once the new legislation is passed the ATO will go back and apply the new offset where necessary.

- Since July 2021, CSC began applying the ATO's PAYG withholding variation for the Douglas-affected veterans, initially only for those veterans who CSC assessed would not face higher tax withholding.
  - From 19 May 2022, CSC also started to apply the withholding rates for all remaining veterans in the absence of amended legislation by the previous Government.

Government's approach consistent with broader tax policy settings

- The Government considers it is appropriate for other superannuation income streams not directly referenced in the *Douglas* decision to retain income stream tax treatment. This is consistent with longstanding tax policy settings that military pensioners are subject to tax on their benefits, consistent with the tax treatment of any other disability superannuation benefits.
- Additionally, the tax treatment of disability benefits, including from military superannuation funds, is more concessional for some beneficiaries compared to non-disability benefits. People under preservation age receive a 15 per cent offset (from their marginal tax rate) if the income stream has been financed from a taxed element.

Budget impacts

- The impact of the Government's approach to reversing the *Douglas* decision and paying a non-refundable tax offset to eligible taxpayers on the underlying cash balance is $83 million over the forward estimates period (2022-23 to 2025-26).
  - At the 2021-22 MYEFO, the financial impact was estimated to be $94.5 million over the forward estimates period (2021-22 to 2025-26). The $11.5 million of payments estimated to be incurred in 2021-22 is now a historical figure and not included in the current forward estimates.

	2022-23	2023-24	2024-25	2025-26	**Total**
ATO - receipts	-40.0	-10.0	-10.0	0.0	**-60.0**
Related - payments	10.7	8.1	4.2	0.0	**23.0**
Total UCB ($millions)	**-50.7**	**-18.1**	**-14.2**	**0.0**	**-83.0**

- Additionally, in the 2022-23 (October) Budget, there is an additional related DSS measure which includes $32.5 million over five years from 2022-23 for Services Australia to remediate child support debts that have accrued due to Douglas.

SB22-000322

CONSUMER DATA RIGHT EXPANSION

Headline Statement

- The CDR is a pioneering economic reform that enables consumers to more safely and securely share the data Australian businesses hold about them for their own benefit. The Government is committed to expanding the Consumer Data Right (CDR) and growing opportunities for consumers.

Key Points

- With the CDR, consumers (which includes both individuals and businesses) can safely share data held about them with trusted parties to access services tailored to their unique circumstances, such as comparing products and services, accessing better value and improved services, and assisting financial and cashflow management.

- Implementation in the banking sector (known as Open Banking) is very well progressed, with nearly 100 per cent of market share (measured by share of household deposits) covered by CDR data-sharing.

- From 1 October 2022, the CDR rules facilitate the sharing of product data about the products offered by the biggest three energy retailers (AGL, Energy Australia and Origin). From 15 November 2022, these retailers and the Australian Energy Market Operator will be required to facilitate consumer data sharing where a consumer has requested it.

- The independent Statutory Review of the CDR report by Ms Elizabeth Kelly PSM was released on 29 September 2022.

  – The Review found that the CDR's statutory framework has so far been broadly effective in supporting the CDR's rollout, is sufficiently flexible and robust to accommodate further changes to achieve policy objectives, and has scope to further explore its limits as the CDR develops.

  – The report's 15 findings and 16 recommendations provide reflections on the implementation of the CDR to date, suggest developments that could improve the CDR into the future, and prompt future discussion.

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- The Government is currently considering its response to the Review.

Policy Commitments

- The Government has committed to expanding the CDR by way of:
  - continuing implementation of the CDR in the telecommunications sector.
  - progressively assessing and rolling out the CDR to the non-bank lending, superannuation and insurance sectors (also known as Open Finance).
  - providing new opportunities for consumers to use their data by amending the CDR framework to enable action initiation. This would create a new channel for consumers to instruct a firm to initiate actions (such as payments) on their behalf, with their consent.
  - making regulatory amendments to improve participation in the CDR, especially for business consumers.

Background

Budget funding history summary

- Budget 2022-23 in March 2022 included funding of $38.4 million over 3 years from 2022-23 and $12.6 million per year ongoing from 2025-26 (across all CDR agencies) to implement the former Government's response to the Inquiry into the Future Directions for the CDR, to deliver significant reforms to expand CDR functionality to include third party payment and action initiation.

