

# 2022-2023 State Budget Summary

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# Overview

The 2022-2023 State Budget is sound. The Malinauskas Government delivered as expected, based on its health-focused election campaign. Delaying some larger, long-term projects and higher than anticipated tax receipts has helped return South Australia to surplus quickly which gives the business community confidence. After a tumultuous two and half years coping with the pandemic and uncertainty, no new taxes and no major hikes on fees and charges is good news.

Post-COVID recovery in the business sector is paramount and the budget performs well here. The \$100m Economic Recovery Fund to support South Australian businesses is the most notable allocation, but we await further detail about its distribution.

While we welcome an increase of GST dollars into the state economy, we remain equally concerned about Western Australia's disproportionate portion of this tax. We will continue to monitor and raise this with both State and Federal Governments.

Skills and labour shortage has been identified by business in SA as our most significant concern. Investment in skills must be prioritised and this budget moves toward delivering this. Identifying new workforce sources and skilling them— in areas critically affected such as construction, horticulture, aged and community care is paramount and while this budget goes some way to resolving this, attracting workers to South Australia is an ongoing issue.

Long term skill development in South Australia is addressed in this budget with a focus on vocational education in high schools, including some regional focus. Shorter term initiatives include funding for subsidised training in areas of serious skills shortage.

Women in small business initiative is very pleasing with \$4m over 4 years to grow female-owned businesses and boost our economy.

Keeping the greatest proportion of taxpayer dollars in South Australia is extremely important and the Budget's procurement measures are pleasing to see. Not only do they put a focus on SA businesses winning government work, but they also help businesses get the work in the first place.

Money being allocated to regions is always positive. The return of Country Cabinet is a welcome opportunity for regional businesses and communities, and we will continue to advocate for regional chambers to be included.

Infrastructure funding and additional investment in roads is always good news for local businesses who can benefit from contracts.

Our members tell us housing is a major obstruction to bringing workers into the regions to fill jobs. Further budgeted housing projects are pleasing given the tight rental market and increasing house prices.

# Economic & fiscal overview

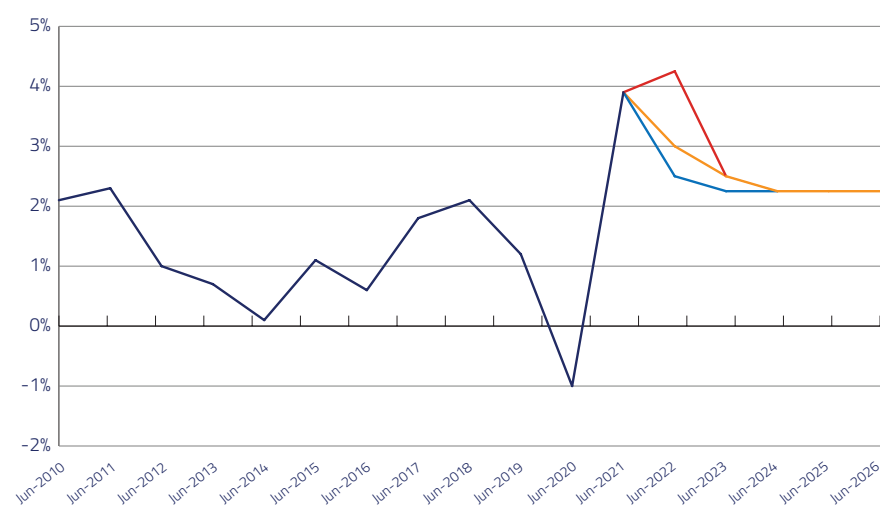
## ECONOMIC OVERVIEW

The South Australian economy has fared remarkably well over the last two years compared to economies domestically and overseas. This is demonstrated with South Australia having the fastest economic growth in 2020-2021. Treasury forecasts growth to taper after the strong bounce back post-covid.

While the economy continues to do well there is significant headwinds on the horizon for business and the economy. While Treasury's forecast takes into account the impacts of Ukraine, rising inflation, a tight labour market, no significant COVID outbreaks and the return of students, the emerging gas crisis might have greater than expected impact on business in the medium term.

