

24 October 2017

Mr Andrew Barr
Chief Minister and Treasurer
GPO Box 1020
CANBERRA ACT 2601

Via Email: BudgetConsultation@act.gov.au

Dear Chief Minister

Submission from the Master Builders Association of the ACT: 2018-19 ACT Budget

Thank you for inviting the Master Builders Association of the ACT (MBA) to make this submission as part of the 2018-19 ACT budget consultation process.

The building and construction industry is the second largest industry in Australia, accounting for 8.1 per cent of Gross Domestic Product and provides jobs for close to 1.1 million Australians - 8.9 per cent of total employment in Australia. The industry is also a significant contributor to the ACT economy, employing around 14,000 people (*ABS, August 2016*) and made a \$1.7 Billion contribution towards Gross State Product (by Industry Value Added) in 2015-16 (*ACT Government, Economic Indicators for the ACT*).

This pre-Budget submission sets out the MBA's proposed budget priorities and our key recommendations in the areas of the capital works program, land release program, taxes, fees and charges, skills and training and government resourcing.

If you require any further information or clarification, I may be contacted on (02) 6175 5900.

Yours sincerely



Michael Hopkins
Chief Executive Officer



MASTER BUILDERS
AUSTRALIAN CAPITAL TERRITORY

Master Builders ACT

2018-19 ACT Budget Submission

24 October 2017

1. Master Builders ACT

Master Builders ACT (MBA) was formed in 1925 and represents the interests of around 1,200 commercial builders, residential builders, civil contractors, suppliers, subcontractors and professionals.

The overwhelming majority of our members (more than 95%) are small businesses and independent contractors.

Master Builders ACT is the largest membership association in the ACT and also operates Canberra's leading Registered Training Organisation and a Group Training Organisation.

The building and construction industry is a significant contributor to the ACT economy, employing around 14,000 people (ABS, August 2016) and made a \$1.7 Billion contribution towards Gross State Product (by Industry Value Added) in 2015-16 (ACT Government, Economic Indicators for the ACT).

2. Recommendations

A summary of recommendations to government for the 2018-19 ACT budget are as follows:

ACT Capital Works Program

- 4.1 Additional and on-going funding be allocated for the appointment of the already announced ACT Government Engineer, and that this appointment be made as a matter of priority.
- 4.2 The ACT Government Engineer lead the preparation of a 30 year infrastructure plan for the ACT, which includes all infrastructure under the direct funding control of the ACT Government, and where possible includes infrastructure provided by government owned and non-government utility providers (ActewAGL, Icon Water, telecommunication providers, etc) and cross-infrastructure infrastructure provided by adjoining local Councils.
- 4.3 Government continue to implement the ACT Local Industry Participation Policy as a priority action. This will ensure that as the ACT grows, the flow-on economic value created through additional building and construction activity will be captured within the ACT economy. Government procurement can play a vital role to help to grow and develop local industry for the overall benefit of the ACT economy.
- 4.4 Government increase investment in infrastructure in key growth corridors, activity centres and align infrastructure spending with the planned delivery of new suburbs by the ACT Government and private sector.

Land Release Program

- 5.1 Increase the supply of residential land, in particular land for housing types which meet the ACT's changing demographic needs. This will require an acceleration of land supply for single housing and semi-detached housing.
- 5.2 Disclose in the published land release program, the number of single houses, semi-attached and apartment dwellings planned in each suburb for the four years of the program.
- 5.3 Make targeted sales of englobo land for residential development to the private sector. Over time, government should move towards a policy of the majority of residential land being delivered by the private sector, so that government can focus on strategic planning and long term land release policy.
- 5.4 Properly resource the City Renewal Agency to ensure that the key urban renewal projects can be delivered in a timely and quality manner to meet the housing needs of the ACT's growing population.

Taxes, fees and charges

- 6.1 Continued taxation reform, including a continuation of the government's program of removing inefficient taxes such as conveyance duty and insurance duty, and adopting a broad based land tax, is supported. In the implementation of this reform, additional measures to help transition low income earners, retirees and small businesses should be considered.

Skills and training

- 7.1 Government should maintain its investment in vocational education and training (VET) for both full qualifications and skill sets commensurate with the future skills needs of the industry.
- 7.2 The ACT government should also work with Federal governments to ensure the VET system delivers quality training outcomes.

ACT Government resourcing

- 8.1 Additional resourcing be provided to properly resource the areas of building quality, safety, local industry participation and development assessment enforcement.

3. Key Issues for Consideration

The building and construction industry has been a key driver of the Australian economy and the ACT economy through a period of transition and has played an important role in buffering the impacts of past reductions in Commonwealth Government spending and employment.

