



**MASTER BUILDERS
AUSTRALIA**

SUBMISSION FOR MARCH 2022 FEDERAL BUDGET

Master Builders Australia

As at 23 December 2021

Introduction

Master Builders Australia

Master Builders Australia (Master Builders) is the nation's peak building and construction industry association which was federated on a national basis in 1890. Master Builders' members are the Master Builder State and Territory Associations.

Over 130 years, the movement has grown to over 32,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association that represents all three sectors, namely residential, commercial and engineering/civil construction.

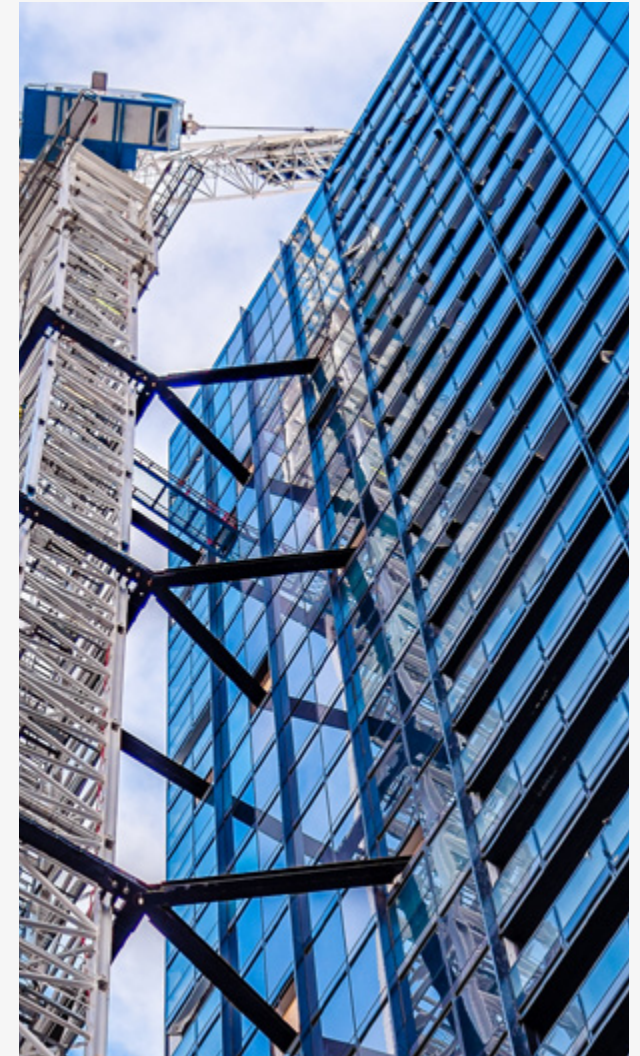
Building and construction industry

The building and construction industry is an extremely important part of and contributor to the Australian economy and community. It is the second largest industry in Australia, accounting for 10.7 per cent of gross domestic product and around 9 per cent of employment in Australia.

The building and construction industry:

- Consists of over 400,000 business entities, of which 98.5% are small businesses with fewer than 20 employees;
- Employs almost 1.2 million people (around 1 in every 11 workers) with only the health sector providing more full-time jobs;
- Directly creates about 11 per cent of GDP, the second-largest sector within the economy;
- Accounts for almost one half (47.9 per cent) of the economy's trade apprentices, 100,655 of which are employed in the construction industry; and
- Performs over \$210 billion worth of building and construction work each year.

In addition to the substantial size of the building and construction industry itself, the impact on other sectors of the economy is very large. For example, it was estimated by NHFC in 2020 that for every \$1 million worth of residential building activity, a total of almost \$3 million in activity is supported across the economy, with about nine full-time jobs being supported.

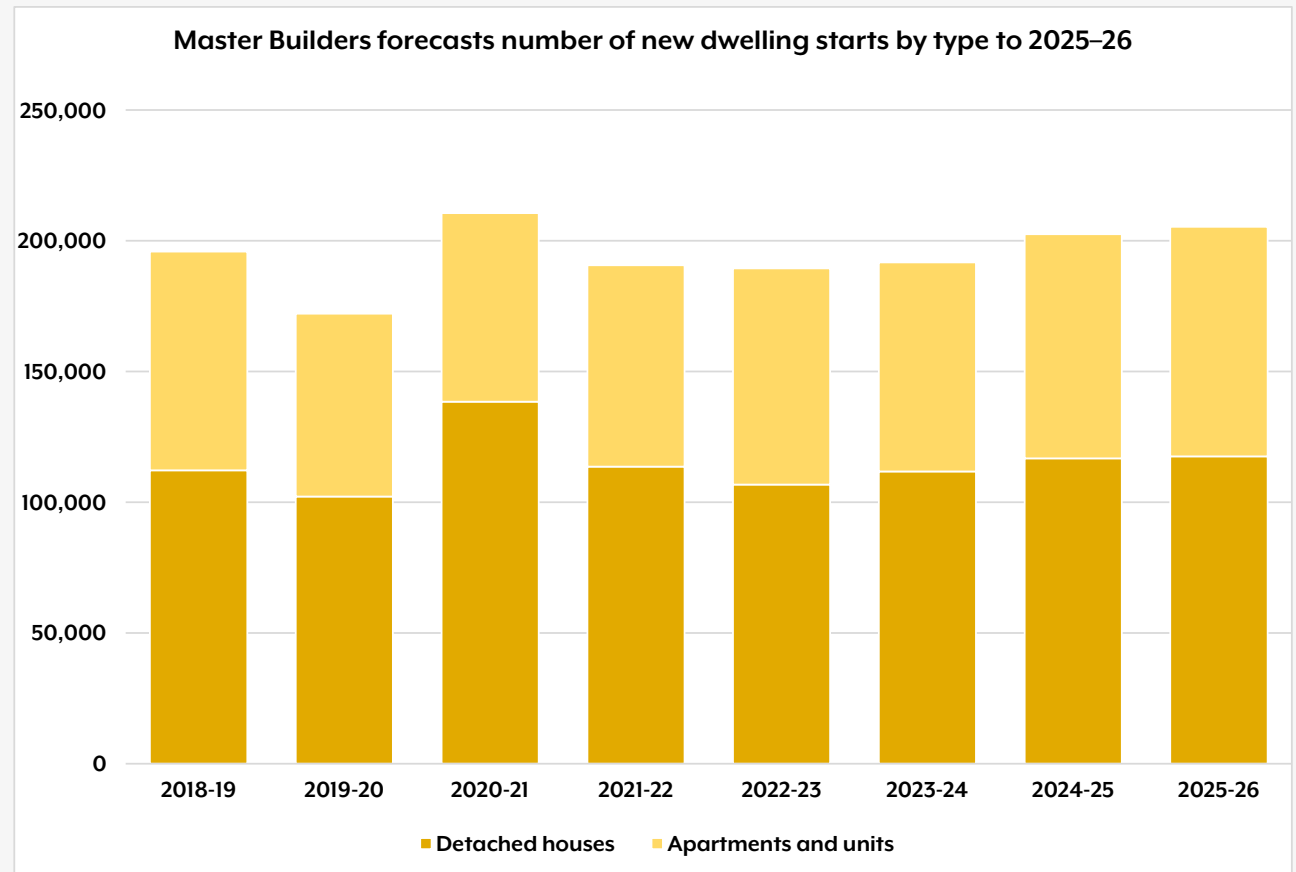


Outlook for building and construction

All in all, total construction activity has held up quite well during the pandemic. Work did slip back by 1.2 per cent during 2020–21, but leading indicators suggest that activity is now expanding across a number of fronts. Low interest rates, faster population growth and the labour market recovery all augur well for the next few years, in addition to the huge transport infrastructure program. We anticipate that growth will be led by engineering construction, with more modest gains for non-residential building. Residential building is also likely to move higher.

Residential Construction

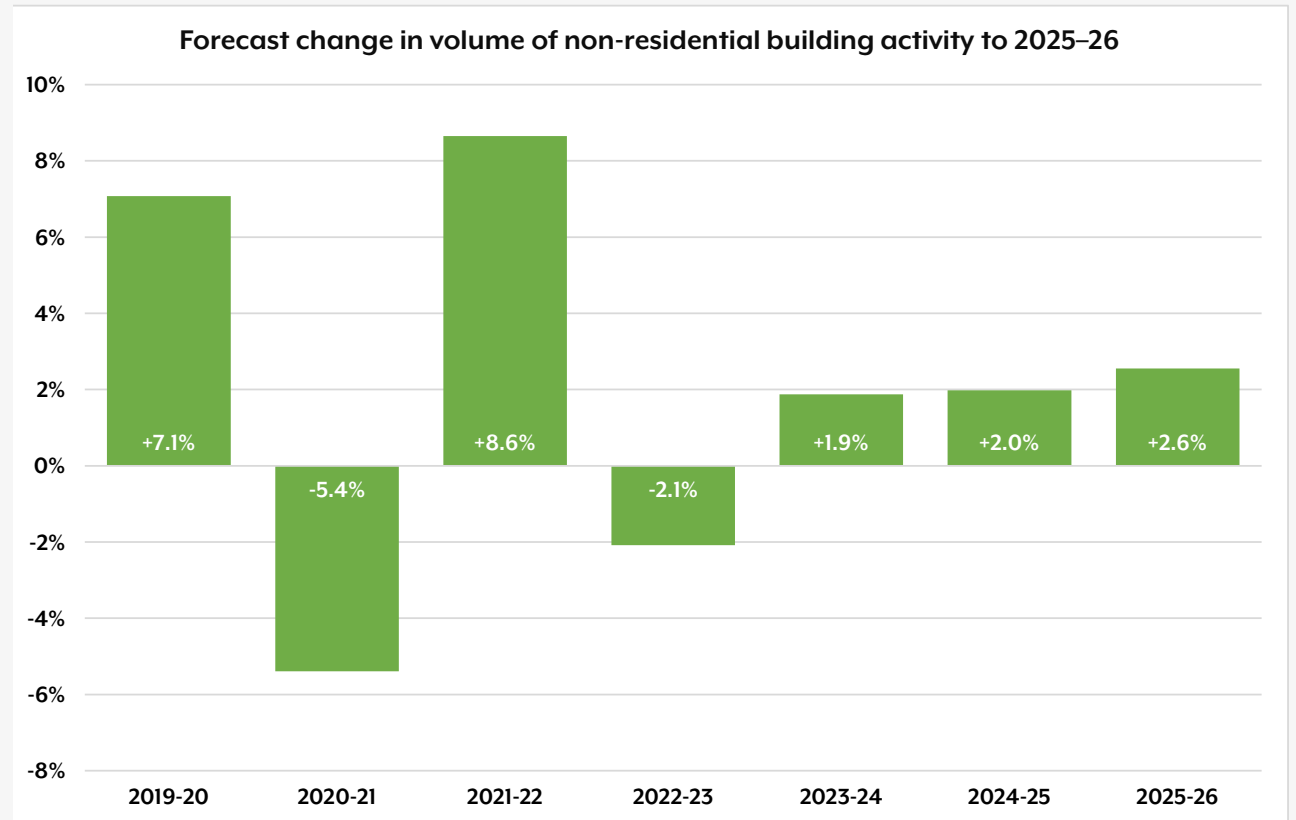
2020–21 was the strongest year on record for detached house building. One of the legacies of the pandemic is likely to be a permanent switch in homeowner preferences towards houses and away from medium-high density dwellings. However, the resumption of more normal levels of inward migration and stronger investor demand will still support solid gains in apartment and unit building over the period to 2025–26. Home renovations activity is also likely to expand substantially following rapid house price increases and favourable changes in the age profile of the housing stock.



Non-residential Construction

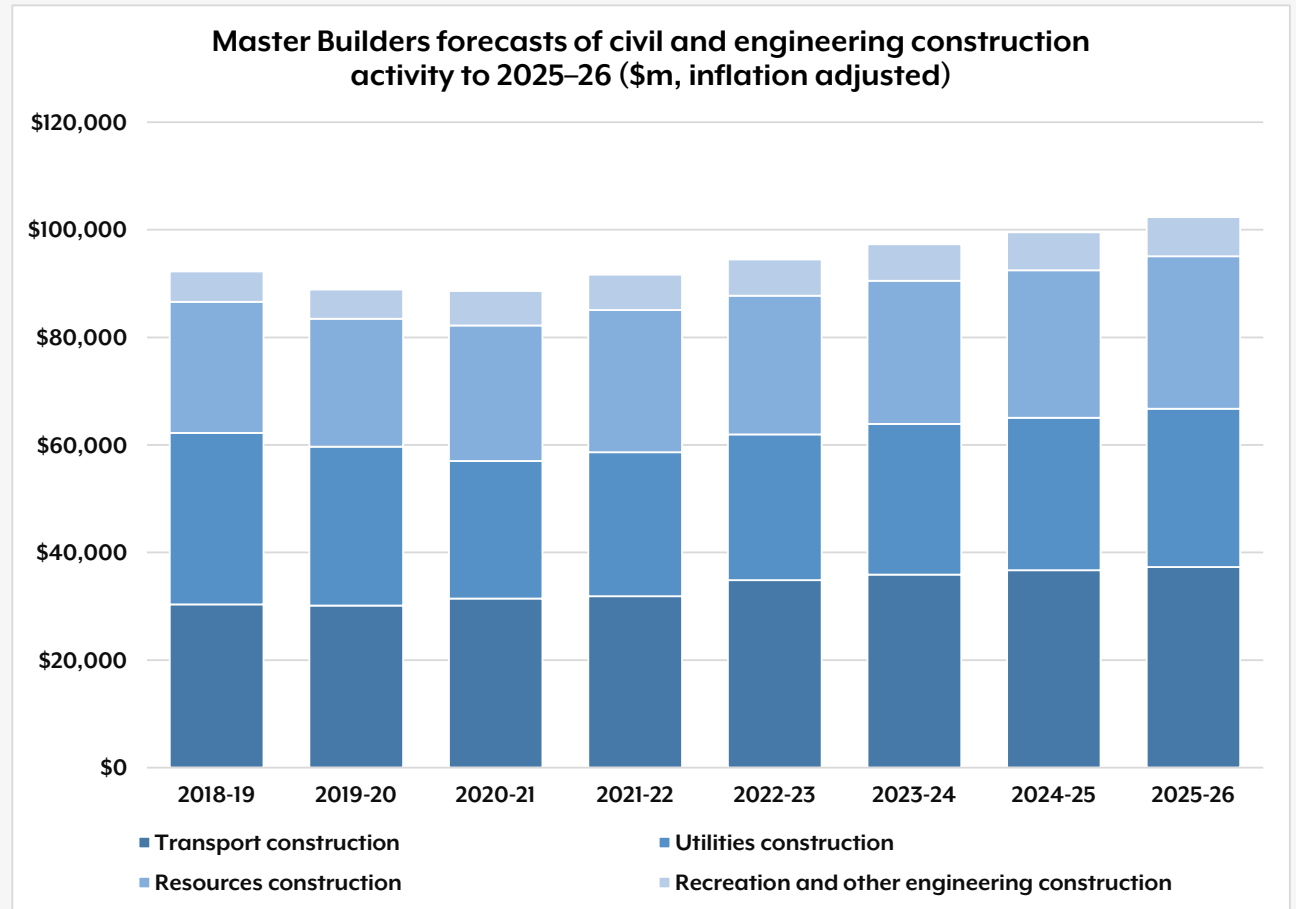
Non-residential building activity was not impacted as severely as some feared. A more positive outlook is shaping up for the years ahead: interest rates are likely to stay low while accelerating population and employment growth will underpin demand for projects right across the spectrum.

