On balance, the Budget should have a positive impact on the building and construction industry, but not without pain.

Overall, the Government’s roadmap to structural budget repair and a return to surplus should be a positive for business, home-buyer and investor confidence, despite the temporary Deficit Levy.

The building and construction industry particularly welcomes the Government’s $50 billion infrastructure package.

But roads are not everything and the Government will need to focus on broadening infrastructure investment to include urban investment in the post-Budget period.

Master Builders welcomes the cut in company tax while recognising that many small building firms are not incorporated.

In contrast, Master Builders is deeply concerned about the negative impact of several initiatives on the building and construction industry.

The cessation of funding for the National Rental Affordability Scheme (NRAS) makes it doubly important for the Government to find more effective methods of tackling the lack of housing supply and providing more affordable social housing.

The cessation of funding for the Tools For Your Trade program is disappointing but is offset by the Trade Support Loans for apprentices.

The phasing out of skills programs such as the Apprenticeship Mentoring Program and the National Workforce Development Fund is another disappointment which will place pressure on the Government to implement a viable apprenticeship reform program to guarantee a skilled workforce for the future.

The imposition of the fuel levy will hit tradies particularly hard because of the amount of travel they undertake. Their increased transport costs will be passed on to the consumer.

As the Treasurer has acknowledged, this Budget is ‘just the start’ and Master Builders is looking to the Government for more detail of its National Economic Strategy in coming weeks.
BUDGET OVERVIEW

The underlying cash deficit in 2014-15 is expected to be $29.8 billion (1.8 per cent of GDP), falling to $2.8 billion in 2017-18 (Table 1).

Table 1: Budget aggregates Actual Estimates Projections

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<tbody>
<tr>
<td>Underlying cash</td>
<td>-18.8</td>
<td>-49.9</td>
<td>-29.8</td>
<td>-17.1</td>
<td>-10.6</td>
<td>-2.8</td>
<td>-110.1</td>
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<tr>
<td>balance (b)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Per cent of GDP</td>
<td>-1.2</td>
<td>-3.1</td>
<td>-1.8</td>
<td>-1.0</td>
<td>-0.6</td>
<td>-0.2</td>
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<tr>
<td>Fiscal balance (b)</td>
<td>-23.5</td>
<td>-45.1</td>
<td>-25.9</td>
<td>-12.2</td>
<td>-6.6</td>
<td>1.0</td>
<td>-38.7</td>
</tr>
<tr>
<td>Per cent of GDP</td>
<td>-1.5</td>
<td>-2.8</td>
<td>-1.6</td>
<td>-0.7</td>
<td>-0.4</td>
<td>0.1</td>
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(a) Total is equal to the sum of amounts from 2013-14 to 2017-18.
(b) Excludes net Future Fund earnings.

Without the consolidation, the Budget would have remained in deficit for at least the next decade — a total of 16 years of deficits — leaving Australia vulnerable to external shocks, ill-equipped to cope with population ageing, and increasingly reliant on future generations to pay off our debt. This situation would have arisen even if Australia achieved a further 10 years of uninterrupted economic activity — resulting in an unprecedented 33 years of economic growth. Spending growth has been significantly reduced and the net impact of policy decisions has been to reduce the deficit by $36 billion over the forward estimates.

The Budget is on a clear track to surplus, with a small deficit of $2.8 billion in 2017-18 and a surplus of well over 1 per cent of GDP by 2024-25. Commonwealth Government Securities on issue will fall from the MYEFO estimate of $667 billion in 2023-24 to $389 billion, assuming future tax relief. The size of Government is projected to fall with spending as a share of the economy expected to be 24.4 per cent in 2023-24, down from 26.5 per cent projected in the MYEFO.

ECONOMIC OUTLOOK

According to Treasury, in 2014-15 the Australian economy is forecast to grow slightly below trend, with a large fall in resources investment partly offset by a boost from higher resources exports and the household sector’s response to low interest rates. The unemployment rate is forecast to reach 6¼ per cent by the June quarter 2015 and remain at this rate to the end of 2015-16. Overall, real GDP is forecast to continue growing below trend at 2½ per cent in 2014-15, before accelerating to near-trend growth of 3 per cent in 2015-16.
Table 2: Major economic parameters

