

MASTER BUILDERS AUSTRALIA

2015/16

PRE-BUDGET SUBMISSION

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Master Builders Australia Ltd ABN 68 137 130



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1 Introduction

- 1.1 Master Builders Australia is the peak national association for the building and construction industry in Australia. Its primary role is to champion the interests of the building and construction industry, representing residential and commercial building, and engineering construction.
- 1.2 Master Builders has more than 32,000 member-companies with representation in every state and territory from all parts of the building and construction industry. Our members are large national, international, residential and commercial builders and civil contractors through to smaller local subcontracting firms, as well as suppliers and professional advisers.
- 1.3 The building and construction industry accounts for close to 8 per cent of gross domestic product, and around 9 per cent of employment in Australia. It makes an essential contribution to the generation of wealth and welfare of the community. At the same time, the wellbeing of the building and construction industry is closely linked to the prosperity of the domestic economy.
- 1.4 The cumulative building and construction task over the next decade will require work done to the value of \$2.8 trillion and for the number of people employed in the industry to rise by 300,000 to 1.3 million.

2 Overview

- 2.1 Master Builders recognises and supports the Government's policy initiatives and measures introduced over the past year, including those in the areas of Budget repair strategy, infrastructure, regulation, workforce skills, immigration, as well as instigation of White Papers and other reviews, for example, into the taxation system, reform of the Federation, competition policy, regulation and industrial relations.
- 2.2 Master Builders calls on the Government to build on these initiatives and reinforce its commitment to a policy agenda that has, at its heart, a focus on business productivity, addressing the regulatory impost on business, developing workforce skills, expanding infrastructure, and improving the environment for small business.

- 2.3 At the crux of Master Builders' Pre Budget Submission is the role building and construction can play in a soft economy by generating investment, economic growth, productivity and job creation thereby creating a more prosperous community.
- 2.4 With the economy urgently in need of growth drivers in the wake of the resources boom, the building and construction industry can play a key role in the rebalancing of the economy. The industry is a proven catalyst for kick-starting the economy and generating jobs given its high multiplier effect.
- 2.5 Australia is at a critical crossroads. Outside of the building and construction industry, business remains extremely reluctant to invest. For the building and construction industry, business and consumer confidence is critical. The 2015 Budget and policy agenda must be about rebooting confidence.
- 2.6 Whilst the need to tackle the structural deficit is important, equally important is the need to ensure the Budget works to engender improved confidence and keeps the economy ticking over. This may require reconsideration of the timing involved for a return to Budget surplus and a pragmatic approach to avoid confidence-sapping logjams in the Parliament. Master Builders Australia is committed to fundamental reform and the requirement to tackle the structural deficit, but this needs to be balanced against the business uncertainty created by the logjam. There is a need to reboot confidence and business investment. This can be achieved by a more pragmatic approach to the timing of Budget repair measures.
- 2.7 Commercial building continues to suffer the effects of weak non-mining business investment despite low interest rates. Poor sentiment is affecting 'animal spirits', keeping a lid on the investment needed to drive economic growth and generate jobs. Although there has been a solid uplift in residential building driven by pent-up demand, low interest rates by themselves are now less of a spark.
- 2.8 With early signs the residential growth cycle may have peaked, the key to resilience in the sector is confidence. In this context, to ensure the housing sector plays its proper role, the Government must remove factors affecting sentiment such as talk of abolition of negative gearing and introduction of prudential controls on home lending.

2.9 Master Builders Australia's key policy priorities for the building and construction industry are:

- Responsible economic management.
- Flexible workplace relations policy.
- The supply of appropriate and affordable housing.
- A highly skilled workforce.

2.10 In support of building a strong economy, Master Builders Australia further advocates:

- Productivity-enhancing measures such as tax and deregulation reforms that enhance Australia's global competitiveness and labour market flexibility, fuel the drivers of sustainable long term economic growth, lifting participation and easing constraints on growth from population ageing.
- Infrastructure is vital to Australia's productivity, international competitiveness, sustained economic growth and development. Without efficient and high quality infrastructure, Australia's economic performance will stagnate and living standards will decline.
- As part of the productivity-enhancing measures, return balance and fairness to the industrial relations system to boost productivity. This includes restoration of the Australian Building and Construction Commission.

2.11 Disciplined expenditure, long-term fiscal sustainability and an efficient and effective machinery of government are necessary pre-conditions if Australia is to lift its productivity and avoid running into bottlenecks, skills shortages and associated wage and inflationary pressures as the economy expands through the course of the business cycle. A major policy challenge ahead will be to avoid cost blow-outs or 'wage inflation' due to a failure of national policy to recognise industry needs.

3 Main Recommendations

Fiscal Strategy

- 1 *Restore confidence in the economic and fiscal settings to underpin a recovery in non-mining sectors of the economy such as infrastructure, commercial and residential building that would, in turn, improve revenue growth and over time rein in the structural deficit.*
- 2 *Introduce a short term tax incentive for commercial and other business investment to help bring forward activity and provide a critical prop for an economy attempting to rebalance and transition from mining to non-mining investment-driven growth.*
- 3 *Reassess and recalibrate the composition of reforms needed to address the structural deficit, lift productivity and grow the economy.*
- 4 *Reconsider the strategic timing of a return to surplus and adopt a pragmatic approach in resolving confidence-sapping Parliamentary logjams.*
- 5 *Ensure responsible fiscal management including the principle of balancing the Budget over the course of the economic cycle and develop a clear pathway to a Budget surplus.*
- 6 *Retain sufficient flexibility in fiscal policy to meet changing economic conditions.*
- 7 *Redirect public spending towards more productive forms of infrastructure outlays and away from recurrent, less productive expenditure.*

Taxation

- 8 *Adopt a holistic approach to tax reform to ensure measures are not considered in isolation or as single issue trade-offs, with the tax “blueprint” to be a comprehensive, detailed and specific package that allows zero “wriggle room” in terms of execution.*
- 9 *No increase in the Goods and Services Tax rate without first effecting comprehensive tax reform.*

- 10 *Retain the tax exempt status of home ownership and negative gearing.*
- 11 *Provide incentives for the removal of inefficient state taxes including infrastructure taxes, charges and levies.*
- 12 *Reduce the company tax rate to 25 per cent.*
- 13 *Reduce the differential between the higher marginal personal income tax rates and the company tax rate.*
- 14 *Introduce a reducing, stepped rate of capital gains tax.*
- 15 *Simplify tax compliance, especially for small business to free up entrepreneurial energies for more productive purposes, such as generating investment, employment and productivity.*

Housing Affordability

- 16 *Take action with State jurisdictions to redress the impediments that have led to undersupply in the residential building sector.*
- 17 *Work with State jurisdictions to abolish or reduce inefficient taxes and charges.*
- 18 *Through a reinvigorated COAG, provide 'competitive, efficiency dividend' payments to the State, Territory and Local Governments for delivering housing affordability policy outcomes against key performance metrics.*