Assuming the most disruptive days of the pandemic are behind us, a much more stable environment will benefit building activity related to tourism, travel, recreation and entertainment. However, a shrinking public sector purse could take some of the shine off.



Engineering Construction

Engineering construction activity has fallen back quite considerably since the mining-related peak in the early years of the 2010s decade. While we are nowhere near returning to such high levels, the outlook over our forecast horizon is a positive one involving stable and sturdy growth. Transport-related projects will be an important part of this portfolio of work, while the resumption of population growth should help construction work related to utilities. The greatest risk is that efforts to repair government finances could eventually hit the forward pipeline of public sector work.



Challenges for the sector

The biggest challenge for the sector is the capacity of the supply chain to enable construction work to be done in a cost-effective and efficient way. Materials and workforce shortages are adding cost and contributing to project delays and higher house prices.

The average price of building new homes has increased at its fastest rate in 21 years. This is the sharpest increase since the September 2000 quarter when there was an 8.1 per cent increase (due to the introduction of the GST).

Materials cost increases are a big contributor to building price increases. There has been an 8.0 per cent increase in the cost of building materials over the year to September 2021. Over this period, prices have increased across all 11 categories of building products covered by the ABS figures.

Workforce shortages are adding to price and the risk of not completing building projects. Recent Master Builders member surveys of workforce challenges indicate at least a three-month delay across the board for labourers and trades.

The worst delays and cost spikes have occurred in the market for bricklayers, carpenters, concreters and roofers.

There are more jobs in Australia now than there were pre-pandemic and analysis by the National Skills Commission (NSC) of employer recruitment experiences and online job advertisements indicates strong demand for workers.

The NSC's Recruitment Experiences and Outlook Survey for October 2021 found 45 per cent of employers were actively recruiting or had recruited in the last month – an increase of 9 per cent on September 2021. At 44 per cent, a similar proportion of construction employers were actively recruiting (+14% in September). Fifty-four per cent of recruiting employers reported difficulty finding suitable staff, indicating potential labour shortages. Additionally, 28 per cent of surveyed employers (26 per cent for construction employers) expect to increase their staffing levels in the next three months.

In addition to supply chain and workforce challenges, COVID has been an accelerator of existing trends such as digitisation. It has provided tangible evidence on how low levels of digital uptake like that in building and construction hurt small businesses in our sector.

The impact of COVID lockdowns has highlighted the need for small construction businesses to accelerate levels of digital uptake to improve business systems. Recent data released by MYOB identified invoice creation was down 31%, gross pay was down by 23%, and employment was down by 16% compared to baseline in October 2021.

MYOB modelling shows there are nearly 80,000 small and medium enterprises (SMEs) in the construction industry alone with no or very low levels of digitisation of their business processes. Businesses located in regional areas have less access to business and employee support services.

The greatest current challenge for SMEs in construction is managing cashflows given the stresses caused by supply disruptions, COVID delays and a mini housing boom which has meant SMEs have had to take on more work than usual. MYOB data shows that one of the greatest benefits of digitisation for SMEs is better cash flow management.



Summary of proposed measures

The building and construction industry has a critical role to play in boosting economic growth by leveraging our three times multiplier effect.

A Strong Building Industry = A Strong Economy

A productive and quality environment for building requires consistent demand for and investment in activity, a reliable supply chain and workforce, and a practical and effective regulatory environment.

For the next federal parliamentary term, we need to shift from subsidies to industry growth incentives, increase population and, by doing so, increase labour and economic growth; remove impediments to growth, and build a workforce for the decades ahead.

Master Builders Budget submission focuses on issues that support the above through measures that:

1. Provide a tax system that drives investment by:

- Enhancing tax breaks for productivity-enhancing investment in digital and IT systems
- Fast-tracking company and personal tax breaks
- Providing more generous tax treatment of capital building works.

2. Support population growth needed for a prosperous future through:

- Skill-based inward migration needs to recoup lost places in the past two years and return to two thirds skilled and one third family distribution that would see 154,000 visas for skilled migrants and 77,000 visas for family migrants
- Providing resources provided for a Pacific Labour Scheme for building and construction.

3. Build a workforce for the decades ahead

- Extending employer wage subsidies to 2024
- Tackling apprentice withdrawal rates with cash bonus for successful completions
- Providing more resources to promote vocational education and training in schools
- Providing appropriate resourcing for timely development and amendment of qualifications
- Introducing a demand-driven model for vocational education and training
- A well-resourced ABCC to ensure the rule of law in building and construction sites
- Improving bargaining laws to help workers and businesses to put in place arrangements quickly and effectively without ineffective red-tape and lengthy delays
- Continuing funding for Women Building Australia beyond 2022–23
- Putting more investment into skilled migration to ensure that building and construction businesses can fill labour shortages that cannot be met by the domestic workforce.

4. Support a sustainable industry supply chain and pipeline of work that:

- Delivers incentives to improve sovereign capacity in product supply
- Invests in and facilitates Australia's capacity in building product manufacturing and product appraisal/traceability
- Coordinates with industry, states, and territories to facilitate greater investment in softwood plantations to meet long-term structural timber needs
- Ensures the rolling 10-year forward pipeline of infrastructure work of at least \$100 billion is always in place
- Resources a federal government-maintained 'reserve list' of building and infrastructure projects that can be activated quickly in the event of sudden or severe downturns in private demand
- Implements local capability policy
- Delivers a better balance of risk transfer in tender processes that will encourage greater competition
- Removes practices that exclude many otherwise capable businesses, for example, bundling and unreasonable contract terms.

5. Ensure safe and productive workplaces through appropriate resourcing that:

- Changes to the law do not detract from work to improve workplace safety in a meaningful way
- Enables introduction of consistent safety laws, obligations, enforcement and compliance processes throughout Australia by requiring members of Safe Work Australia to adopt its outcomes as a condition of membership
- Does not implement any law or change unless satisfied that it is accompanied by materials giving workplaces, especially small businesses, clear and simple tools to ensure WHS compliance, including where to look, what to do, and the standing/status of various information/guidance sources
- Increases focus on the need to ensure all WHS requirements, obligations and enforcement processes are realistic, clear, expressed simply and practicable
- Avoids unnecessary restrictions on the way people work, including the right to be an independent contractor and for employers and employees to implement work arrangements that suit their needs – not the needs and unreasonable demands of unions

- Commits to preserving freedom of association laws and promising to say no to anything that gives unions more say or more rights than ordinary everyday workers, and make sure right of entry rules are strengthened and properly enforced
- Recognises the needs of small business and encourage them to take on new workers
- Improves bargaining laws to better help workers and businesses quickly and effectively put in place arrangements without ineffective red-tape and lengthy delays
- Ensures that organisations of employers and employees are transparent, accountable and play by the rules
- Cracks down on the ongoing problem of pattern bargaining
- Amends the Act to clarify that unions who were not involved in bargaining leading up to the making of an agreement have no right to intervene during subsequent approval processes
- Abolishes FWC use of 'agreements in progress' page on FWC website and boost privacy protections for workers
- Ensure that enterprise bargaining better delivers for workplaces.

6. Provides housing for all Australians by:

- Continuing resourcing ongoing and consistent support to first homeowners through targeted grants and programs
- Ramping up incentives and penalties in its dealings with state and territory governments to drive changes that improve the supply and cost of land and the process of creating new homes
- Increasing, and ensuring consistency of direct funding for social housing
- Expanding the National Housing Finance and Investment Corporation's ability to deliver social housing stock by creating conditions to boost private investment
- Delivering more generous tax treatment of capital building works on the existing rental stock
- Maintain status of negative gearing and capital gains tax arrangements on homes held by investors
- Establishing a housing resilience fund to encourage retrofit of existing homes in high-risk natural disaster areas
- Working with State, Territory and Local Governments and industry to improve planning outcomes to reduce the risks associated with natural disasters.

7. Delivers the right-fit approach to building regulation through:

- Subsidies and grants being should be considered for those businesses facing the greatest cost impacts arising from the introduction of the new National Construction Code in 2022
- Regulation to improve the energy efficiency of a home being introduced in a way that quantifies and mitigates risks and acknowledges the lead times required in the industry to facilitate change
- Resources and mechanisms being found that enable our building and construction businesses to access all of the standards they need at zero cost.

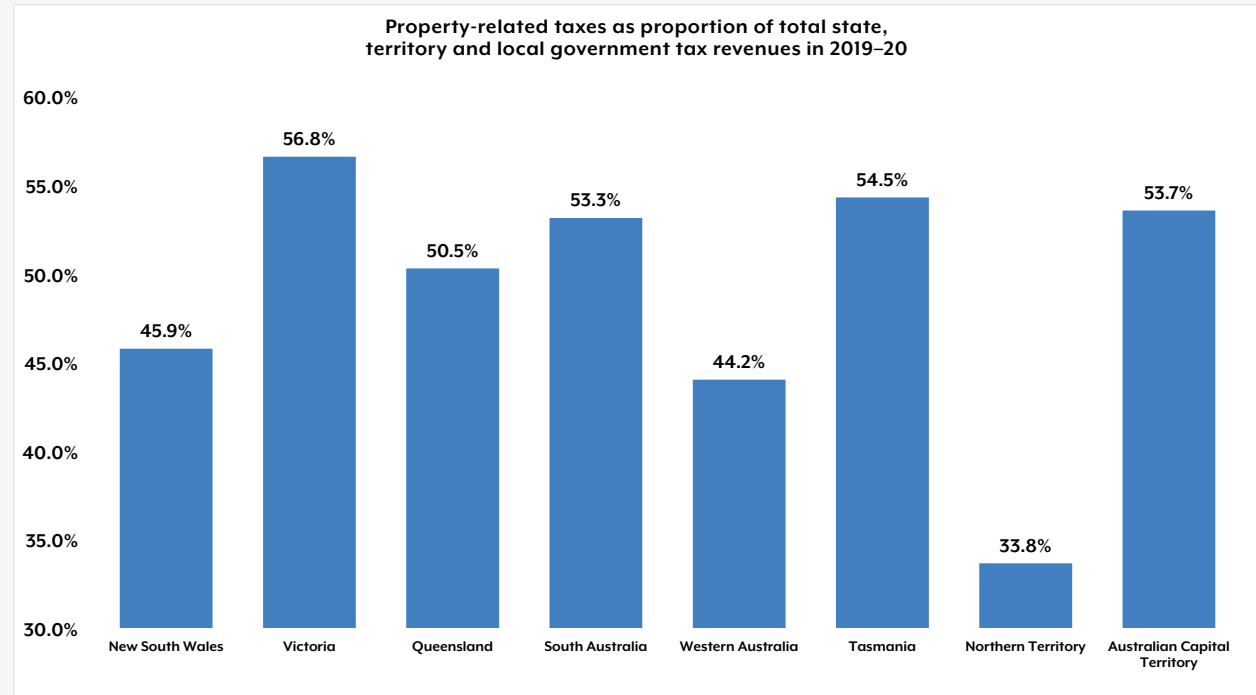


1. Provide a tax system that drives investment

Investment is a vital ingredient of Australia's future prosperity. For the building and construction sector, investment by firms in expanding, upgrading and maintaining their buildings is a key source of demand for our services. For us, it is important that the economy's private sector has a strong appetite for investment spending over the long term. This is especially true of those sectors which were worst hit by the pandemic: tourism, travel, entertainment, accommodation, recreation and entertainment.

Investment by building and construction businesses themselves also plays a central role in driving productivity growth in our own industry and right across the economy. Purchases of tools, machinery, equipment, plant and vehicles by construction businesses allows them to get more done and boost productivity. This ultimately supports a wider field of activity and creates opportunities for new jobs.

At present, there is much scope for stimulating more investment in Australia's economy. Our construction industry is overwhelmingly made up of large numbers of very small firms. However, new research by the Reserve Bank shows that our economy's small businesses collectively account for far less of total corporate investment than they should. The Reserve



Bank has also found that the interest rate cuts of recent years have not got as many new investment projects over the line as would be expected, with firms failing to reduce their so-called 'hurdle rates' in tandem with declines in the cost of capital.

The federal budget presents opportunities for small business investment to get back up to where it belongs. Businesses will invest more heavily when the likely benefits of doing so exceed the costs.

Budgetary changes have the power to skew the balance by enhancing the rewards for investment and reducing some of the costs. Teeing the economy up for strong and stable growth would go part of the way towards doing this. Taxation cuts, both for businesses and individuals, would sweeten the rewards from undertaking business investment.

