

# 2011/12 Federal Budget – What’s In It for the Residential Building Industry?

May 2011

## Key Points:

- **The Treasurer reaffirmed the Government’s commitment to restoring the Federal Budget to surplus by 2012/13.**
- **The centrepiece of the 2011/12 Federal Budget was a broad-based investment in skills and training to alleviate the skills shortage.**
- **National Urban Policy Program to improve urban planning and design to better connect infrastructure with work opportunities.**
- **Boost to infrastructure funding, however the focus is on big ticket projects.**
- **Building Better Regional Cities Program will improve funding of residential infrastructure to specific regional cities. However, the broader issue of funding residential infrastructure has not been addressed.**
- **Increased funding to ATO for compliance crackdown which preempts policy specifically targeting contractors in the building industry.**

## Overview

HIA is disappointed that the 2011/12 Federal Budget represented another missed opportunity to tackle the nation’s growing housing shortage and resultant housing affordability crisis. While the Federal Budget provides some useful measures, including in skills and training, it contains nothing to address Australia’s chronic housing shortage and deteriorating housing affordability. Unfortunately, the Budget fails to deliver any dedicated policies to alleviate Australia’s chronic housing shortage, which at around 200,000 dwellings and growing, continues to place pressure on the household budgets of home buyers and renters

New home building activity is in danger of revisiting GFC-like levels this year, yet the Budget fails to address the excessive cost of new housing which in some instances sees more than 40 per cent of the purchase price of a new house attributable to government taxes, fees and charges. The Federal Government has placed an emphasis on skills, training and skilled immigration, as well as improvements to allow more private investment in large public infrastructure. While these are positive and necessary measures, the inadequate funding of housing infrastructure has not been addressed.



### ***Fiscal Position & Economic Backdrop***

The Treasurer has used the 2011/12 Budget announcement to reaffirm the Government's commitment to restoring the Federal Budget to surplus by 2012/13.

The Treasurer has forecast the Budget in 2010/11 year to be in deficit of \$49.4 billion before dropping to a deficit of \$22.6 billion in 2011/12 and achieving a surplus \$3.5 billion in 2012/13. The forecast deficit this year has blown out by a further \$7.9 billion and by \$10.3 billion in 2011/12 since the mid-year review, while the size of the surplus in 2012/13 remains similar to the earlier forecast and remains razor thin.

The greater than expected deficit is attributed to lower than forecast tax receipts and increased expenditure due rebuilding costs following the adverse weather events over the summer. In addition, the softening of CGT and company tax receipts in the wake of the GFC has hit government revenue. The government has forecast these to strengthen in the coming years with total tax receipts growing by 6.7 per cent in 2010/11, 12.7 per cent in 2011/12 and a further 10.6 per cent in 2012/13.

The Budget is premised upon strong GDP growth beyond the weak flood affected 2010/11 year of only 2.25 per cent. The budget forecast GDP growth to be 4 per cent in the 2011/12 year and 3.75 per cent in 2012/13. This is a strong growth outlook although slightly more conservative than the figures released in the RBA Statement of Monetary Policy released last week but not as pessimistic as the forecast by Deloitte Access Economics. In order to achieve the Treasury forecasts, we will need to see continued strong demand for Australia's commodity exports, failure of this assumption will likely result in a Budget deficit beyond 2012/13.

This cannot be considered a tight budget and the risk of an interest rate rise over the next quarter is higher than previously the case.

### **Investment in Skills and Training**

The centrepiece of the 2011/12 Federal Budget was a broad-based investment in skills and training, with a snapshot of some key initiatives outlined below:

#### Skills at home

The following funding initiatives were announced:

- \$3 billion skills and training package over six years
- \$558 million national workforce fund – training places over 4 years
- \$674 million to improve education & training in regional Australia
- \$7.2 billion reforms to VET system over 5 years
  - States will have to meet benchmarks for eligibility for funding
- Funding more places in language and numeracy program.
- Emphasis on drawing seniors into the workforce who are still capable of work.
- \$67.6 million to help early school leavers aged 15-21 years to get basic skills
- \$772 million over 5 years to increase Family Tax Benefit – Part A for teenagers in full-time study

- \$200 million over 4 years to boost apprentice completion rates
  - \$101 million national mentoring program - apprentices to finish their training
  - \$100 million in more flexible training model

### ***Trade Training Centres***

The Government will revise the number of projects to be funded from the Trade Training Centres in Schools Program between 2011-12 and 2014-15. Budget figures show there will be reduction in funding over previously announced figures of \$6.6m in 2011/12, \$17.9m in 2012/13, \$33.8m in 2013/14 and \$44.5 in 2014/15 providing savings of \$102.8 million over four years. The projects that would otherwise have been funded in the period will be delayed until 2015-16 and 2016-17. This will not affect the overall number of projects over the life of the program or recently announced Round 3 projects.

