

2023 - 2024 State Budget Summary



Your success is our business.

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Introduction



The 2023/2024 South Australian State Budget delivered little for the average South Australian business. As anticipated, this budget primarily focused on addressing cost of living concerns while also allocating substantial funding to health, child protection and housing.

Meanwhile, businesses are facing increasing cost pressures, as well as significant wage growth as the impact of 12 interest rate rises is felt across the economy.

Business SA strongly advocated for a lift in the payroll tax threshold to be a feature of this budget. As wage bills spike, businesses are staring down the barrel of a payroll tax hit, many for the first time. Through no fault of their own, business owners are now forced to bear additional costs under a model that discourages both growth and job creation.

Rather than relieving business of this burden, the government is banking on the boost in payroll tax - along with GST and other revenue streams to return the budget to surplus next year.

Following the recent horror budget in Victoria, the absence of any new taxes on business is a positive. But in remaining silent on payroll tax, the Malinauskas Government missed a golden opportunity for South Australia to further enhance its reputation as a great place to do business. Business SA will continue to advocate for the government to act on payroll tax and in so doing, encourage businesses to invest in people and productivity.

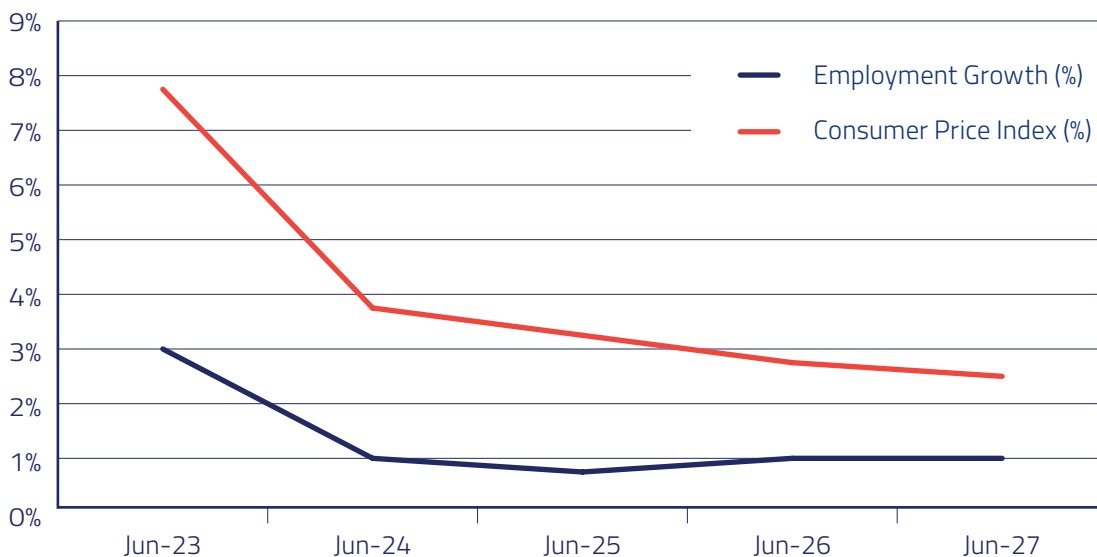
Economic & fiscal overview

ECONOMIC OVERVIEW

The economy is in a precarious position. Inflation is at generationally high rates (7% nationally and 7.9% in Adelaide over the year to March 2023) and has led to 12 interest rate rises in just over 12 months. With energy prices on the rise over the past year, and further increases of up to 30% expected from 1 July 2023, South Australian businesses and consumers are feeling the strain. The result is a slowdown in consumer spending and the likelihood that our record low unemployment rates will soon be a thing of the past. Taking this into account, Treasury has adjusted its forecast of Gross State Product (GSP) downwards, with growth in South Australia expected to fall well below its early post-pandemic levels.

The Federal Budget released on 9 May saw an unexpected surplus on the back of high employment, strong commodity prices and high exports. The Queensland State Budget released on 13 June was a similar story, with coal mining royalties bringing in billions more than forecast, leading to a significant surplus. In announcing the South Australian 2023/2024 Budget, Treasurer Stephen Mullighan lauded our state's record low unemployment, increased job growth and record high value of exports - but without the matching surplus. The \$249 million deficit was attributed to \$104 million allocated to River Murray flood recovery and the national GST carve-up leaving South Australia \$95 million worse off than expected. While Business SA anticipated this budget would demonstrate the Malinauskas Government's business-focus, we were left wanting. Although the budget does include initiatives for specific industries, such as space, horse racing and video game development, ultimately there is little in it for the average small business.