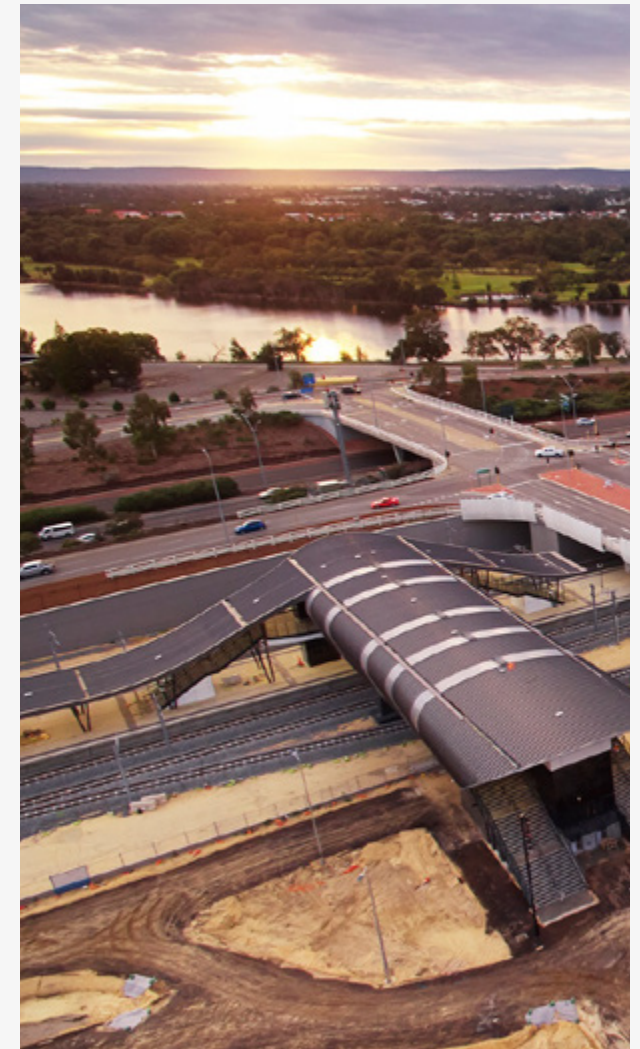
Infrastructure Australia recently found that construction is one of the weakest performers when it comes to the uptake of new technology. By enhancing tax breaks, budgetary policy has the potential to speed up the adoption of productivity-pumping digital technology and modern IT systems amongst Australia's 400,000 building and construction businesses.

Many of the construction businesses which serve the market for non-residential building have struggled over the past two years as a result of shaky private sector demand, especially in areas like travel, recreation, entertainment and tourism. We believe that changes in the tax treatment of capital building works would provide a badly-needed injection of confidence. At present, capital building works can only be deducted from taxable income over a 40-year period. This provides pretty weak incentives for businesses to undertake major building works.

Instead, we propose that a more generous tax regime be offered when it comes to the capital building works undertaken by businesses. On a time-limited basis, a significant chunk of capital building works should become eligible for immediate tax deductibility, with larger incentives applying to building work undertaken in those sectors worst hit by the pandemic. The strong linkage between building activity and the rest of the economy means that the activity and employment in many other parts of the economy would also see strong benefits from this initiative.

We believe that the federal budget can help drive investment in our industry in several different ways.

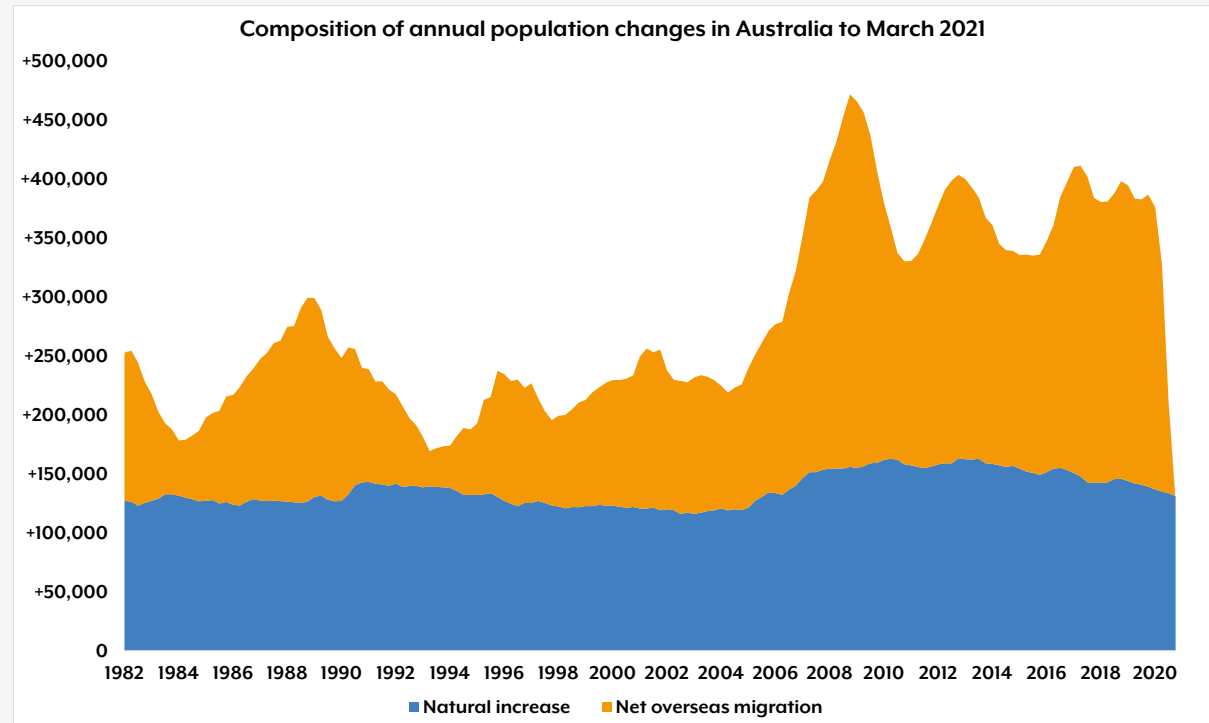
- **Tax credits should be introduced to allow for greater uptake and implementation of technological and digital capability in SMEs.**
- **Company and personal tax cuts should be fast-tracked.**
- **The taxation treatment of capital building works undertaken by businesses should be made more generous.**



2. Support population needed for a prosperous future

The pandemic has brought about Australia's first population decline in over 100 years. This matters because a healthily growing population fulfils two crucial functions. First, more people means that the demand for economic output across the economy is bigger than before. This allows construction projects, new businesses and other economic activities to reach a tipping point in terms of their viability and makes them become a reality – to the benefit of the whole community. The result is more schools, hospitals, universities, community centres and retail buildings alongside a flourishing culture of innovation and entrepreneurship.

Population policy is also a vital tool for bringing about a better balance in the structure of the population. Without any immigration, the size of Australia's retired population will become very large relative to the number of people still of working age. Under such a scenario, economically active people and businesses would have to be taxed very heavily to fund the incomes and services required by those who have permanently retired. Such a heavy tax burden would weaken the incentives for working and innovating and risk sending us on a downward spiral of steadily increasing taxation and shrinking economic activity.



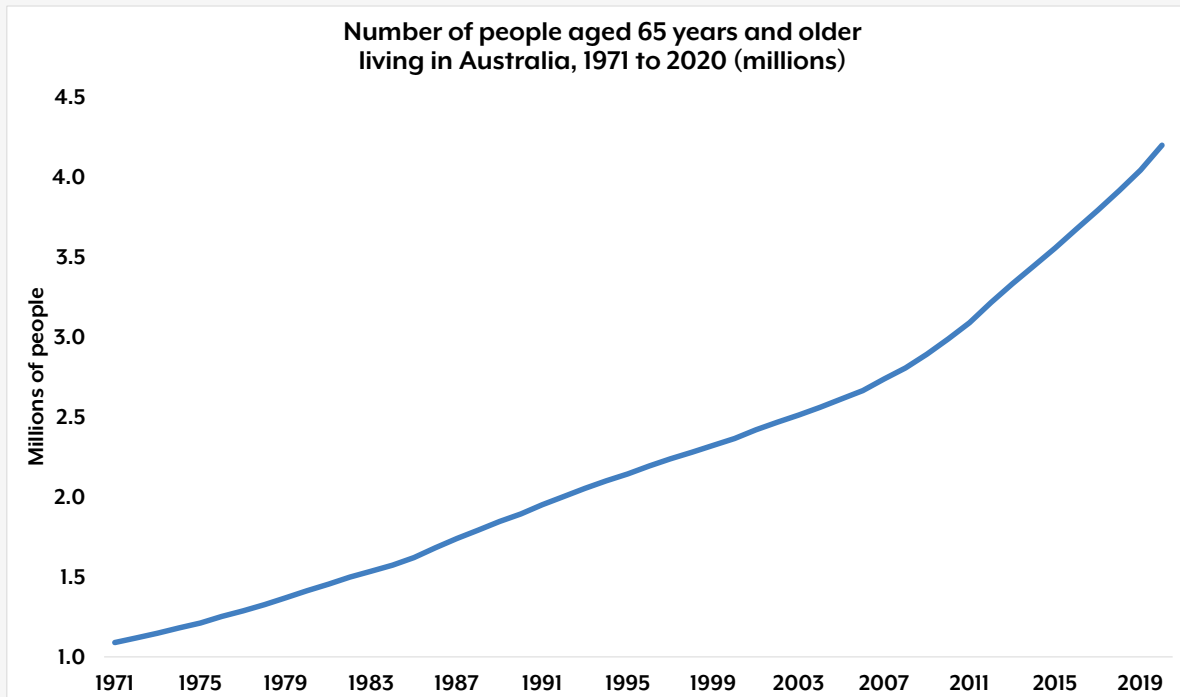
Fortunately, we can avoid this outcome by attracting migrants to Australia in a way that offsets the risks associated with long-term population ageing.

Over the past two years, shortages of key building trades have exacerbated some of the difficulties resulting from the pandemic. The worst delays and cost spikes have occurred in the market for bricklayers, carpenters, concreters and roofers,

with the result that building projects have been completed more slowly and at a much greater cost. We believe that this experience provides a valuable lesson in how to do things better in future. Looking ahead, there is much greater scope for Australia's migration policy to be used to fill short-term gaps in the supply of skilled labour to our building and construction sector.

We believe that the federal budget can support Australia's future population needs in a few ways.

- **Skills-based inward migration needs to revert to the volumes that were typical of the years immediately before the pandemic. The federal budget needs to make the appropriate resources available to allow this to happen.**
- **Skill-based inward migration needs to recoup lost places in the past two years and return to two thirds skilled and one third family distribution that would see 154,000 visas for skilled migrants and 77,000 visas for family migrants.**
- **Resources should be provided for a Pacific Labour Scheme for the building and construction industry which would allow for some of the gaps in our industry workforce to be closed and ensure that businesses can meet their labour needs.**



By the time international travel returns to normal, Australia is likely to have lost out on at least two years' worth of inward migration. In other words, Australia's population would now be over 500,000 higher today had the pandemic not occurred. We believe that migration policy needs to be targeted at making up for this shortfall in an orderly fashion over the next few years. Furthermore, we believe that migration settings should be geared towards reaching a population of 30 million around the year 2030.

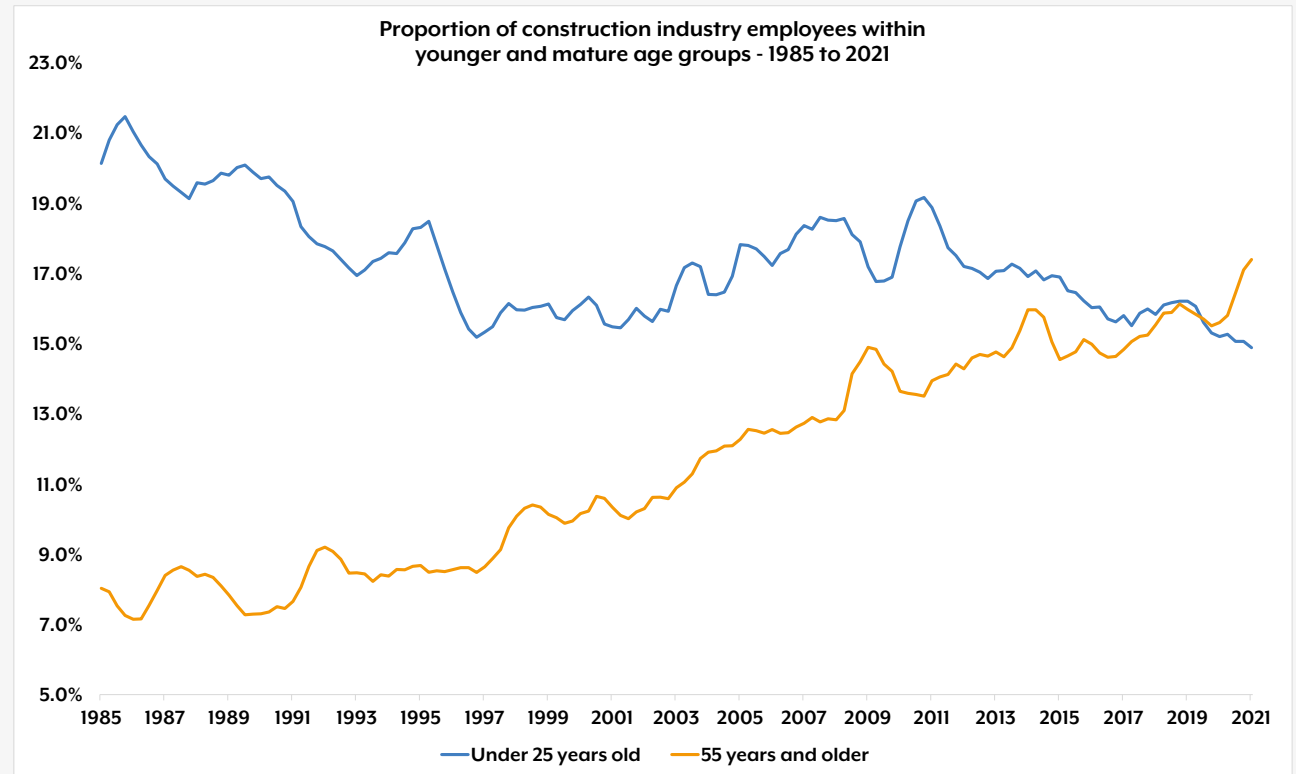
In regard to the size and composition of the skilled and family migration streams, we note that the Government departed from the typical two-thirds skilled/one-third family distribution in 2020–21 to a more or less 50–50 arrangement. This lifted the number of family migrant visas issued to counterbalance lower-skilled migration opportunities due to the pandemic.