- This funding builds on the existing over $254 million investment to expand the rollout of the CDR.

  – 2021-22 MYEFO included funding of $1.8 million to make Victorian energy product reference data available through the CDR and $6.2 million for provision of a concessional loan to the Australian Energy Market Operator (AEMO) to enable AEMO to build necessary IT systems to share data through the CDR.

  – Budget 2021-22 included funding of $111.3 million over 2 years from 2021-22 to continue implementation in the banking and energy sectors, assess and designate a new sector every year, commencing with telecommunications, and undertake a strategic assessment in 2021 to inform the sequencing and prioritisation of roll-out to future sectors.

  – Between May 2018 and 30 June 2021, $141.7 million has been invested in the CDR.

Work on progressing the Government's CDR commitments

- Treasury is progressing the expansion of the CDR at a pace consistent with the Government's CDR agenda.

- Since the new term of Government, Treasury has conducted consultations on: draft CDR rules for expansion to the telecommunications sector and operational enhancements and maintenance of the CDR rules; non-bank lending sectoral assessment and draft designation instrument; and action initiation legislation (outlined below).

- All public consultations have been open for a minimum of four weeks, and public consultations have been complemented by bilateral meetings, roundtables, and forums.

Telecommunications expansion, rules enhancement and maintenance

- Treasury is consulting extensively with stakeholders in the CDR community to develop and implement CDR rules, standards and guidance.

- The CDR in telecommunications will allow consumers to claim control of the data their service providers hold about them by sharing data with third parties that offer innovative products and services in a controlled and regulated environment so consumers can benefit, for instance, by helping them compare telco plans.

- Treasury released draft rules to expand CDR to the telecommunications sector and operational enhancements to support participation by business consumers for consultation from 15 September 2022 to 14 October 2022. Engagement included bilateral meetings and two virtual stakeholder forums both on 28 September 2022 – one on telecommunications and one on operational enhancements.

- These followed extensive consultation on the design of the rules and standards for the telecommunications sector, including public consultation on a design paper in March 2022.
- To mitigate privacy risks in the implementation of CDR in telecommunications, sensitive consumer data sets, such as someone's date of birth, have been deliberately excluded from the CDR.
- Treasury is also seeking feedback on maintenance of the CDR rules, with public consultation open from 15 September to 31 December 2022.

Open Finance

- Open Finance would bring in datasets that complement existing datasets in the banking sector to encourage cross-sectoral use cases and increase the benefits of the CDR. Treasury is progressively assessing the CDR in Open Finance, commencing with non-bank lending, then the superannuation and insurance sectors.
- Treasury consulted on a non-bank lending draft designation instrument and a sectoral assessment and draft designation instrument on a minor and technical amendment to the Banking designation, both from 19 August to 16 September 2022. Engagement also included bilateral meetings and a CDR Framework Design and Strategy virtual forum on 13 September 2022.
- This followed consultation on a sectoral assessment paper for non-bank lending from 15 March to 15 April 2022.

Draft legislation to enable action initiation

- Following extensive consultation, on 26 September 2022, Treasury released draft legislation to enable action initiation in the CDR for public comment by 24 October 2022. Engagement also included bilateral meetings and a CDR Framework Design and Strategy virtual forum on 11 October 2022.
- Action initiation will create a new channel for consumers to instruct a firm to initiate actions on their behalf and with their consent. This will expand the CDR from a data-sharing scheme to a scheme that allows consumers to act on the insights that they receive, bringing a range of benefits to consumers and Australia's digital economy.
- When implemented, action initiation could allow consumers to use the CDR to do things such as update their contact details across multiple accounts, automate payments towards a savings or investment goal or compare electricity prices and then switch services.
- The proposed bill would allow the relevant Minister to declare action types for existing data holders. This is consistent with the current data sharing designation process.

- The CDR would not alter or regulate how businesses complete different action types. Instead, it would simply establish a new channel to instruct businesses to complete actions that they already do, while protecting consumers' privacy.

