BUDGET

Deficit halved to $22 billion

The Government forecasts a Budget deficit of $22.6 billion in 2011-12 (Cash Balance - $20.3 million Fiscal Balance), more than halving the deficit from the forecast $49.4 billion in 2010-11 and well below many pre-Budget forecasts.

As the Government points out in its Budget papers this represents a significant tightening of the fiscal position, with the deficit falling from 3.6 per cent of GDP in 20110-11 to 1.5 per cent in 2011-12.

Tightening is forecast to be only slightly less severe in 2012-13 when as the Government promised the Budget will move into a (small) surplus of $3.5 billion, a turnaround of 1.7 per cent of GDP (to +0.2 per cent.) Small surpluses are forecast in the two out years: $3.7 billion in 2013-14 and $5.8 billion 2014-15.

Two-thirds of its savings are spending reductions.

Tax receipts have been revised down by a total of $16.3 billion in 2010-11 and 2011-12.

The $22 billion worth of savings over the four years of the forward estimates, include:

- targeting family payments ($2.0 billion);
- increasing the public sector efficiency dividend ($1.1 billion)
- reforming car fringe benefits ($954 million);
- phasing out the Dependent Spouse Tax Offset ($755 million); and
- removing access to the Low Income Tax Offset for unearned income of minors ($740 million).

Real growth in spending has been held to 2 per cent a year.

Government spending as a share of GDP is projected to fall to 23.5 per cent of GDP in 2014-15, below the average level for the ten years preceding the financial crisis.

ECONOMICS

Growth to rise to 4 per cent in 2011-12

The Government is forecasting extremely strong economic growth of 4 per cent in 2011-12 despite the impact of the natural disasters in 2010-11, a strong rebound from the expected 2 ¼ per cent growth in 2010-11. Strong growth is expected to continue into 2012-13: 3 ¾ per cent.

Despite the strong growth and recent Reserve Bank warnings about inflationary pressures, inflation (CPI) is forecast to remain within the Reserve Bank’s target range at 2 ¾ per cent in 2011-12 and 3 per cent the following year.

The Budget papers say, “three negative macroeconomic impacts (of both Australian and New Zealand natural disasters) are expected to be temporary. Australia’s medium-term fundamentals remain strong, with the economy forecast to grow at an above-trend rate in 2011-12 and 2012-13, supported by strong economic conditions in the region. Robust growth in emerging Asia has pushed Australia’s terms of trade towards historical highs, underpinning an extremely strong outlook for resources investment and exports. Strong real GDP growth is expected to drive solid growth in jobs and reduce unemployment. With the unemployment rate already low, price and capacity pressures are likely to emerge.

“However, conditions will remain uneven across the economy, with the appreciation of the Australian dollar and legacy effects from the global financial crisis (GFC) weighing heavily on some sectors. The key risks to Australia’s economic outlook arise from fragilities in the international economy, with recent events in Japan and rising world oil prices adding to existing concerns.”

Treasury says that beyond the short-term impact of the natural disasters, Australia’s real GDP growth is forecast to strengthen to 4 per cent in 2011-12 and 3¾ per cent in 2012-13, led by record levels of investment in the resources sector. Employment is forecast to grow 1¾ per cent through the year to the June quarters of both 2012 and 2013, and the unemployment rate is forecast to fall, reaching 4¾ per cent by the end of 2011-12 and 4½ per cent by the end of 2012-13. Wages growth is expected to increase as the labour market tightens.

Economic forecasts: Investment

The Budget forecasts that while dwelling investment – home building will remain subdued for the coming year, business investment including engineering construction will provide a major boost to growth.

Dwelling investment is expected to grow by 1½ per cent in 2011-12 and 3 per cent in 2012-13, dampened by tighter credit conditions and ongoing supply constraints.

New business investment is forecast to grow by a strong 16 per cent in 2011-12 and 14½ per cent in 2012-13, underpinned by record capital expenditure in the mining sector, while non-residential building investment is expected to remain subdued.

Business investment is rapidly gaining momentum, with sustained high prices for Australia’s key non-rural commodity exports driving record investment intentions in the mining sector. New business investment is expected to grow 16 per cent in 2011-12, and 14½ per cent in 2012-13, underpinned by strong growth in both engineering construction, and machinery and equipment investment. Non-residential building investment is expected to remain modest over the next two years. New business investment is expected to reach 50-year highs as a share of GDP by the end of 2012-13.

The mining sector is expected to be the key driver of business investment over the next two years, with continuing strong global demand for Australia's mineral resources and record levels of profitability underpinning an unprecedented pipeline of investment activity.