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<tbody>
<tr>
<td>Real GDP</td>
<td>2.6</td>
<td>2 3/4</td>
<td>2 1/2</td>
<td>3</td>
<td>3 1/2</td>
<td>3 1/2</td>
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<tr>
<td>Employment</td>
<td>1.2</td>
<td>3/4</td>
<td>1 1/2</td>
<td>1 1/2</td>
<td>2 1/4</td>
<td>2</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>5.6</td>
<td>6</td>
<td>6 1/4</td>
<td>6 1/4</td>
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<td>5 3/4</td>
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<td>Consumer price index</td>
<td>2.4</td>
<td>3 1/4</td>
<td>2 1/4</td>
<td>2 1/2</td>
<td>2 1/2</td>
<td>2 1/2</td>
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<tr>
<td>Wage price index</td>
<td>2.9</td>
<td>2 3/4</td>
<td>3</td>
<td>3</td>
<td>2 3/4</td>
<td>3</td>
</tr>
<tr>
<td>Nominal GDP</td>
<td>2.5</td>
<td>4</td>
<td>3</td>
<td>4 3/4</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

(a) Year average unless otherwise stated. In 2013-14, 2014-15 and 2015-16 employment, wages and the consumer price index are through the year growth to the June quarter and the unemployment rate is the rate for the June quarter.

Source: ABS cat. no. 5206.0, 6202.0, 6345.0, 6401.0 and Treasury.

Residential Building

The housing sector is beginning to respond to lower interest rates with a pickup in prices and leading indicators of construction according to Treasury. Rising dwelling prices in mid-2013 were one of the first signs that the dwelling sector was responding to low interest rates, while leading indicators of dwelling construction began to rise around the same time as the sector responded to the improved returns available from building.

Treasury says dwelling investment is yet to reflect the strength in leading indicators, growing by only 1.4 per cent through the year to the December quarter 2013. Treasury liaison suggests this sluggish response is most likely due to the increasing proportion of approvals in medium- and high-density dwellings, which are more complex projects to manage and take longer to plan and complete. This suggests dwelling investment should rise strongly over the near term. Dwelling investment is forecast to grow by 7½ per cent in 2014-15 and 5½ per cent in 2015-16.

Non-Residential Building

Investment by non-resources businesses remains subdued. While interest rates remain low and business confidence is higher than it was a year ago, conditions remain difficult, as reflected in low levels of capacity utilisation and business surveys. The latest data point to only a modest increase in investment in 2014-15. This is consistent with reports from Treasury’s business liaison which suggests firms are reluctant to invest until they have a clearer sense that demand is improving.

The scale and timing of the anticipated recovery in non-resources business investment is the predominant source of uncertainty affecting the outlook. The outlook for 2014-15 remains subdued, with growth likely again to be below trend. However, there are some positive signs including a rise in approvals for non-residential building over 2013. Non-resources investment is forecast to pick up in 2015-16 as firms start to respond to improving demand and existing levels of spare capacity are absorbed, with GDP growth returning towards trend.

Overall new private business investment is forecast to fall by 5½ per cent in 2014-15 and 3½ per cent in 2015-16. The fall in resources investment is reflected in the forecast for new
engineering construction, which is expected to fall by 13 per cent in 2014-15 and 20½ per cent in 2015-16. Non-residential building investment is expected to remain flat in 2014-15 and grow by 5 per cent in 2015-16.

KEY INITIATIVES

Delivering balanced and credible budget repair

• The 2014-15 Budget is part of the Government’s Economic Action Strategy to repair the budget and build a strong and prosperous economy.

• The substantial savings decisions in this Budget put Australia back on track to a sustainable and responsible budget position, with surpluses projected to build to well over one per cent of GDP by 2024-25, taking into account future tax relief.

• Debt in 2023-24 is projected to be nearly $300 billion lower, even when assuming future tax relief, at $389 billion compared with the $667 billion at the 2013-14 Mid-Year Economic and Fiscal Outlook.

All Australians contributing

• Introducing a Temporary Budget Repair Levy on incomes over $180,000 for the three years from 2014-15.

• Requiring young people to be earning, learning or participating in Work for the Dole.

• Tightening the eligibility for Family Tax Benefit Part B (FTB-B). Low income single parents will be assisted with a new allowance of $750 per annum for each child aged 6 to 12.

• Indexing pensions to the CPI, rather than wages, from September 2017.

• Continuing the move by the former Government to increase the age pension age to 67 by 1 July 2023, by further increasing the Age Pension age to 70 by 1 July 2035.

