Australian
Finance
Industry
Association

29 January 2024

The Hon Stephen Jones MP
Assistant Treasurer and Minister for Financial Services
Treasury
Langton Crescent
PARKES ACT 2600
Submitted via email to: PreBudgetSubmissions@treasury.gov.au

Dear Minister

2024-25 Pre-Budget submission

The Australian Finance Industry Association (AFIA) is the only peak body representing the entire finance industry in Australia.[1] We appreciate the opportunity to respond to the Government's call for 2024-25 Budget submissions.[2]

We represent over 150 members, including bank and non-bank lenders, finance companies, fintechs, providers of vehicle and equipment finance, car rental and fleet providers, and service providers in the finance industry. We are the voice for advancing a world-class finance industry and our members are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

We collaborate with our members, governments, regulators and customer representatives to promote competition and innovation, deliver better customer outcomes and create a resilient, inclusive and sustainable future. We provide new policy, data and insights to support our advocacy in building a more prosperous Australia.

[1] Australian Finance Industry Association (afia.asn.au).
[2] Treasury, *2023-24 Pre-Budget submissions* (5 December 2022).

INTRODUCTORY COMMENTS

On 1 December 2023, the Assistant Treasurer and Minister for Financial Services, the Hon Stephen Jones MP, called for submissions regarding the 2024-25 Budget process.[3] AFIA is proud to contribute to this process, as the only peak body representing Australia's entire finance industry, which contributes approximately $360.6 billion to Australia's Gross Domestic Product (GDP).[4]

According to the Australian Bureau of Statistics (ABS), Australia's total annual GDP in 2022-23 was $2.6 trillion.[5] Yet, the Reserve Bank of Australia (RBA) estimates total credit provided to Australian businesses and consumers is $3.4 trillion. [6] This means the total amount of credit in the Australian economy is equal to 134 per cent of GDP.

Through providing credit, the Australian finance industry stimulates our economy and helps individuals and businesses to invest, thrive, achieve their aspirations and fulfill their dreams.

These core priorities have been previously summarised by the Treasurer as an economic approach, which focuses on 'responsible' fiscal management while striving for growth that is 'stronger, more sustainable and more inclusive'. [7]

AFIA welcomes the Government's indications it will take a measured approach to the 2024-25 Budget process, balancing fiscal responsibility with investments in long-term growth to benefit all Australians.

The Treasurer has discussed the crucial importance of improving productivity[8], maintaining personal wellbeing[9], and continuing to drive economic growth.[10]

AFIA supports the approach of improving productivity, maintaining personal wellbeing and driving economic growth, both to support Australians through the current higher inflation and higher interest rate environment as well as through future economic cycles. However, we note the Budget does face substantial challenges that require bold thinking and assiduous economic management to overcome.

The Government has worked hard to improve the Budget position by $12.1 billion in 2023-24, to reach a surplus of $11.6 billion (equivalent to 0.4% of GDP), according to the Mid-Year Economic and

[3] The Hon Stephen Jones MP (Assistant Treasurer and Minister for Financial Services), '2024-25 Pre-Budget Submissions' (1 December 2023).
[4] IBIS World, *Finance in Australia* (November 2023).
[5] ABS, *Australian National Accounts: National Income, Expenditure and Product*, ABS Website, accessed 11 January 2024., Table 1, Column CT (released December 2023 – measuring the year to September 2023).
[6] RBA, *Lending and Credit Aggregates* (September 2022), Table D2, Column H.
[7] The Hon Dr Jim Chalmers (Treasurer of Australia), 'This is Hawke and Keating for the 2020s', *The Australian Financial Review* (9 January 2023).
[8] The Hon Dr Jim Chalmers (Treasurer of Australia). 'The Future is in Our Hands', *The Australian* (22 August 2023).
[9] The Hon Dr Jim Chalmers (Treasurer of Australia), 'Release of national wellbeing framework' (21 July 2023).
[10] The Hon Dr Jim Chalmers (Treasurer of Australia), 'National Accounts – September Quarter 2023' (6 December 2023).

Fiscal Outlook released in December 2023.[11] This is a substantial improvement on the cash deficit of $36.9 billion (1.5% of GDP) in the October 2022-23 Budget.[12]

However, accumulated gross debt remains too high, at $909 billion (equivalent to 34% of GDP).[13] While this is significantly lower than the over $1 trillion (or 40.8% of GDP) level net debt reached in 2022-23, the Government still has to focus on budget repair, as the Treasurer has emphasised.[14] It is useful to note that net debt, while also too high, is significantly lower than gross debt at $491 billion (or 18.4% of GDP).[15]

The problem of debt management is complicated by increasing demand for government services as Australia's population ages. According to the *Intergenerational Report,* released on 23 August 2023, the proportion of Australians aged over 65 has gone from 8.3% in 1970 to 17% in 2022-23 and is expected to increase to 23% by 2062-63. [16] This means almost one in four Australians will be over our current retirement age by 2062-63. This will put pressure on the Budget due to a smaller tax base, as fewer people are working, and a greater call for government expenditures due to increased demand for outlays like age pension and other government services. For example, even though people over 65 today only account for 17% of the population, they account for 40% of all total Australian health expenditure.[17] These issues will have to be carefully managed in order to maintain the long-term Budget position.