Workplace Productivity

- 19 *Ensure an effective Australian Building and Construction Commission (when reinstated) continues the work of enforcing workplace relations law, particularly in co-operating with dedicated police task forces charged with investigating criminality in the industry.*
- 20 *Following the outcome of the Productivity Commission review of the workplace relations system, act to improve workplace relations legislation and the related institutions.*

Workforce Skills

- 21 Maintain investment in vocational education and training (VET) for both full qualifications and skill sets commensurate with the future skills needs of the industry. Funding should be directed to skill areas that are experiencing shortages.*
- 22 Include the building and construction industry as a priority industry for the Industry Skills Fund, recognising that the industry will require 300,000 new workers over the next decade.*
- 23 Maintain the level of investment in apprenticeships and skills acquisition strategies while making this expenditure more efficient and targeted to industry needs.*
- 24 Target financial assistance to employers to lift apprenticeship commencements and completions to deal with a looming skills crisis in building and construction.*
- 25 Make apprentice support services more industry driven, increase employer incentives to take on new apprentices and review current pathways into the trades.*
- 26 Ensure a quality VET system with increased focus on skill attainment outcomes that meet the needs of industry.*

Regulation Reform

- 27 Charge the Federal Department of Industry with producing a definitive and exhaustive list of all State, Territory and Local Government variations from the National Construction Code as a precursor to a concerted program of action, under the remit of COAG to minimise the nature, incidence and impact of such variations.*
- 28 Direct the Australian Taxation Office to establish a Government-Industry Working Party to implement a system of statutory registration for independent contractors and advance the necessary changes in federal law, regulation and/or administration.*
- 29 Ensure adequate financial support for the Australian Building Codes Board.*

Infrastructure

- 30 Expand the Asset Recycling Initiative as part of an overall increase in direct public sector spending on key economic and social infrastructure.*
- 31 Minimise bid-costs for infrastructure provision/financing to ensure the broadest possible range of engagement by potential investors.*
- 32 Expand the use of privatisation or other mechanisms for the transfer of existing and prospective infrastructure assets to the private sector.*
- 33 Ensure funding of subsidies for provision of NBN connection and services is done in a transparent manner via the public account through annual budgetary appropriation.*

Immigration

- 34 Set the permanent net migration intake at around 195,000 persons per annum.*
- 35 Implement recommendations from the Robust New Foundations: A Streamlined, Transparent and Responsive System for the 457 Visa Programme which will enhance the 457 visa programme.*
- 36 Enhance the access of employers to jobs classified as 'semi-skilled' for the purposes of permanent employer-sponsored migration.*

4 Building & Construction Industry and Economic Rebalancing

- 4.1 The building and construction industry can play a key role in the rebalancing of the economy in the wake of the resources boom. A focus on economic and productivity enhancing reforms designed to reinvigorate building and construction, such as restoration of the ABCC and removal of housing supply impediments, would lead to a stronger economy.
- 4.2 In 2013/14, the building and construction industry made a major contribution to the economy with construction value added totalling \$120 billion in constant price terms, close to eight per cent of total Australian economic output. In growth terms, this represented an increase of 3.7 per cent on the previous year as building activity finally picked up. Private investment in dwellings increased by 4.7 per cent in 2013/14 in constant price terms, the best result in

10 years after a long period of stagnation. The new dwellings component increased by 7.6 per cent and in an encouraging sign alterations and additions turned positive after a cumulative 13 per cent decline recorded in the previous two years. Private investment in non-residential building also increased (4.4 per cent), but the start of the engineering construction slide was reflected in a 4.1 per cent decline recorded for that sector in 2013/14.

- 4.3 Master Builders Australia's National Survey of Building and Construction for the December Quarter 2014, shows builders are more confident that a recovery is becoming entrenched. After five negative years following the GFC, the Survey reveals that commercial building conditions have finally moved into positive territory. Nonetheless, the recovery in building activity needs to broaden across states and territories for the industry to sustainably underpin increased activity, profitability and employment.
- 4.4 Master Builders is confident that the recovery in residential building is on track with a solid 'first phase' upswing reflected in the 192,000 national dwelling commencements for the year to September 2014. In line with Master Builders' expectations, Australia appears on track to surpass the record for annual starts sometime in 2015. 'Other dwellings' (units and apartments) are already at all-time highs and detached house numbers have exceeded 100,000 for the first time in three years. Building approvals have risen to a twenty year high, the strongest they have been since 1994, setting the scene for an expansion phase in residential construction as the pipeline of work strengthens further and the market for renovations improves.
- 4.5 Australia desperately needs a long and strong residential building phase to alleviate pent-up demand for housing that arose because of a long period of underbuilding at a time of strong population growth. Also, the wider economy needs housing investment to play a key role as a growth driver to assist rebalancing in the wake of the mining boom. The shine can come off the positive outlook, however, if policy reforms to tackle barriers to increased supply including poor land release, inefficient taxes and charges and council red/green tape are not implemented. Misplaced steps to limit 'speculative' housing investment could also hinder the strength and duration of the upturn.
- 4.6 The Reserve Bank has mooted that some aspects of housing have become unbalanced, particularly investor activity and that it might be appropriate to

adjust the prudential regulatory framework. Authorities appear conscious of the need to avoid using a heavy regulatory hand that would have distortionary effects and promote avoidance measures, but APRA has been flagging the possibility of raising capital requirements for banks with loans covering investment properties and possibly adjusting risk weights on these loans.

- 4.7 Master Builders has warned that measures to curtail so-called speculative investment in housing need to be treated with extreme caution to ensure the residential building upswing is not stymied. Such policies will result in unintended, detrimental consequences. Master Builders has made the point that fiddling with lending 'rules' or tinkering with particular taxes will do very little if anything to address lack of supply - the core reason behind rising prices, deteriorating affordability and the downward trend in homeownership. Removing the shackles of poor land release strategies, inefficient developer charges/ infrastructure levies, and poor planning and development programs would allow residential builders to better meet demand, thereby limiting the potential for steep price increases.
- 4.8 There is no need for knee-jerk responses; the imperative must be to clear the impediments that are limiting the ability of the building industry to add new housing stock.

5 Fiscal Strategy

- 5.1 In the current economic environment the priority must be to encourage the non-mining business sector to invest and create jobs.
- 5.2 The Government must restore confidence in the economic and fiscal settings in order to underpin a recovery in non-mining sectors of the economy such as infrastructure, commercial and residential building. A stronger economy would, in turn, improve revenue growth and over time rein in the structural deficit.
- 5.3 Given the difficulties involved with the 2014 Budget, the Government needs to reassess and recalibrate the composition of reforms needed to address the structural deficit, lift productivity and grow the economy. Master Builders believes the Government may also need to reconsider the strategic timing involved in returning the Budget to surplus as well as adopting a pragmatic approach to resolving confidence-sapping Parliamentary logjams.