The expected surge in new engineering construction investment is well underway with growth of 12.4 per cent through the year to the December quarter of 2010. New engineering construction investment is forecast to grow a further 56 per cent over the next two years, led by the LNG sector and with strong support from the iron ore and coal sectors.

TAX

Property and investment tax increases but alternative fuels reprieved

The Budget contains a number of minor Capital Gains Tax (CGT)and Goods and Services tax (GST) increases – minor in the general Budget context but likely to have a significant impact on affected investors and the building and property development industry.

GST treatment of new residential premises
Following the Tax Commissioner's High Court loss on the GST treatment of new residential premises, the Government will that GST applies to the value added to real property by developers constructing new residential premises. The amendments will save the Government $10 million a year in lost revenue in 2010-11 and $20 million a year in subsequent years. The amendments will ensure that:

- from 3 October 2007, new residential premises constructed under development lease arrangements are treated as taxable supplies;
- from 1 July 2000, the granting of individual strata lot leases over newly constructed residential premises is not sufficient by itself to make future supplies of the premises input taxed; and
- from 1 July 2000, any change in property title arrangements will not result in the premises once again becoming new residential premises.

Transitional arrangements will apply to ensure that taxpayers who entered into arrangements on a basis consistent with the Court's findings, prior to the Government's announcement on 27 January 2011, are not disadvantaged.

Delayed introduction of taxation of some alternative fuels

The Government will also delay by one year the introduction of previously announced taxation increases on fuels including biodiesel and LNG, at a cost to revenue of $238 million in 2011-12.

The Government will delay the introduction of excise and excise-equivalent customs duty on alternative fuels until 1 December 2011 in response to representations from industry to allow additional time to implement the tax changes.

The Government will also simplify the arrangements by applying transitional tax rates to gaseous fuels and biodiesel at the scheduled effective tax rates during the transition to 2015-16, instead of imposing tax at the final rate and providing offsetting production grants.

Small business gets improved motor vehicle deduction

As it announced before the Budget was delivered the Government will allow small businesses to claim up to $5,000 as an immediate deduction for the purchase of motor vehicles, with effect for vehicles acquired from the 2012-13 income year.

The remainder of the motor vehicle value will be pooled in the general small business pool (depreciated at 15 per cent in the first year and then 30 per cent). The measure is estimated to cost Government revenue about $350 million over the four year forward estimates.

More than offsetting the cut the Government will abolish the Entrepreneurs' Tax Offset (ETO), with effect from the 2012-13 income year. This measure has an ongoing gain to revenue estimated to be $365 million over the forward estimates period.

The Government also announced it will provide additional cash flow benefits to small businesses by reducing income tax instalments paid under Pay As You Go (PAYG) using the gross domestic product (GDP) adjustment method for one year. This change will deliver a $700 million cash flow benefit from lower tax payments in 2011-12, mainly to small businesses.

PAYG instalments in 2011-12 will be set at 4 per cent above a small business's taxable income for the previous year, half the statutory rate that would otherwise have applied.
The statutory rate will apply as normal from 2012-13.

Tax increases – FBT up, Dependent Spouse Tax Offset out

As widely foreshadowed before the Budget, The fringe benefit treatment of cars will be changed to remove the incentive for people to drive their vehicle further to obtain a larger tax concession.

Currently, the sliding scale of rates for provides an increased tax concession for salary-sacrificed or employer-provided vehicles that are driven further.

Existing FBT rates will move to the existing 20 per cent rate which applies to vehicles traveling 15-25,000 kilometres a year. This represents a decrease in the tax rate for vehicles travelling less than 15,000 kilometres a year and an increase in the rate for those travelling more than 25,000 km. This measure improves the underlying cash balance by $953.9 million over the forward estimates. The change will only apply to new vehicle contracts entered into after 7:30pm (AEST) on 10 May 2011.

Dependent Spouse Tax Offset phase-out

The Government will phase out the tax offset for dependent spouses aged less than 40 which it says will encourage more Australians into paid employment. Taxpayers with a dependent spouse aged less than 40 years will no longer be eligible for the dependent spouse tax offset (DSTO) from July 1.

The change will also not affect taxpayers whose dependent spouse is a carer, who is an invalid, or permanently unable to work; and taxpayers with children (eligible for Family Tax Benefit B), or eligible for the zone, overseas forces or overseas civilian tax offsets. Dependent spouses with children will continue to receive Family Tax Benefit B rather than the DSTO.

Increase Trust taxation

The Government will enable the streaming of capital gains and franked distributions and target the use of low tax entities, especially exempt entities, to reduce the tax payable on the taxable income of a trust.

The measure will reduce opportunities for taxpayers to reduce their tax liabilities and implements the recommendations of the Board of Taxation to take interim steps to improve the trust income tax provisions..