More investment in skilled migration is needed to ensure that building and construction businesses can fill labour shortages that cannot be met by the domestic workforce, but also sees lifting migration as critical to invigorating Australia's economy and to reaching – or exceeding – the pre-COVID population target of 30 million by 2030.

3. Building a workforce for the decades ahead

The jobs done by the 1.11 million people employed in Australia’s construction industry ensure that all the buildings we need to survive and thrive are put in place. If our construction workforce is not big enough, Australia will not reach its potential in terms of future economic growth and achieving the gains in living standards that will be needed over the years ahead.

Our industry’s workforce is being constantly buffeted by challenges. Every day, workers age and retire, meaning that the industry permanently loses valued and experienced labour which needs to be replaced – and that’s just to keep standing still. Accommodating future economic expansion means that a further layer on demand for construction workers is needed on top of that required just to offset retirements. The adjacent chart shows how this challenge has become steadily greater over time, with mature-aged workers in the industry now outnumbering those younger than 25.



Support to attract people to work in the industry

For Australia's construction workforce to retain its productive capacity at current levels, a steady stream of new entrants must enter the industry to offset the effect of those leaving through retirement. Those exiting the industry possess a wealth of experience, skill, wisdom, and human capital, which is not easily replicated. Realistically, it is likely to require several new entrants to the industry to make up for each person lost through retirement. This formidable challenge is compounded by the high withdrawal rates affecting construction-related apprenticeships. For example, almost one half (45.9 per cent) of those who started construction trades apprenticeships in 2016 failed to complete their training. We also know that apprentices are most likely to withdraw from their training in the first or second year.

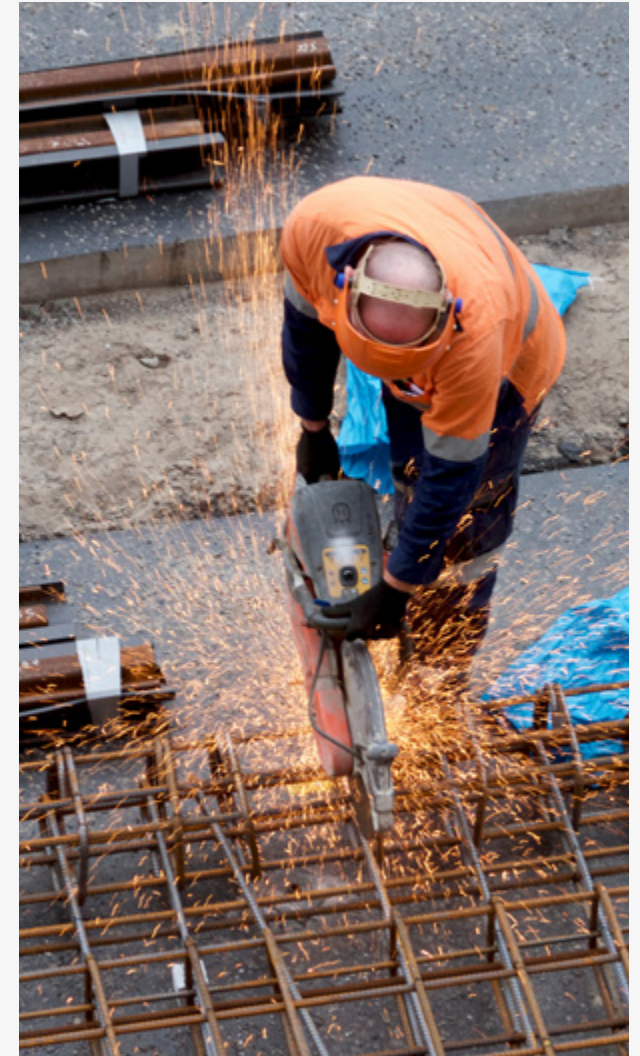
The Boosting Apprenticeship Commencements program provides a wage subsidy to employers who hire apprentices between October 2020 and the end of March 2022. The subsidy paid is up to 50 per cent of the gross wages paid to that apprentice (subject to a maximum of \$7,000 per quarter). By making it less costly for building and construction businesses to take on new apprentices, the program allows for more new entrants to be drawn into the industry and helps meet the long-term challenge of achieving a large enough workforce for the

future. The feedback from Master Builders Australia members has been very positive with respect to the scheme, with some seeing an apprenticeship 'renaissance'. The data available to us so far suggests new construction apprentice numbers have increased by about 80 per cent as a result of the scheme.

The Boosting Apprenticeship Commencements program does not only benefit employers and the construction industry. Once qualified, fully-fledged apprentices will start making a much more substantial contribution to government taxation revenues and return the investment made in them by public funds at the start of their careers.

A training system that meets the needs of the industry

As technology and ways of doing business change, so too do the skills and training needs of those working in the industry. The means that the content of the training courses delivered to those entering the industry for the first time must be regularly reviewed and updated to reflect best practice with respect to current technology and consumer preferences. Those of all ages who have already entered the industry must also be supported and encouraged to learn and adapt to the newer and better ways of doing things.



A diverse workforce

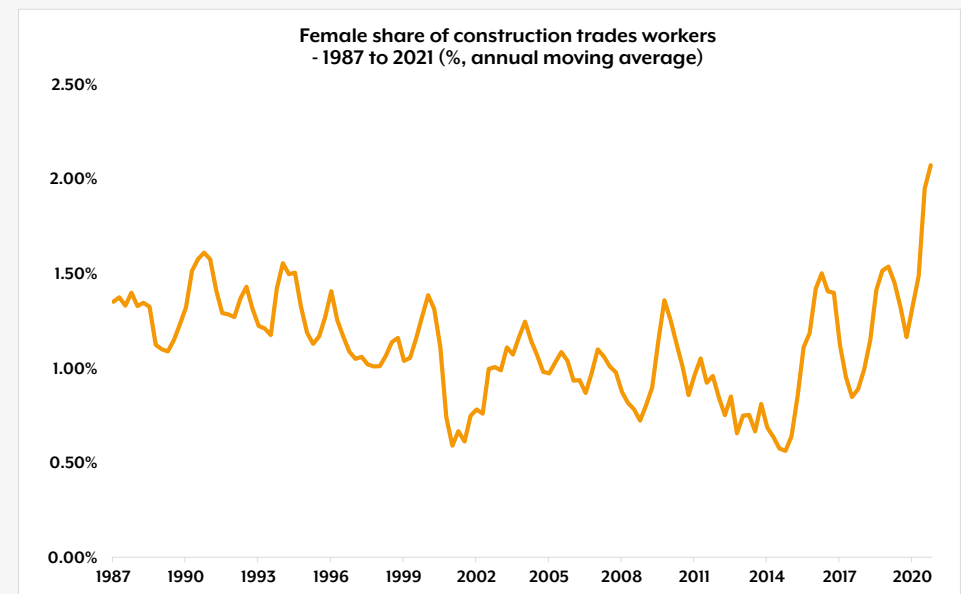
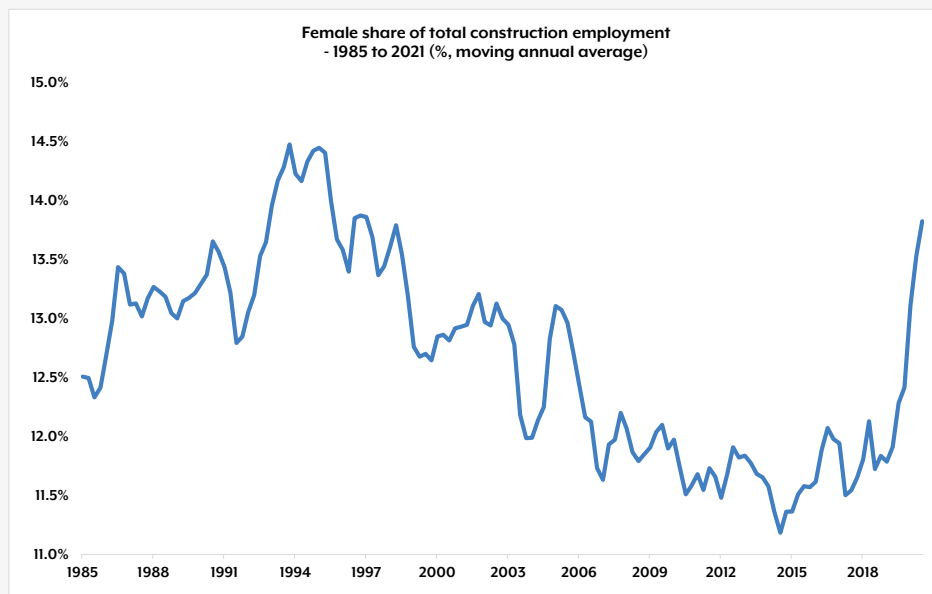
Women are still heavily underrepresented in Australia's construction workforce. Of the 1.11 million people who are employed in the industry, less than 1 in 7 are women (13.0 per cent of the total, August 2021 figures). Over time, we want to see this share increase steadily and ultimately reach the all-important 50 per cent milestone.

There are several reasons behind the low rate of female participation in building and construction. These include misperceptions around the physical demands

of the work as well as unfavourable aspects of the workplace culture and its flexibility arrangements.

These issues need to be addressed to succeed in achieving greater female participation. In recent years, the Women Building Australia program has worked to shatter some of the myths surrounding careers for women in our industry with a view to attracting more new entrants. Women Building Australia has also engaged with the construction industry itself to identify ways in which businesses can become more receptive to new female entrants

and eliminate the negative aspects of industry culture which make construction workplaces less attractive to women. Encouragingly, there has been a sharp increase in the female share of construction employment in the last couple of years, but far more work awaits us over the year ahead. When it comes to construction trades workers, women account for just 2 per cent of the total workforce and Women Building Australia will need huge resources in the future to help haul this percentage into double figures and beyond.



Skilled migrant workforce

To maximise economic opportunities and COVID recovery, it will be critical that employers are able to access both Australian and migrant workers, the latter of which will be predicated on getting migration settings right and ensuring that visa caps do not inhibit business or economic potential.

More investment in skilled migration is needed to ensure that building and construction businesses can fill labour shortages that cannot be met by the domestic workforce, but also sees lifting migration as critical to invigorating Australia's economy and to reaching – or exceeding – the pre-COVID population target of 30 million by 2030.



We believe that the federal budget can help equip our workforce for the future in several different ways.

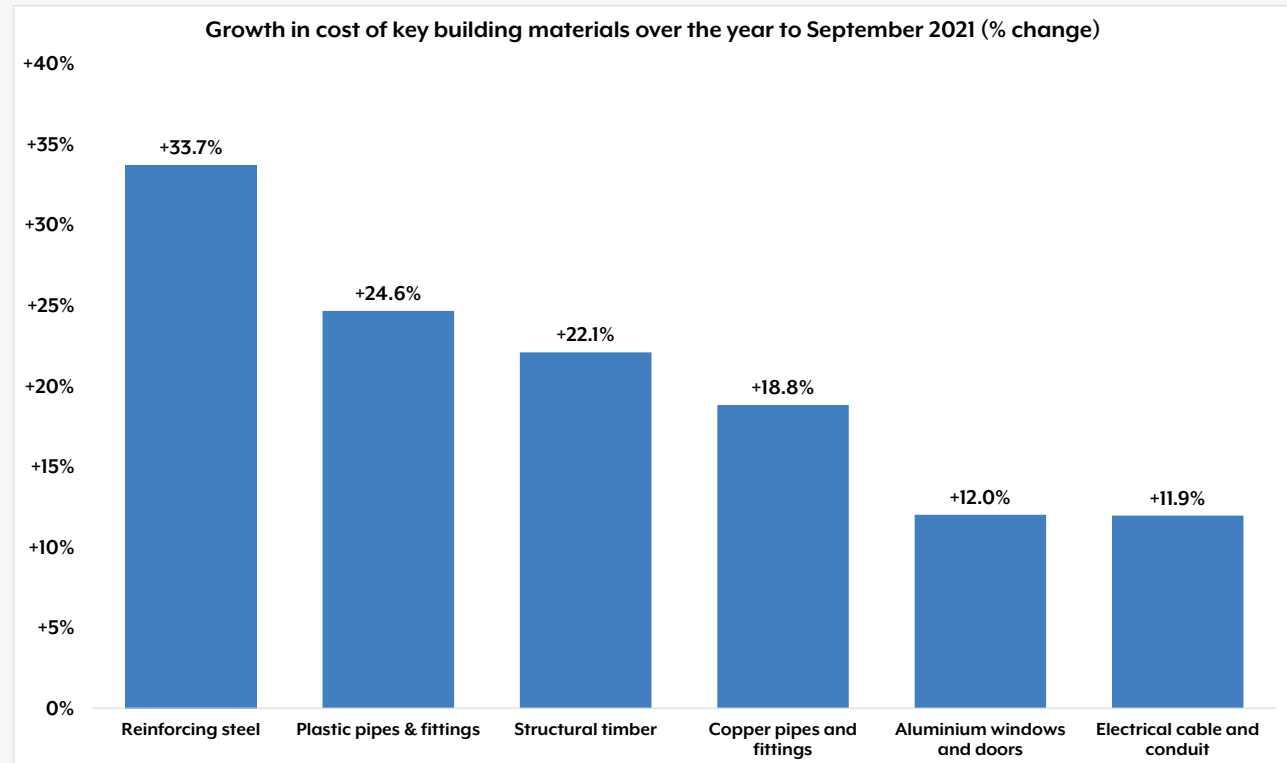
- **Employer wage subsidies for commencing and continuing apprentices should be extended until at least 2024.**
- **Tackle high apprentice withdrawal rates by offering a cash bonus to those successfully completing the first and second years of their training, the stages at which dropout rates are highest.**
- **Introducing a boost to the subsidy for final year apprentices will help bring the withdrawal rate down and enhance the flow of newly qualified apprentices into the industry.**
- **In conjunction with the states and territories, making more resources available to promote vocational education to school students as a viable and worthy alternative to the academic route. For example, through the establishment of a new National Partnership Agreement on Quality Careers Education to ensure that schools have the resources to employ knowledgeable careers advisors that can provide unbiased and up-to-date information on career, education and training pathways.**
- **Providing the resources to allow the timely development and amendment of qualifications that reflect the needs of industry.**
- **A demand-driven funding model for vocational education and training that is allocated based on quality outcomes (rather than type of training provider) and enables flexibility to meet industry skill needs (rather than limited to full qualifications).**
- **A well-resourced ABCC to ensure the rule of law in building and construction sites.**
- **Improved bargaining laws to help workers and businesses to put in place arrangements quickly and effectively without ineffective red-tape and lengthy delays.**
- **To date, the good work of Women Building Australia has been sustained through federal funding. Achieving full female representation in our industry means that Women Building Australia will need further financial commitments in the 2022–23 federal budget and beyond.**
- **More investment in skilled migration to ensure that building and construction businesses can fill labour shortages that cannot be met by the domestic workforce.**

4. Support a sustainable industry supply chain and pipeline of work

The quality and safety of Australia's built environment are hugely dependent on the products and materials that go into the construction process: timber, steel, glass, insulation and roofing. One of the goals of Master Builders Australia is to ensure that all of the buildings and structures we build are of the highest quality and still delivered at a reasonable cost.