Unemployment has remained low, at 3.9 per cent.[18] According to the Government's own figures, over 700,000 Australians found work between May 2022 and November 2023, with employment dipping slightly in December.[19] Despite continuing low unemployment numbers, the level of job vacancies has cooled recently. Vacancies hit a record high of 480,000 vacancies in May 2022.[20] However, as according to the most recent data in November 2023, monthly job vacancies had fallen to 380,800.[21]

Regrettably, due to inflation, continued low unemployment has not led to higher real wages. Median wages are up 4 per cent annually according to the latest data.[22] However, importantly, this has not kept pace with inflation, with the Consumer Price Index (CPI), increasing 4.3 per cent annually.[23] While annualised inflation remains higher than the target range of 2 – 3 per cent, its current rate is a significant improvement on the recent peak of 7 per cent March 2023.[24] This shows the

[11] Mid-Year Economic and Fiscal Outlook (MYEFO) 2023-24, 58.
[12] AFIA's Pre-Budget Submission for 2023-24,2.
[13] Mid-Year Economic and Fiscal Outlook (MYEFO) 2023-24, 6.
[14] See AFIA's Pre-Budget Submission for 2023-24, 2. See too The Hon Dr Jim Chalmers (Treasurer of Australia), Press Conference (8 January 2024).
[15] Mid-Year Economic and Fiscal Outlook (MYEFO) 2023-24, 6.
[16] Treasury, *Intergenerational Report* (23 August 2023), 66.
[17] Treasury, *Intergenerational Report* (23 August 2023, 8.
[18] ABS, *Australian Labour Force Data* (latest release, January 2024 measuring December 2023).
[19] See too The Hon Dr Jim Chalmers (Treasurer of Australia), Press Conference (14 December 2023).
[20] ABS, *Job Vacancies* (latest release, January 2023 – measuring November 2022).
[21] ABS, *Job Vacancies,* (latest release, January 2024 measuring November 2023).
[22] ABS, *Wage Price Index*, (latest release, November 2023 – measuring September 2023).
[23] ABS, *Consumer Price Index* (latest release, January 2024 – measuring the year to November 2023).
[24] ABS, Consumer Price Index (release from April 2023 – measuring the year to March 2023).

Government's policies to reduce inflation are working, but there is still more to do to take the strain off household budgets.

Given this, AFIA recognises the Government faces a complex task in mapping out a budgetary plan that simultaneously deals with Australia's debt and deficits in a responsible way, maintains low unemployment, increases real wages, and tames ongoing inflationary pressures.

Attachment A provides AFIA's proposals for continued prosperity and inclusive, sustainable growth to benefit all Australians. Our recommendations are grouped under three themes aligned to our strategic priorities, being achieving economic growth through sustainability and net-zero initiatives, driving the digital economy through competition and innovation as well as a safe, transparent financial system, and improving consumer outcomes through proportionate regulation and financial inclusion.

Attachment B of this submission provides AFIA's further detailed analysis of the current economic outlook and Australia's present budgetary position.

CLOSING COMMENTS

I would appreciate the opportunity to discuss our recommendations and provide further information. Please feel free to contact me or Sebastian Reinehr, Senior Policy Adviser at sebastian.reinehr@afia.asn.au.

Yours sincerely

Diane Tate
Chief Executive Officer

ATTACHMENT A: AFIA'S RECOMMENDATIONS

As outlined in the covering letter of this submission, AFIA supports the Treasurer's stated desire for an economic policy which marries 'responsible' fiscal management with the pursuit of growth, which is 'stronger, more sustainable and more inclusive'. [25]

Our specific policy solutions for continued shared economic prosperity will be grouped under three broad themes which accord with AFIA's strategic priorities. These themes are:

1. achieving economic growth through sustainability and net-zero initiatives
2. driving the digital economy through competition and innovation as well as a safe, transparent financial system
3. improving consumer outcomes through proportionate regulation and financial inclusion.

Theme 1 – Achieving economic growth through sustainability and net-zero initiatives

AFIA is committed to sustainability, as evidenced by our active advocacy in this space. We strongly advocated for initiatives to incentivise uptake of electric vehicles (EVs) and hybrid vehicles and recommended the Government's removal of Fringe Benefits Tax (FBT) on EVs and hybrid vehicles as well as other initiatives.[26] We have made submissions:

- supporting the Government's National Electric Vehicle Strategy (NEVS)[27]
- supporting the Government's development of a Sustainable Finance Taxonomy[28]
- supporting-in-principle mandatory climate-related financial disclosures[29].

AFIA believes a key component of a successful growth strategy for the Australian economy will involve schemes that support consumers and businesses, especially small businesses, seeking to transition to net-zero.

The Government must maintain its commitment to encouraging Australians to invest in new technologies to transition to cleaner, green forms of personal transport, given the transport sector accounts for 21.1 per cent of our emissions.[30] It will be effectively impossible for Australia to lower our emissions and meet the Government's legislated target of at least a 43 per cent reduction in emissions by 2030 on 2005 levels without continued and increased action to foster the transition to green mobility.[31] It will be vital for us to find ways to fast-track and frontload key initiatives to ensure our emissions reduction trajectory is achievable.