Privacy protections and consent

- Currently, there are less secure ways for businesses to obtain consumer data that leave consumers vulnerable, such as screen scraping or the provision of data through emails. The CDR reduces the need for these practices while also giving consumers more control over the process. By providing a more secure framework to share data, the CDR reduces risks of privacy breaches, and related to this reduces the risk of fraud and scams.

- The CDR is underpinned by strong privacy and security protections. It is consent-based, which means that consumers can choose whether to use it or not – and providers must receive explicit and informed consent to use data.

- Data holders can only share data under the CDR when consumers have consented for it to be shared for a specific purpose. Consumers may withdraw this consent at any time.

- Consumers must actively select the data about themselves they want shared, and only data that is necessary for the consumer's purpose can be sought, collected or used.

- When a provider no longer needs a consumer's data, the data must be deleted or de-identified, unless otherwise required by law, a court or tribunal order, or in relation to court or dispute resolution proceedings. Whether the data is deleted or de-identified is up to the consumer, not the business.

- There is no central repository for CDR data within the CDR ecosystem. CDR data holders are required to respond to individual requests for data-sharing and provide the data directly to the authorised accredited data recipients. This data does not travel through a central government register or system.

- As part of the privacy framework, if a consumer thinks a business operating in the CDR system has mishandled their data or breached their privacy, they have the right to make a complaint to the Office of the Australian Information Commissioner. The CDR also includes substantial civil penalties for non-compliance with the privacy safeguards.

Cybersecurity

- Treasury (including the Data Standards Body) is working with other CDR agencies – the ACCC and the Office of the Australian Information Commissioner (OAIC) – to examine CDR settings in the context of recent data breaches.

- The Statutory Review of the CDR pointed to the need for a comprehensive cybersecurity assessment of the system. The Government is already progressing this as a matter of priority.

  - On 20 September 2022, before the Optus data breach, the Government went to market for external expertise to advise on cybersecurity in the broader CDR ecosystem. This includes an assessment of the current CDR cybersecurity settings, as well as a review of the broader environment within which the CDR exists and operates, to inform ongoing management of cybersecurity risks as the CDR continues to grow and evolve. The request for tender closed on 14 October 2022.

Management of CDR data quality issues

- The CDR is an entirely new framework for data-sharing that has undergone an intensive build phase. It is a rules and technical standards-based framework that will take some time to scale up and benefit consumers.

- As first users have begun to participate in the system, it will take time for the quality of the data to be as useful as possible.

- The ACCC is working closely with CDR participants on data quality.

- The ACCC's work includes issuing guidance that sets clear expectations on the availability, readability and quality of data shared; actively monitoring system performance and engaging with data holders that are not meeting performance reporting requirements; and publishing a participant performance dashboard to drive self-improvement practices.

- The ACCC will take enforcement action against non-compliant entities where necessary. For example, in July 2022 the ACCC issued an infringement notice to Bank of Queensland Ltd and the Bank paid a penalty of $133,200 for allegedly breaching CDR Rules by failing to provide a service that enabled sharing of consumers' data.

Benefits of CDR to consumers

- The CDR is a new economic reform that is just getting started.

- Right now, in the banking sector, consumers can choose to securely and conveniently share their banking data with accredited and trusted recipients to access better-value products and services, tailored to their circumstances.

- As CDR expands to the energy sector, bringing energy-related consumer and product information into the CDR will help households make better comparisons on their energy plans and access better deals, which will be helpful to consumers in the context of rising energy costs.

- Combined with the opportunities of banking and energy data-sharing with consumer consent, it can also encourage the creation of new products and services to support Australia's economy.

- At this early stage, the CDR has spurred the creation of new tech companies and innovative products and services:

  – Verifier uses the CDR to provide financial wellbeing checks, allowing customers to check their insights and assumptions against real-time data to create better financial outcomes.

  – Yodlee uses the CDR to offer an account aggregation service that allows users to see their credit card, bank, investment, email, travel reward accounts, etc on one screen.

- Sherlok, a representative of Adatree, uses the CDR to give mortgage brokers analytics and insights to help them make instant credit decisions for clients with minimal effort.
- Payble uses the CDR to provide a platform to identify customers who would benefit from flexible payment options.