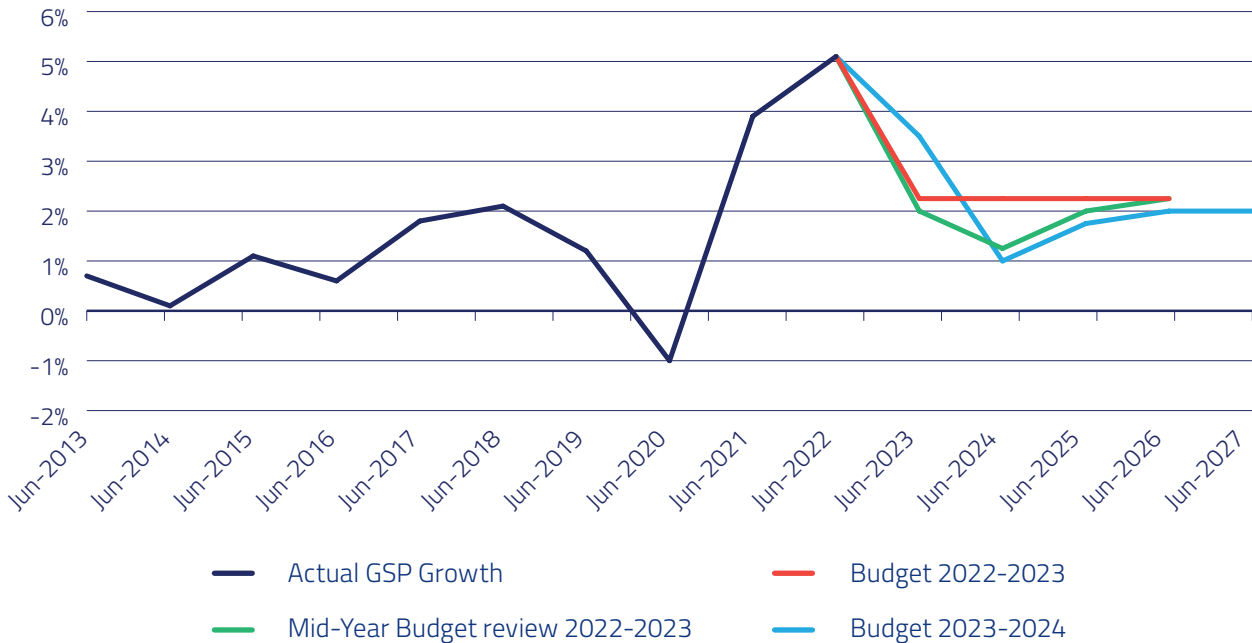
Budget forward estimates - employment and CPI growth



	2022-23 Estimated Result	2023-24	2024-25	2025-26	2026-27
Employment Growth (%)	3	1	0.75	1	1
CPI (%)	7.75	3.75	3.25	2.75	2.5

Data shows a bleak outlook for the South Australian economy, with Treasury forecasting just 3.75% employment growth over the next four years, while concurrently predicting a cumulative 12.25% increase in consumer prices. This will be a very challenging period for businesses as costs keep mounting.

Historical and Forecast South Australian Annual Economic Growth



South Australian Gross State Product (GSP) and Federal GDP Growth Forecast

	2022-23 Estimate	2023-24	2024-25	2025-26	2026-27
SA GSP 2022-23 State Budget	2.25%	2.25%	2.25%	2.25%	-
SA GSP 2022-23 Mid-Year Budget Review	2%	1.25%	2%	2.25%	-
SA GSP 2023-24 State Budget	3.5%	1%	1.75%	2%	2%
Australian GDP 2023-24 Federal Budget	3.25%	1.5%	2.25%	2.75%	2.75%

The 2022-23 Budget predicted a GSP growth of 2.25% for South Australia in 2023-24, which was later revised down a whole percentage point in the Mid-Year Budget Review. The 2023-24 Budget now puts GSP growth for 2023-24 at 1%.