The past few years have provided us all with sobering lessons in this respect. First, we witnessed the fallout from the intrusion of defective building products into the industry supply chain.

Much work has been done to bring about a more effective building control regulatory environment. Guidance material developed by the Australian Building Codes Board establishes a framework for improvements. A particular priority for builders in this work relates to product assurance and introducing an effective product assurance and traceability framework. An industry-wide traceability system can bring certainty and ensure appropriate information to enable the compliant use of building products. Improving building product traceability will also help address the problem of counterfeit products and fraud.

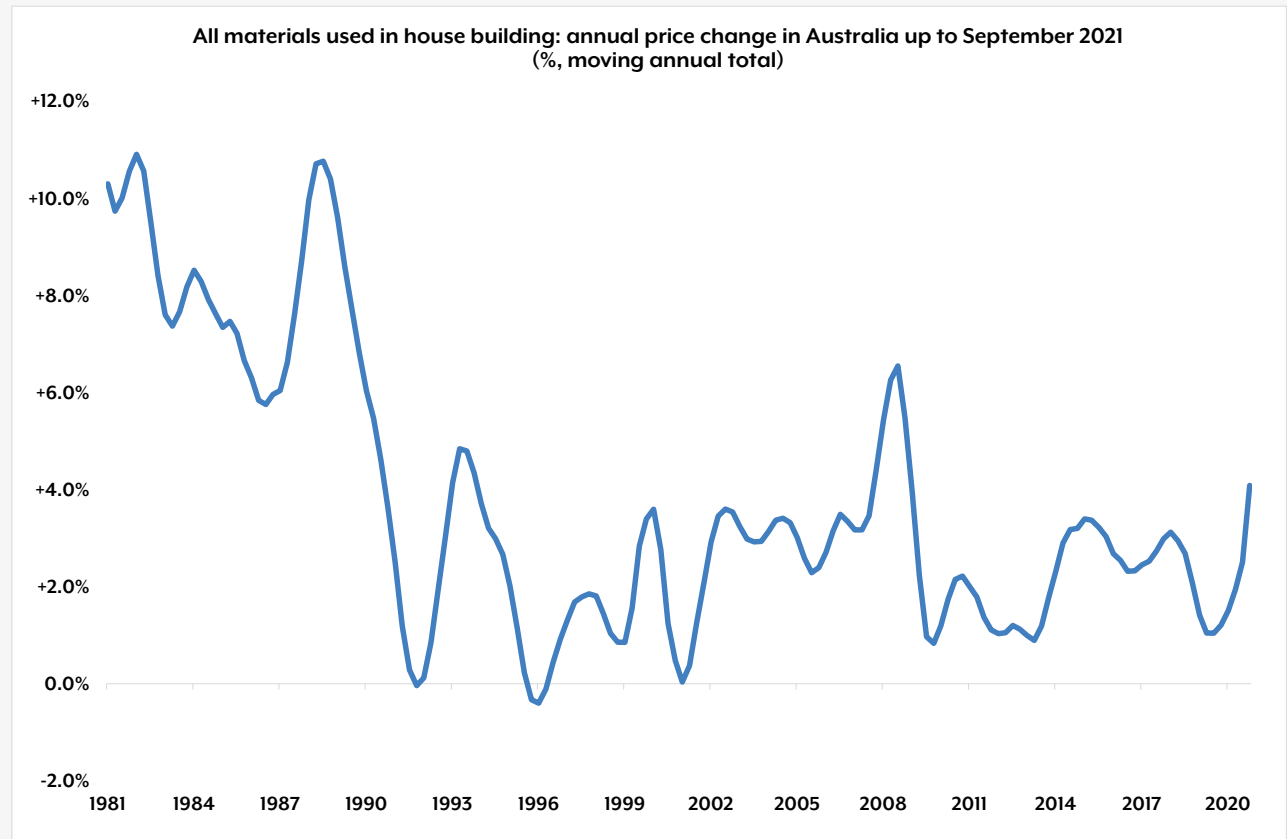


Today, one of the greatest challenges arises from shortages of key materials like timber, steel and copper. As the chart shows, the magnitude of some of these increases over the past year has been huge.

This has resulted in steep cost increases, delays and other unfavourable changes to the pipeline of building and construction projects, including new homes. The chart below shows how rapidly the cost of materials has recently started to escalate. We can also see how vulnerable building and construction activity is to spikes in the cost of the materials it needs. These unanticipated cost surges have eaten into the profit margins of homebuilders, the great bulk of whom are constrained by so-called 'fixed price' contracts with their customers.

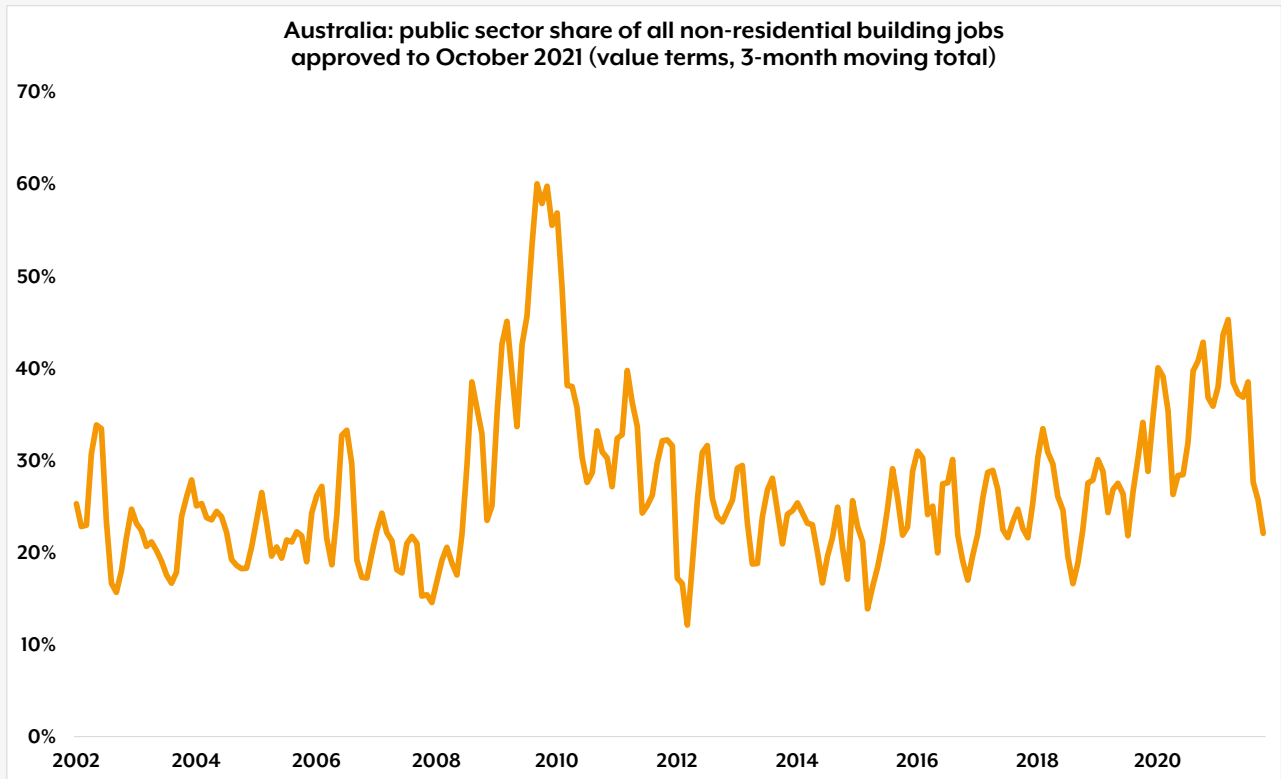
The main source of acceleration in building product costs is global, with a synchronised mix of heavy fiscal and monetary stimulus forcing the prices of commodities and the cost of shipping to rise sharply.

The supply chain difficulties are also the result of the naturally long lead times inherent in the supply of some building products. For example, the softwood used to produce timber can take about 20 years from being initially planted to reaching a stage where it is suitable for harvesting. This means that additional softwood cannot be easily produced when shortages emerge. Avoiding a repeat of this year's difficulties means that we need to devote more resources to safeguarding our supply of building materials over the long term and work to expand our domestic supply capacity in order to cope with unanticipated shortages in the future.



In addition to product supply, the viability of the construction industry relies on there being a guaranteed forward pipeline of work. Private sector demand for construction work is very susceptible to

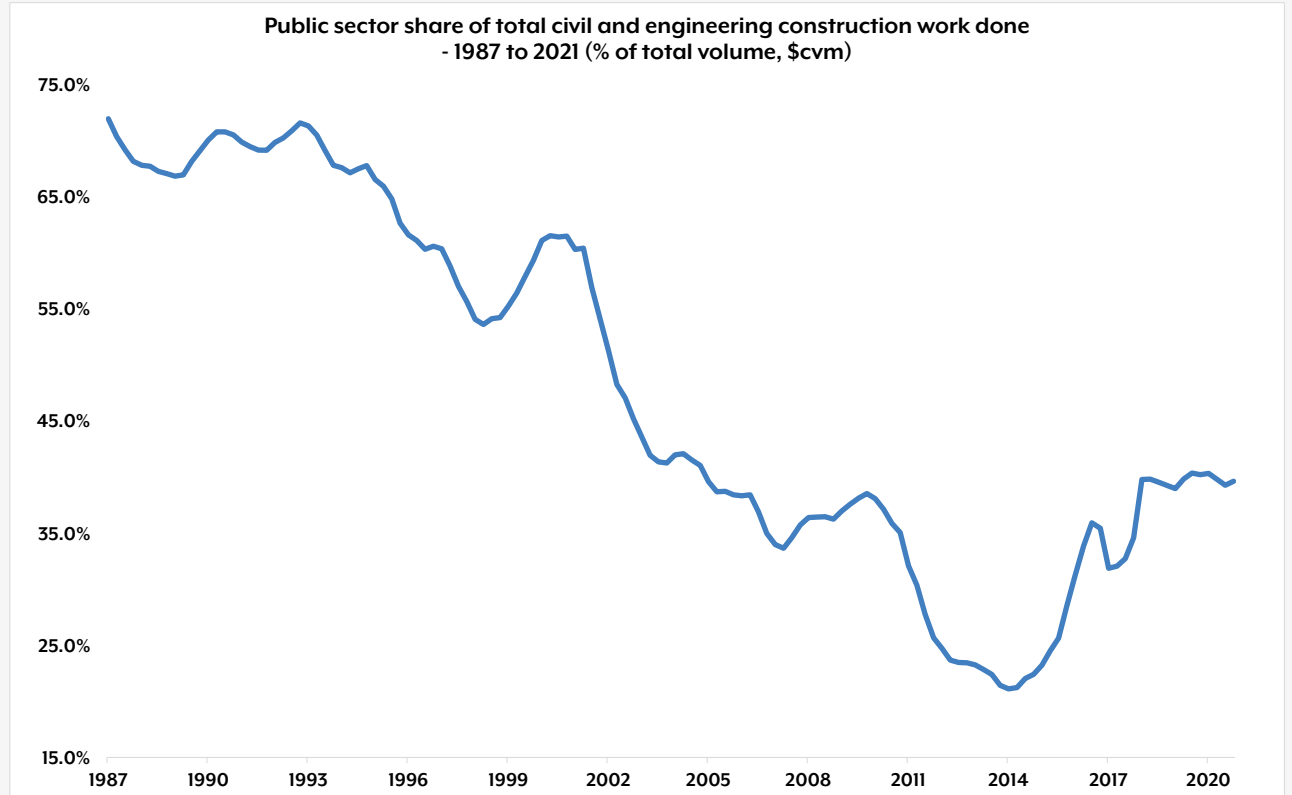
changes in the sentiment and business conditions, and this means that work done for the private sector is prone to severe reversals in the event of the environment changing for the worse.