- 5.4 Master Builders is committed to fundamental reform and the requirement to tackle the structural deficit, but this needs to be balanced against the business uncertainty created by the logjam. There is a need to reboot confidence and business investment. This can be achieved by a more pragmatic approach to the timing of Budget repair measures.
- 5.5 The Government faces a difficult balancing act, with the need to cushion and kick-start a fragile economy against an overriding imperative to fix the structural fiscal deficit. Balancing the Budget is important, but should not come at the expense of microeconomic incentives. There is a danger that balancing the Budget and stabilising net debt as a share of GDP could come at the expense of a slowing economy that would yield less revenue for Government in absolute terms.
- 5.6 Nonetheless, the Government did inherit a Budget in late 2013 that was in urgent need of repair, and the 2014 Budget attempted to implement some tough policies in order to achieve a credible path back to surplus. In the event, the Budget was (and continues to be) thwarted by an obstructionist Senate. Whilst the 2015 Budget represents an opportunity for the Government to refresh its tactical approach to achieving successful resolution of the structural fiscal imbalance, a 'surplus at all costs' approach in the short term would be inappropriate given the tenuous state of the Australian economy.
- 5.7 In the wake of the National Commission of Audit's work, the Government employed a Budget strategy centred on attempts to justify expenditure programs first, then to examine options to raise revenue accordingly. The expenditure side should come first, regardless of what is driving changes in the Budget balance over any given period. Both revenue and expenditure measures should then be evaluated from a perspective of whether they would improve incentives to work, save and invest. Raising higher average tax rates do not pass that test and would be at odds with foremost tax reform. As Winston Churchill once famously said, 'we cannot tax ourselves to prosperity'.
- 5.8 Master Builders Australia welcomes Government moves to cut company tax, reduce medium term spending and privatise assets, as this should over time free up resources and assist individuals and businesses to succeed. Also welcome are Government moves to reduce the regulatory burden on

business, individuals and the community by \$1 billion a year through an aggressive agenda to cut red and green tape.

- 5.9 A strong economy is the key to minimising medium-term risks to the integrity of the Budget position. The economic outlook is now reliant on the capacity of non-resource sectors to offset the loss of mining investment as a primary growth driver. But as structural adjustment proceeds, weak activity outside of mining, fiscal consolidation, the exchange rate, cautious consumers and a soft labour market all make for a patchy and fragile economic environment. Adding to uncertainty are fears of a triple dip recession in Europe, softening Chinese growth and fallout from US 'normalisation' policy. Nonetheless, builders are cautiously confident that an embryonic recovery is underway and there is optimism about future prospects for residential building in particular.
- 5.10 The impact on the economy of falling iron ore and coal prices is affecting Australia's terms of trade, national income and the Budget deficit. On the other side of the ledger, lower oil prices means cheaper petrol that will flow through to stronger household expenditure. Falling terms of trade have triggered a lower exchange rate, which will boost the competitiveness of Australian industry and, eventually, lift profits. Restoration of profits should, in turn, engender a recovery in non-mining investment. But will this much-needed rebalancing come in time to prevent a growth hiatus or recession?
- 5.11 Australia's economic outlook is for middling to weak growth at best in the short term, with the gradual nature of the recovery unlikely to generate meaningful improvement in the unemployment rate until late-2015, early-2016. The danger of a downturn is real to the extent that non-mining investment fails to kick-in in time to offset the impact of the fall-back in mining investment. This means that both fiscal and monetary policy needs to be accommodative until a solid economic growth trajectory is assured.
- 5.12 The good news is that the benign inflation outlook will allow interest rates to stay low. The bad news is that, although the authorities may trim rates a little further, they are becoming concerned that monetary policy is starting to 'push on a string' with little benefit to the wider economy at the cost of added risk of speculative real estate behaviour. In this context, Master Builders believes that fiscal policy can augment its primary, medium term focus and play a role in supporting short term demand.

Short term business tax break

- 5.13 Master Builders recommends the Government consider the merits of introducing a new non-mining investment tax incentive. A tax break for commercial and other business investment would help bring forward activity and provide a critical prop for an economy attempting to rebalance and transition from mining to non-mining investment-driven growth. A short term business tax break would help Australian businesses boost investment, bolster economic activity and support Australian jobs. A well-designed tax break would provide businesses with an incentive to invest in new capital items, make capital improvements to existing machinery and equipment and invest in new and refurbished buildings.
- 5.14 Ideally, the tax break would be targeted, temporary and proportional. The tax break could be seen as a judicious form of policy insurance with the objective to reduce the risk of an economic downturn brought about by a failure of non-mining investment to recover sufficiently, in time, to supplant mining investment. As noted, the use of fiscal policy can be justified because the Reserve Bank appears reluctant to use monetary policy as they are concerned that further rate cuts would add to the risk of a housing 'bubble' for marginal benefit to the wider economy.

Investment in infrastructure

- 5.15 A priority of the Government must be infrastructure investment to underpin economic growth.
- 5.16 Master Builders supports the ambitious steps taken by the Government to boost growth through investment in infrastructure. The strategy includes the Government's commitment in the 2014 Budget for an additional \$11.6 billion in an infrastructure growth package, taking the Government's investment to \$50 billion by 2019/20 which, combined with State and private funding, is expected to leverage over \$125 billion of additional infrastructure.
- 5.17 Master Builders also strongly supports the Government's Asset Recycling initiative that has the potential to leverage close to \$40 billion of new infrastructure as State and Territory Governments are given tax and other incentives to privatise existing infrastructure and use the money to fund new

priority infrastructure. Master Builders recommends the Government consider expanding the important Asset Recycling Initiative.

- 5.18 The Reserve Bank argues that governments need to do more to promote policies to encourage greater infrastructure spending, particularly as there are limits to what a low interest rate policy can do to support the economy. The investment boost from road and rail projects should begin next year and help rebalance the economy through 2016 and 2017, and Treasury estimates that Federal Government-supported infrastructure spending could add 1 per cent of GDP to the economy over the remainder of the decade.
- 5.19 Productivity-enhancing infrastructure spending helps to ease bottlenecks and boost productivity. Given spare capacity in the economy and run down in capital stock, as well as low borrowing costs, now would be a good time to lift infrastructure spending. However, the delivery of infrastructure in Australia is essentially done by the States (the Commonwealth funds about 15 per cent) so incentives for States to lift infrastructure spending appear limited to those States that have budgeted for strong infrastructure programs.
- 5.20 Financial incentives for States and Territories to sell assets and reinvest the sale proceeds into additional productive infrastructure will expedite provision of critical infrastructure, boost activity at a time when the economy is transitioning, and boost long term productivity and living standards. Over time the productive capacity of the nation will also be enhanced by reforms that flow from policy reviews of the Federation, the taxation system, workplace laws, the financial system, competition policy and regulation.