In this submission we urge the Government to consider the benefits to the ACT economy of budget measures that are directly aimed at supporting the local construction industry.

Of particular relevance to the construction industry is the Government's focus on growing Canberra's population, diversifying the economy, and delivering urban renewal. These priorities have been echoed in ACT budget submissions made by the MBA over a number of years.

The MBA would like to make a number of recommendations to government (which are detailed in the section above), and grouped into the following themes:

- ACT Capital Works Program
- Land Release Program
- Taxes, fees and charges
- Skills and training
- ACT Government resourcing

We would appreciate the opportunity to discuss these issues with you in greater detail.

4. Capital Works Program

Building infrastructure that underpins the long term future of the ACT is government's core responsibility. The ACT is lacking a long term and detailed infrastructure plan which provides certainty for investors, builders and civil contractors. Too often annual ACT government budgets promise large capital works program, only to have the actual expenditure pushed into future years as procurement, program or delivery delays result in actual capital works expenditure far less than budgeted. This outcome is a symptom of short term planning.

Recent experience at Gungahlin also indicates a disconnect between infrastructure planning and land use planning. While infrastructure is now being provided at Gungahlin to meet the needs of the rapidly growing community, the infrastructure delivery is in 'catch-up' mode.

Recent announcements by Government to employ an ACT Government Engineer, and the forming of an Infrastructure Panel of Directorate heads, will go some way to better planning for infrastructure and capital expenditure, however much more is needed to be done.

To address these issues, Master Builders ACT recommends the following actions:

- 4.1 Additional and on-going funding be allocated for the appointment of the already announced ACT Government Engineer, and that this appointment be made as a matter of priority.
- 4.2 The ACT Government Engineer lead the preparation of a 30 year infrastructure plan for the ACT, which includes all infrastructure under the direct funding control of the ACT Government, and where possible includes infrastructure provided by government owned and non-government utility providers (ActewAGL, Icon Water,

telecommunication providers, etc) and cross-infrastructure infrastructure provided by adjoining local Councils.

4.3 Government continue to implement the ACT Local Industry Participation Policy as a priority action. This will ensure that as the ACT grows, the flow-on economic value created through additional building and construction activity will be captured within the ACT economy. Government procurement can play a vital role to help to grow and develop local industry for the overall benefit of the ACT economy.

4.4 Government increase investment in infrastructure in key growth corridors, activity centres and align infrastructure spending with the planned delivery of new suburbs by the ACT Government and private sector.

5. Land Release Program

The ACT Budget 2017-18 Budget Paper 3: Budget Outlook states that the *“ACT’s population ... continues to grow, with around 6,000 more people living in Canberra each year. By 2020-21, the Territory’s population is expected to reach over 428,000.”*

This population growth drives significant demand for new housing, in a variety of forms.

Despite the forecast population growth, planned land release by the ACT Government was reduced in the 2017-18 budget compared to the 2016-17 budget.

Decreasing supply of land for housing, while demand grows, will result in escalating land prices. The escalation of land prices in new suburbs of Moncrieff, Throsby and Taylor have demonstrated this point clearly, where land prices above \$1,000 per square metre now common place.

This outcome is in direct conflict with Government’s efforts to address housing affordability. In fact, Government is making significant efforts to address housing affordability including the Housing and Homeless Summit which was held in October 2017.

As well as the mismatch between supply and demand of land for new housing, the form of housing being built is now significantly out of alignment with the demographics of the ACT community. For example, land release does not allow adequate opportunities for housing for the aged to be constructed, while the ACT (like the rest of Australia) is experiencing a rapid aging of the population.

The mismatch between the type of housing being built and the type of housing needed to meet community demand, is not due to a failure of industry to meet demand, but a result of the land release policies of Government which do not allow sufficient opportunities for industry to meet demand. This mismatch is increasing. The social impacts of Government’s land release policy is worsening. These impacts are being felt in particular by the ACT’s lowest income earners.

The other factor to be considered in the delivery of new housing is that a significant portion of the new dwellings required to meet the ACT's growing population will be provided in large scale urban renewal projects. The MBA is supportive of the establishment of the new City Renewal Agency to oversee this urban renewal program where it occurs along the light rail corridor and city centre.