In 2021-2022, Treasury estimates employment grew by 3.25 per cent before dropping to 1 per cent over the forward estimates. Adelaide Consumer Price Index (inflation) is forecasted to hit a peak of 5 per cent in 2022-2023 before tapering down to 2.75 per cent in 2025-26.

### Historical and Forecast South Australian Annual Economic Growth



## FISCAL OVERVIEW

The fiscal position has improved significantly on the back of a strong rebound in the economy from \$48m (December 2021) to \$233m in this budget. Surpluses are expected to continue and grow over the forward estimates. A turnaround of almost \$1.9b in one year is remarkable.

Budget Release	Budget (cash) balance \$M		Forecast Budget (cash) balance \$M			
	20/21	21/22	22/23	23/24	24/25	25/26
Mid-year Budget Review 21/22 (Dec 21)	-1,782	-1,590	103	666	537	-
Budget 22/23 (Jun 22)	-	-1,733	233	487	606	643

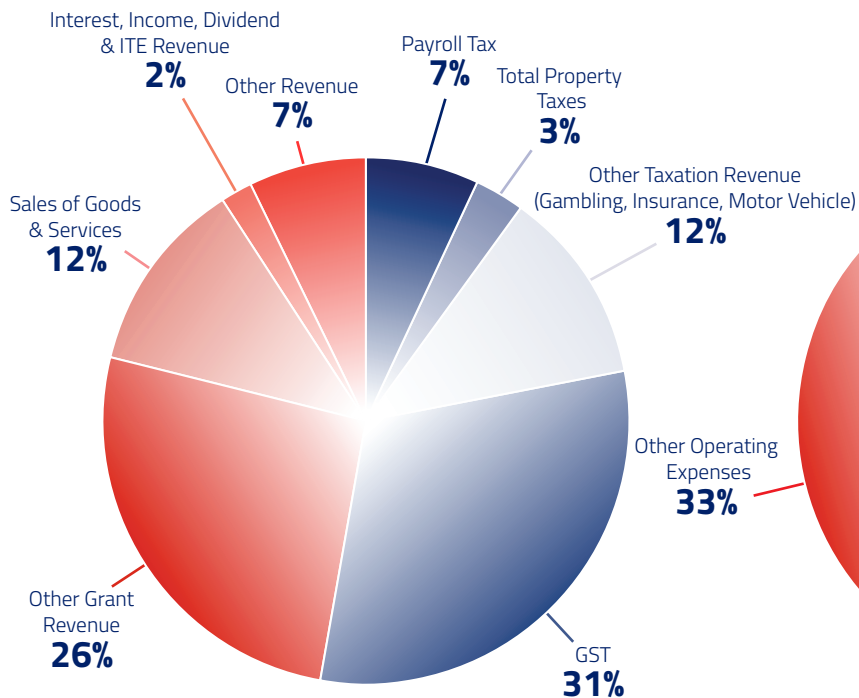


The budget has seen a significant uptick in the revenue expected from a year ago. Driven by a booming economy, state tax receipts are up and GST dollars are better than expected. With record high employment and a hot property market, 2021-2022 payroll tax receipts are expected to be up \$86m (6.2 per cent), and stamp duty is up by \$395m (45.1 per cent). All in all, state tax receipts are better than expected for 2021-2022 and will likely remain up over the forward estimates.