FISCAL OVERVIEW

Net Operating Balance Forecast (\$M)

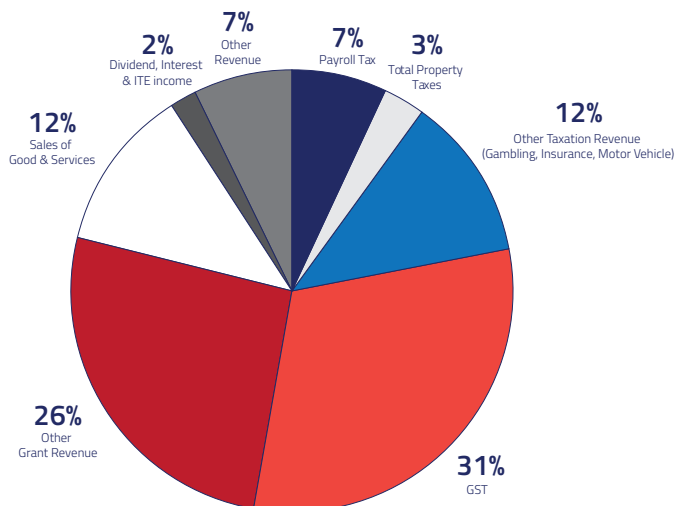
	2022-23	2023-24	2024-25	2025-26	2026-27
Budget 2022-23	233	487	606	643	-
2022-23 Mid-Year Budget Review	206	353	564	649	-
Budget 2023-24	-249	250	512	552	639

Total Revenue and Expenses Forecast (\$M)

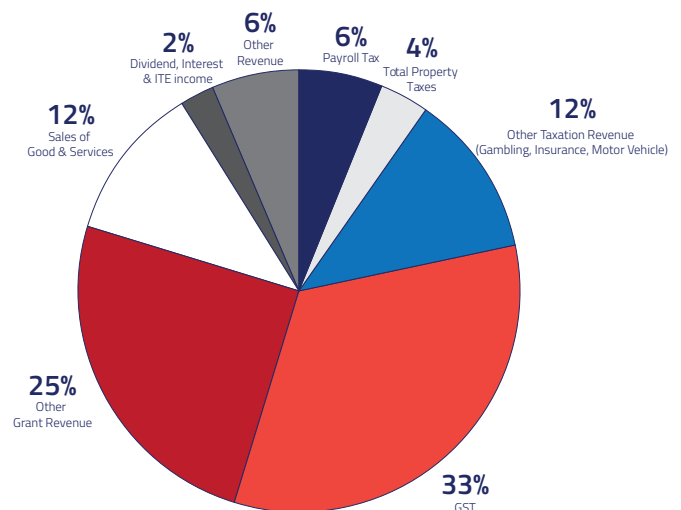
Budget Release	2022-23	2022-23 (Estimated Result)	2023-24	2024-25	2025-26	2026-27
Total Revenue	23,787	24,658	26,603	27,147	28,055	29,226
Total Expenses	23,554	24,907	26,353	26,635	27,504	28,587

Despite the unforeseen budget deficit this year, the Treasurer remains committed to swiftly restoring the budget to a surplus. While the projected surplus of \$250 million in the upcoming fiscal year is lower than last year's forecast, the long-run forecast of surpluses exceeding half a billion dollars is maintained.

