

28 October 2019

Hon Andrew Barr, MLA
Chief Minister and Treasurer
GPO Box 1020
CANBERRA ACT 2601

By email: BudgetConsultation@act.gov.au

Dear Chief Minister and Treasurer

Submission from the Master Builders Association of the ACT: 2020-21 ACT Budget

Thank you for inviting the Master Builders Association of the ACT (**MBA**) to make this submission to the 2020-21 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 providing jobs for close to 1.1 million Australians – 8.9 per cent of total employment in Australia.

The industry is a significant contributor to the ACT economy, employing around 20,000 people (*ABS, May 2019*) which comprises 8.7% of total employment.

The 2019-20 ACT Budget revealed the Territory's economy will increasingly rely on the success of the private sector, in particular the property and construction sector, to return the Territory to future budget surpluses. Consequently, further support for the building and construction industry, by addressing the key issues outlined in this submission, is vital for the continued economic sustainability of the ACT.

This pre-budget submission sets out the MBA ACT's budget priorities. Our key recommendations are in the areas of the:

- Infrastructure and capital works program,
- Land release program,
- Regulatory Burden, taxes, fees and charges,
- Skills and training,
- ACT government resourcing, and
- Implementation of the Climate Change Strategy.



Infrastructure and Capital Works Program

With the ACT's population growing faster than the Australian average, an infrastructure and capital works building program is required which supports this growth. The MBA recognises that the ACT Government recently released the ACT Infrastructure Plan which delivers on an MBA advocacy priority from 2014, and which has been requested in successive pre-budget submissions. The infrastructure plan provides a high-level outline to the community and industry of the ACT Government's future infrastructure intentions.

Now that the foundation of a long-term infrastructure plan has been established in the ACT Infrastructure Plan, we request that Government fund the delivery of infrastructure in line with the Plan's intentions.

Due to a gradual decline in capital works funding from close to \$1 Billion in 2016-17 to forecast expenditure of \$581 million in 2022-23 (according to the 2019-20 ACT Budget), 'catch up' funding is required to ensure that the growth of Canberra does not advance faster than the provision of infrastructure, leading to an infrastructure deficit.

Increasing funding for infrastructure and capital works will provide support to the local building and construction industry which has suffered in recent years due to declining infrastructure funding. This has led to a position where local industry has spare capacity and ample capability to deliver a larger infrastructure and capital works program, if supported by the ACT Government.

We also note that the ACT Infrastructure Plan has set out a long-term vision to build major health, education, transport and community infrastructure projects. While the actual delivery of some of these projects may occur more than five years away (and outside of the four-year budget period), funding should be allocated in the 2020-21 budget for initial studies, design and planning, so that these major infrastructure items can be delivered in line with the timing outlined in the ACT Infrastructure Plan, or sooner.

Finally, we would like to highlight that delivering an increased infrastructure and capital works program may be limited by Government's own administrative constraints. To deliver an increased infrastructure and capital works program, we would like to work with the newly established Major Projects Canberra business unit to identify ways to make the ACT Government's procurement system more efficient.

Land Release Program

Due to a combination of Government and market factors, including high land prices, macro-economic conditions, delayed approval timeframes, finance constraints and consumer confidence impacts, the rate of Government land sales has reduced over the last 12 months. There has been a consequential increase in available build-ready land awaiting sale.

While greater availability of build-ready land is welcomed by industry, if land sales continue to decline it will negatively impact the ACT budget.

Although there is some uncertainty as to whether these market conditions will continue for the short or medium term, due to the strong economic fundamentals of the ACT, and high population growth, land sales are expected to improve over the long term.

The current market conditions pose a dilemma for Government and the land supply program. On the one hand, if land release is slowed too much, when market conditions improve the ACT could again face a shortage of land supply. On another hand, continuing to supply land at rates that exceed demand, will lead to an excessive stock of developed land, requiring expenditure on maintenance and ultimately leading to land price falls.

This unenviable position is a result of Government's history of mismanaging the development and release of land.