This is where the public sector comes in. By having a rolling portfolio of government-funded projects constantly on the go, a subsistence level of demand will always exist for building and construction work - regardless of how good or bad confidence and

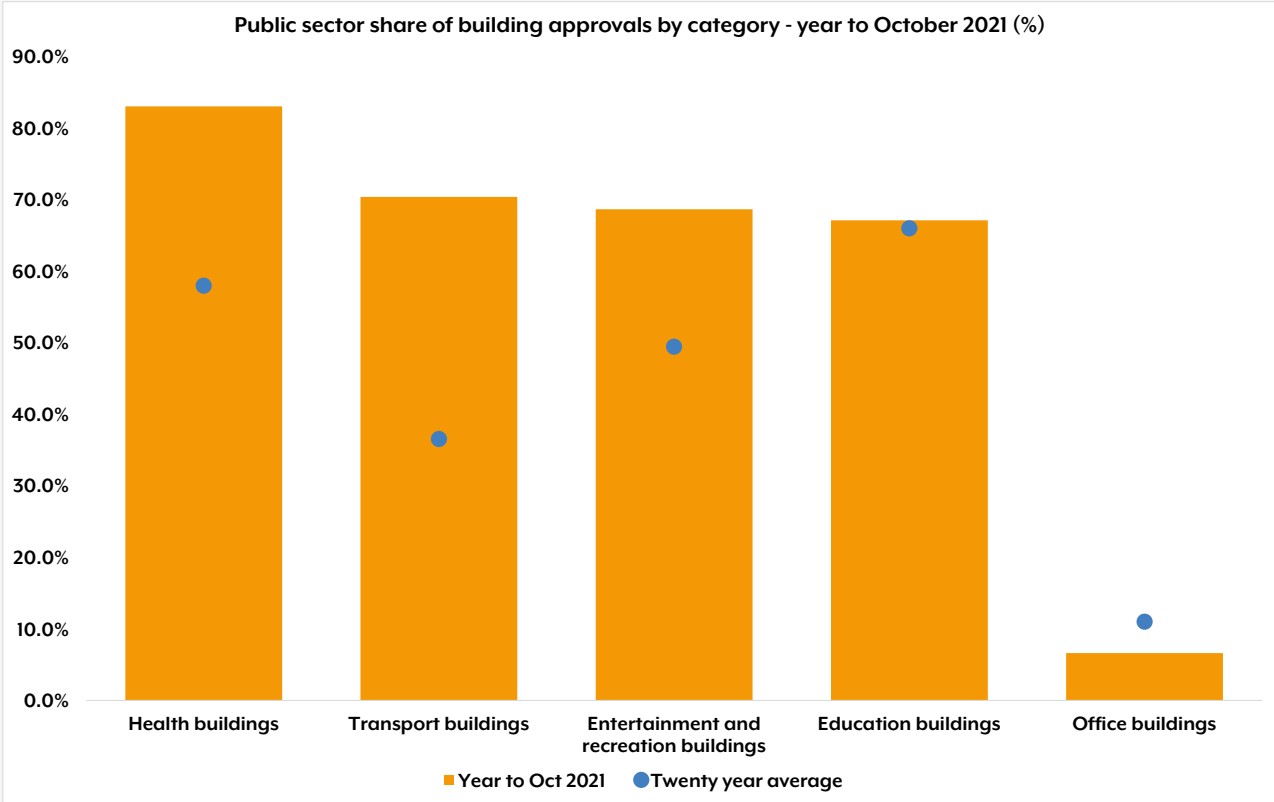
sentiment within the corporate sector. As the chart shows, the proportion of non-residential building work accounted for the public sector is currently quite low by historic standards. We have also seen it reverse quite sharply over the past year.





There has also been a significant decline in public sector involvement in engineering construction activity over the past three decades. Back in the early 1990s, public sector projects used to account for

about 70 per cent of all engineering construction work done. More recently, this share has hovered around 40 per cent, and it had been even lower before the rollout of the major public infrastructure portfolio.

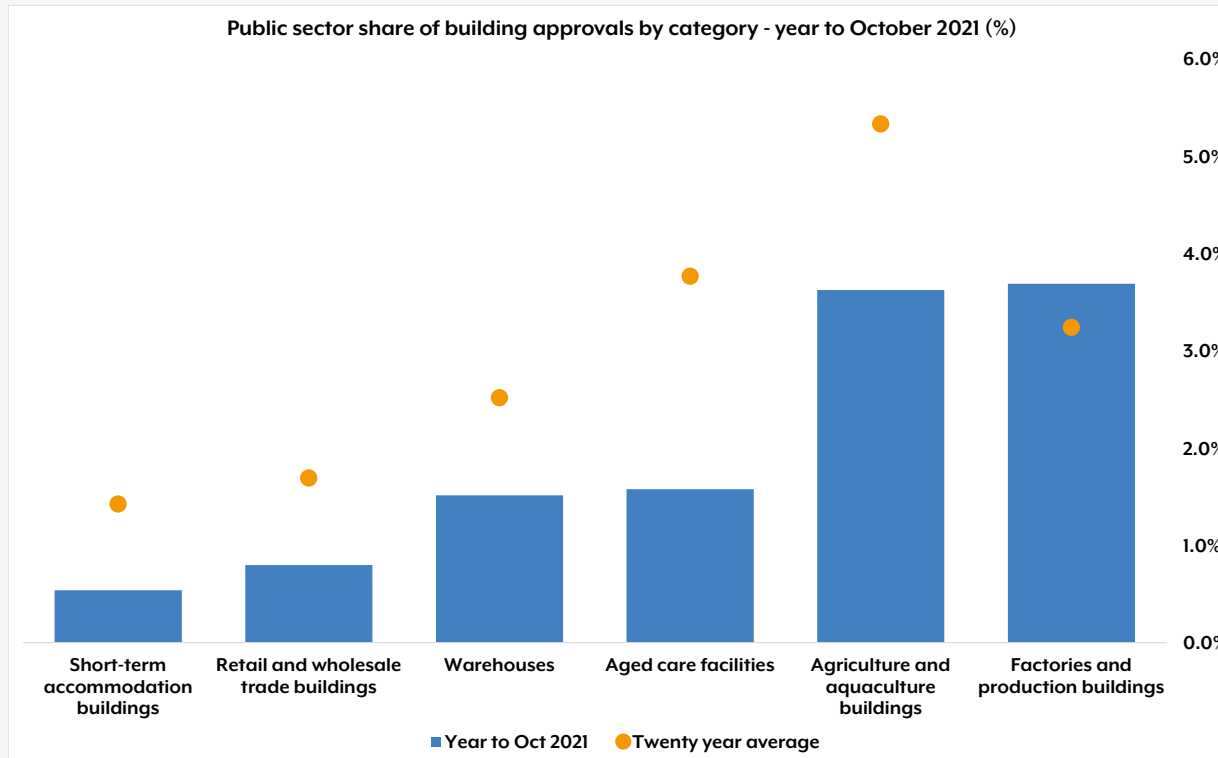


The government should also consider maintaining a ‘reserve list’ of building and construction projects to be activated quickly in the event of particularly sudden and severe downturns in private demand conditions. From the government’s perspective,

the neatest part of this proposal is that it will receive much better value for its money by kicking off work at times when demand for building and construction work is quiet and when land price and other cost pressures are in abeyance.

We believe that the federal budget can help build a better industry supply chain in several different ways.

- **Incentives to improve sovereign capacity in product supply.**
- **Invest and facilitate Australia's capacity in building product manufacturing, assurance and traceability.**
- **Coordination with industry, states, and territories to facilitate greater investment in softwood plantations to meet long-term structural timber needs.**
- **Ensure the rolling 10-year forward pipeline of infrastructure work of at least \$100 billion is always in place.**
- **Resources made available for a federal government-maintained 'reserve list' of building and infrastructure projects that can be activated quickly in the event of sudden or severe downturns in private demand.**
- **Implement local capability policy**
- **Better balance of risk transfer that will encourage greater competition in the tender process**
- **Remove practices that exclude many otherwise capable businesses, for example, bundling and unreasonable contract terms.**



With small and very small businesses accounting for such a huge share of the construction industry, it is important that the procurement process for publicly-funded building and construction work reflects this. The design of public procurement processes needs to take account of our industry's makeup by being open and friendly from the perspective of smaller-sized businesses. This can be done by enforcing minimum

thresholds around the involvement of local firms in projects and by designing contract terms to prevent the risk burden on smaller businesses from becoming too high to bear. In the past, the practice of 'bundling' contracts together into ones too large for smaller businesses to reach has also worked against their participation in public procurement.

5. Ensuring safe and productive workplaces

A safe and sensible working environment

Ensuring workplaces are safe and productive is the number one consideration for Master Builders and our 33,000 members. As the building and construction industry is a significant part of the economy and community and is forecast to grow larger over the coming decade, making safe workplaces a key element for our future success as an industry. Safety outcomes in the BCI have consistently improved over the last 20 years, with fatality and serious incident data trending downwards. However, recent upswings in fatality data re-affirm that there is more work to do, and the BCI retains the definition of 'priority industry' by Safe Work Australia (SWA).

WHS systems and law in Australia are performance and outcome-based regimes which are now universally accepted as far more effective than prescriptive or inflexible regimes. Master Builders is concerned to ensure that the WHS framework retains this approach as workplaces should be able to choose the most effective and practicable course to address safety, particularly given the nature of work performed in the BCI.

Previous iterations of WHS laws that were overly prescriptive simply did not work. They assumed a 'one size fits all' approach where the focus was on compliance and process – and less on risk and hazard elimination - all at the expense of practical safety outcomes. While the existing framework, on the whole, represents a reasonable balance between prescription and flexibility, there is an increasing tendency to re-embrace prescriptive approaches and impose a range of administrative and reporting obligations.

Master Builders are increasingly concerned by the growing divergence from the Model WHS framework, with governments in several jurisdictions making fundamental changes that make safety laws very different around Australia. Nationally consistent WHS regulation is essential in improving safety outcomes and assisting businesses operating across multiple jurisdictions.

Safety is everyone's responsibility

Australian WHS laws must always ensure that safety is a shared responsibility and that everyone in the workplace takes a common-sense approach. Sadly, this is becoming less common with some governments introducing laws that create completely different safety rules depending on the status of the individual.

For example, some governments have industrial manslaughter laws that mean two people who engage in exactly the same conduct involving the same safety incident are treated differently – with one facing the threat of imprisonment and the other facing no consequence whatsoever. This is simply unfair and directly encourages one person to be less responsible than the next person.

Government must ensure that WHS is a shared responsibility, and WHS laws should reflect the nature of the multitude of relationships that co-exist on a construction site.

Enough resources for the organisations we need

The Asbestos Eradication and Safety Agency (ASEA) plays an important coordination and centralisation role as Australia moves to ensure asbestos hazards are controlled and without risk to health and safety.

Industry remains keen to see greater interaction with ASEA. Industry is concerned to see a greater degree of research undertaken in terms of managing asbestos in situ, and for greater levels of awareness and education amongst the community, especially amongst the DIY home renovation sector.

Government should not only maintain the existing level of appropriation for ASEA, but for it to be boosted by not less than \$5 million per year over the



forward estimates to take advantage of the improved level of goodwill which exists within the building and construction sector and continue the successful rollout of its National Strategic Plan.

The Office of the Federal Safety Commissioner (OFSC) is an effective entity that proactively engages industry is working towards achieving high standards of workplace health and safety on Australian building and construction projects.

Improvements in industry safety outcomes, by majority, are clear and compelling for those entities who have achieved accreditation under the Australian Government Work Health and Safety Accreditation Scheme ('the Scheme'). These results are complemented by the OFSC's pursuit of sustainable cultural change within the industry, along with its support for innovative and positive WHS practices.

Government must boost funding to the OFSC specifically to increase its capacity and capabilities to identify and progress best practice initiatives which improve industry safety performance and overall outcomes and to assist in the rollout of any outcomes arising from the upcoming Scheme Review.

Supporting our industry's legal framework

Harmonious, safe and productive workplaces are vital for a strong building industry, a thriving economy and more job opportunities for all Australians. This is why we are committed to delivering safe and productive workplaces. We want workers to be safe and for our workplaces to be like workplaces in other industries.

It's important that we have a safety net of minimum conditions for workers enshrined in law. But these must be balanced so that workers and employers have equal rights, they encourage job creation, and are clear and simple to understand.

Master Builders fully supports the ABCC as an independent regulatory agency with the necessary and appropriate powers to ensure a return to the rule of law in the building and construction industry.

The ABCC is an industry-specific regulator that oversees an industrial relations regime designed to address the special problems that are unique to the construction industry. The Heydon Royal Commission found in support of the ABCC, with Justice Heydon finding:

“One consideration which supports the need for an industry-specific regulator is the high level of unlawful conduct in the industry.”

“Given the high level of unlawful activity within the building and construction sector, it is desirable to have a regulator tasked solely with enforcing the law within that sector.”

“Having regard to all of the available material, the argument that there is no need for an industry-specific regulator cannot be sustained.”

The ABCC is necessary to curb behaviours that rob the community by driving up the cost of schools, hospitals and childcare centres. These behaviours cheat the community of more classrooms, more hospital beds and more childcare places. Unlawful behaviour robs the community by making taxpayer-funded schools, hospitals and childcare centres costlier. Why should the community pay an effective building union tax?

The ABCC is important for the construction industry, it's important for the economy, and it's very important for the community. The type of behaviour and conduct we see on building sites is simply unacceptable. In no other industry:

- are ordinary people, when going about their daily work, confronted by overt aggression, denigration and bullying.
- are small business people routinely intimidated and coerced by the threatening behaviour.
- are women subjected to aggression and abuse.

These behaviours would not be tolerated at home, let alone in a workplace.

Despite being home to around 1 out of every 3 EBAs, the use of enterprise bargaining continues to decline within building and construction. Efficient, sensible and fair bargaining at the workplace level is fundamental to ensuring workplaces can put in place arrangements that suit their needs and unlock their potential to be more productive, more successful and create more jobs. Every workplace is different - one size rarely fits all - and enterprise bargaining offers an avenue to really boost productivity, drive innovation and maximise success for both employers and employees – outcomes that are more important now than they ever have been.

We support a framework in which employer and employee parties are empowered to enter freely into appropriate and lawful workplace arrangements that suit the particular enterprise. There must be clear and fair rules regarding the negotiation of agreements and penalties for those who abuse that process.