[25] The Hon Dr Jim Chalmers (Treasurer of Australia), 'This is Hawke and Keating for the 2020s', *The Australian Financial Review* (9 January 2023).
[26] AFIA Senior Policy Adviser, Sebastian Reinehr, gave evidence to the Committee Inquiry into the Treasury Laws Amendment (Electric Car Discount) Bill 2022 on 23 August 2022, speaking to AFIA's submission.
[27] AFIA Submission on the NEVS.
[28] AFIA's Submission the Department of Climate Change, Energy, Environment and Water on the Australian Sustainable Finance Taxonomy.
[29] AFIA's Submission to Treasury on Mandatory Climate-Related Financial Disclosures.
[30] The Hon. Chris Bowen MP (Minister for Climate Change and Energy), *2023 Climate Change Statement*, 35.
[31] *Climate Change Act 2022* (Cth) s 10(1)(a).

As the Hon Chris Bowen MP, Minister for Climate Change and Energy has said:[32]

The time for action is now, we don't have a second to waste.

Supporting the expansion of existing initiatives

Existing schemes have delivered excellent results, particularly take-up of novated leases to support acquisition of EV and hybrid vehicles. This initiative is well-supported and is delivering immediate results with the increase in EV and hybrid vehicle acquisitions, but it will also support the development of the secondary market for EV and hybrid vehicles over coming years.

In line with AFIA's commitment to sustainability and decarbonisation, we urge that certain measures from the 9 May 2023 Budget and 13 December 2023 MYEFO be maintained or increased that fast-track uptake of EV, hybrid and alternative powered vehicles, particularly in infrastructure necessary to support the transition of transportation, including charging infrastructure and investment in renewables so the grid is powered by sustainable energy.

AFIA supports following measures:

- Over $20 billion from the *Rewiring the Nation Program* for major renewable energy transmission upgrades to switch the grid to green power[33]
- $275.4 million to double the Commonwealth's investment in clean transport and charging infrastructure to $500 million by 2030.[34] The goal of the *Driving the Nation Program* includes building charging infrastructure every 150km on major roads[35]
- The Electric Vehicle discount, removing Fringe Benefits Tax from Zero and Low Emissions Vehicles (ZLEVS), valued at $205 million over the forward estimates.[36]

AFIA requests further information on the rollout of the $500 million in funding for infrastructure through the *Driving the Nation* program, including an update on how many charging stations have been installed, where and at what cost. Clarity on the future directions of the program would assist. We hope to continue working with the Government on these initiatives.

AFIA recommends the EV tax cut, which is due to expire after 2025-26, be extended at least until 2029-30 for the following reasons:

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[32] *The Australian*, 'The time for action is now': climate bill introduced' (27 July 2022).
[33] Budget October 2022-23, Budget Paper 2, 72.
[34] Ibid, 70.
[35] The Hon. Chris Bowen MP (Minister for Climate Change and Energy), *Delivering more EV charging to make cleaner, cheaper cars more accessible* (19 April 2023)
[36] Explanatory Memorandum, Treasury Laws Amendment (Electric Car Discount) Bill 2022, 7

- Research shows that since the measures were introduced, EVs have increased from 2 per cent to a projected 8.4 per cent of all new cars sold in Australia.[37]
- Since the EV tax cut was introduced, AFIA members have financed $1.96 billion in EV purchases (data for period between January and October 2023).[38]
- Our novated leasing members monthly EV finance alone has gone from approximately $50 million a month to $200 million a month (data for period between January and October 2023).[39]
- This means that not only are sales of EVs increasing, but they are being driven by the channels that most benefit from the Government's EV tax cut.

Introducing additional programs to accelerate transition and provide consumers and businesses options that best suit their circumstances

AFIA believes additional programs should be introduced to expand options for consumers and small businesses, such as low interest loans or loans with tax deductible interest for the acquisition of EV or hybrid vehicles as well as charging facilities.

AFIA recommends that the Government make available supporting finance to facilitate discounted-interest loans to individuals and small businesses to purchases EVs or hybrid vehicles. A discount of an additional 150 basis points on vehicles priced below the luxury car tax (LCT) threshold for fuel efficient vehicles, for example, would open an opportunity for faster electrification of the national vehicle fleet by many who would otherwise be unable to afford the switch.[40] It would also generate a larger stock of vehicles for the secondary market in coming years, further expanding the availability of affordable low-emission vehicles and enabling households and small businesses to switch years ahead of their current timeline.

The CEFC's $20.5 million in financing for Taurus Motor Finance provides an example of how such finance can be delivered to the market. Whether delivered through the CEFC or otherwise, a program of a greater scale would serve the national interest in helping decarbonise our passenger and commercial road transportation. AFIA estimates that a package of $500 million over four years would accelerate the conversion of over 56,000 vehicles nationwide.[41]

AFIA also supports the assistance provided to businesses to transition to net-zero by the Australian Renewable Energy Agency (ARENA), the Clean Energy Finance Corporation (CEFC) or the Australian Office of Financial Management (AOFM).

[37] Comparing data from the EV Council's *State of EVs* reports from March 2022 to June 2023 at pages 5 and 8 respectively.
[38] AFIA data.
[39] AFIA data.
[40] For the 2023-24 financial year, the LCT threshold for fuel efficient vehicles was indexed to $89,332.
[41] Based on figures quoted by the CEFC with regard to the Taurus program.

