

Master Builders ACT

2016-17 ACT Budget Submission

October 2015



MASTER BUILDERS
AUSTRALIAN CAPITAL TERRITORY

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About the Master Builders Association (ACT)

The MBA ACT represents the interests of commercial builders, residential builders, civil contractors, suppliers/subcontractors and professionals. The MBA ACT is also a Registered Training Organisation and a Group Training Organisation. In preparing this submission, we have canvassed the views of our members from all 5 sectors for their input, conducted a member survey, and held a workshop specifically with subcontractor members.

Introduction

Thank you for inviting Master Builders Association of the ACT (MBA ACT) to make this submission to the 2016-17 ACT Government Budget consultation process.

Unkind but fair judgements on our city share much in common with many a high-school report card, with the errant teenager showing great potential but consistently failing to deliver.

We have twice been recognised by the OECD as the world's most liveable city, we are home to one of the world's top 20 ranking universities, we have Australia's most affluent and best educated population, we give rise to world beating ideas such as Bluetooth and enjoy world class buildings such as Nishi which won International Project of the Year at the 2015 Building Awards in London along with a fantastic airport. As anyone who lives here knows the list goes on and on.

Yet, despite world-wide and amply justified acclaim for her attractions as a city, Canberra continues to stagnate. We are below trend growth for Australia. Canberra remains a place that our children leave to seek opportunity.

This budget must seek to change this trend.

The first objective must be to empower the private sector and effectively decouple Canberra's economy from the vague political fortunes of the Commonwealth public service. We all recognise the excellent work these servants of the public do for our nation, but that reality won't stop them bearing the brunt of the next Commonwealth budget savings measure.

We need to recognise the untapped potential captured in our undisputed role of serving the nation's interests, while shifting the mind set to encourage the idea that, 'if the private sector can do it, it should'. This will deliver far better value for Australia's tax payers while also delivering exceptional opportunity for Canberra's private sector and our community more generally.

The ACT Government can start the cultural shift from within – actively seeking to engage the private sector on those discrete functions of government that can readily be performed by the private sector.

This submission advocates the ACT Government invest in 5 priority areas to *Build* Canberra into the place in Australia where good, hard working honest younger Australians chose to come and grow their families. A youthful city full of youthful promise.

Investment Priority 1: Build our Population

Central any economic growth policy should be an aim to grow the ACT's population. Over recent years population growth has stagnated, and at times declined, due to lacking opportunities. Diversifying our economy by growing the private sector is critical to growing our population. However people of working age will not be attracted if housing is unaffordable, or simply not available. Fixing the ACT's method of land release, increasing land supply and introducing competition to keep housing prices in-check are also critical issues.

Investment Priority 2: Build Local

Another immediate shift must come in ACT government procurement policy. Canberra's construction industry has come of age. We have no difficulty delivering world class construction

projects from hotels to our amazing airport, yet the ACT Government continues to actively exclude Canberra-based companies from all significant tenders. We don't need special treatment. We don't need protection. But our entire community should insist on our construction industry being allowed to compete for government work as it does for private work. We need our government to get over the cultural cringe that nurtures the jaundiced view that quality and certainty in construction can only come from outside of our borders.

A budget that empowers local businesses to honestly compete, for government functions as much as for construction projects, delivers huge value to our community: the dollars spent stay here (rather than disappearing across the border or overseas); the experience gained stays here; and, the community gets the only true long term guarantee of quality – Canberra businesses literally stand by their work while others quickly disappear.

Allowing local firms to compete for a pipeline of investment projects that is both transparent, long term and basically guaranteed will immediately boost both the confidence of, and investment in, the private sector.

Investment Priority 3: Build Infrastructure

Building infrastructure that underpins the long term future of the ACT is government's core responsibility. While 'hero' infrastructure such as the planned Metro Rail grabs the headlines, the ACT is lacking a long term and detailed infrastructure plan which provides certainty for investors, builders and civil contractors. Too often annual government budgets promise the world, and fail to deliver, only to see substantial portions of the infrastructure budget rolled forward to the following year. Other than politicians seeking to make short term announcements, this approach helps no-one.

We are not advocating stimulus spending to carry us through a bad patch. We are advocating real and long-term investment that will lay the foundations to transform Canberra from the 'town' even locals refer to, to a true global city state.

We can leverage our enviable AAA credit rating at a time of historically low cost. Every householder in Canberra knows the difference between loading up the credit card for living expenses, and borrowing to invest in a house. The difference between good debt and bad debt. Government needs to invest in good debt.