FOI 3204
Document 55

SB22-000323

MODERNISING BUSINESS REGISTERS - PROGRAM FUNDING, DIRECTOR ID, REGISTRY STABILISATION

Headline Statement

- The Modernising Business Registers (MBR) Program will consolidate over 30 ASIC registers and the Australian Business Register on to a modern system.
- Early estimates suggest that the program will require an additional $1 billion in funding and is not likely be delivered before 2026.
- In the October 2022-23 Budget the Government provided an additional $166.2 million over 4 years from 2022-23 to the MBR program. This includes:
  - $80.0 million for the Australian Taxation Office (ATO) and Australian Securities and Investments Commission (ASIC) to continue design and delivery of the modernised registry platform.
  - $86.2 million to maintain ASIC's registry systems, and fund ATO and ASIC to operate the Director Identification Numbers (Director ID) regime.
    - : Activities related to the Director ID regime received ongoing funding of $15.9 million a year.

Key Points

- In the 2019-20 Mid-Year Economic and Fiscal Outlook (MYEFO) $60.6 million was allocated to the MBR Program to commence implementation, including the delivery of Director ID. A further $419.9 million over four years was allocated in the 2020-21 Budget for full implementation of the program.
- The program will consolidate more than 30 business registers held by ASIC and the ATO to simplify how businesses engage with government and fully mitigate the risks associated with ASIC's aged infrastructure.
  - Existing registers will be progressively onboarded to the new platform. The next significant deliverable will be the Companies Register and associated services. This includes a new search capability and a range of services to support the company registration lifecycle.

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- The first program deliverable was Director ID.
  - From 1 November 2021, directors of Australian companies have been able to apply for a director identification number using the Australian Business Registry Services (ABRS) website. Director identification numbers moved from public beta to go live on 31 March 2022. To date, more than 1 million Director IDs have been issued.
- Several key risks have eventuated during the design and build of the Companies Register that have contributed to time and cost overruns. This included:
  - labour constraints and associated increased costs
  - greater customisation and configuration of the Commercial Off-the-Shelf (COTS) product
  - greater than expected complexity.
- Early estimations indicate that the program will cost an extra $1 billion to deliver and the full transfer of regulatory functions will likely not occur before 2026.
  - Given the complex nature of the program, more work is being undertaken to estimate the full cost of delivery.

Policy Commitments

- The Government has funded the ATO and ASIC to develop a clear plan for the MBR Program to provide a higher level of confidence in the cost estimates and reduce project risks.
  - This plan will inform an updated delivery strategy and more accurate cost estimates in a future Budget.

Background

Why is the MBR Program delayed and over budget?

- The MBR is a large and complex program. Significant risks have eventuated resulting in delays and cost overruns during the design and delivery of the Companies Register, including:
  - Difficulties in sourcing staff and the redeployment of ATO resources to deliver JobKeeper and Early Release of Super resulted in an increased reliance on contractors. Tight labour market conditions have resulted in contractor rates that are significantly higher than the original cost estimate.
  - The Commercial off the Shelf (COT)S product has been less flexible than originally anticipated leading to higher than expected costs in the configuration of business processes and rules.

When was it discovered the MBR Program was delayed and over budget?

- In early 2021, the increasing complexity of the program and associated potential implications for timing and cost were identified and reported to the MBR Program Sponsor Group.
- Since then, considerable work has been undertaken to develop a better understanding of the scope of the risks that have eventuated and implications for the program.

What does the delay mean for the MBR Program?

- In response to delays in the program, the Government passed a minor and technical amendment through the Treasury Laws Amendment (2022 Measures No. 1) Bill 2022 to delay the automatic commencement of various Acts to June 2026.
  - This deferral of the automatic commencement is to ensure systems supporting the program are ready ahead of the transfer of registry functions to the ATO from ASIC. Commencement of these Acts may occur at an earlier date by proclamation.
- The delay in delivering the program required further funding to stabilise ASIC's existing registers. Funding for stabilisation was included in the October Budget, and will extend the life of the ASIC registry system while the program is being completed.
- Policies contingent on the new Australian Business Registry Services platform may be delayed to align with the new delivery schedule. As such, some interim solutions may be required.