The Government may also consider leveraging pre-existing schemes to support these additional programs, such as the Australian Business Growth Fund.

We note other industry initiatives to support our transition to net-zero, including Brighte's products and services that make solar, battery and home improvements affordable for consumers and expand government programs, Sixt's focus on shifting their rental fleet to EV and helping transition in our transport sector, and Plenti's GreenConnect platform providing consumers with an all-in-one energy resource.

Introducing new initiatives to expand the availability of charging infrastructure

Ensuring motorists have confidence in the availability of suitable charging infrastructure is an important prerequisite to EV uptake. With increasing demand and supply, inevitably there will be pressure on existing charging infrastructure. Furthermore, Australia currently has a low density of charging infrastructure relative to comparable countries – for example, Canada has over three times the number of fast charging locations despite having comparable land area and population.[42] Therefore, investment in additional public and private charging facilities will be needed to support the transition in our transport sector.

To continue reducing transport emissions, in addition to the other measures outlined above, AFIA believes there is an opportunity for Government to accelerate moves towards net-zero by partnering with car rental companies through direct funding initiatives that support transition to green mobility in the car rental sector.

Specifically, AFIA recommends Federal and State Governments work together to:

- Direct a portion of the $500 million 'Driving the Nation Fund' (and equivalent state programs), to upgrading energy infrastructure for car rental facilities, both at airports and adjacent to airport grounds (known as 'off-airport locations') – this would benefit clients from airports and surrounding consumer business hubs and create greater regional footprints.
- Streamline application processes for State-based approvals to upgrade facilities by adding power generation capacity to charge EVs on a large scale – this would benefit consumers and others struggling to locate and/or install their own charging facilities.

Maintaining funding for existing programs

AFIA further supports the programs outlined below from both the May 2023 Budget:

- $2 billion for hydrogen investments through the *Hydrogen HeadStart* program[43]

[42] Comparing data from the EV Council's *State of EVs* reports from June 2023 at page 18 (558 fast or ultrafast DC locations) with data sourced from Transport Canada (1,742 fast DC locations).
[43] Budget May 2023-24, Budget Paper 2, 71.

- $1.5 billion to assist eligible households through the *Energy Price Relief Plan*[44]
- $131 million on reprioritisation of departmental funding, including an additional $21.8 million in funding for emissions reductions[45]
- $80 million to secure 'reliable, secure and affordable energy'[46]
- $14.2 million towards a comprehensive sustainable finance agenda, including:[47]
    - $8.3 million to establish a sovereign green bonds program
    - $4.3 million in additional funding for the Australian Securities and Investment Commission (ASIC) to ensure the integrity of sustainable finance markets, including by taking action against greenwashing
    - $1.6 million for the initial development of a sustainable finance taxonomy.

AFIA also supports the additional programs outlined below from the December 2023 MYEFO:

- $440 million in additional government funding for the purchase of Commonwealth fleet and lease vehicles, which can benefit from the EV tax cut[48]
- $206.8 million in additional investment in the renewable energy transition through the expansion of the *Capacity Investment Scheme*[49]
- $83.7 to support the implementation of mandatory climate-related disclosures[50].

AFIA strongly urges that funding to these programs be maintained or increased, so Australia can continue transitioning to net-zero and meet our legislated emissions reduction targets.

Stronger promotion of net-zero incentives and initiatives

All the initiatives outlined above should also be better and more widely publicised, through a centralised government online portal dedicated to informing consumers and businesses about the sustainability programs from which they could benefit. This will ensure those who need these programs most are able to better understand what is being offered to help them participate in our transition plans and to access the best program to suit their circumstances.

Theme 2 – Driving the digital economy through competition and innovation as well as a safe, transparent financial system

Another of AFIA's strategic priorities relates to supporting our digital economy through a focus on competition, innovation and safety.

[44] Ibid, 86.
[45] Ibid, 67.
[46] Budget May 2023-24, Budget Paper 2, 68.
[47] Ibid, 209.
[48] MYEFO December 2023-24, Appendix A, 246.
[49] Ibid, 220-1.
[50] Ibid, 296-7

It is pivotally important that the digitisation of financial services results in an industry that better serves consumers and society at large. Digitisation must be an opportunity for increased efficiency through the utilisation of new technologies, such as Open Finance and the New Payments Platform. The best way to encourage such innovation is through healthy competition, and it is for this reason that regulation must adapt to ensure new technologies are integrated into a safe financial system, clearing the way for nascent firms and new products to inject dynamism into existing markets.

Critically, the finance industry must remain vigilant about the safety of consumers, given the specific risks to which digitisation exposes them. Government and industry must continue collaborating to ensure privacy standards remain strong, to further build cybersecurity resilience and awareness, and to mitigate scam-related losses.

Promoting competition and innovation in payments, credit and financial services markets

Since the last Budget on 9 May 2023, we have made numerous submissions on the Consumer Data Right (CDR) to both Treasury and the Data Standards Body (DSB). These include submissions on the following topics:

- The Draft CDR Rules for Non-Bank Lending (NBL)[51]
- Decision Proposal 316 on NBL Alignment with the Banking Sector[52]
- Decision Proposal 318 on NBL Data Standards[53]
- Feedback to the DSB on data standards for novated and fleet leasing providers.