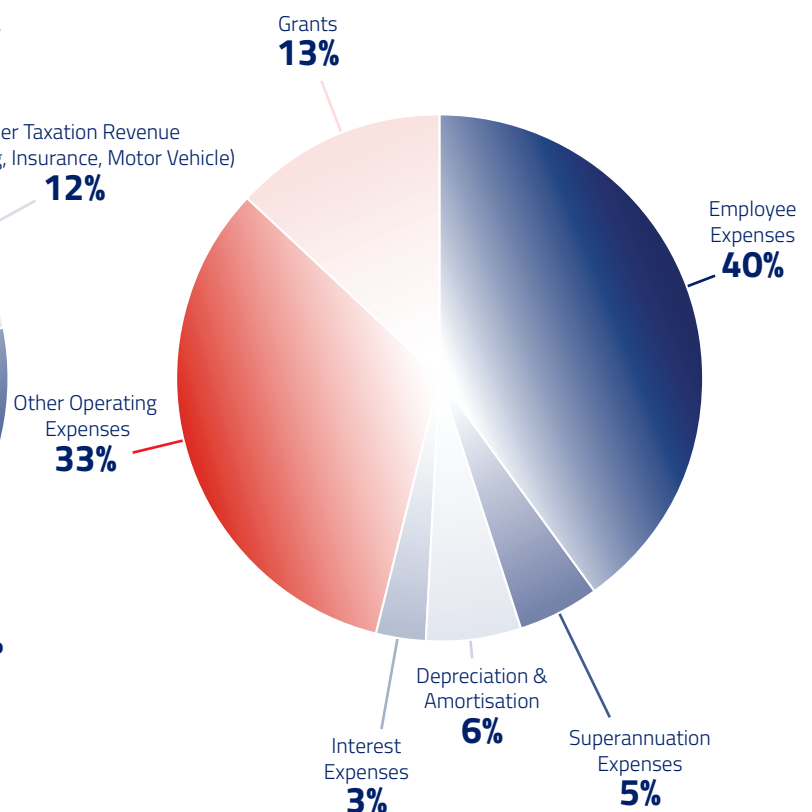
While the government expects to see greater revenues, it has counted on a number of savings. In particular the public sector has been targeted for savings through efficiency dividends for non-frontline departments and axing of executives. Further, former government measures that have been put out to pasture as seen with scrapping the home battery and solar installation scheme.

	Actual \$M	Estimated (from Budget 21/22)		Estimates \$M (from Budget 22/23)			
Budget Release	20/21	21/22	21/22	22/23	23/24	24/25	25/26
Total Revenue	21,638	21,915	23,346	<b>23,787</b>	24,719	25,475	26,426
Total Expenses	22,200	23,312	25,079	<b>23,554</b>	24,232	24,868	25,783

### 22/23 Budget Revenue \$23.8B



### 22/23 Budget Expenses \$23.6B



## GST OVERVIEW

Along with strong state tax receipts, South Australia's GST share has been revised up following an increased national GST pool. Driving this increase is the underestimated economic activity on the back of strong consumption and investment.

While South Australia's GST dollars will increase over the forward estimates our proportion of the national pool is falling given Western Australia's GST floor. This remains a significant concern going forward and we expect the State Government will argue this at the federal level.





Budget Year	Actual Commonwealth payments to South Australia \$M		Forecast Commonwealth payments to South Australia \$M				
	19/20	20/21	21/22	22/23	23/24	24/25	25/26
GST Payments	6,095	6,848	6,805	7,378	8,027	8,299	8,588
Total Commonwealth Payments	10,802	11,196	12,322	12,367	13,141	13,507	13,966

## NET DEBT & INTEREST COSTS

General Government (GG) net debt has not seen any significant change since the 2020-2021 Mid Year Budget Review with only slight reductions expected in 2022-2023 and 2023-2024. Net debt beyond 2023-2024 is expected to grow over the forward estimates up to \$25.2b. Two major projects are driving net debt: the North South Corridor upgrade and the new Woman's and Children's Hospital.

Budget year	Actual GG Net Debt \$M		Estimated GG Net Debt \$M				
	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Mid-Year Budget Review 20/21 (Dec 21)	10,537	13,710	16,807	19,104	21,628	23,377	-
State Budget 22/23 (Jun 22)	-	-	16,930	19,003	21,606	23,441	25,220
Net Debt/Revenue	-	63.4%	72.5%	79.9%	87.4%	92.0%	95.4%
Net Debt/GSP	-	11.6%	13.6%	14.6%	15.8%	16.4%	16.8%

Growing faster than expected, interest expenses share of revenue is tipped to go above 4 per cent in 2023-2024. While government borrowing costs have remained low, we are beginning to see the cost of government debt increase with the earlier than expected RBA rate hikes.

Budget year	Actual Interest Expenses \$M		Estimated Interest Expenses \$M				
	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Mid-Year Budget Review 21/22 (Dec 21)	475	442	505	717	871	999	-
Budget 22/23 (Jun 22)	-	-	516	780	988	1,129	1,219
Interest Expense/Revenue	2.3%	2.0%	2.2%	3.3%	4.0%	4.4%	4.6%

## INTERSTATE COMPARISONS

Looking at other released state budgets, South Australia has managed to reach a surplus without a strong commodity market.