Increase Medicare Levy Threshold

From the 2010-11 income year, the Medicare levy low-income threshold will increase to $31,789 (up from $31,196) for couples, and to $18,839 (up from $18,488) for singles. For families, the additional amount of threshold for each dependent child or student will also be increased to $2,919 (up from $2,865). The increase in thresholds generally takes into account movements in the Consumer Price Index. The Medicare levy low-income threshold for pensioners below Age Pension age will also be increased. From 1 July 2010, the threshold will rise to $30,439 (up from $27,697). This will ensure that pensioners below Age Pension age do not pay the Medicare levy when they do not have an income tax liability.

EMPLOYMENT AND SKILLS

Big push to raise workforce participation

The Government's 2011-12 Budget has a number of reforms to encourage long-term unemployed, single parents and people with a disability into the workforce or training.

While on one hand tightening eligibility requirements for welfare payments, the Government is also offering training opportunities for those on welfare and wage subsidies to employers to open up the job market for people with disabilities and the long term unemployed and young people.

3 billion skills and training package

The Government has announced $3 billion for skills and training initiatives over six years including $1.75 billion for reform of the training system. Reforms include:

- $558 million to deliver around 130,000 training places tailored to different industries and regions through a National Workforce Development Fund;
- continuing investments to improve the apprenticeship system with $200 million to assist apprentices to progress and complete their training in a more timely way;
- $1.75 billion to partner with the States and Territories on reform of the vocational education and training system; and
- $263 million to deliver core skills to open new opportunities.

New partnership with industry: addressing the emerging skills shortage
The Government's National Workforce Development Fund will deliver 130,000 training places with immediate priorities being the resources, construction and aged care sectors.

The Government is outlaying $558 million under the fund and grants will be provided through a competitive process that will require a commitment from employers to contribute 50 per cent of the cost of training.

Apprentices

The 2011-12 Budget includes $200 million over four years to boost apprentice completion rates and improve mentoring services. Under reforms industry will be able to provide training customised to the individual needs of apprentices so they can move more quickly through their training and advance to the next level of learning and pay.

Vocational Skills training reform

The Government will set new benchmarks for improved quality, transparency and outcomes form the states and territories as a condition for its base agreement on vocational education and training, worth $7 billion over five years. The 2011-12 Budget offers an additional $1.75 billion over five years (from 2012-13) for jurisdictions prepared to sign up for a more ambitious reform to be negotiation through COAG over the coming months.

Skilled migration

Government will introduce new Enterprise Migration Agreements (EMAs) allowing major resource projects to import labour from overseas for genuine skills vacancies that cannot be filled from the Australian job market. “EMAs will be a custom-designed, project-wide migration arrangement uniquely suited to the resources sector, ensuring skills shortages do not create constraints on major projects and jeopardise Australian jobs.”

More broadly, the government will be offering more migration places for skilled migrants. The skill stream migration intake will increase to 125,850 places with 16,000 places allocated to the Regional Sponsored Migration Scheme. Regional visas will also be afforded the highest processing priority to recognise the needs of employers and encourage regional migration.

INNOVATION

Inspiring Australia is a national strategy for science engagement. The Government will provide $21 million over three years to implement this strategy which aims to enhance the level of societal understanding and engagement with science, as well as to encourage young Australians to study science and pursue science-related careers.

The Government will retarget existing programs to meet the costs from the Enterprise Connect initiative ($6.0 million), the Cooperative Research Centres program ($7.5 million) and the Collaborative Research Networks program ($7.5 million).

TEACHING

Teach Next

The Government will provide $18.1 million over four years to establish a new employment-based pathway into teaching for up to 450 highly skilled and experienced professionals with specialist qualifications who are seeking a career change. This program will address areas of teacher shortage in specialised subject areas, such as mathematics and science, and in hard-to-staff schools, particularly in regional areas.

Australian Teacher Performance Management Principles and Procedures

The Government will provide $425 million over four years to facilitate the development of a new performance management system for all teachers and to recognise and reward Australia's top performing teachers. The Australian Teacher Performance Management Principles and Procedures will assess teachers' performance using a range of methods, which may include: lesson observations; analysis of student data; and parent feedback.

INFRASTRUCTURE

The Budget allocates $954.3 million in new funding and accelerated investment for the Nation Building Program, in addition to $394.4 million for projects under the Regional Infrastructure Fund.

In the coming financial year, annual funding of $7.0 billion to progress a long list of large and smaller scale projects will be provided.

The Government's capital works program now comprises over 120 major road, 32 major rail and 6 urban public transport projects - including all the commitments taken to last year's general election.