• Indexation of many payments and programmes will be temporarily paused, including: eligibility thresholds for Family Tax Benefit and Newstart; thresholds for the Medicare Levy Surcharge, Private Health Insurance Rebate and most Medicare Benefits Schedule fees; Official Development Assistance funding; Local Government Financial Assistance Grants; and 112 government grant programmes.

• Making the States more accountable for spending and delivery of services by reducing the growth in public hospital and education funding and reducing some Commonwealth payments.

• Establishing a sustainable source of future productivity-enhancing road funding through the reintroduction of indexation of fuel excise from 1 August 2014.
Building Australia's future

- Creating an $11.6 billion Infrastructure Growth Package, to boost total infrastructure investment by Commonwealth, State and local governments, as well as the private sector, to over $125 billion by 2019-20.

- Reforms to higher education, including $820 million to expand access to higher education and removing fee caps on Commonwealth-supported places for new students from 1 January 2016.

- Establishing the biggest medical research fund of its kind in the world, the $20 billion Medical Research Future Fund. Every dollar of savings from health in this Budget will be invested to build this Fund, until the Fund reaches $20 billion.

- Incentivising businesses to employ Australians over the age of 50 through the new Restart programme.

- Starting to repair Defence funding, with efficiencies re-invested in Defence capability.

- Enhancing the protection of our borders by consolidating operational border protection services into the Australian Border Force. The success of Operation Sovereign Borders has resulted in a $2.5 billion saving and will provide further savings as expensive detention centres are closed.

HOUSING

National Residential Affordability Scheme

The Federal Government has announced it will not proceed with Round 5 funding for the National Residential Affordability Scheme (NRAS). The measure is expected to result in savings of just over $235 M over the next three years. Social Security Minister Kevin Andrews MP, who has portfolio responsibility for the Scheme, said NRAS in its current form was “poorly designed, with multiple flaws, ambiguous legal requirements and red tape.” He went on to say it “has simply failed to deliver for low to moderate income Australians”.

First Home Owner Saver Accounts

The Federal Government has decided to abolish the First Home Owner Saver Accounts (FHOSA). Making the announcement, Federal Treasurer Joe Hockey MP said the scheme “had limited effectiveness in improving housing affordability due to the low take up of the accounts...” Under the new arrangements, any new accounts opened after 13 May 2014 will not be eligible for the existing Federal Government co-contribution, or any tax or social security concessions. The measure is expected to result in savings of around $125 M over the next four years.

Housing Help for Seniors

The Federal Government has announced it will not be proceeding with the Housing Help for Seniors pilot program, which the former Labor Government had announced in the 2013/14 federal budget. The measure is expected to result in savings against projected outlays of
$173.1 million over five years. The pilot was scheduled to have commenced on 1 July this year.

INFRASTRUCTURE

Asset Recycling

The Federal Government has finally put some hard numbers on its financial commitment to Asset Recycling for infrastructure. Under the program, State and Territory Governments will be given tax and other incentives to privatise existing infrastructure and use the money to fund new priority infrastructure. The Budget allocates $335 M this financial year, then nearly $1.3 B over the following two financial years, and then just over $1.0 B in 2017/18.

New Infrastructure Projects

The Federal Government will spend more than $2.6 billion on new infrastructure projects over the next four financial years, with most of the money (just under $2 B being spent in the 2015/16 and 2016/17 financial years). Nearly $230 M will be allocated to a new National Highway Upgrade Program, and $200 M for the long-running Black Spot Program. A further $1.2 B will be spent over the four years to fund the Western Sydney Infrastructure Plan, and $740 M to support a concessional loan for Stage 2 of the WestConnex development.

Infrastructure Growth Package

The Federal Government will commit around $11.6 B to improve Australia’s transport infrastructure through its Infrastructure Growth Package. The Package is expected to leverage some $58 B in additional infrastructure. A key pillar of the Package will be the new Assets Recycling Fund (see separate story).