Interstate Budget forecast comparisons 2022/23	SA	VIC	WA	Tas
Revenue (\$M)	23,787	81,980	38,428	7,848
Budget Position (\$M)	233	-8,212	1,592	-475
Net Debt (\$M)	19,003	118,500	31,105	2,633
Net Debt/Revenue	79.9%	144.5%	80.9%	33.5%
GSP Growth	2.50%	3.25%	2.00%	2.75%





# Key budget measures for business and the South Australian economy

## EMPLOYMENT, SKILLS & EDUCATION

Pleasingly, the budget has a vocational education and skills focus providing \$208.8m for five new technical colleges including two in regional South Australia (Mount Gambier and Port Augusta). These will be part of the secondary government school system and give students a choice to start vocational education in dedicated facilities toward a trade, for example, while they are at school. This is supported by funding such as \$250 000 per annum to Master Builders Association SA to run a program of building trade outreach into schools and funding for the Motor Trade Association SA's apprentice mentoring program.

The women in small business fund is very welcome providing \$1 million each year from 2022-23 to grow female-owned businesses in South Australia and boost our economy, creating jobs and supporting local entrepreneurs. Expected to build resilience and strengthen innovation, it will provide a suite of programs to South Australian female-owned businesses.

Importantly for business, the budget provides \$2m to establish a Royal Commission into Early Childhood Education and Care. Along with the need for our future citizens to be well educated, the Commission will examine how the school day can better meet the needs of working families.

For some time now Business SA has called for university merger exploration, and we welcome the budget allocation of \$1m to establish a University Merger Commission.

Other skills-related budget measures include:

- ★ \$8.8m in skill shortage funding for courses where industry has reported deficiencies (e.g. bricklaying, concreting, saw doctoring)
- ★ \$12.7m for TAFE SA to deliver training to support the aged care, disability and early childhood sectors in both metropolitan and regional South Australia
- ★ \$5m in 2023-2024 to upgrade Mount Gambier's TAFE SA campus to further increase enrolment and retention of students in the region
- ★ \$11.9m to continue the state's share of funding under the Skilling Australians Fund National Partnership Agreement while a new agreement with the Commonwealth is finalised.

## SUSTAINABILITY

Business SA welcomes the investment of \$593m over four years to establish a new hydrogen facility in the Whyalla region to harness excess renewable energy to create power generation flexibility and export opportunities.

The government has forecast that this hydrogen power plant will deliver an eight per cent reduction in the wholesale price of electricity in South Australia which is welcomed by business. Operational by 2025 this plan will unlock the development of \$20b pipeline of renewable energy projects in our state.

\$30m has also been allocated to combine with the Federal Government's committed \$70m for the Port Bonython Clean Hydrogen Industrial Hub. This hub will support new industry being built around clean hydrogen availability in this regional area.

Business SA notes the appointment of the Commissioner for the River Murray. There are many businesses reliant on the River Murray including dairy, citrus, almonds, and grapes and we hope this appointment will assist in ensuring their continued viability.





## PUBLIC PROCUREMENT

Increasing the proportion of public spending that stays in the state is welcomed and there are several measures in the budget that align with this.

- ★ The Office of the Industry Advocate has been funded \$888 000 over four years to run regular industry-specific workshops to help local businesses tender for government procurement opportunities and win work
- ★ The Procurement Publications initiative provides \$1m to publish government procurement opportunities three months in advance to assist local businesses to prepare for tender opportunities
- ★ Department of Treasury and Finance budgeted \$888 000 over four years to review government procurement expenditure and report on the amount spent on South Australian and non-South Australian goods and services.

## REGIONS

Business SA supports and recognises the importance of South Australian regional businesses, working closely with regional chambers of commerce. We welcome the \$1.49b in measures supporting the regions, plus an additional \$305.7m in regional health funding.