AFIA also made a submission to the Attorney-General's Department's consultation on reforms to Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) where we supported most of the changes proposed by the Government, including the regime's extension to tranche 2 entities.[54]

AFIA also made a major submission to the Review of the *Privacy Act 1988* (Cth)('the Privacy Act'), which responded with detailed feedback to almost all of the 116 recommendations of the Review.[55] Adequately protecting Australians privacy is essential to their fruitful participation in the benefits of the digital economy and AFIA strongly supports adequate safeguards and protections when it comes to these matters.

AFIA is currently finalising our submission to Treasury on *Payment System Modernisation (Regulation of Payment Service Providers)*. The submission will reflect AFIA's commitment to

[51] 6 October 2023.
[52] 25 August 2023.
[53] 8 December 2023.
[54] AFIA's Submission.
[55] AFIA's Submission.

proportionate and scalable regulation, with an understanding of the need to target regulatory interventions with functions-level granularity, rather than a traditional entity-based approach.

AFIA is also currently preparing our submission to Treasury on *Scams – Mandatory Industry Code*. The submission will reflect the importance of certainty regarding scope and definitions, as well the need for clear guidelines. These measures are fundamental to ensuring consumers and industry participants can work together to combat scams and mitigate scam-related losses.

Reinforcing our digital safety

As the Government knows too well, both the benefits and perils of 21st century technology and digitisation to our economy are immense, with recent cyberattacks on financial firms and other corporates in Australia.

As the Minister for Home Affairs, the Hon Clare O'Neil MP has put it, cybersecurity and the digital economy present:

> *[T]he fastest changing national security threat that our country faces. It is also a bloody big opportunity. The global cyber industry is massive. It is growing like topsy, and it is here to stay. If we play it right, Australia is uniquely placed to be best in the world*[56]*.*

As the Attorney-General, the Hon Mark Dreyfus KC MP has said regarding the complexities of managing the risks and benefits of the digital economy:

> *The Albanese Government has committed to stronger privacy protections for Australians [who] increasingly rely on digital technologies for work, education, health care and daily commercial transactions and to connect with loved ones. But when they are asked to hand over their personal data they rightly expect it will be protected*[57]*.*

AFIA supports the Government's measured recognition of both the risks and rewards of an increasingly modern and digitised economy for Australians. On the one hand, the Australian Bureau of Statistics (ABS) estimates the digital economy adds $120 billion to Australia's Gross Domestic Product (GDP) annually.[58] However, simultaneously, the Australian Competition and Consumer Commission (ACCC) estimates threats from the digital economy, like scams, cost Australians $3.1 billion annually.[59]

[56] The Hon. Clare O'Neil MP (Minister for Home Affairs and Cyber Security), *Speech to the AFR Cyber Summit* (18 September 2023).
[57] The Hon. Mark Dreyfus KC MP (Attorney-General of Australia), 'Albanese government to strengthen privacy protections' (28 September 2023).
[58] ABS, *Digital activity share of the Australian economy* (October 2022).
[59] *ACCC calls for united front as scammers steal over $3bn from Australians* (17 April 2023).

Therefore, we must ensure a safe and transparent financial system, while promoting the benefits of the digital economy.

For these reasons, in line with our commitment to supporting the digital economy and a safe and transparent financial system, we strongly support maintaining or expanding the following measures from the 9 May 2023 Budget:

- $431.9 million for start-ups through the *Industry Growth Program* and the *Single Business Service*[60]
- $157 million for enhanced big data capabilities for government agencies[61]
- $116 million for critical technologies industries[62]
  - This includes $101.2 million to support businesses to integrate quantum and AI into their operations through the *Critical Technologies Challenge Program* and the Extension of the National AI Centre
- $101.6 million in additional cyber security funding – including $46.5 million for the establishment of the new office of the National Cyber Security Co-ordinator[63]
- $85 to fight scams – including through the National Anti-Scam Centre at the ACCC[64]
- $61.4 million to establish the $15 billion National Reconstruction Fund (NRF), which includes an emphasis on investment in fintechs[65]
- $45.2 million for stronger privacy protection and enforcement[66]
  - This includes $44.3 million in additional funding for the Office of the Australian Information Commissioner, to enforce privacy laws after the Optus and Medibank data breaches
  - The funding will also underpin the return to a dedicate, standalone Federal Privacy Commissioner
- $27 million for the establishment of a voluntary system of DigitalID[67]
- an additional $14.3 million on Australia's anti-money laundering framework[68].

In addition, we further support maintaining or expanding funding for the following measures from the 13 December 2023:

- $300.1 million on Australia's Cyber Security Strategy to 2030[69]
- An additional $145.5 million for the further establishment of Digital ID, building on the funds allocated in the May 2023 Budget[70]

[60] Budget May 2023-24, Budget Paper 2, 163.
[61] Ibid, 208.
[62] Ibid, 164.
[63] Budget May 2023-24, Budget Paper 2, 156.
[64] Ibid, 211.
[65] Ibid, 165.
[66] Ibid, 64.
[67] Budget May 2023-24, Budget Paper 2, 113-4.
[68] Ibid, 62-3
[69] MYEFO December 2023-24, Appendix A, 268-9.
[70] Ibid, 245.