### ***International skilled migration***

Treasurer Wayne Swan was candid in stating the intent of the Government to prepare the nation for increasingly tight conditions in the Australian labour market, particularly derived from an escalation of the mining boom. He was forthcoming in asserting that international skilled migration will form a key part of the response to that need for labour.

In light of this, the following policy initiatives were announced:

- 16,000 skilled migration places – emphasis on placing them in regional areas
- Placing them in resource centred areas
- Permanent visas to hit 185,000
- Halving 457 visa processing times

### **Investment in Nation Building Infrastructure**

The Federal Government reiterated its commitment to substantive investment in Australia's critical infrastructure. Unfortunately, present with this commitment was a glaring absence of initiatives and funding of housing. The emphasis of the investment in infrastructure was on larger projects typically those considered to be non-residential or engineering construction type projects.

#### ***'Big' ticket infrastructure***

- National Broadband Network (NBN)
- \$36 billion on roads, railways and ports (to Infrastructure Australia)
- More funding and independence for Infrastructure Australia
- 'Action Plan for Our Cities' - \$181.4 million
  - Liveable cities Urban Renewal Program - \$20 million
  - National Smart Managed Motorways Trial - \$61.4 million
- Regional Australia infrastructure

- Hospitals, training programs, first projects under Regional Infrastructure Fund (\$394.4 million)
- \$150 million for creation of employment precincts in outer metro suburbs.

### ***Regional Infrastructure Fund***

There is nothing assigned to housing from this fund. The Fund will:

- Complete the remaining section of the Townsville Ring Road (up to \$160 million);
- Upgrade the intersection between the Bruce and Capricorn Highways (up to \$40 million);
- Build the Gladstone Port Access Road (up to \$50 million);
- Construct a new interchange along the Warrego Highway at Blacksoils (up to \$54 million);
- Upgrade the Peak Downs Highway (up to \$120 million);
- Invest in the Western Australian Government's 'WA Gateway' project, an extensive upgrade of the road network around Perth Airport and the nearby industrial estates (up to \$480 million);
- Undertake the Mackay Ring Road Study (up to \$10 million); and
- Undertake the Scone Level Crossing Study (up to \$2 million).

### ***Infrastructure Australia***

- National Construction Schedule – to provide certainty and confidence for eg. Super funds
- A National Infrastructure Construction Schedule will be established to provide information on major infrastructure construction across all levels of government and help build the national pipeline.
- The Federal Government will work with States and Territories to improve approaches to managing forecasting and patronage risk for infrastructure projects such as toll roads.
- The first ever audit of the nation's infrastructure and first national infrastructure priority list. The Labor Government has funded 8 of 10 'priority' projects and 6 'pipeline' projects on IA's first priority list from the Building Australia Fund.
- The first national PPP policy, to make it easier and cheaper for the private sector to partner with governments.

### ***Private sector investment in infrastructure***

- The Government will remove impediments to private sector investment in infrastructure by establishing tax provisions for infrastructure projects designated to be of national significance
- New infrastructure investment incentive measures will encourage private and superannuation sector investment up to a cap of \$25 billion by removing impediments in the tax system to invest in projects listed on IA's National Priority List.
- Losses generated by designated infrastructure projects will be exempt from the Continuity of Ownership Test and the Same Business Test, and uplifted at the government bond rate. - Consultation will be undertaken regarding the implementation of this reform.

- The Government will also continue to lengthen the Commonwealth Government Securities yield curve incrementally, when prudent to do so. This could help the financing of long term infrastructure projects.

### ***National Urban Policy program***

The National Urban Policy was developed by the Major Cities Unit following consultations with all levels of government as well as academia and town planners, including over 200 written submissions. HIA was one of the 200 respondents who lodged a submission.

The Government gave what appeared to be an interim announcement with a final Framework last night that provides a long term blueprint to:

- Better connect infrastructure with work and opportunity in our cities so we can reduce people's dependency on the car.
- Develop high quality public transport and infrastructure systems to ease congestion and improve quality of life.
- Reduce the carbon footprint of our cities and adapt them to the consequences of climate change.
- Improve urban planning and design.