2022-23 State Budget Forecast Revenue \$23.8b

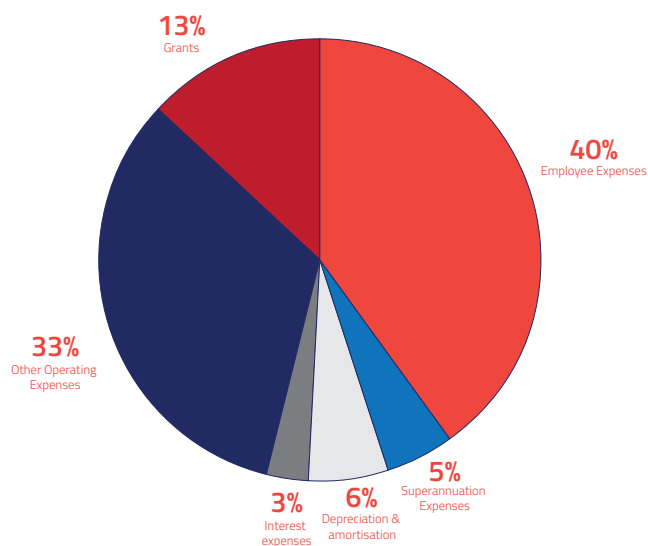


2023-24 State Budget Forecast Revenue \$26.6b

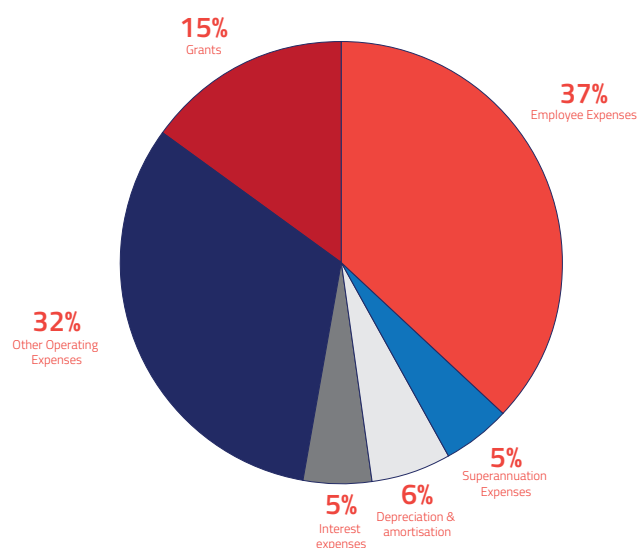


Payroll tax receipts will make up a slightly smaller portion of revenues in this budget, accounting for 6% of total state revenue compared to 7% in 2022-23. The government's interest payments on debt will take up a larger proportion of expenses in the coming year than previous years and savings in public sector employee expenses will see that proportion of expenses decline.

2022-23 State Budget Forecast Expenses \$23.6b



2023-24 State Budget Forecast Expenses \$26.35b



GST OVERVIEW

As outlined earlier, one of the reasons for the budget deficit is a reduction of expected GST funding for 2022-23, a shortfall of \$95 million. Although South Australia anticipates an increase in its future allocation of GST dollars, there is also a growing concern about the diminishing share of the national pool due to Western Australia benefiting from the new 0.70 GST relativity floor. This arrangement poses a significant concern for South Australia in the future – especially as the GST relativity floor rises to 0.75 next financial year and the ‘no worse off’ rule expires in 2027. Business SA recognises the fundamental issues this poses for future state prosperity and will strongly advocate for a fairer arrangement for all states – not just those who happen to benefit from mining royalty windfalls.

Forecast GST Payments and Total Commonwealth Grants \$M

Budget Year	2022-23 (Estimated Result)	2023-24	2024-25	2025-26	2026-27	2026-27
GST Revenue Grants	7702	8788	9023	9161	9052	29,226
Total Commonwealth Grants	13789	15234	15563	16035	16780	28,587

Net Debt – General Government Sector \$M

	Estimated Net Debt	Forecast Net Debt			
Budget Year	2022-23	2023-24	2024-25	2025-26	2026-27
Net Debt \$M	17,859	20,293	22,488	25,433	28,579
Net Debt/Revenue	72.4%	76.3%	82.8%	90.7%	97.8%
Net Debt/GSP	12.8%	13.9%	14.7%	15.9%	17.1%

Interest Expenses \$M

Budget Year	2022-23 (Estimated Result)	2023-24	2024-25	2025-26	2026-27
Budget 2022-23	780	988	1129	1219	-
Budget 2023-24	988	1254	1335	1489	1684
Interest Expenses/Revenue (Projected from Budget 2023-24)	4%	4.7%	4.9%	5.3%	5.8%

The projected increase in South Australia's net debt over the forward estimates is concerning, especially given the significant rise in government borrowing costs following interest rate hikes, which may restrict the state's capacity to effectively respond to unforeseen events. High levels of debt, as observed in the recent Victorian state budget, often necessitate higher taxation and erode business confidence and investment.

Interstate Budget Forecast Comparisons 2023/24

State	SA	VIC	WA	TAS	QLD
Revenue (\$M)	26,603	89,260	43,218	8,422	82,079
Budget Position (\$M)	250	-4,387	3,293	-297	-2,182
Net Debt (\$M)	20,293	135,411	29,389	2,732	16,190
Net Debt/Revenue	76.3%	151.7%	68%	32.4%	19.7%
GSP Growth	1%	1.5%	2.25%	1.5%	3%

As the peak business organisation in South Australia, we advocate for policies and initiatives that support the growth and development of all businesses in the state. With this in mind, Business SA put to the State Government practical recommendations to support South Australian businesses and grow the state economy in the following themes:

- Skills, labour and migration
- Energy efficiency and sustainability
- Payroll tax
- Global promotion of Adelaide and South Australia
- Sovereign capability, defence industries and AUKUS
- Work health and safety

SKILLS, LABOUR AND MIGRATION

Business SA welcomes the Malinauskas Government's budget focus on skills development to address the state's current skills gaps.