TRAINING

A number of Federally funded vocational education and training (VET) programs were abolished in tonight’s Budget, providing the Government with a net saving of $1 Billion over the Budget cycle. An broad-based Industry Skills Fund will be established in January 2015 to replace ten existing skills programs at a net saving of $524 million. The new Industry Skills Fund will be an application based, co-funded initiative to deliver 121,500 training places and 74,300 support services (e.g. mentoring and foundation skills activities) over four years. The programs abolished include the Accelerated Australian Apprenticeships Programme, Australian Apprenticeships Mentoring Programme, National Workforce Development Fund, Workplace English Language and Literacy Programme, Alternative Pathways to the Trades Programme, Apprenticeship to Business Owner Programme and Australian Apprenticeships Access Programme. While the consolidation of government programs is welcome, the extent of Budget savings extracted raises concerns about the government’s commitment to a skilled and productive future workforce. In addition, the Tools for your Trade program, which paid a benefit of $5400 to apprentices in skills need areas, has been replaced with repayable Trade Support Loans of up to $20,000, at a net saving of $476 million.
SMALL BUSINESS

Federal Government Contracting

The Federal Government has announced it will be establishing a new unit to provide specialist advice to small business on contracts and to ensure they (small business) are not disadvantaged as part of federal public sector tendering and procurement processes. The Federal Government has allocated $2.8 million over four years to fund the commitment. The announcement reflects concerns amongst small businesses Federal Government contracting process and requirements can be overly complex and impose barriers to in tendering for contracts.

WORKPLACE RELATIONS

Fair Work Building and Construction (FWBC)

FWBC Staff are forecast to increase from 131 to 155 in 2014-2015 with expenses due to increase from $29.8m to $34.7m.

Employee Entitlements on Insolvency of Employer to Change

The Government will achieve savings of $87.7 million over four years by aligning redundancy payments under the Fair Entitlements Guarantee (FEG) scheme to the National Employment Standards (NES) contained in the Fair Work Act 2009. The FEG scheme covers certain unpaid employee entitlements in the event of insolvency or bankruptcy. From 1 January 2015, the maximum payment for redundancy pay under the scheme will be 16 weeks in line with the maximum set by the NES. Employees seeking to claim an entitlement above the maximum set by the NES will maintain rights as creditors to recoup any outstanding entitlement through the winding up of their employer's business. From 1 July 2014, indexation of the Maximum Weekly Wage used in calculating entitlements for claimants earning above the Maximum Weekly Wage of $2,451, will be paused until 30 June 2018. The changes will apply only to liquidations and bankruptcies that occur on or after the commencement date.

TAXATION

Temporary Budget Repair Levy

The Temporary Budget Repair Levy ensures that high income Australians are contributing to repairing Australia’s finances. This measure will raise $3.1 billion over the forward estimates. From 1 July 2014 until 30 June 2017, the Temporary Budget Repair Levy will be payable by individuals whose taxable income exceeds $180,000 at a rate of two per cent. Around 400,000 taxpayers with taxable income above $180,000 in 2014-15 will directly incur the Temporary Budget Repair Levy. This means that:

- individuals with taxable income of $180,000 or below will not pay the levy;
- individuals with taxable income of $200,000 will pay two per cent of $20,000, or $400 of levy; and
• individuals with taxable income of $300,000 will pay two per cent of $120,000, or $2,400 of levy.

The Temporary Budget Repair Levy will also be reflected in a number of other tax rates that are currently based on calculations that include the top personal income tax rate, including fringe benefits tax.

Reducing the tax burden

The Government is committed to simplifying the tax system and lowering the tax burden on individuals and business. Since taking office, the Government has cleared the backlog of announced but unlegislated tax measures and remains determined to repeal the minerals resource rent tax and the carbon tax. Revenue decisions taken by the Federal Government have reduced revenue by $5.7 billion in accrual terms compared with decisions taken by the former Government.

Company tax cuts

The Government remains committed to cutting the company tax rate by 1.5 percentage points from 1 July 2015. For large companies, the reduction will offset the cost of the Government’s Paid Parental Leave levy. For up to 800,000 small and medium-sized companies it will provide a net boost to profitability.

Repealing the mining and carbon taxes

The Government is determined to deliver its election commitments to repeal the minerals resource rent tax (MRRT) and the carbon tax. The MRRT is a failed tax which raises almost no revenue, yet imposes an unnecessary regulatory and compliance burden on the Australian mining industry. Repealing the carbon tax will ease cost of living pressures on families, help small business and restore confidence in the economy. Abolishing these taxes will improve Australia’s international competitiveness and reduce tax on business.

Exploration Development Incentive

The Government is delivering its election commitment to introduce an Exploration Development Incentive to encourage investment in small exploration companies undertaking greenfields mineral exploration in Australia. Australian shareholders of these companies will receive a tax offset for the company’s greenfields exploration.