6 Taxation

- 6.1 Master Builders welcomes the clear recognition by the Federal Government of concerns relating to the taxation system in Australia. The keenly awaited White Papers on Taxation and Reform of the Federation provide important opportunities for meaningful action on the numerous inefficient taxes and charges which unnecessarily inflate the cost of supplying new buildings. Master Builders also welcomes recent moves by the Government to abolish the carbon and mining taxes to create a more business-friendly environment and restore investor confidence.

- 6.2 The Australian taxation system must be efficient, globally competitive and fair if the nation is to meet the major economic and public policy challenges ahead, keep Australia as an attractive destination for investment and to maintain capital inflows. Key challenges are: structural integrity of the budget, ageing of the population; globalisation of the world economy; continuing structural change; lifting productivity performance; and improving international competitiveness.
- 6.3 More needs to be done to ensure the tax system rewards entrepreneurship and reduces compliance costs for business particularly small business. In this context, the Government's current tax review is an opportunity to lay down a pathway to achieve a more efficient taxation regime in Australia.
- 6.4 The building and construction sector is one of the most intensely taxed in Australia, and bears a direct and indirect tax burden from all levels of government — federal, State and Territory and local. This high and onerous tax burden distorts investment decisions, discourages entrepreneurship and innovation, reduces business investment and employment opportunities, and diverts scarce resources into unproductive and unnecessarily costly tax compliance within a key sector of the Australian economy. These impacts, in turn, reduce housing affordability, increase housing stress and add to the fiscal burden on governments for housing assistance.
- 6.5 Master Builders believes strongly that a holistic approach to tax reform is essential. Measures must not be considered in isolation or as single issue trade-offs, rather, the tax "blueprint" must be a comprehensive, detailed, and specific package that allows zero "wiggle room" in terms of execution.
- 6.6 Master Builders' priorities for tax reform are to:
- Retain the tax exempt status of home ownership and negative gearing.
 - Reduce the company tax rate to 25 per cent.
 - Reduce the differential between the higher marginal personal income tax rates and the company tax rate.
 - Introduce a reducing, stepped rate of capital gains tax.

- Simplify tax compliance, especially for small business to free up entrepreneurial energies for more productive purposes, generating investment, employment and productivity.
- Remove inefficient state taxes as a priority.
- No increase to the Goods and Services Tax rate without first effecting significant tax reform.
- A temporary investment tax incentive.

6.7 Master Builders does not agree with some commentators who believe there should be changes to certain tax policies such as the tax exempt status of home ownership, negative gearing and capital gains. Master Builders strongly believes the pros and cons of tax policies like owner occupier exemptions, capital gains tax and negative gearing should be considered in the widest possible context. Rather than individual taxes being considered in isolation, a holistic approach to tax policy is imperative.

6.8 As the Productivity Commission noted: “Ostensibly ‘quick fixes’ – such as limiting negative gearing or removing the CGT discount for housing – could detract from rather than promote more efficient investment.” (Productivity Commission, *First Home Ownership Inquiry*, p. XXV, 2004)

6.9 Master Builders emphasises that the Henry Review into *Australia’s Future Tax System* provided an exhaustive examination less than five years ago, with the Government’s Tax White Paper process set to provide another opportunity for a wide ranging review.

6.10 Importantly, in categorically stating that the current taxation treatment of housing is not the major source of supply constraints in the Australian housing market, the Henry Review made the point very strongly that any reforms designed to change the tax treatment of investor housing should only be considered once the housing supply issue had been resolved.

6.11 The housing supply issue has not been resolved. The two key recommendations flowing from the Henry Review’s analysis of Australia’s housing affordability challenge— free up zoning and planning; and set appropriate infrastructure charges (developer charges) must be top priorities

for the Government. In the taxation sphere, Master Builders advocates urgent reform of inefficient and costly infrastructure taxes, charges and levies.

- 6.12 In the context of Master Builders' call for a reduction in the company tax rate to 25 per cent, many countries have been reducing their company tax rates and Australia is once again slipping in terms of international competitiveness. Master Builders therefore recommends further reductions in the company tax rate which maintains Australia's global tax competitiveness. Master Builders welcomes the Government's commitment to cutting the company tax rate, but believes a transitioning of the rate to 25 per cent by 2025 should be the aim, subject to successful resolution of the structural deficit.
- 6.13 Master Builders calls for a reduction in the differential between the higher marginal personal income tax rates and the company tax rate. Such a measure would help improve tax compliance and, through lower income tax rates, improve productivity and workforce participation (especially by secondary and marginal earners) and act as an incentive for domestic saving which would, in turn, lower the cost of capital for business, especially smaller firms.
- 6.14 In the area of capital gains tax, Master Builders calls for the introduction of a reducing stepped rate of capital gains. This would reduce the CGT burden and encourage longer-time horizon investment as well as discourage speculative investments. Master Builders would propose assets held for: less than 1 year have 100 per cent of CGT subject to tax; 1 to 2 years have 50 per cent of CGT subject to tax; 2 to 5 years have 25 per cent of CGT subject to tax; to 10 years have 10 per cent of CGT subject to tax; and more than 10 years have 0 per cent subject to tax (that is, CGT free).
- 6.15 In the area of tax simplification, Master Builders continues the call for ongoing efforts to simplify business tax compliance. The inefficient collection and administration of taxes distorts economic decision making. Raising revenue to fund government outlays must be done as efficiently as possible. And the increasing complexity and volume of Australia's tax law represents an ongoing burden for Australian business.
- 6.16 Resources devoted to compliance with an unnecessarily complex tax system could be used more productively. Master Builders is also particularly

concerned that complexity and its resulting compliance burden falls disproportionately on small business which cannot take advantage of economies of scale. This unfairly disadvantages small businesses relative to large.

- 6.17 Removal of inefficient state taxes should be a priority. Master Builders would encourage the Government to look at the removal of inefficient state taxes in the wake of the Taxation and Federation White Papers. There is an opportunity to develop a blueprint for reform of Australia's federalism model in order to achieve a more efficient taxation regime. Reform needs to be far-reaching and practical, should consider proposals for the removal of inefficient taxes and charges and should not be unduly influenced by the status of State and territory budgets.
- 6.18 Stamp duties discourage residential and commercial property transactions. The duties manifest themselves widely at the State level and can represent a significant burden.
- 6.19 Master Builders calls for, as a first step, the abolition of stamp duty on business conveyances of real property to be followed by the careful consideration of the possible benefits of the abolition of stamp duty on residential property. The reason for caution is twofold. First, such a step must not be considered in isolation – revenue from stamp duties is significant and there will need to be offsetting revenue. Secondly, given the history of tax reform the process, governance and legislation are all critical ingredients that need to be “locked-in” so as to engender confidence that undertakings will be honoured. In this context, Master Builders notes with considerable concern the commitment to abolish stamp duties on business conveyances made in the 1999 Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations that, a decade and a half later, has not been fully delivered.
- 6.20 As noted earlier, the key to good tax reform must be to take a holistic approach, to not consider measures in isolation or as single issue trade-offs. To repeat, the tax “blueprint” must be a comprehensive, detailed, and specific package that allows zero “wriggle room” in terms of execution.