A stronger TAFE SA, able to meet the needs of regional South Australia for the first time in many years, will be assisted by the introduction of a new Regional Skills Development Fund to offer more courses in the regions. Business SA's submission to the *TAFE SA Draft Regional Plan 2021-22*, along with our *2022-23 Pre-State Budget Submission*, called for a resolution to address the limited availability of courses offered by TAFE in regional areas. In our *2023-24 Pre-State Budget Submission*, Business SA recommended the introduction of a State Government-funded, paid internship program to encourage university graduates to start their career in South Australia.

We will continue to advocate for this proposal alongside various other measures aimed at attracting skilled labour and expertise from interstate and overseas to South Australia. Additionally, we will continue to push our other proposals to attract skilled migrants to the state and retain our talented international students.

Other budget measures that will assist in the skilling of South Australians are:

- \$28 million (over four years) to address current and emerging skill shortages and support quality training through a targeted increase in the training subsidy for high quality not for profit and industry-based training providers aligned with skills demand and economic priorities;
- \$12.2 million in extra funding for TAFE SA to reduce its required revenue targets, which we hope will also assist TAFE in meeting the outcomes of the Regional Skills Development Fund;
- \$9 million skills fund for training facilities and equipment for TAFE, not for profit and industry-based training providers to assist in the delivery of training in areas of skills shortage and demand; and
- \$4.2 million (over four years) for Group Training Organisations (GTOs) through continuation of the BOOST program with a new direction encouraging mature age apprentices in areas of skills shortages. If this is to replace the GTO BOOST program that finished in the last financial year, Business SA is disappointed because it will not cover as many apprentices and trainees as the previous program. GTOs are important to small- and medium-sized businesses enabling them to safely take on trainees and apprentices.

ENERGY EFFICIENCY AND SUSTAINABILITY

Already announced as part of the Federal Budget on 9 May, this State Budget includes a co-contribution of \$254 million to reduce electricity bills, including rebates of \$650 for South Australian businesses with annual electricity consumption less than 160MWh.

According to the findings of the Business SA – William Buck Survey of Business Expectations for December quarter 2022, over 81% of businesses have experienced electricity cost increases of up to 29% in the past year. Given that energy providers will be increasing electricity prices by up to 30% from 1 July, Business SA recommended the State Government provide grants of \$3,000-\$5,000 for small businesses to conduct an energy audit and determine next steps to become more energy efficient, reduce costs and increase confidence in the ongoing energy transition.

The State Budget includes \$1.2 million (over two years) to facilitate development of the draft Hydrogen and Renewable Energy Act. Business SA previously suggested a commitment to move its entire public transport fleet to electric/hydrogen operated vehicles. Once the green hydrogen power plant and hydrogen storage facility in Whyalla becomes operational in 2025, hydrogen fuel cell vehicles will become even more viable. With hydrogen bus fleets becoming more common around the world, South Australia should lead by example and continue building on our renewable energy credentials.

PAYROLL TAX

Business SA anticipated an adjustment to the payroll tax threshold by the State Government in recognition of the significant wage increases driven by inflationary pressures. Currently, South Australian businesses become liable for payroll tax when their annual taxable payroll exceeds \$1.5 million, with a rate of up to 4.95% when it surpasses \$1.7 million. Despite businesses contributing \$1.68 billion, an increase of \$13 million over the previous year, the government has not provided any relief or adjustment to support these efforts. Consequently, more businesses will now be subject to payroll tax as their payroll and super expenses breach the threshold.

To attract investment and more businesses to South Australia's regions – and make those businesses already there more competitive with their counterparts in other states – Business SA recommended a 50% payroll discount for regional businesses. This would not have been a significant cost in the grand scheme, and its absence in this budget represents another missed opportunity for the State Government to implement an initiative that would be a game changer for South Australia. Business SA will continue to take this up with the government on behalf of all regional businesses. We want to see this approach, which is currently in place in Victoria and Queensland, adopted in South Australia.