Investment Priority 4: Build Competition

Competition is key to a healthy and vibrant economy. In the ACT competition has been driven out of town by a government too focused on controlling the release and delivery of land; a militant construction industry too focused on looking after their own; and a large local NIMBY population too focused on the Canberra of the 1960's and resisting change at every opportunity.

Empowering real competition demands that government confront and defeat vested interests from Canberra's famous NIBMYs to our infamous construction union. Any voice that drives up costs, decreases productivity or promotes short term selfish interests must be tolerated but never encouraged.

Investment Priority 5: Build Skills

A skilled local population is critical in a modern international city. There were around 13,300 people employed in the building and construction industry in the ACT as at May 2015, 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 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.

MBA ACT 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.

Conclusion

For those that question our vision from Canberra, take the example of our closest city state neighbour in Singapore. Despite starting as a nation racked with racial strife, no water, no natural resources, pitiable security, very poor education and about a third of the land mass of the ACT, Singapore transformed itself from a broken backwater to a global powerhouse in a single generation. The heart of the policy platform was pragmatic, long term, inclusive and multicultural, heavily growth focussed but demanding in terms of anti-corruption, law and order and entrepreneurial agility.

By nearly every measure Canberra has vastly more potential in 2015 than Singapore had in 1959.

Like the potential laden teenager of the report card, this budget and a revitalised policy approach can launch Canberra into adult life and convert that potential to reality.

Investment Priority 1: Build our Population

Central any economic growth policy is growth in the ACT's population. As stated in the 2015-16 Budget Outlook for Canberra (page 18), *population growth in the ACT continues to moderate, in line with the subdued economic environment in the Territory ... The slowdown has mainly been driven by net interstate migration, which recorded three consecutive quarters of outflow from the ACT.*

Population growth will increase as economic activity in the Territory improves, and jobs are created. For this reason this submission recommends government focus on investing in the growth of the Territory to underpin population and economic growth. While specific actions are recommended in this submission, in general terms, the MBA recommends government:

1. Create a Territory taxation system which is efficient, nationally competitive and fair.
2. Ensure the tax system rewards entrepreneurship and reduces compliance costs for business, particularly small business.

The building and construction sector is one of the most intensely taxed in Australia, and bears a direct and indirect tax burden from all levels of government — federal, State and Territory and local. This high and onerous tax burden distorts investment decisions, discourages entrepreneurship and innovation, reduces business investment and employment opportunities, and diverts scarce resources into unproductive and unnecessarily costly tax compliance within a key sector of the Australian economy. These impacts, in turn, reduce housing affordability, increase housing stress and add to the fiscal burden on governments for housing assistance.

Housing Affordability & Housing Supply

The inter-related issues of housing affordability and housing supply are fundamental to increasing our population. A healthy, well supplied and affordable residential property market should be one of the ACT's competitive advantages which will help attract new businesses and their workers to the Territory. However our over-regulated and under-supplied housing market means that many new residents to the Territory can simply not find a suitable home to live in, or land to build on.

Key Recommendations:

1. Reform the planning system to allow a diversity of new housing stock (such as small houses, dual occupancies, and housing suitable for the aged) to be built in existing urban areas so that new housing supply meets the need of current and future households.
2. Substantially increases the supply of land for new housing so that a minimum of 6 months' supply is built and ready for purchase.
3. Maintain, and increases if possible, the current renewal program for public housing with new housing stock.
4. Maintain the First Home Owner-Grant at \$7,000, applied to new home construction.
5. Review the existing lease variation charging regime to encourage investment and redevelopment in areas such as Civic (to encourage redevelopment and refurbishment of aging office buildings), in district centres, and for targeted innovative employment generating projects.
6. Continue its tax reform program which commenced in 2012-13 and will result in the replacement of conveyance duty with general rates over a 20 year period, and insurance duty over a five year period.

Investment Priority 2: Build Local

The ABS has estimated that *for every \$1m spent on construction output (houses, non-residential buildings, etc.) ... a possible \$2.9m in output would be generated in the economy as a whole, giving rise to 9 jobs in the construction industry (the initial employment effect), and 37 jobs in the economy as a whole from all effects.* With the construction industry being the second most important industry sector in the ACT (after Public Administration and Safety), the government's procurement policy can have a profound impact how much of the benefit from construction investment is retained within the ACT.