- 6.21 For the same reasons, Master Builders would not support an increase in the Goods and Services Tax rate without first effecting significant and 'enabled' tax reform.
- 6.22 Master Builders recommends that the cumulative influence of GST be removed. In particular, GST imposed on stamp duty is unacceptable. It is a tax on tax. It cannot have been the intention of the Commonwealth Government that tax reform would result in situations where tax on tax on tax could arise. For example, on a warranty insurance premium for domestic builders, GST is first applied to the premium, followed by an additional 10 per cent stamp duty. A broker's fee is calculated, which in turn has GST added to it. Master Builders' view is that the stamp duty should be calculated on the GST excluded premium price.
- 6.23 A temporary investment tax incentive: as detailed earlier in the document, Master Builders recommends the Government consider the merit of introducing a new non-mining investment tax incentive for commercial and other business investment.

7 Housing Affordability

- 7.1 Master Builders welcomes the clear recognition by the Federal Government of the ongoing problem of housing (un)affordability across all Australian capital cities, and a growing number of regional growth areas. The White Papers on Taxation and on Reform of the Federation provide important opportunities for action on the plethora of inefficient taxes and charges which unnecessarily inflate the cost of home purchase and supply.
- 7.2 Master Builders calls on the Federal Government to take action to address undersupply in the residential building sector. The Government must provide leadership to work with State, Territory and local jurisdictions to remove unnecessary supply constraints and abolish or reduce inefficient taxes and charges.
- 7.3 The adequate supply of appropriate and affordable housing is a critical part of the Australian economic and social fabric. Australia has one of the highest rates of home-ownership in the world. More than two-thirds of Australians currently own or are in the process of buying their own home. The high rate of home ownership and strong public policy commitment over many years by

governments of both major political persuasions to home ownership has enriched Australia both in economic and social terms. Home ownership and the adequate supply of a diverse range of housing are integral parts of Australia's social fabric. This must remain a key policy objective for all governments - to ensure affordable housing is available for all Australians.

7.4 A co-ordinated and proactive public policy agenda by Federal, State and Territory, and local governments is needed to facilitate home ownership and to reverse the current downward trend which is seeing homeownership increasingly being out of reach of a growing share of the Australian population. Concomitantly, there is a growing undersupply of public and private rental housing that is putting upward pressure on rent levels. The cost of a family home has increasingly become unattainable as a confluence of circumstances has worked against an average Australian household realising the goal of affordable home ownership. Key factors that have led to a worsening of housing affordability include:

- Shortage of available land and inefficient land release strategies.
- Infrastructure costs being loaded onto developers and in turn passed on to home owners.
- Excessive infrastructure specifications in subdivisions.
- Excessive development levies, taxes and charges imposed by state and territory governments.
- Excessive planning and building requirements.
- Regulatory creep pushing codes and standards higher than required.
- Uncoordinated local and state government environmental regulations.

7.5 Master Builders estimates show that the national housing supply shortfall (supply falling behind demand) has risen to around 80,000 dwellings or half a year's production. The growing shortfall/deficit in housing will continue until the current recovery in residential building results in a lift in newly completed dwellings sufficient to ensure the supply deficit finally begins to diminish. All governments need to recommit to the goal of making housing more affordable and to working together to achieve this priority objective through structural

reform, most of which is required at the state and local government jurisdictional level.

7.6 Master Builders calls on the Federal Government, through a reinvigorated COAG, to provide ex poste 'competitive, efficiency dividend' payments to State, Territory and local governments for delivering housing affordability policy outcomes against key performance metrics. Key elements of a National Housing Affordability Agenda, and associated 'competitive, efficiency dividend' payments, include:

- Tangible outcomes in improving the efficiency, and the supply-side efficiency in particular, of the Australian housing market.
- Annual publication by the Federal Department of Industry on its website of a rigorous and transparent stocktake of approaches to developer/infrastructure charges by all local governments in Australia. The stocktake would examine the nature, the processes involved and the incidence of the charges imposed on 'brownfields' and 'greenfields' (both fringe and infill) developments for a normalised set of developments.
- An efficient housing market would have a number of features, including one not burdened by unnecessary distortions: to market prices (the principal method by which housing demand signals being transmitted to housing suppliers); and, by regulatory, and poorly targeted subsidy and taxation intervention.
- Streamlined and simplified development approvals processes. Achieved through, inter alia, greater reliance on code-based assessment, identification of best practice development approval procedures amongst State, Territory and local governments, as well as expanded use of performance monitoring and benchmarking.
- Local governments to develop and promulgate individual realisable Land Release Plans for their own jurisdictions over a ten year rolling time horizon. These Plans would, inter alia, identify specific tracts of land within own-jurisdictions, set down timelines for their prospective availability for residential development, any regulatory or other requirements which may impede the land release process, generally and

for specific tracts of land, and nominate those tracts which would be 'development-ready' within five years.

- The realisation of a genuine, rigorous, enforceable and uniform building code and regulatory system to ensure the development and continuation of an efficient and competitive building industry. The COAG members should also continue to play an active leadership role in the ongoing development and refinement of the National Construction Code as the central document specifying a national set of building requirements.
- Ensuring the State and Territory Governments honour an existing, long overdue commitment to abolish stamp duties on business conveyances of real property. This would be followed by a rigorous review of the impact of stamp duty on residential property, and alternate approaches to revenue-raising.

7.7 In the medium to long term, committing to a National Housing Affordability Agenda by removing or ameliorating structural legislative, regulatory and fiscal impediments to supply will result in less outlays in transfers and less upward pressure on inflation. In other words, there is a structural dividend to be gained.

7.8 Ongoing growth in demand for housing will require the construction of around 170,000 new dwelling units each year. Without meaningful policy measures designed to improve housing supply by addressing government-sourced impediments and inefficiencies, unmet housing demand will lead to higher house prices and worsening housing affordability.

7.9 Master Builders' housing policy also advocates:

- Maintenance of the tax-exempt status of the family home.
- Retention of current negative gearing provisions.
- Provision of an appropriate level of public housing, starting with decisive action to provide suitable accommodation for the roughly 50,000 persons, assessed as being in greatest need, on public housing waiting lists. This equates to unmet demand for around 20,000 public housing dwellings.
- Mandatory minimum energy efficiency standards not to exceed six stars.