- $2.8 million in additional resourcing for the Digital Transformation Agency (DTA)[71].

AFIA strongly supports maintaining or increasing the funding to the measures outlined above, with the twin objectives of promoting the benefits that flow from the digital economy for consumer choice and competition and innovation and protecting Australians' cybersecurity, data and privacy. It is critical that those government departments and agencies involved in the fight against financial crime are appropriately and adequately funded as well as incentivised to work collaboratively with industry in this fight.

[71] Ibid, 247.

Theme 3 – Improving consumer outcomes through proportionate regulation and financial inclusion

In line with AFIA's strategic priorities on financial inclusion and proportionate, scalable and targeted regulation, AFIA advocates for a financial system which promotes participation, accessibility, and prosperity for all Australians.

AFIA and our members are committed to promoting economic growth, which is inclusive and provides appropriate safeguards as well as consumer protections, which respond to demonstrated consumer harms.

It is for these reasons that AFIA has led the way in promoting industry Codes of Practice that go beyond what is required by the law to protect consumers and promote beneficial outcomes in terms of high industry standards and innovation in products, services and technologies.

Our industry Codes of Practice cover a broad range of sectors, including:[72]

- Online Small Business Lending
- Car Rental
- Insurance Premium Funding, and
- Buy Now, Pay Later.

AFIA is also developing additional industry standards for other sectors and sub-sectors in the finance industry, which we will be consulting on publicly in 2024.

AFIA meets regularly with consumer representatives and has supported the Government's consultations related to mitigating potential consumer harms, including on the Compensation Scheme of Last Resort (CSLR) for financial services, the Financial Accountability Regime (FAR), and the Financial Counselling Industry Funding Model (IFM).[73]

AFIA has also supported the implementation of all recommendations of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.[74]

We have also made submissions to the Australian Financial Complaints Authority (AFCA) on their approaches to Responsible Lending to consumers[75] and Appropriate Lending to small business[76]. It is critical that laws, regulations and industry standards promote good customer outcomes through strong consumer protections, but also through competition and innovation.

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[72] AFIA Codes.
[73] See AFIA submissions on the CSLR, FAR and IFM for Financial Counselling.
[74] Misconduct in the Banking, Superannuation and Financial Services Industry | Royal Commissions.
[75] AFIA Submission.
[76] AFIA Submission.

Maintaining funding for our financial regulators

To ensure good customer outcomes, AFIA strongly supports continued appropriate funding for the relevant regulators across the finance industry. In the May 2023-24 Budget, total funding of key economic regulators, like the ACCC, APRA, AUSTRAC, ASIC, ATO and OAIC was $970 million up from $907 million in the October 2023 Budget.[77] We believe this should be maintained and additional funding provided for specific projects, including cybersecurity related initiatives in partnership with others (such as the National Cyber Security Centre) and digital literacy in partnership with others (such as the ASBFEO).

Protecting consumers, small businesses and financial firms from financial crime

In an increasingly digitised and interconnected world, financial crimes are carried out more swiftly and widely than in the past. Whether executed using stolen information gained through cyberattacks or through details gained directly from consumers via scams, limiting the occurrence of related financial losses is a complex problem that cannot be solved by industry or governments alone. All parties must continue developing frameworks for cooperation and collaboration to help protect individuals and businesses from such crimes.

AFIA advocates for the development of a mechanism that enables the real-time exchange of timely and pertinent information necessary to prevent financial crimes from occurring, moment by moment. Establishing such a mechanism would recognise the impossibility of centralising these efforts, given the complexity of modern systems and the intensity of cyberattacks that prevails, and instead work to distribute information to entities best placed to act upon it.

AFIA recommends that Government convenes and leads a working group to develop a new network, comprising all finance industry participants, which would facilitate a secure exchange of this information. Doing so will require certain laws, including competition and privacy laws, to be changed in order to the facilitate the network's proper functioning.

AFIA also supports the *Small Business Support* package, outlined in the May 2023 Budget, which includes:

- $730 million worth of tax benefits for small businesses flowing from the $20,000 Instant Asset Write-Off in 2024-25 and 2026-27[78]
- $315.2 million worth of support for small businesses to save on electricity bills through the *Small Business Energy Incentive*[79]

[77] Budget May 2023-24, Budget Paper 4, 105-8. See 40 for OAIC funding.
[78] Budget May 2023-24, Budget Paper 2, 27.
[79] Ibid, 28.

- $40 million to help small businesses manage their tax instalments and improving cashflow[80]
- $23.4 million to help small businesses to build in-house capability to protect against cyber threats[81]
- $21.8 million to lower the tax-related administrative burden for small businesses[82].

Introducing a permanent and sustainable funding model for financial counselling services

AFIA supports the financial counselling sector, which provides important community services and support to families and individuals struggling with debts and other personal circumstances that exacerbate their financial difficulties. Members of AFIA contributed towards a $7.75 million donation from a selection of industries in 2023 to help provide additional funding for financial counselling services.

While we note that the Government has recently implemented a voluntary industry funding model in 2023, we believe that a permanent and sustainable funding model is required for the sector.

AFIA recommends a funding model for financial counselling consisting of continuing and increased Government funding, and equitable contributions from industries that create the demand for the services, based on robust data and verifiable metrics. A new mandatory funding model for the financial services industry could include utilising the ASIC levy. Similar mechanisms would need to be leveraged or introduced for other industries.