October 2022-23 Budget funding

- In the October 2022-23 Budget, the Government provided additional funding of $166.2 million over 4 years from 2022-23, which included $44.8 million to ASIC and $121.3 million to ATO.
  - Of the $80.0 million for design and delivery in 2022-23, ASIC will receive $19.4 million and ATO will receive $60.5 million.

- The $86.2 million for registry stabilisation and Director ID operation is split as below:

Registry Stabilisation	Forward Estimates ($m)	2026-27 to 2027-28 ($m)	Total Measure ($m)
ASIC	15.2	0.8	16.0
Director ID			
ASIC	10.2	2.2	12.4
ATO	60.8	30.4	76.0
Total Director ID	71.0	32.6	88.4
Total Director ID and Registry stabilisation	**86.2**	**33.4**	**104.4**

- Ongoing funding of $15.9 million a year from 2028-29 onwards was allocated to operate and regulate the Director ID regime.
  - ATO received $15.2 million.
  - ASIC received $0.7 million.
- The total cost for the measure is $199.5 million to 2027-28.

Which agencies have received funding under the MBR Program?

- The original funding allocated for the MBR Program included appropriations for delivery agencies including the ATO, ASIC, the Department of Industry, Science, Energy and Resources (DISER), the Australian Charities and Not-for-profits Commission (ACNC) and the Office of the Registrar of Indigenous Corporations (ORIC). The Department of Finance was appropriated funding to support Gateway Reviews.

What legislative changes have been made to implement the MBR Program?

- A package of legislative changes to support the modernisation of business registers received Royal Assent on 22 June 2020.
- The legislative package established the Commonwealth Registers Act 2020 and amended a range of other Acts, including:
  - *Corporations Act 2001*
  - *A New Tax System (Australian Business Number) Act 1999*
  - *Business Names Registration Act 2011*
  - *National Consumer Credit Protection Act 2009*
  - *Superannuation Industry (Supervision) Act 1993*
  - *Corporations (Aboriginal and Torres Strait Islander) Act 2006.*
- The legislation:
  - introduces director identification numbers.

- allows the appointment of a Registrar and thereby provides the mechanism for the staged transfer of accountability for business registers from ASIC to a new Registrar. The Registrar was appointed in April 2021.
- creates a much more flexible and responsive registry environment. Rather than being prescribed in Acts, information on data requirements and use will be moved to legislative instruments. These instruments are able to be updated more easily in response to the changing needs of government.

- Various other minor and technical amendments related to MBR legislation, including amendments to Division 355 of the Taxation Administration Act 1953, were progressed through the Spring 2020 sitting period and received Royal Assent on 17 December 2020.

Director ID Deadlines

- The Director ID regime introduces a new obligation for directors and those intending to become directors to verify their identity and apply for a unique identifier.
- The legislative timeframes for application for a Director ID vary based on when an individual became or intends to become a director, and whether they are a director under the *Corporations Act 2001* or the *Corporations (Aboriginal and Torres Strait Islander) Act 2006*.
  - All new company directors under the *Corporations Act 2001* have been required to obtain a Director ID prior to appointment as a company director since 5 April 2022.
  - Existing directors under the *Corporations Act 2001* will need to apply for a Director ID before 30 November 2022.
  - From 1 November 2022, all new directors under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006* will need to obtain a Director ID prior to appointment as a company director.
  - Existing Directors under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006* will need to apply for a Director ID before 30 November 2023.

Stakeholder consultation

- A number of discussion papers have been publicly released for comment:
  - In August 2017 input was sought on the proposed MBR Program.
  - In July 2018, a discussion paper was released and further user research was conducted to inform proposed strategies for business registry modernisation.
  - In November 2018, a registry fees discussion paper was released for public consultation.
  - In March and April 2021, consultation processes were run to support the commencement of the director ID regime including:
    - : on the new data standard and disclosure framework

: on the dates that govern when directors will need to obtain a Director ID.

- In December 2021, a second discussion paper on modernising registry fees was released for public consultation.

- Stakeholders have generally expressed positive views on the work being undertaken to modernise business registers. Some businesses have expressed a preference that access to registers be at no or minimal charge.