8 Workplace Productivity

- 8.1 Master Builders commends the Government on the advance release of the Building and Construction Industry (Fair and Lawful Building Sites) Code 2014. This instrument, when implemented, will enable the Government to use its procurement policies to eliminate restrictive work practices that currently form part of many building and construction enterprise agreements. This is particularly the case where the unions have rolled out pattern agreements.
- 8.2 Master Builders' policy emphasis is on industrial relations reform that must deliver productivity benefits. Industrial relations reform must be a high priority to meet Australia's current and future economic needs. This requires productivity based reform that includes assessment of the effectiveness of current labour market policy and regulation and reforms that redress the economic vulnerability of contractors against unlawful industrial action. In this context Master Builders welcomes the conduct of a review into the workplace relations system by the Productivity Commission. Master Builders fully supports the holding of this inquiry.
- 8.3 Also high on Master Builders' policy priority list is for the reinstatement of a strongly empowered, industry specific regulator for the building and construction industry (albeit that Master Builders fully supports the work of the Fair Work Building and Construction agency). It is in this context that Master Builders continues to support the timely passage of the *Building and Construction Industry (Improving Productivity) Bill 2013* (Productivity Bill) and the *Building and Construction Industry (Consequential and Transitional Provisions) Bill 2013* (Transitional Bill). Master Builders has consistently argued for a strong industrial relations regulator to be in place in the building and construction industry. Both Bills would restore the Australian Building and Construction Commission (ABCC) and provide appropriate underpinning powers to that organisation. It is necessary that the ABCC be re-introduced to the industry in order to ensure a return to compliance with the rule of law on building sites and to boost the industry's and the nation's productivity. These matters were made abundantly clear following the release of the interim report of the Royal Commission into Trade Union Governance and Corruption in December 2014. Master Builders fully supports the related allocation of federal police to dedicated joint task forces such as was established in

October 2014 in Victoria. Whilst the future of this task force is clouded by the change of government in that State, further funding for similar task forces where the particular State or Territory government is sympathetic to that matter should be established and federal funding allocated. Following the release of the final Royal Commission report, further funding should be made available to ensure that the agencies charged with prosecuting the matters referred from the Royal Commission are adequately funded.

- 8.4 In addition, the ABCC once formed should be provided with additional resources so that active consideration of the manner in which matters referred to the police may be monitored and reported on and so that liaison with the relevant police task forces is properly formalised.

9 Workforce Skills

- 9.1 Master Builders commends the Government for initiatives undertaken in the past year that will enhance skills development and attainment in the workplace. Master Builders welcomed the Government's announcement to invest \$200 million each year to establish a new Australian Apprenticeship Support Network to lift apprenticeship completion rates, which is an important issue for the building and construction industry. Master Builders also welcomes the Government's reforms to improve the VET system to elevate trades to the centre of the economy and focus on ensuring Australian workers are highly skilled and job ready, including the introduction of a contestable model for the development and maintenance of training packages.
- 9.2 There were just over 1,050,000 people employed in the building and construction industry in November 2014, which represents around 9 per cent of total employment. The industry is the largest employer of skilled tradespeople in the Australian economy with approximately two thirds of the workforce employed in skilled roles.
- 9.3 Master Builders recommends that the Government maintain investment in post-secondary education, particularly skills training, commensurate with future needs of the building and construction industry. At a time when the proportion of skilled jobs is increasing, the number of core Federal and State-funded training places has been static.

- 9.4 In particular, Master Builders seeks the building and construction industry to be included as a priority in the Industry Skills Fund to recognise that some 60,000 new entrants will be required each year to meet the projected employment growth of 300,000 over the next decade and to replace some 30,000 workers who leave the industry through attrition.
- 9.5 Master Builders estimates that completions of construction trades apprenticeships need to more than double over the current decade in order to meet employment demand for skilled tradespeople. Master Builders calls for reforms that can deliver effective assistance to employers and apprentices and harmonise apprenticeship regulation within Australia.
- 9.6 The poor trading conditions have seen employers reluctantly reduce apprentice intake and/or put off apprentices in the past two years. Group Training Organisations, which have a significant role in construction apprenticeships owing to the project-based nature of construction work, have been particularly hard hit.
- 9.7 The current apprenticeship system is in need of a major review to address how more young people can be attracted to work in the trades, how employers can be supported to take young people on, and how the training system can deliver flexible and effective skills for the future.
- 9.8 The basic employer incentive for taking on and retaining apprentices has been static at around \$4,000 for many years, which represents a tiny fraction of the net cost of on-the-job training, administration and wages. Employer incentive payments are even more an imperative against the background of increasing wages and conditions being imposed as a consequence of industrial relations decisions that came into effect on 1 January 2014.
- 9.9 In the short term, limited and tightly targeted financial assistance to employers should be the most appropriate policy response to dealing with a looming skills crisis. Such assistance can potentially be offset by other savings in the training portfolio. Assistance could have the following key elements:
- Rephasing the standard employer incentive (\$1,500 at six months and \$2,500 at completion) to \$1,500 at six months, \$1,500 at 18 months and \$1,000 at completion, in recognition that apprentices who make it through to third year are more likely to complete their studies. Further, as the

payment has been static for many years, a 15% increase over the next three years should be considered to support employers to ultimately lift apprenticeships.

- Reintroducing a 'Kickstart Bonus' of \$3,350 on top of the standard employer incentive for construction trades in demand to support employers to take on apprentices.

9.10 Master Builders calls for a quality VET system with an increased focus on skills attainment outcomes. The Australian Skills Quality Authority (ASQA) should work more closely with industry to identify and respond to instances of poor practice, without increasing the red tape and cost burden on all providers, most of which are small businesses operating on slim profit margins. Given the public benefits from a well regulated training system, there is a case for additional Budget funding of ASQA.

9.11 In relation to higher education, Master Builders' National Survey has revealed persistent difficulty in filling highly skilled professional positions in the industry across all stages of the economic cycle. This challenge is likely to worsen, as growth in demand for highly skilled roles will far exceed demand for other roles in coming years. Documents such as the ANET Scoping our Future report (2010) have clearly demonstrated the shortfall in Australian engineers and project managers available to meet employment demand. Construction is one of the industries where this shortfall is most keenly felt.

9.12 Master Builders urges the Government to work with industry and education providers to implement a multi-faceted approach to enlarging the pipeline of engineers and construction professionals. Such an approach would promote increased interest in engineering and construction management among school leavers, facilitate closer industry linkages to undergraduate programs, and enhance career development opportunities for early career graduates.

10 Regulation Reform

10.1 Master Builders welcomes the Government's aggressive agenda to cut red and green tape with moves to reduce the regulatory burden on business, individuals and the community by \$1 billion a year.