To address this issue, it is recommended that the ACT Government focus on three high level responses:

- Land supply and sales be closely monitored, with sale prices, release strategy, estate presentation, lot mix, and affordable housing requirements adjusted to suit market conditions.
- The Housing Choices policy and Territory Plan variation be progressed as an urgent priority, so that a range of new housing types are provided to suit market needs.
- Opportunities for engloba land sales to the private sector be identified.

Regulatory burden, taxes, fees and charges

The building and construction sector is one of the most intensely regulated and taxed sectors in the ACT, and across Australia it 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 tax and regulatory compliance.

The 2019-20 ACT Budget increased the overall taxes impacting the sector (including land tax, rates and stamp duty) by \$62 million, from 48.9% of the Territory's total tax take in 2018-19 to 49.5% in 2019-20.

One of the most significant tax impacts on the building and construction industry, and other small business, is commercial rates. The Legislative Assembly has undertaken an inquiry into commercial rates. We request that the recommendations of this inquiry be implemented as a priority.

The industry is also still adjusting to the additional regulatory burden created by the introduction of the Secure Local Jobs Code and amendments to the Work Health and Safety Act. The impact of the Secure Local Jobs Code alone has resulted in a reduction of approved contractors eligible to tender for ACT Government work by around a quarter. The impact of amendments to the Work Health and Safety Act has created delays in the commencement of projects and additional compliance costs.

To address these issues, we request amendments to the Secure Local Jobs Code and Work Health and Safety Act be considered. Further, we request the opportunity to work with Government to streamline the administrative processes that apply to tendering for ACT Government work and find ways to reduce the compliance costs for all building and construction work.

Skills and Training

A skilled local population is critical in a modern international city. There were around 20,000 people employed in the building and construction industry in the ACT in May 2019, which represents around 8.7% 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 for other training organisations across Australia to 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.

We request that the ACT Government:

- 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
- Invest in public and not-for-profit registered training providers equally
- Invest in advancing the skills of and the retraining of workers in key identified areas through the provision of funding for non-accredited training, and
- Work with Federal governments to ensure the VET system delivers quality training outcomes.

ACT Government resourcing

It is important that the policy and budget priorities of Government be supported by an appropriately resourced and well-structured ACT public service which aligns to these priorities. While changes to Ministerial portfolios to combine responsibility for safety under a single Minister and building quality improvements to a single Minister is welcomed, other policy priorities such as housing affordability, infrastructure planning and delivery, and planning and urban renewal still report to multiple Ministers with responsibility split between multiple Directorates. Furthermore, the level of resourcing within each Directorate does not allow for the efficient and timely delivery of Government priorities.

Three key areas of Government are highlighted as being in urgent need for additional resources:

- Additional resources to ensure the required building quality reforms can be urgently implemented, and ongoing resources to ensure existing building laws are adequately enforced.

- Additional resources in WorkSafe ACT to allow the full and timely implementation of the review of the ACT's work safety, compliance infrastructure, policies and procedures.
- Additional resources in the development assessment team (within EPSDD) to ensure statutory assessment timeframes can be met in an environment where the number and complexity of applications is increasing.

Implementation of the Climate Change Strategy

The ACT Climate Change Strategy (2019-2025) has set out some of the most ambitious emissions reduction targets in the world. The Strategy outlines the next steps the community, business and Government will take to reduce emissions by 50–60% (below 1990 levels) by 2025 and establish a pathway for achieving net zero emissions by 2045.

The achievement of these targets will require adjustments by the building and construction industry, and may cause avoidable impacts on the industry, the cost of construction, and impact on the ACT economy, if the transition is not carefully considered by Government.

We request that funding be allocated in the 2020-21 budget and future budgets for building and construction industry pilot programs, that work towards helping industry transition to the targets set out in the Strategy. Such pilot programs may include, for example, research into the performance of existing housing stock, new dwelling construction, and the adaption of existing industrial and commercial buildings.

Conclusion

The MBA ACT welcomes the opportunity to contribute to the 2020-21 ACT budget. As the leading ACT industry association representing the building and construction 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. If you require any further information or clarification, I may be contacted on (02) 6175 5900.

Yours sincerely



Michael Hopkins
Chief Executive Officer