AFIA strongly supports an inclusive financial system that balances the benefits of a thriving economy against the need to support consumers and small businesses from the risk of demonstrable harms. For these reasons, we support the budgetary measures outlined above as well as expanding support services to agencies and organisations that help consumers and small businesses deal with financial difficulties and the incidence and impact of financial crime.

[80] Ibid, 27.
[81] Ibid, 156.
[82] Ibid, 210

Summary of AFIA's Recommendations

AFIA supports the Government's approach to promoting productivity, growth and wellbeing, and in the Treasurer's words, a 'stronger, more sustainable and more inclusive' Australia.[83]

Achieving economic growth through sustainability and net-zero initiatives

Supporting the expansion of existing initiatives

- Support: $20 billion from the *Rewiring the Nation Program* for major renewable energy transmission upgrades to switch the grid to green power
- Support: $275.4 million to double the Commonwealth's investment in clean transport and charging infrastructure to $500 million by 2030.[37] The goal of the *Driving the Nation Program* includes building charging infrastructure every 150km on major roads
- Support: the Electric Vehicle discount, removing Fringe Benefits Tax from Zero and Low Emissions Vehicles (ZLEVS), valued at $205 million over the forward estimates
- Recommend: extend the EV tax cut through novated leasing to at least 2029-30.

Introducing additional programs to accelerate transition and provide consumers and businesses options that best suit their circumstances

- Recommend: Government provide $500 million over four years to provide discounted-interest loans to consumers and small businesses to purchase over 56,000 EVs and efficient hybrids, to accelerate the electrification of the national vehicle fleet, make EVs more affordable, and build a secondary market.

Introducing new initiatives to expand the availability of charging infrastructure

- Recommend: Government directs a portion of the $500 million 'Driving the Nation Fund' to upgrading energy infrastructure for car rental facilitates at and adjacent to airports.
- Recommend: Australian governments streamline application processes for State-based approvals to upgrade facilities by adding power generation capacity to charge EVs at scale.

Maintaining funding for existing programs

- Support: $2 billion *Hydrogen HeadStart* and $1.5 billion *Energy Price Relief Plan.*
- Support: $440 million in funding to purchase Commonwealth fleet and lease vehicles.
- Support $206 million *Capacity Investment Scheme*.

Stronger promotion of net-zero incentives and initiatives

[83] The Hon Dr Jim Chalmers (Treasurer of Australia), 'This is Hawke and Keating for the 2020s', *The Australian Financial Review* (9 January 2023).

- Recommend: A new centralised government online portal dedicated to informing consumers and businesses about the sustainability programs from which they could benefit.

Driving the digital economy through competition and innovation as well as a safe, transparent financial system

Promoting competition and innovation in payments, credit and financial services markets

- Support: reforms to AML/CTF, including extension to tranche 2 entities.
- Support: adequate privacy safeguards in the *Privacy Act 1998* (Cth).
- Support: proportion and scalable regulation of payment service providers using functions-based approach.

Reinforcing our digital safety

- Support: $431.9 million for start-ups through the *Industry Growth Program* and the *Single Business Service*
- Support: $157 million for enhanced big data capabilities for government agencies
- Support: $300.1 million on Australia's Cyber Security Strategy to 2030
- Support: $145.5 million for the further establishment of Digital ID, building on the funds allocated in the May 2023 Budget
- Recommend: appropriate and adequate funding for government departments and agencies involved in the fight against financial crime.

Improving consumer outcomes through proportionate regulation and financial inclusion

Maintaining funding for our financial regulators

- Support: maintaining increased funding to $970 million for key regulators, including ACCC, APRA, AUSTRAC, ASIC, ATO and OAIC.

Protecting consumers, small businesses and financial firms from financial crime

- Recommend: Government convenes a working group to develop a new network to facilitate secure and real-time exchange of information to combat cyber-crime, with access provided to all finance industry participants.
- Support: *Small Business Support* package, including $730 million to small businesses through the $20,000 Instant Asset Write-Off in 2024-25 and 2025-26.

Introducing a permanent and sustainable funding model for financial counselling services

- Recommend: a permanent and sustainable funding model for financial counselling services be established, consisting of increased Government funding and equitable contributions from industries that create service demand.

ATTACHMENT B: ANALYSIS OF THE CURRENT ECONOMIC OUTLOOK, WHICH HAS GUIDED OUR RECOMMENDATIONS

Since the previous Federal Budget, growth and inflation have moderated, while labour market tightness has eased, reflecting the progression of the economic cycle. Cost of living pressures due to reduced real wages and elevated interest rates have muted domestic demand, while a reduction in overseas manufacturing and logistics constraints has boosted the supply of goods – both factors combining to moderate domestic price inflation.

While a return to trend is forecast across several indicators – including growth, unemployment and consumer price inflation – international factors, including geopolitical instability and deglobalisation present downside risks.

AFIA believes it is necessary for the 2024-25 Federal Budget to continue to address the immediate economic challenges, while positioning Australia for future and longer-term economic, social and environmental success. The following economic outlook has influenced our recommendations – overall, we believe that the economy is slowing from its post-pandemic peak, but with sufficient domestic resilience to continue with only gentle moderation.