GLOBAL PROMOTION OF ADELAIDE AND SOUTH AUSTRALIA

The 2023-24 State Budget includes \$20.8 million for major events over four years. The Business SA – William Buck Survey of Business Expectations for March 2023 quarter saw the South Australian Business Confidence Index increase by 5.8 points, while the National Economic Confidence Index decreased by 1.1 points. We attributed this to the State Government's prioritisation of large-scale events, such as the Adelaide 500, AFL Gather Round and LIV Golf. 77.9% of business operators surveyed viewed these events as beneficial to business in South Australia. Business SA is pleased that funds have been allocated to establish new events and to grow existing ones. We would also like to see future events planned with regional businesses in mind, to ensure there is a more equitable spread of benefits to all businesses in the state.

Business SA has previously suggested conducting a feasibility study to determine whether South Australia has the required facilities and infrastructure to host the United Nations Conference of the Parties. Hosting the COP would attract between 20,000 and 30,000 visitors, boost the economy and further cement our credentials as a global leader in renewable energy, enhancing our global reputation. Adelaide would also be the first city in Australia to host this event. Business SA is of the opinion that a portion of the fund should be used to conduct this study.

The Budget also allocated \$2.4 million over four years to increase South Australia's international presence and representation in overseas markets. This will include establishing trade offices in Frankfurt, Germany and Washington, D.C., United States of America, and appointing a Special Envoy to Singapore and South-East Asia. This should help to further raise South Australia's global profile as an attractive investment destination.

SOVEREIGN CAPABILITY, DEFENCE INDUSTRIES AND AUKUS

\$5.5 million was included in the budget to establish a state Office for AUKUS, which would help to implement the build program at Osborne Naval Shipyard. According to Premier Peter Malinauskas, functions of the new office will include delivering "a highly skilled workforce and the infrastructure we need to make the AUKUS program a reality." Business SA welcomes this development. Given the nuclear-submarine build will create 12,000 jobs over its lifetime, it is crucial to ensure we have the right skilled workers and that young South Australians have every opportunity to study here to then work on this project. We also hope the office will help South Australian businesses become part of the defence supply chain and be the first point of call for required goods and services.

WORK HEALTH AND SAFETY

The South Australian Return to Work Scheme is not paid for by the State Government, but instead is funded directly by employers through premiums. Business SA urged the State Government to ensure the Return to Work average premium rate will not rise above 1.90%, following the introduction of new legislation in 2022.

The average premium rate increased from 1.8% to 1.85% for 2023/2024. While this increase to the *average* premium rate appears to be relatively insignificant, and is better than the 1.90% forecast, it represents yet another increase in the cost of doing business and the reality is that actual premiums vary across different industries. For some sectors for example, actual premium rates sit much higher, between 5 – 7% of total remuneration. We will continue to advocate for the Return to Work Scheme to operate as effectively as possible and for businesses to be supported to remain as safe as possible to ensure premium rates drop in the future.

We also asked that SafeWork SA be adequately resourced to effectively administer the *Work Health and Safety Act 2012* and deliver the outcomes expected in both the *Australian Work Health Safety Strategy 2023 – 2033* and recommendations of the *Independent Review of SafeWork SA 2022*. Business SA will continue to monitor the situation and adjust our advocacy campaigns accordingly. We are interested in the funding (\$3.3 million to 2026) for a SafeWork SA Case Management System.

WHAT ELSE IS THERE FOR BUSINESS?

- River Murray flooding
 - Small business recovery grants: Up to \$50 000 to assist small businesses to meet clean-up and reinstatement costs
 - Small business industry support grants: Up to \$10 000 for small businesses to support them during the flood
 - Primary producer recovery grants: Up to \$75 000 to assist affected agribusinesses with essential recovery and reinstatement activities
- \$6.5 million over four years to deliver the South Australian small business strategy to increase the skills, capability and capacity of small business owners and support them to create jobs and build the economy. We are particularly interested to see what this entails.
- \$22 million in 2026-27 for Economic Recovery Fund
- \$20 million added to the Research and Innovation Fund
- \$186 million to support “economic growth and development opportunities”
- \$13.5 million over 4 years to extend video game development rebate scheme
- \$200 million for digital investment to deliver targeted upgrades to public sector technology platforms. We expect that the State Government’s new procurement policy will apply here in reference to opportunities for the local digital industry.
- \$33 million over 4 years to support space industries



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