To address these issues, Master Builders ACT recommends the following actions:

- 5.1 Increase the supply of residential land, in particular land for housing types which meet the ACT's changing demographic needs. This will require an acceleration of land supply for single housing and semi-detached housing.
- 5.2 Disclose in the published land release program, the number of single houses, semi-attached and apartment dwellings planned in each suburb for the four years of the program.
- 5.3 Make targeted sales of englobo land for residential development to the private sector. Over time, government should move towards a policy of the majority of residential land being delivered by the private sector, so that government can focus on strategic planning and long term land release policy.
- 5.4 Properly resource the City Renewal Agency to ensure that the key urban renewal projects can be delivered in a timely and quality manner to meet the housing needs of the ACT's growing population.

6. Taxes, fees and charges

The building and construction industry is one of the most intensely regulated industries in Australia. This adds to the cost of building homes and community infrastructure.

The building and construction sector is also one of the most intensely taxed in Australia, and bears a direct and indirect tax burden from all levels of Government — Federal, State/Territory and local. This high and onerous tax burden distorts investment decisions, discourages entrepreneurship and innovation, and reduces business investment and employment opportunities. It also diverts scarce resources into unproductive and unnecessarily costly -time and money -tax compliance within a key sector of the Australian economy.

In the ACT, the Government has been undertaking substantial tax reform which started in 2012-13. The reform involves changing the tax mix away from narrowly-based transaction taxes to a broad land tax base will ensure a stable and efficient revenue base to fund the provision of high-quality government services into the future.

While this reform is broadly supported, the MBA requests that the corresponding increase in rates, as well as the methodology for determining the treatment between houses and units, be reviewed to ensure that yearly increases do not increase beyond

reasonable limits, and so the total level of taxation does not make the ACT uncompetitive compared to other jurisdictions.

To address these issues, Master Builders ACT recommends the following action:

6.1 Continued taxation reform, including a continuation of the government's program of removing inefficient taxes such as conveyance duty and insurance duty, and adopting a broad based land tax, is supported. In the implementation of this reform, additional measures to help transition low income earners, retirees and small businesses should be considered.

7. Skills and Training

A skilled local population is critical in a modern international city. There were around 14,000 people employed in the building and construction industry in the ACT as at August 2016, which represents around 8 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.

Continued ACT government commitment to the vocational education system to satisfy the growing demand for construction and trade skills, and to avoid future skills and labour shortages is of vital importance.

Of equal importance is a focus on incentivising quality training providers, and ridding the Territory of fly-by-night providers that aim to profit at the expense of our youth.

The MBA is proud of the quality of our apprentices. Our focus on quality has translated into apprentice retention rates (first year apprentices that complete their training with the MBA) of more than 90%. This impressive statistic is a benchmark other training organisations across Australia can only aspire to.

Government should work closely with industry to identify and respond to instances of poor practice, without increasing the red tape and cost burden on all training providers.

To address these issues, Master Builders ACT recommends the following action:

7.1 Government should maintain its investment in vocational education and training (VET) for both full qualifications and skill sets commensurate with the future skills needs of the industry.

7.2 The ACT government should also work with Federal governments to ensure the VET system delivers quality training outcomes.

8. ACT Government resourcing

Various stakeholders, including the ACT Government, have called for greater regulatory protection and enforcement across a number of areas of government. For example:

- The MBA has called for a regulatory review to improve building quality, including the licensing of various trades.
- The ACT Government has implemented the Local Industry Participation Policy which provides additional steps in the procurement process to assess a contractor's contribution to the local economy.
- A number of stakeholders (including the MBA) have called for a greater focus on work place safety.
- Community, government and industry have called for enforcement of conditions of development approvals.

Each of these issues, in isolation are important, however the cumulative impact is that there will be an inevitable need to better resource the ACT public service to develop new laws, regulation, guidelines, and undertake education, engagement, enforcement and inspection roles.

Expecting the public service to undertake all of the additional workload to address issues in building quality, safety, local industry participation and development assessment, without providing more resources is unrealistic, and will result in a failure to meet the policy objectives.

The MBA supports the provision of additional funding to properly resource these important functions of government. We urge that taxes and charges not be increased to fund these functions, but instead the costs savings to government delivered through properly addressing these issues be allocated to fund additional resourcing.

To address these issues, Master Builders ACT recommends the following action:

8.1 Additional resourcing be provided to properly resource the areas of building quality, safety, local industry participation and development assessment enforcement.

9. Conclusion

The MBA ACT welcomes the opportunity to contribute to the 2018-19 ACT budget. As the leading ACT industry association representing the Territory's largest non-government industry, the recommendations in our submission are aimed at growing the overall ACT economy, in particular growing the private sector components of the economy. We believe that a more diverse economy, including a strong private sector, will ultimately benefit the building and construction industry and the interests of our members.

We would welcome the opportunity to discuss any aspect of our submission in further detail.