The federal budget must provide adequate resources to ensure:

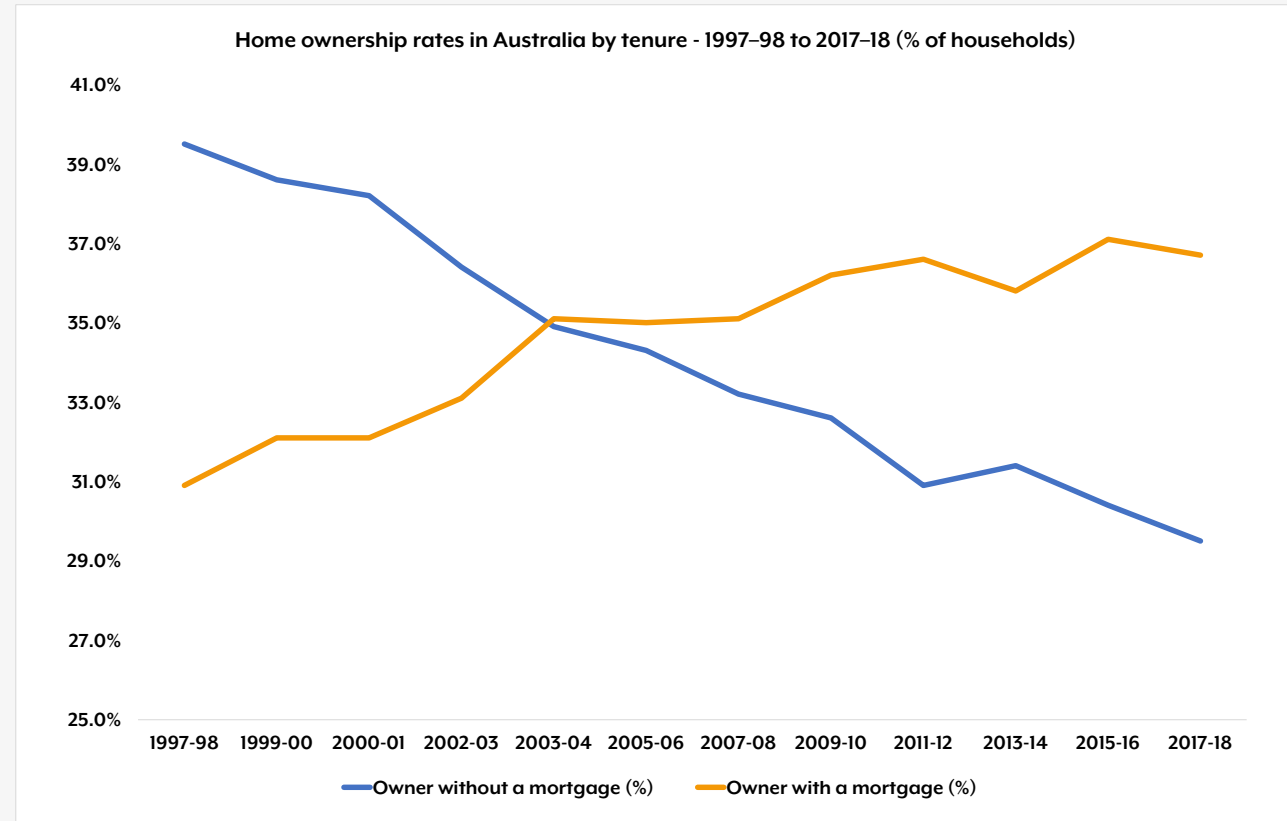
- **Ensure that any changes to the law do not detract from work to improve workplace safety in a meaningful way.**
- **Take action to ensure that safety laws, obligations, enforcement and compliance are consistent throughout Australia by requiring members of Safe Work Australia to adopt its outcomes as a condition of membership.**
- **Not implement any law or change unless satisfied that it is accompanied by materials giving workplaces, especially small businesses, clear and simple tools to ensure WHS compliance, including where to look, what to do, and the standing/status of various information/guidance sources.**
- **Increase focus on the need to ensure all WHS requirements, obligations and enforcement processes are realistic, clear, expressed simply, and practicable.**
- **Avoid unnecessary restrictions on the way people work, including the right to be an independent contractor and for employers and employees to implement work arrangements that suit their needs – not the needs and unreasonable demands of unions.**
- **Commit to preserving freedom of association laws and promising to say no to anything that gives unions more say or more rights than ordinary everyday workers, and make sure right of entry rules are strengthened and properly enforced.**
- **Recognise the needs of small businesses and encourage them to take on new workers.**
- **Improve bargaining laws to better help workers and businesses quickly and effectively put in place arrangements without ineffective red-tape and lengthy delays.**
- **Ensure that organisations of employers and employees are transparent, accountable and play by the rules.**
- **Crackdown on the ongoing problem of pattern bargaining**
- **Amend the Act to clarify that unions who were not involved in bargaining leading up to the making of an agreement have no right to intervene during subsequent approval processes.**
- **Abolish FWC use of ‘agreements in progress’ page on FWC website and boost privacy protections for workers.**
- **Ensure that enterprise bargaining better delivers for workplaces.**

6. Providing housing for all Australians

Homeownership benefits Australian families and households by providing greater economic and social security. It also allows the roots of community building to be planted and deepened to the benefit of all. Not surprisingly, rates of homeownership have been drifting lower over time. The most striking trend has been the steady reduction in the proportion of mortgage-free homeowning households.

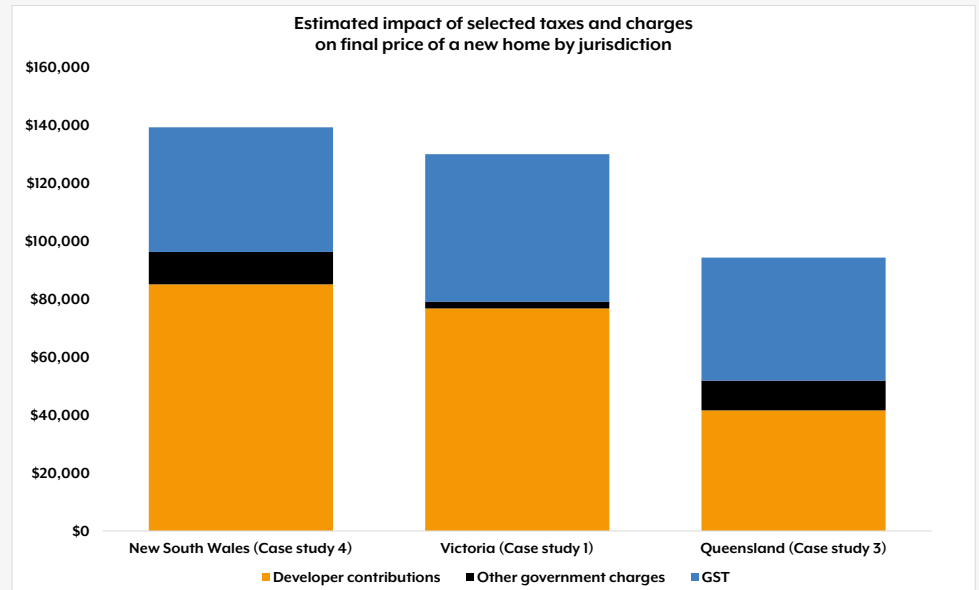
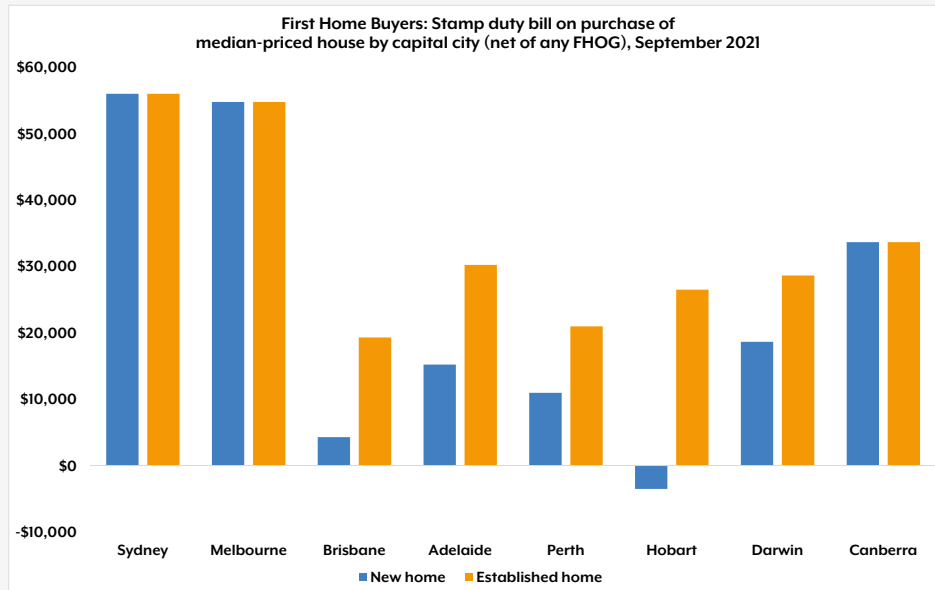
The high cost of housing is the single greatest barrier to homeownership – and it is getting harder for each generation. Earlier in 2021, Master Builders Australia appeared before the House of Representatives Committee on Housing Supply and Affordability to offer our vision of the way forward. We told the Committee that governments must work towards reducing the cost of creating new homes. One of the best ways to make this happen is by lessening the tax burden on new housing and by working to shorten the length of time it takes to deliver new housing stock.

Many of the features of our tax system make it much more expensive to provide the new homes needed to help younger Australians get their first foot on the property ladder. Stamp duty bills, developer contributions, GST and taxes on taxes all play their part in causing the cost of building new homes



to snowball. Some of these taxes are incurred by developers in the earliest stages of a new project. The passage of time causes their impact on the final ticket price of new homes to mushroom. As the chart shows, today's First Home Buyers face heavy stamp duty costs - even with the assistance of First

Home Owner Grants. It is important that the federal government continues to support First Home Owners in their efforts to get onto the housing ladder through targeted grants and programs like the First Home Loan Deposit Scheme (FHLDS).



All the while, the process of coming up with finished homes ready for immediate habitation is slowed down by planning delays, zoning restrictions and other red tape. Time matters a lot because the cost of building and development is very sensitive to even a slight lengthening in the timeframe. Along with financing costs, the viability of potential new home building projects is also hostage to risk. For a new project to proceed, its sponsors need to be confident that the market into which it will eventually be sold will be a healthy one. Lengthier development processes and greater risks of delays push the final sale date further

into the future and make the ultimate financial return much more difficult to predict. In some cases, the clouds of unpredictability become impossibly opaque, and the project will not come into existence at all. The opportunity that existed for adding more homes to the national dwelling stock will have been wasted.

State, territory and local government have considerable influence over important aspects of the new home development process like land supply, planning, zoning and approvals. We believe that the federal government has the scope to lead better

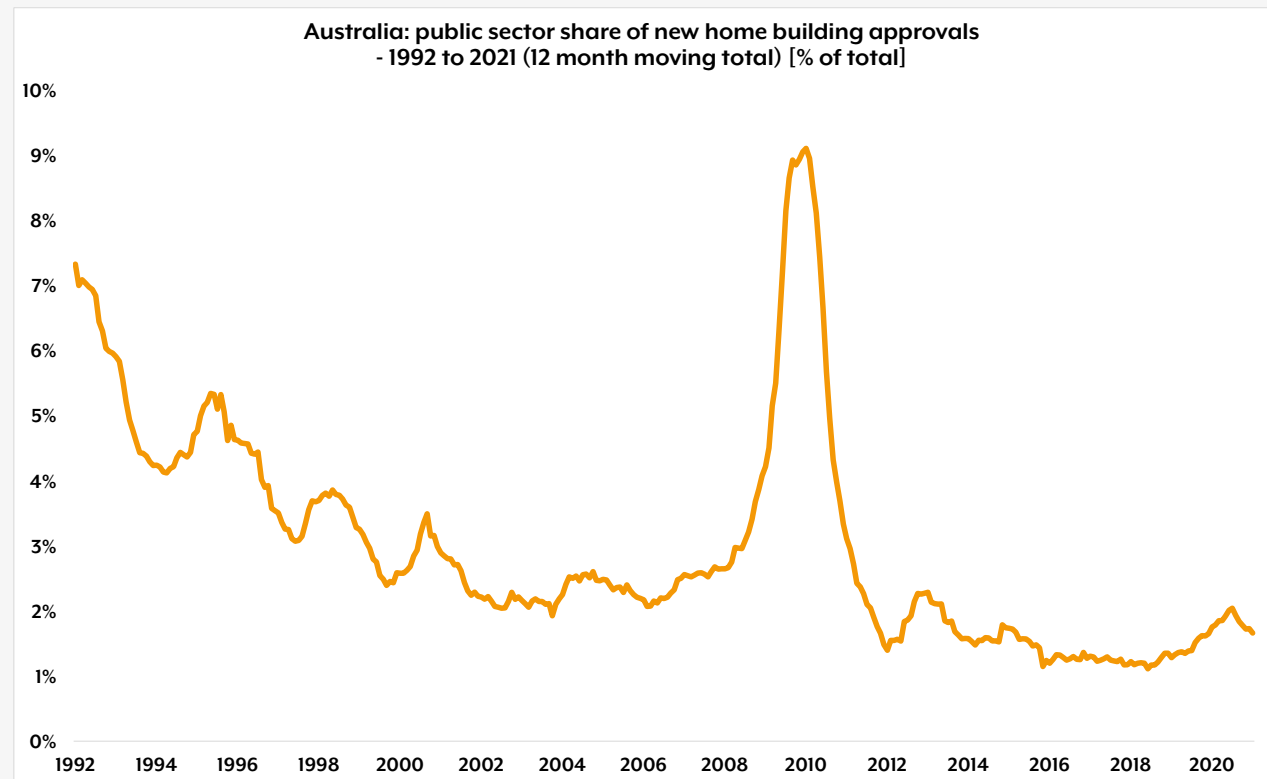
outcomes in these areas through the use of financial incentives and penalties in its fiscal relationship with lower tiers of government. Improvements with respect to their performance in delivering new housing supply should be rewarded and deteriorations penalised.

As well as putting the household budget in a better position, improved housing affordability also has benefits for economic competitiveness. This is because housing costs absorb a substantial proportion of workers' take-home pay. In this way, higher housing costs place upward pressure on

labour costs right across the economy –to the detriment of Australia’s international economic competitiveness. The good news is that opportunities will arise from achieving better housing affordability outcomes: wage pressures will soften, and Australia’s competitiveness will start to get ahead. This means more jobs, more exports, more inward investment. A stronger economy.

Later in our submission, we talk about the importance of Australia being able to win the overseas migrants needed to support our economic and social wellbeing for decades to come. On this score, achieving better housing affordability is one of our trump cards. Australia is currently home to one of the world’s most expensive housing markets. For those in other lands considering a move overseas, this situation counts badly against Destination Australia. Our high housing costs mean that Australia is losing out to other countries in the competition to win the migrants that we need the most.

Social housing is the only way in which some Australian families can access shelter. This is because some people’s circumstances do not permit them to be the full market rate for housing. Ensuring that the housing needs of all Australians are catered for is a fundamental ingredient of basic living standards. For those of working age, adequate and secure shelter supports their participation in the workforce and provides them with the opportunity to progress.