The Nation Building Program (2008-09 to 2013-14)

Better, safer and less congested roads

The 2011-12 Budget goes even further, increasing investment in the nation's highways and major arteries to some $28 billion over the six year life of the existing *Nation Building Program*.

The funding will be used to:

- Further accelerate the duplication of the Pacific Highway;
- Undertake the Mackay Ring Road Study - 2010 Election Commitment*;
- Undertake the Scone Level Crossing Study - 2010 Election Commitment*;
- Complete the remaining section of the Townsville Ring Road - 2010 Election Commitment*;
- Upgrade of the intersection between the Bruce and Capricorn Highways - 2010 Election Commitment*;
- Build the Gladstone Port Access Road - 2010 Election Commitment*;
- Construct a new interchange along the Warrego Highway at Blacksoils - 2010 Election Commitment*;
- Upgrade the Peak Downs Highway - 2010 Election Commitment*;
- 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 - 2010 Election Commitment*.

* Project being delivered as part of the existing *Nation Building Program* using funding from the Regional Infrastructure Fund (RIF). See below for more details about the RIF.

Of the more than 120 major roads projects scheduled to be delivered by the end of the existing Program in 2013-14, 46 are already completed and 63 are currently under construction.

The following programs will continue:

- $74.5 million to eliminate 292 dangerous black spots on local roads;
- $28 million to build the safe, modern roadside facilities used by truck drivers.

The 2011-12 Budget will preserve the funding that goes to the nation's 565 councils and shires to assist them maintain and upgrade their local roads.

Faster, more reliable freight rail

Road funding is being complemented by a much greater investment in rail. $3.4 billion is being provided over the life of the existing *Nation Building Program* to rebuild 3,771 kilometres of existing track and lay a further 235 kilometres of new track.

In the coming financial year, work will start on the following projects re-railing and re-sleepering the 239 kilometres line between Albury, Melbourne and Geelong as well as upgrading the older bridges.

At the other end of the construction cycle, the following major upgrades are expected to be completed over the next 12 months:

- Reducing the severity of the curves at some 58 locations between Newcastle and the Queensland border by realigning the existing track, improvements which will allow trains to run at higher speeds - Federal contribution: $170 million;
- Replacing all the old timber and steel sleepers with one million new concrete sleepers along the 691 kilometre line between Broken Hill and Parkes - Federal contribution: $253 million;
- Extending seven existing passing loops on the line between Melbourne and Adelaide - Federal contribution: $76 million.

Of the 32 major upgrades scheduled to be delivered across the interstate rail network by the end of the existing Program in 2013-14, 13 are already completed and 11 are currently under construction.

Urban public transport

$7.3 billion has been committed to give the residents of Brisbane, Sydney Perth, Adelaide, Melbourne and the Gold Coast cleaner, faster ways of getting around.

A fairer share for Regional Australia

The Gillard Government will reinvest $6 billion of the wealth created by natural resources back into building the road, rail, port and social infrastructure necessary to support the mining industry's future growth as well as the local communities that work for it. Subject to the passage of the necessary legislation, a proportion of the revenue raised by the proposed Minerals Resource Rent Tax (MRRT) will go into the new Regional Infrastructure Fund and be used to deliver projects assessed by *Infrastructure Australia*. In the meantime, the 2011-12 Budget allocates monies already in the Fund to a number of important projects which can start straight away as part of the existing *Nation Building Program*, supplementing the record $22 billion investment it's already making in Regional Australia.

A renewed partnership between government and the private sector

The 2011-12 Budget puts in place new tax measures to attract up to $25.0 billion of additional private investment in nationally significant projects identified on *Infrastructure Australia's* National Priority List as 'Ready to Proceed' or 'Threshold' and likely to deliver the greatest economic benefits.

The Budget also increases funding for *Infrastructure Australia* by around 40 per cent and strengthens its independence while improving transparency in the national infrastructure market.

Better, smarter regulations

As well as improving the infrastructure which the nation's $61 billion transport industry relies upon, the 2011-12 Budget also provides the funding necessary ($25.2 million over two years) to finalise historic reforms to the way it's regulated.

This will ensure one set of modern, nation-wide laws to cover maritime safety, rail safety and heavy vehicles.

Following their implementation in 2013, these important microeconomic reforms will improve safety, simplify the compliance task for transport operators and boost national income.

Keeping remote communities connected

For many remote communities, particularly during the wet season, the most important piece of the infrastructure is the local airstrip. That's why the 2011-2012 Budget provides $28.0 million to upgrade even more of them.

Media releases on the budgets impact on infrastructure can be found at
http://www.infrastructure.gov.au/department/statements/2011_2012/media/index.aspx