Notable allocations include:

- ★ \$593m to establish a new hydrogen facility including a hydrogen storage capacity in the Whyalla region
- ★ \$12m over four years to reintroduce the outer areas registration concession for owners of vehicles in remote regions
- ★ \$2.6m in 2022-2023 to provide fee relief for the rock lobster industry
- ★ \$2m over three years to develop a forest products domestic manufacturing and infrastructure masterplan
- ★ \$20m over two years for improvements on the state's outback road network impacted by recent flooding (subject to Commonwealth agreement).

## INFRASTRUCTURE & TRANSPORT

The State Budget infrastructure spend supports the construction sector, providing future work and employment in Adelaide and the regions. The budget focuses on two major infrastructure projects:

- ★ North-South Corridor upgrade, with \$3.19b allocated over four years (delivery delayed to 2031)
- ★ New Women's and Children's Hospital (including 50 additional beds), with an allocation of \$1.44b over four years (completion expected by 2027).

As previously mentioned, the \$593b new hydrogen facility including a hydrogen storage capacity in the Whyalla region will contribute to regional development, jobs and infrastructure spending.

The budget makes the following allocations for road infrastructure:

- ★ \$400m over five years for upgrades on Marion Road between Anzac Highway and Cross Road
- ★ \$120m over two years for an on-off ramp from the Southern Expressway at Majors Road (Commonwealth partnership)
- ★ \$125m over two years to reinstate a commitment to the full duplication of Main South Road between Seaford and Sellicks Beach
- ★ \$20m over two years for improvements on the state's outback road network impacted by recent flooding (subject to Commonwealth agreement).



The budget also includes allocations for public transport, including:

- ★ \$55.1m over four years to reinstate the construction and operation of the Port Rail Spur from the Outer Harbor line
- ★ \$29.4m over four years to improve transport to Mount Barker and Adelaide Hills
- ★ \$10m over two years to optimise operation of the Seaford rail line
- ★ \$2m in 2023-2024 to upgrade Noarlunga station.

Finally, the budget includes investment into community services and projects, including:

- ★ \$82.4m over four years for rebuilding and operating the Adelaide Aquatic Centre
- ★ \$68.1m over four years for community infrastructure projects.

## ARTS, TOURISM & EVENTS

Tourism is an important focus for South Australia's economy, and we are well known for our live performance and creative arts industries, enticing visitors to Adelaide and the regions. The Budget includes a range of measures to support these industries recover from the pandemic including:

- ★ \$45m in tourism marketing
- ★ \$40m Major Events Fund
- ★ \$18m to return the Adelaide 500 in December
- ★ \$3.3m for Live Music Grants
- ★ \$500,000 per annum enabling an annual Adelaide Film Festival
- ★ 200 grants of up to \$5000 for minor upgrades to live music and performance venues.

## INNOVATION

Included in the \$100m Economic Recovery Fund is \$10m over four years to boost the manufacturing industry.

\$19.6m in 2023-2024 to contribute to establishing Australia's first dedicated Space Manufacturing Hub in South Australia. The project is implemented in partnership with the Commonwealth and industry with a total cost of \$66.1m.

## TRADE & INVESTMENT

We are pleased with the establishment of the following bodies aimed at growing trade and investment:

- ★ Brand SA is being re-established after being dissolved by the previous government. Funding involves to \$4m for the first two years then tapers to \$1m 2024-2025 and beyond. This body will be aimed at promoting South Australian business and products through partnerships with local business and campaigns.
- ★ Invest SA is new with \$1m funding per year over the forward estimates. Tasked with selling the state's credentials nationally and internationally, it will assist investors to establish in South Australia. It has a target of \$750m of new investment and the creation of 4,000 new jobs in 2022-2023.



## WHAT'S MISSING

Previously employers who took on new trainees and apprentices received a payroll tax deduction. This helped solidify our future industries with skilled workers and with the end of the Federal Government Boosting Apprenticeship Commencement subsidies, this will be missed.

Payroll tax discounts for regional businesses would have enabled regional businesses to be more competitive – especially those bordering states where payroll tax is a fraction of South Australian levels.

A program that aimed to provide 750 supported apprenticeships and traineeships across government departments and agencies will be wound back. Only 350 trainee and apprenticeships places have been filled in the program and according to the budget papers cutting it will save \$15.5m.







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