For their children, good housing offers the best chance for their full potential to be realised from early education all the way up to higher education, training and beyond. Apart from a brief period during the GFC, the proportion of new home building accounted for by the public sector has fallen steadily over recent decades.

As with other categories of housing, outcomes with respect to social housing are determined by supply and demand conditions. We applaud the success of NHFIC’s Affordable Housing Bond Aggregator (AHBA) in allowing the providers of community housing to access significantly cheaper financing and urge continued federal government support for delivering greater volumes of the social housing that we need.



Creation of tax incentives for housing investment

Earlier, we explained how the taxation burden on residential building activity can delay, impede and prevent new homes from being created. However, some features of the Australian taxation system play a positive role in supporting the delivery of new homes by providing the right incentives for those homes to be built. The current arrangements around negative gearing and the capital gains tax discount are examples of this. Without these tax incentives, fewer new homes would get built every year and our housing challenge would be even more formidable.

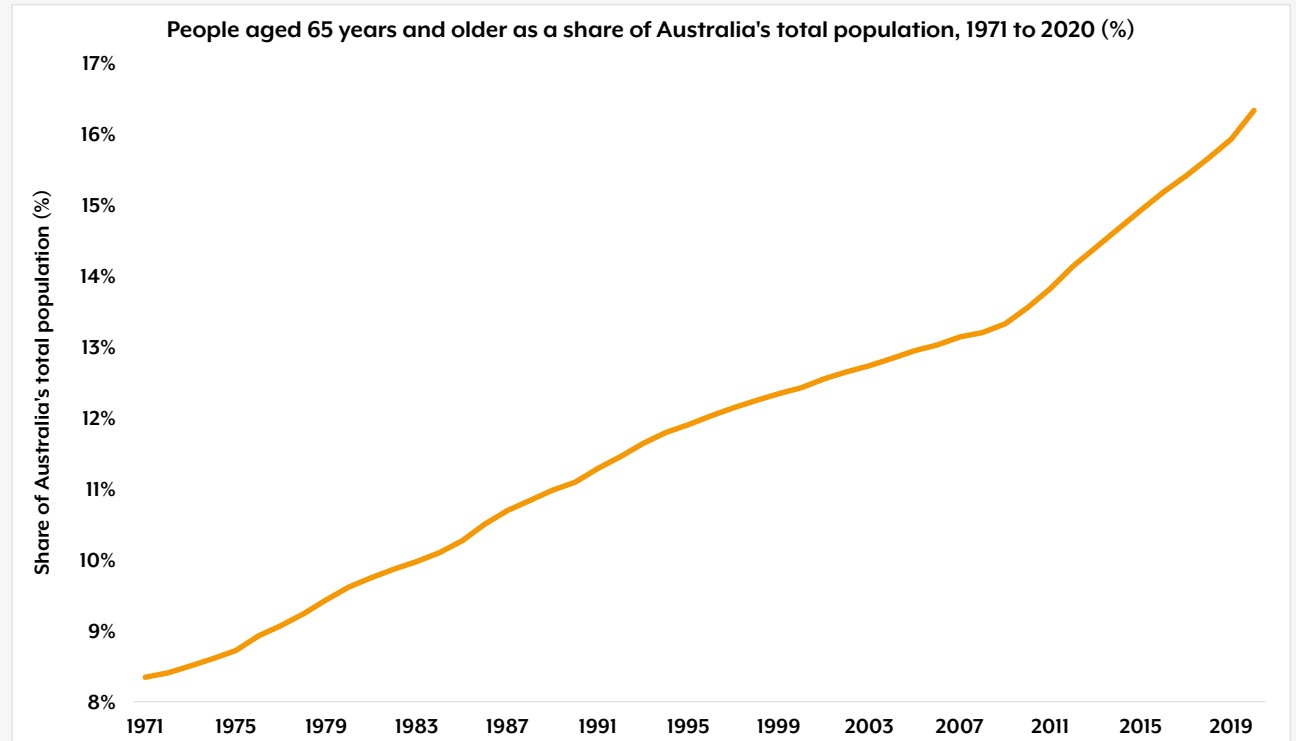
Potentially, an additional set of tax incentives could be used to improve the quality of Australia's existing housing stock. At present, the tax treatment of repairs and maintenance work carried out on rental properties is quite favourable. However, capital works which expand or improve the liveability of the homes used by renters receive little encouragement in the form of tax incentives. A more generous regime around the tax treatment of capital works to improve the heating, cooling, lighting and energy efficiency of older homes would result in a number of benefits. First, the living standards of those housed in rental accommodation would improve. Second, the policy change would stimulate residential building activity and help deliver a smoother transition following the HomeBuilder-induced spike in activity.

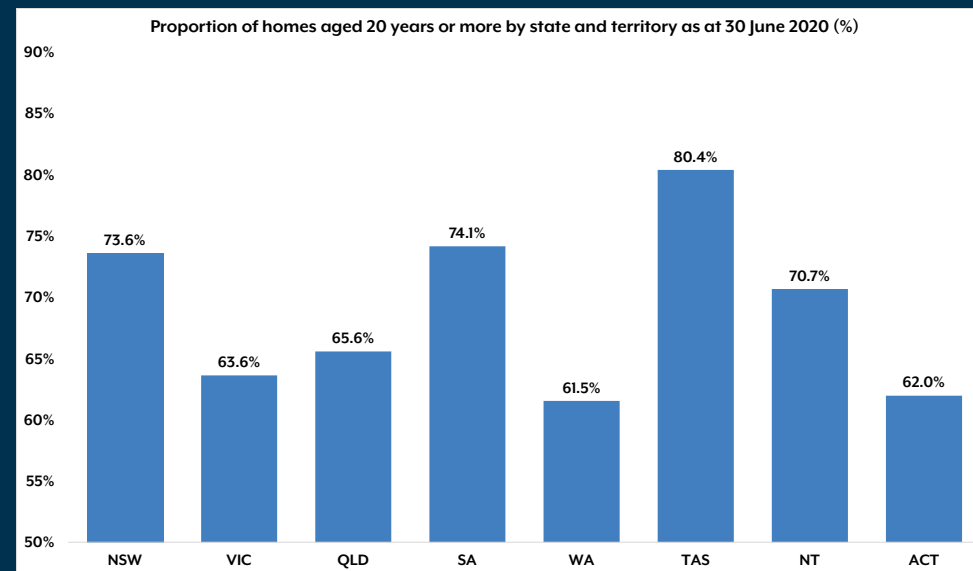
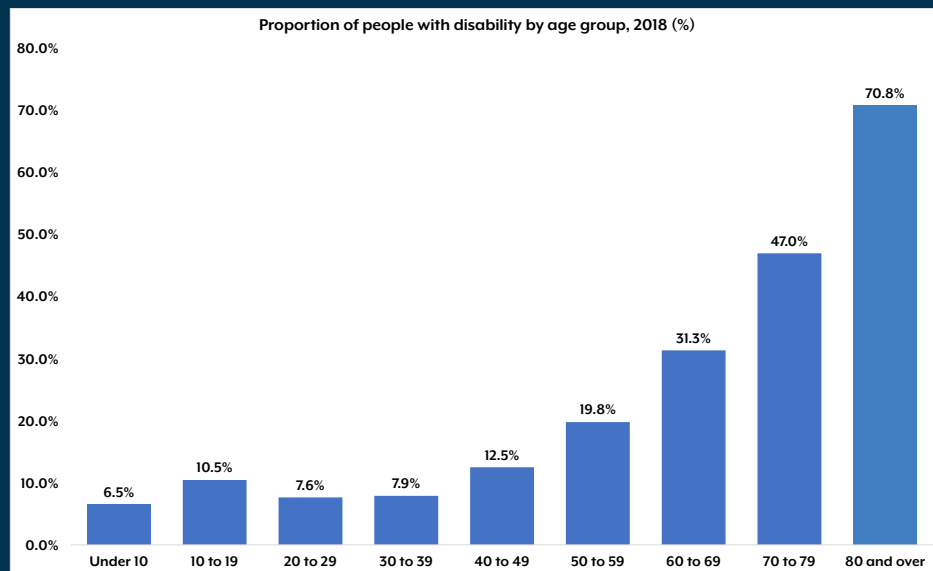
To build and maintain liveable and resilient homes in a cost-effective way

As the characteristics of Australia's population change, so too do our housing needs. For example, the proportion of the population within older age groups has increased steadily over recent decades and is projected to continue doing so over the years ahead.

As the chart shows, rates of disability are far higher amongst older age cohorts in the population. This makes it likely that the process of population aging over the coming decades will be accompanied by much larger numbers of Australians living with disabilities. This means that considerable resources are likely to be required to adapt our existing housing stock in ways that make it more liveable from the point of view of those affected by disabilities.

Along with its population, Australia's dwelling stock is ageing and this brings challenges of its own. We estimate that over 7 million Australian homes are at least 20 years old, about two-thirds of the entire dwelling stock. Older homes are more vulnerable to natural disasters, including extreme weather, earthquakes and flooding. A program of retrofitting older homes in those places is something we believe is worthy of consideration.





We believe that the federal budget can help homeownership in several different ways.

- **Resources should be continued to allow ongoing and consistent support to first homeowners through targeted grants and programs.**
- **By the Federal Government ramping up incentives and penalties in its dealings with state and territory governments to drive change to improve the supply and cost of land and the process of creating new homes.**
- **Increase, and ensure consistency of direct funding for social housing.**
- **Expand the National Housing Finance and Investment Corporation's ability to deliver social housing stock by creating conditions to boost private investment.**
- **More generous tax treatment of capital building works on the existing rental stock.**
- **Maintain status of negative gearing and capital gains tax arrangements on homes held by investors.**
- **Establish a housing resilience fund to encourage retrofit of existing homes in high-risk natural disaster areas.**
- **Work with State, Territory and Local Governments and industry to improve planning outcomes to reduce the risks associated with natural disasters.**

7. Deliver the ‘Right Fit’ approach to building regulation

While some degree of regulation is necessary and welcome when it comes to residential building activity and its final outputs, the imposition of rules and restrictions has inevitable consequences for the cost of producing new homes.

For those in the residential building industry, some mandatory regulations have proven to restrict the way in which work can be performed. This means that more efficient and more cost-effective ways of completing projects may have to be dropped in favour of significantly more expensive techniques. The regulatory framework may also have the effect of preventing the delivery of some projects for which there is a willing market and which would add to the supply of new homes. In short, regulation can sometimes get in the way of more affordable housing.

The overwhelming majority of building and construction businesses are small when it comes to turnover and the employee headcount: well over one-half of businesses in our industry either do not have any employees at all or else turn over less than \$200,000 per year (or both). This means that most building and construction firms do not have resources in the form of regulatory staff or departments. As a result, they struggle to cope with the existing body of regulations.

This problem is compounded by the fact that regulations are frequently changing, with each change sparking off yet another round of costly and productivity-sapping modifications to the business models underpinning their operating architecture. There is a perception amongst industry participants that the net effect of regulatory change over time is resulting in a heavier rather than lighter regulatory burden.

For example, an updated National Construction Code (NCC) was released in 2019. The 2019 NCC consists of three volumes which in the aggregate run to over 1,600 pages, providing detailed guidelines on the carrying out of building and construction work. An updated NCC will take effect later in 2022 and will necessitate a further round of modifications.

While these changes are well-intentioned, they are not given appropriate time to be developed and implemented effectively or are not sequenced in a manner for industry to effectively absorb change. The benefits for the broader community in these reforms are lost because rushed, and therefore poor regulation is not effectively implemented and enforced because of its complexity.

A further failing in the development of these regulations is disregard for the regulatory impact assessment (RIA) processes. The federation of Building Ministers, for example recently decided to proceed with introducing new mandatory



accessible housing design requirements for all new homes, despite the RIA identifying the cost-benefit did not stack-up.

The capacity of the construction industry to deliver homes in a cost-effective way is exacerbated in exceptional circumstances by regulated settings for fixed-price housing contracts. In a normal market, this is not a problem. It becomes a problem in a market when costs arising from delays to the project are from uncontrollable factors such as the issuance of public health orders, workforce and product shortages and supply chain disruption.

More flexible provisions where states regulate fixed price housing contracts are needed to enable the burden of unforeseen costs to be shared more equitably in exceptional circumstances. To mitigate the risk of workforce and product shortages, a more concerted effort by government is needed to develop more sovereign capability, target key import markets and support industry innovation in the construction sector.

For the hundreds of thousands of small construction businesses, the existing set of regulations and the stream of changes to them place represent a very major cost. This cost is not just paid in financial terms; getting to grips with regulations also exacts a substantial toll on the time, energy, wellbeing, mental health and relationships of the people and families who run Australia's building and construction businesses.

In addition to the process of actually implementing regulations, the financial cost of acquiring the publications and manuals in which regulations are detailed can also be very substantial. For example, access to a set of 96 standards relating to the use of timber in buildings is currently being sold by Standards Australia at a cost of \$507.59 for a 12-month subscription. Of course, this is just the tip of the iceberg. Reading, digesting, implementing and enforcing changes in regulations and standards detracts from the time, energy and financial resources of Australia's 400,000 construction business operators.

Far too often, new regulations are added on the basis of their expected net marginal benefit. That is, proposed regulations are only evaluated on the basis of the extra costs they are likely to impose, with the existing collection of regulation not being looked at. For those in business, this means that another unwelcome layer of regulation gets added to the already enormous mountain.

This problem is further exacerbated by the fact that new regulations can come from any one of a huge range of sources, including governments and regulatory bodies. There is often a failure by them to act in tandem, with the result that the interaction between different regulations deriving from separate authorities is often a further source of frustration and inefficiency.

We believe that the federal budget can support better building regulation outcomes in several different ways.

- **Subsidies and grants should be considered for those businesses facing the greatest cost impacts arising from the introduction of the new National Construction Code in 2022.**
- **Regulation to improve the energy efficiency of a home is introduced in a way that quantifies and mitigates risks and acknowledges the lead times required in the industry to facilitate change.**
- **Resources and mechanisms should be found to enable our building and construction businesses to access all of the standards they need at zero cost.**



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