Fuel Excise

Fuel excise is currently 38.1c a litre and will rise in line with inflation twice a year. This will add approximately 1 cent a litre to pump prices for the next 4 years. 2.2 billion over the forward estimates period for building new and upgrading existing road infrastructure. This includes allowance for a $1.8 million increase in Ethanol Production Grants in 2014-15, administered by the Department of Industry, and a $0.7 million increase in the Cleaner Fuel Grants Scheme will be introduced from 1 August 2014.
Fringe Benefit Tax

The FBT rate will be increased from 47 per cent to 49 per cent from 1 April 2015 until 31 March 2017 to align with the FBT income year. The cash value of benefits received by employees of public benevolent institutions and health promotion charities, public and not-for-profit hospitals, public ambulance services and certain other tax-exempt entities will be protected by increasing the annual FBT caps. In addition, the fringe benefits rebate rate will be aligned with the FBT rate from 1 April 2015.

INDUSTRY

Encouraging innovation and research

The Government is establishing the largest medical research fund of its kind in the world — the $20 billion Medical Research Future Fund. The Government is also providing funding for a range of strategic initiatives that will encourage and support leading innovation and research.

• The National Collaborative Research Infrastructure Strategy will receive $150 million in 2015-16.

• $139.5 million will be provided to continue the Australian Research Council (ARC) Future Fellowships Scheme, with a renewed focus on Australian researchers.

• $92 million will be redirected from the ARC to boost research into tropical health and medicine, dementia and the Antarctic.

• Australian-Chinese business and research collaboration will be boosted by $10 million for the Australia-China Science and Research Fund.

• A range of science awareness programmes will be supported, including $13.4 million for National Science Week and the Strategic Science and Communication initiative, and $5.5 million for the Prime Minister’s Prizes for Science.

Better targeting of our innovation and research

The Government will better target innovation and research funding to areas of national and strategic priority undertaken by our key national research institutions, including the Commonwealth Scientific and Industrial Research Organisation, the Australian Nuclear Science and Technology Organisation, and the Australian Institute of Marine Science.

This will achieve savings of $146.8 million over four years. Past industry assistance policies have delivered rapid growth in annual assistance per employee over the last decade to over $6,000, but have failed to arrest the decline in the share of national employment in assisted industries. The Government is taking a new approach to industry based on greater self-reliance and flexibility. By concluding free trade agreements, facilitating access to markets, supporting capability development, and cutting taxes and red tape over time, businesses have greater opportunities and confidence to invest and expand.
A $200 million boost to the Export Finance and Insurance Corporation’s capital base, and a $50 million boost to the Export Market Development Grants programme will help more small and medium-sized businesses to access export markets.

The Government is fulfilling its election commitment for a $50 million Manufacturing Transition Grants Programme to help businesses transition to competitive industries and drive new and innovative opportunities for growth.

A $155 million growth fund will also support regions facing pressures following the announced closures of motor vehicle manufacturers.

A new approach to industry policy will be implemented through the $484.2 million Entrepreneurs’ Infrastructure Programme, which will improve the capabilities of small to medium enterprises and streamline business access to Government programmes.

The Government is developing the National Industry Investment and Competitiveness Agenda — to be outlined in more detail later this year — which will facilitate further improvements in the competitiveness of Australian businesses.

**REPHASING SUPERANNUATION GUARANTEE**

The Government will change the schedule for increasing the superannuation guarantee (SG) rate to 12 per cent to provide businesses with certainty. The Government will continue to increase the SG rate to 12 per cent from 9.25, but the changes will take place over a different timeframe. Instead of pausing at 9.25 per cent as previously announced, the SG rate will now increase to 9.5 per cent on 1 July 2014 and remain at this level until 30 June 2018. It will then increase by 0.5 per cent each year until it reaches 12 per cent in 2022-23, one year later than previously proposed.

This change is necessary because the Senate has refused to pass the Government’s election commitment to defer the increase scheduled for 1 July 2014. The rescheduling will make it clear to businesses that are currently uncertain whether they should pay superannuation at 9.25 per cent (as announced) or at 9.5 per cent (as legislated) from 1 July 2014. This uncertainty is not desirable, particularly given the heavy penalties that apply to employers for underpaying SG contributions.

**IMMIGRATION**

The net migration target for 2014-15 has been set at 190,000 with a continued emphasis on skilled migration. The Government will extend streamlined visa processing arrangements to students enrolled in Advanced Diploma level Vocational Education and Training (VET) courses at eligible education providers.