- 10.2 The building and construction is one of the most heavily regulated industries across all three jurisdictions. The red tape burden impacts on all business, large and small. Unnecessary compliance costs and business regulations, such as 'red' and 'green' tape must be eliminated. The burden of regulation and the poor administration of those regulations are arguably the biggest single drag on Australia's productivity.
- 10.3 According to a report by Deloitte Access Economics, *Unleashing productivity* (2014), when combined, the costs of administering and complying with public and private sector rules equate to an estimated \$250 billion a year. A cost saving of just 10 per cent of that total (without a net loss of the matching benefits of rules) would equal 1.6 per cent of national income, ranking its impact with some of the largest reforms Australia has ever seen. Even these amounts are a considerable underestimate as the biggest burden of regulation comes from their negative effect on incentive, enterprise and innovation across the economy.
- 10.4 Master Builders calls on the Government to continue to promote the process of removing regulation that is unnecessarily burdensome, complex and redundant or duplicates regulation in other jurisdictions. Master Builders Australia also calls for a major review of all regulations with the express aim of reducing the compliance burden and removing any unnecessary complexity.
- 10.5 Master Builders' business regulation policy priorities focus on reducing the regulatory burden, particularly for small business. Many of the smaller businesses in the building and construction industry are family run — often a husband and wife partnership whether incorporated or not — through which, in the main, the husband carries out his particular trade. While Master Builders recognises that, in general, small business will be best served by policies that promote the interests of the business community as a whole, the inherent differences associated with small businesses must also be taken into account.
- 10.6 Master Builders advocates specific small business policies that:
- Reduce the complexity of the tax system for small business.
 - Reduce the compliance costs of regulation.

- Increase the ability to access debt and equity finance.
 - Facilitate small business participation in government procurement.
- 10.7 Master Builders Australia calls for effective national building regulation. The overarching priority should be to ensure a national uniform and enforceable building code and regulatory system is in place to enhance productivity and efficiency in the industry.
- 10.8 Master Builders remains concerned at the sizeable (and growing) number of variations to the (supposedly) uniform National Construction Code (NCC) by State/ Territory, but more significantly, local governments around the nation. Such variations add to uncertainty in regulatory compliance for builders, and add to the costs of construction.
- 10.9 To help alleviate this problem, Master Builders recommends the Federal Department of Industry be charged with compiling and reporting on its website by the end of 2015 (with annual updates) a definitive and exhaustive list of all State, Territory and local government variations from the National Construction Code.
- 10.10 Such a listing would promote greater transparency and competitive benchmarking of the incidence and impact, as well as acting as the platform for subsequent program of work in reviewing, rationalising and potentially eliminating, such variations.
- 10.11 A growing lack of transparency and governance as well as the lack of consultation on the part of regulators involved in administering and developing building codes and regulations are also of concern. The Government should press for COAG to adopt, and State and Territory governments to implement within their respective jurisdictions, a “Regulator Performance Framework”.
- 10.12 Master Builders is concerned at the ongoing and very serious problem of the differential classification and treatment of employees and independent sub-contractors between and within jurisdictions in Australia. In the federal domain, this problem is particularly onerous under industrial relations and taxation law.

- 10.13 The status and treatment of employees versus sub-contractors under federal law is a significant issue for the building and construction industry given these people are critical to driving efficiency and productivity in the building and construction industry.
- 10.14 Master Builders recommends the Treasurer direct the Australian Taxation Office to establish a Government-Industry Working Party to implement by the end of 2015 the proposed system of statutory registration for independent contractors, and advance the necessary changes in federal law, regulation and/or administration.
- 10.15 Master Builders supports the voluntary Guidelines for Liveable Housing Design following on from the National Dialogue on Universal Housing Design Strategic Plan and would be concerned if opposing guidelines were to be developed, creating confusion and stalling current momentum.
- 10.16 Master Builders strongly advocates the use of independent, third party product certification authorities. Effective policy measures to protect the builder/developer and the consumer in the market place from faulty and/or non-compliant building products are essential.

11 Infrastructure

- 11.1 As noted earlier in this Submission, Master Builders endorses the ambitious steps taken by the Government to boost growth through investment in infrastructure. Master Builders strongly supports the Government's commitment in the 2014 Budget for an additional \$11.6 billion via an infrastructure growth package, taking the Government's investment to \$50 billion by 2019/20 which, combined with State and private funding, is expected to leverage over \$125 billion of additional infrastructure.
- 11.2 Master Builders also strongly supports the Government's Asset Recycling initiative that has the potential to leverage close to \$40 billion of new infrastructure as State and Territory Governments are given tax and other incentives to privatise existing infrastructure and use the money to fund new priority infrastructure. Master Builders recommends the Government consider expanding its Asset Recycling Initiative.

- 11.3 The Government's reforms to the governance of Infrastructure Australia will create a more independent and transparent body, better able to develop a national view on infrastructure and to derive better value for money in relation to spending on projects of national economic significance.
- 11.4 It is a self-evident truth that an efficient and high-quality infrastructure base is vital to Australia's productivity, international competitiveness and sustained economic growth and development. Without capacity-enhancing investment in infrastructure, both by the public and the private sectors, Australia's economic performance will stagnate and living standards will decline.
- 11.5 Inadequate public sector investment in infrastructure by successive Federal, State, Territory and local governments in the past is being manifest in worsening bottlenecks, inadequate urban infrastructure (both in capital cities and in major regional areas), and ailing services in our hospitals, schools and other social infrastructure. These pressures will only compound as Australia's population grows, from around 24 million now, to more than 29 million by 2030 – an increase of around one quarter in just 15 years.
- 11.6 Australia faces a major infrastructure challenge over coming decades, both in the maintenance and the remediation of existing infrastructure assets, and investing strategically in expanding our infrastructure base. This 'infrastructure challenge' could amount to around \$30 billion annually for the decade to 2020, with financial institutions estimating it could cost between \$600 billion and \$770 billion to deal with existing infrastructure gaps alone.
- 11.7 The public sector has for many years failed to adequately finance Australia's core infrastructure needs and appears even less likely to be able to do so in the future, pointing toward an even greater role for the private sector in infrastructure supply. Public sector spending on infrastructure, at around 3 to 4 per cent of gross domestic product (GDP), has been inadequate to supply key economic and social infrastructure, and should be lifted progressively to at least 6 per cent of GDP by 2020.
- 11.8 All levels of government need to:
- Redirect spending from recurrent and less productive expenditures, toward investing in efficiency and competitiveness enhancing infrastructure.

- Improve policy co-ordination within, and across, the various tiers of government, with the Council of Australian Governments (COAG) taking the lead in developing an integrated plan for Australia's economic and social infrastructure needs.
 - Remove impediments, such as unfavourable capital-raising, regulatory, taxation regimes, to greater private sector investment in infrastructure.
- 11.9 Master Builders calls for a broader and deeper role for the private sector in infrastructure supply in Australia. However this should not simply substitute for inadequate public sector infrastructure supply especially in uneconomic (both still fundamentally worthwhile) and/or social infrastructure which is the proper role of the public sector.
- 11.10 The private sector can contribute to closing Australia's existing and prospective infrastructure deficits by:
- More efficient provision of current infrastructure through, for example, the privatisation of existing infrastructure assets.
 - Supplying, whether in the form of construction, operation and maintenance, appropriate infrastructure, in particular of an economic nature, beyond that provided by the public sector alone (known as 'additionality').
- 11.11 Master Builders notes calls for greater engagement by superannuation institutions in financing infrastructure assets, whether by purchasing existing infrastructure assets (that is, privatisation; with revenues being used for 'capital recycling'); and/or funding the creation of net new infrastructure assets ('additionality'), either directly or indirectly (through the purchase of special purpose tradeable financial instruments).
- 11.12 While Master Builders shares the wider business concern at the inadequacy of our national infrastructure base, we remain firmly of the view the primary function of Australia's superannuation industry is to provide retirement incomes for superannuation fund holders, with investment strategies and practices of superannuation institutions directed solely toward delivering the optimal risk-return outcomes for fund holders.