### ***Building Better Regional Cities Program***

Funding was confirmed for the Building Better Regional Cities Program announced by Gillard in July last year which at the time was allocated \$200m. It seems it will run in much the same way as the Housing Affordability Fund (HAF) but will be limited to applications from 47 regional cities which have been invited to participate. The participating cities were selected on the basis they had populations greater than 30,000 and were experiencing housing pressures due to positive jobs and population growth.

The Budget says “the Building Better Regional Cities initiative will work to improve the availability of affordable homes in regional cities by supporting investment in local housing-related infrastructure projects” with the first round of funding to commence in 2011.

The budget allocates \$60m in 2011/12 and \$70m in each of the subsequent two years. It appears part of this may just be re-badging funds already allocated for this purpose through HAF although there is still a net increase in funding.

### ***National Rental Affordability Scheme (NRAS)***

National Rental Affordability Scheme (NRAS):

- The Government will spread the roll out of the NRAS over a longer time period, with 35,000 funded over the forward estimates and a further 15,000 dwellings to be supported beyond the forwards.
- This will provide savings of \$345.1 million over five years (\$264.3 million in underlying cash balance terms) for redirection to assist with the rebuilding of flood affected regions across Australia.

HIA welcomed the announcement from the Federal Government in February this year that it will retain the NRAS program. The NRAS scheme is critical to bolstering Australia's deteriorating housing affordability conditions. NRAS is an effective mechanism for boosting the supply of low cost rental accommodation in what is an excruciatingly tight rental market. In view of this, the decision to extrapolate budget savings by lengthening the roll-out of dwellings under NRAS is disappointing and nonsensical.

Given the Budget's emphasis on cost of living pressures, it's absurd that programs that address Australia's extremely poor housing affordability will be trimmed back. The decision to finance additional dwellings under the NRAS scheme in the long term is welcomed; however, what we badly needed last night was increased investment in the NRAS scheme and a hastening of its implementation. We needed swift and decisive action in the short term; instead what we got was a delay.

## **TAX CRACKDOWN ON BUILDERS**

The Budget kept with the longstanding tradition of raising revenue from a tax compliance crackdown:

- As a whole, increased compliance activity is forecast to save \$876 million over the forward estimates.
- Of this, \$513.0 million is to come from a clamp down on tax avoidance in the building and construction industry. Of this amount, \$41.6 million is expected to come from underlying cash GST collections.
- The measure involves a new requirement for some building firms to report annually on payments made to contractors and to provide their contractors' ABNs (the Government argues this info should already be collected under existing tax arrangements). It appears that a commensurate obligation will be imposed on contractors in relation to payments received.
- The measure will have a negative impact on contractors, who receive cash-in-hand payments on construction sites and fail to declare, or under-report, income.
- Funding for the compliance clampdown is \$46.4 million to the ATO over the forward estimates (for data matching, review of contractors' tax liabilities and targeted audits).
- The clampdown will increase the amount of red tape levied on an already over-regulated industry.

### ***Superannuation Guarantee Levy***

The Budget also included new measures, effective from 1 July 2011, making directors personally liable for any unpaid employee superannuation. The application of this amendment could have far reaching and potentially harsh consequences for principals that engage contractors if the ATO subsequently determines that the contractors are in fact deemed employees for superannuation law purposes. In these circumstances, directors will be personally liable for the SCG despite the genuine belief that the workers engaged were contractors and the higher fee paid to the contractor to compensate them for not receiving superannuation contributions.

**Work vehicles**

- \$954 million in Government savings on fringe benefits tax (FBT) on work vehicles.
- First \$5,000 of the cost of a work vehicle can now be immediately written off by small business.
- Removing unintended tax incentive for people to drive more than they need to in order to obtain larger tax concession by reforming 'statutory formula' method for valuing car fringe benefits.

**OTHER SMALL BUSINESS TAXATION**

- \$7.1 million over 4 years – Small Business Support Line – access expert advice quickly & easily.
- Additional tax flow benefits for small business – reducing income tax installments paid under PAYG using the GDP adjustment method for one year \$700 million cash flow benefit.
- The Budget also confirms a modest reduction in the company tax rate to 29 per cent.

**TAX TREATMENT OF CHARITIES**

- Improving regulation and reducing red tape for not-for-profit sector by establishing the Australian Charities and Not-For-Profits Commission.
- Improving certainty for not-for-profit sector through introduction of statutory definition of 'charity'.