Responsible fiscal management and a longstanding low level of public debt compared with other developed economies provides substantial headroom for fiscal support in future crises and to cope with structurally higher spending, for example rising healthcare spending due to demographic drift and greater disaster recovery expenditure due to the effects of climate change.

Nevertheless, it is incumbent on both Government and industry to grapple with global trends that will buffet our economy and society, to ensure we take advantage of opportunities as they arise and militate risks before they occur. For this reason, our recommendations centre on three main themes:

1. achieving economic growth through sustainability and net-zero initiatives
2. driving the digital economy through competition and innovation as well as a safe, transparent financial system
3. improving consumer outcomes through proportionate regulation and financial inclusion.

Real GDP growth was 3.1 per cent in 2022-23, down slightly from the post-pandemic rebound of 3.7 per cent growth in 2021-22. The 2023-24 MYEFO forecast a further decline to growth of 1.75 per cent over 2023-24. Following the relatively subdued result in September 2023 (0.2 per cent), this implies more robust quarterly growth averaging approximately 0.5 per cent in the remainder of the financial year. The MYEFO also forecast stronger growth going forward, rising from 2.25 per cent in 2024-25 to 2.75 per cent in 2026-27.

Household consumption grew 5.0 per cent in 2022-23, up from 3.7 per cent growth recorded in 2021-22. Cost of living pressures due to the post-pandemic inflationary episode were responsible for a large part of this growth, with discretionary spending flatlining in the June quarter of 2023.[84] The 2023-24 MYEFO forecast consumption growth to fall further to 1.5 per cent in 2023-24. This accords with the decline in the household saving ratio to just 1.1 per cent in September 2023 – the lowest level since December 2007 – as households' ability to continue building savings is eroded by ongoing cost of living pressures.[85]

Dwelling investment fell by 3.9 per cent in 2022-23 due to constrained household budgets, higher interest rates, and elevated construction costs brought about by both labour and material shortages. The 2023-24 MYEFO forecast investment to fall 2 per cent in 2023-24, and according building approvals have fallen 13 per cent year-on-year in the first five months of 2023-24.[86] A recovery in 2024-25 of 1 per cent growth is expected, which is predicted to be concentrated in medium and high-density dwellings, in accordance with a reprioritisation in planning focus towards infill development in major metropolitan areas.

Business investment rose 8.2 per cent in 2022-23, primarily driven by non-mining investment, up 10.4 per cent compared with just 1.6 per cent for mining investment. Improvements in the supply of machinery, equipment and capital goods supported this outcome, as did a rise in non-dwelling construction. The 2023-24 MYEFO predicts investment will rise 5 per cent in 2023-24, primarily in the LNG sector, before falling 5 per cent in 2024-25. Non-mining investment is expected to rise by 2 per cent and 1 per cent in each financial year, with the pipeline of non-dwelling construction remaining elevated. New private capital expenditure rose 0.6 per cent quarter-on-quarter in September 2023, driven by a 5.6 per cent rise in the mining industry offset against a 1.3 per cent fall in non-mining industries.[87]

Inflation fell to 5.4 per cent in the September quarter of 2023, and to 4.3 per cent in the monthly series in November 2023. This reflects both the tightening of domestic monetary policy, with the cash rate rising to 4.35 per cent in November 2023, and falling inflation overseas. Alongside disinflation in the United States, United Kingdom and Eurozone, and the Chinese economy has experienced constant prices or deflation in six of the seven months to December 2023, with prices falling 0.3 per cent in that month alone. Developed country disinflation emphasises the contribution of monetary policy, given the systemic tightening of interest rates post-pandemic, while deflation in China provided an additional moderating

[84] Australian Bureau of Statistics (November 2023), Monthly Household Spending Indicator.
[85] Australian Bureau of Statistics (September 2023), Australian National Accounts: National Income, Expenditure and Product.
[86] Australian Bureau of Statistics (November 2023), Building Approvals, Australia.
[87] Australian Bureau of Statistics (September 2023), Private New Capital Expenditure and Expected Expenditure, Australia.

effect through reduced imported goods prices. The 2023-24 MYEFO predicted inflation will re-enter the target range of 2-3 per cent in 2024-25, at 2.75 per cent.

Wage growth rose to 4 per cent in the year to September 2023, and was predicted in the 2023-24 MYEFO to remain at 4 per cent in 2023-24, before moderating to 3.25 per cent in 2024-25. Real wage growth is expected to be 0.25 per cent in 2023-24 and 0.5 per cent in 2023-25. This would be a substantial recovery, as real wages have been shrinking since the June quarter of 2021.

The unemployment rate was 3.9 per cent in December 2023, and was predicted in the 2023-24 MYEFO to rise to 4.25 per cent in 2023-24. The rate is expected to be consistent over the forward estimates, peaking at 4.5 per cent before dipping again to 4.25 per cent. Treasury assesses that the full employment rate is near the current unemployment rate of 4.25 per cent. As of December 2023, the number of employed people in Australia was 9.4 per cent higher than pre-pandemic, reflecting both low unemployment and rising participation, which was a historically high 66.8 per cent in that month. The MYEFO predicted employment growth will fall to 1 per cent in 2023-24 and 2024-25, below the 3.2 per cent growth recorded in 2022-23.