- 11.13 Against this background, Master Builders Australia would oppose mandatory requirements for superannuation institutions to invest (or not invest) in any particular asset classes or products. Rather, Master Builders Australia considers infrastructure to be one of a range of potentially suitable asset classes which a diversified superannuation fund could constructively consider for allocating some part of its investment profile.
- 11.14 Master Builders Australia calls for a two pronged policy approach for improving the financing of Australia's infrastructure needs:
- By the public sector – increased direct financing of public economic and social infrastructure, and in identifying and then remedying regulatory and other government-sourced barriers to the effective operation of the infrastructure supply market.
 - By the private sector – identifying and then actioning market-based opportunities, for example in matching the demand-side (infrastructure providers) with the supply-side (financial institutions and other interested investors).
- 11.15 Key elements of the policy which are properly the function of the Government/ public sector include:
- Increasing the direct public sector spending on key economic and social infrastructure to at least 6 per cent of GDP by 2020.
 - Minimising bid-costs for infrastructure provision/financing to ensure the broadest possible range of engagement by potential investors (including simplified and streamlined processes for smaller investors in infrastructure).
 - Minimising the political risk associated with investment in infrastructure, in particular 'start-stop' decision-making, and changing the processes, rules or other key elements of a project once underway.
 - Expanding the use of privatisation or other mechanisms for the transfer of existing and prospective infrastructure assets to the private sector, including 'capital recycling' (using revenue from the sale of existing infrastructure assets to fund the development of new infrastructure).

- Developing and marketing, as appropriate, public infrastructure bonds as tradeable financial instruments on terms and conditions which appeal to a broad spectrum of investors.
- 11.16 Key elements of the policy which are properly the function of the private sector include steps by:
- Financial institutions and other investors to broaden and deepen their capacity to evaluate the absolute and the relative merits of infrastructure as an asset class, and specific infrastructure projects as investment vehicles within a diversified investment/lending portfolio.
 - Financial institutions and other investors to obtain better information on opportunities for investing in infrastructure, either on their own, through relevant industry or professional associations, and in conjunction with counter-parties in the infrastructure supply chain.
 - The financial sector more broadly, including the investor community and infrastructure providers, to create tradeable financial instruments, such as private infrastructure bonds, which could be used to finance infrastructure projects in denominations which appeal to a broader range of investors (in particular, smaller investors).
- 11.17 An important element of broadening and deepening Australia's infrastructure base will be the cost effective and efficient roll-out of high speed broadband technologies.
- 11.18 The key issue will be what is known as backhaul – the connectivity of new residential property developments to the NBN system. The pricing and charging for backhaul connectivity will likely add to the cost of new housing supply, and must be handled carefully given its potential impact on housing affordability given backhaul connection could cost as much as \$1,600 per new residential dwelling, depending on its location.
- 11.19 Master Builders does not support using backhaul charging to fund subsidies for the provision of NBN connection and services. Where governments want to see some 'public good' or 'service' delivered to a group or area for political or social reasons, any subsidies should be funded in the first instance in a

transparent manner from the public account – through annual budgetary appropriation.

12 Immigration

- 12.1 Master Builders commends the Australian Government for initiatives introduced in the past 12 months that have enhanced Australia's immigration policies. In particular, Master Builders welcomed the *Robust New Foundations: A Streamlined, Transparent and Responsive System for the 457 Visa Programme* Report that included key recommendations from the Master Builders' submission to the Government's review. In addition, Master Builders welcomes the Government's recently released Discussion Paper: *Reviewing the Skilled Migration and 400 Series Visa Programmes* and endorses the directions outlined in the paper.
- 12.2 Master Builders has a strong commitment to the training and up skilling of Australians. However, given the cyclical nature and periods of high levels of investment and activity in the building and construction industry there is a need to supplement the local labour force with skilled migrants.
- 12.3 Immigration has historically played an important role in the growth of the building and construction industry in Australia. The industry is expected to once again face serious labour force challenges. These challenges concern both the expected increased demand for managerial, skilled and unskilled labour and replacing the exiting and/or retirement of a sizeable number of skilled workers over the next decade.
- 12.4 Master Builders estimates, based on current industry labour force attrition rates and growth projections, around 60,000 entrants to the industry will be required each year, on average, over the next decade with around two-thirds (or some 40,000 people) of this demand being for skilled positions. These figures compare with construction trades apprenticeship commencements of 18,000 in 2014, where generally over 30 per cent will not go onto complete their training.
- 12.5 Master Builders' policy is for a permanent migration program intake to be set at around 195,000 persons per annum. This figure reflects our commitment to a 'bigger Australia', expectations of sustained economic growth and associated low levels of unemployment and increasing skills pressures across

a number of sectors of the Australian economy, and in the building and construction industry in particular.

- 12.6 Master Builders recommends migration policy has an emphasis on skilled migration including semi-skilled workers, ensuring that the '457 visa program' remains uncapped and responsive to the nation's skills needs.
- 12.7 Master Builders recommends that the *Robust New Foundations: A Streamlined, Transparent and Responsive System for the 457 Visa Programme* report be implemented in full with appropriate funding to assist in implementation. As acknowledged in the Report, the OECD has pointed out that employer-conducted labour market testing is not "fully reliable", and in the Australian context has proven ineffective. Master Builders recommends that labour market testing for 457 visas is unnecessary and should be removed.
- 12.8 Properly targeted immigration is an important policy lever that brings a range of social and economic benefits to Australia. It adds to the supply of skilled labour, increases accumulated savings and contributes to domestic investment and expanded domestic consumption. Immigration also brings indirect benefits by increasing innovation and connectedness with the rest of the world, and by promoting a vibrant, cosmopolitan and outward-looking Australian culture that is better equipped to meet the challenges of the future.
- 12.9 Master Builders other policy elements of a skilled migration program include:
- Ensuring the '457' program remains 'uncapped', with further streamlining where a 457 visa-holder seeks to transition to a permanent visa.
 - Enhancing the access of certain occupations, currently classified as 'semi-skilled' for the purposes of permanent employer-sponsored migration which could best be achieved by including priority semi-skilled on the Employer Nominated Skilled Occupation List on a case-by-case basis; and
 - Applying a functional English standard for skilled migrants, consistent with the ability to read and understand workplace instructions and safety standards.