The way infrastructure and capital works is procured by the public sector in particular has a significant impact on the efficiency of the industry, its capacity to deliver infrastructure and capital works and associated objectives such as employment and economic development. The framework of rules; policy on competition and local involvement; procurement planning and procurement processes; contracting methods; and relationships and communication with authorities have profound (positive and negative) effects on project outcomes and industry growth, stability and sustainability.

Canberra's construction industry has come of age. We have no difficulty delivering world class construction projects from hotels to our amazing airport, yet the ACT Government continues to exclude Canberra-based companies from significant tenders through the way public infrastructure and capital works are tendered.

ACT based contractors don't need special treatment. We don't need protection. But some rebalancing of tender rules is needed to ensure our construction industry is allowed to compete for government work as it does for private work.

Allowing local firms to compete for a pipeline of investment projects that is both transparent, long term and basically guaranteed will immediately boost both the confidence of, and investment in, the private sector.

Key Recommendations:

1. That Government review tender rules to ensure local contractors are not inadvertently prevented from tendering for local building and civil construction projects.
2. That Government tender rules give recognition to contractors which retain local experience, so that so that skills and experience are not imported when major infrastructure projects are delivered.

Investment Priority 3: Build Infrastructure

A commitment to building infrastructure that underpins the long term future of the ACT is government's core responsibility and central to a high performing Territory economy.

But the provision of infrastructure in isolation of a city strategic plan is inefficient and sends mixed messages to potential investors. Infrastructure planning must be strategic. Strategic planning is critical to community amenity and lifestyle and to the building of a better future for Canberra. The city centre and the town centres in particular need strategic plans to articulate clear visions for urban outcomes and the quality and character of development. These strategies must be underpinned by infrastructure implementation plans and milestones to include enabling capital works and public projects. Key capital infrastructure supporting the expansion and upgrade of our city provides financial certainty, builds employment opportunities and strengthens the broader economy. Without strategies and associated infrastructure, Canberra limits investment attractiveness and opportunities for local business are limited.

Infrastructure planning must have a long horizon to provide certainty to investors, builders and the community. MBA has previously advocated for a 30 year strategic infrastructure plan with a four year implementation program complete with critical milestones - aligned to an ACT Government's term of office. We believe such plans will restore confidence and provide a 'light at the end of the tunnel' for the building and construction industry.

Infrastructure planning must align with the land release program. To make most effective use of scarce public resources, the infrastructure plans should align with other government plans, in particular the land release program. Where land release is delivered by the private sector, the provision of lead-in infrastructure funded by the government can provide valuable confidence and direction for private investment.

Infrastructure plans must be delivered. Too often annual government budgets promise the sky, and fail to deliver, only to see substantial portions of the infrastructure budget rolled forward to the following year. Other than politicians wanting to make short term announcements, this approach helps no-one. The building and construction industry relies on ACT budgets to plan its workforce and pipeline of future work. The annual cycle of project announcements, followed by long periods of waiting for government and internal approvals, does not allow the private sector to efficiently plan in advance to deliver the Territory's infrastructure needs.

Key Recommendations:

1. The ACT Government appoint an Infrastructure Panel charged with developing a 30-year forward plan for infrastructure with a four year implementation program complete with critical milestones.
2. Ensure the forward plan for infrastructure aligns with the land release program, with lead-in infrastructure funded by government.
3. Communicate the forward plan for infrastructure with industry, contractors and potential investors to ensure all stakeholders can prepare in advance to deliver planned infrastructure within required timeframes.
4. Government implement a more efficient process of bringing infrastructure projects from planning to delivery, so that the delays currently experienced are avoid or minimised.

Investment Priority 4: Build Competition

Competition is key to a healthy and vibrant economy. In the ACT competition has been driven out of town by a government too focused on controlling the release and delivery of land; a militant construction industry too focused on looking after their own; and a large local NIMBY population too focused on the Canberra of the 1960's and resisting change at every opportunity.

Empowering real competition demands that government confront and defeat vested interests from Canberra's famous NIBMYs to our infamous construction union. Any voice that drives up costs, decreases productivity or promotes short term selfish interests must be tolerated but never encouraged.

Land Release

A long term release of land for new house construction is the lifeblood of the residential building sector. Regardless of the best efforts by government, for around 2 decades, a stock of land ready for purchase and house construction has not been available. When land does become available, it is usually flooded to a land-starved market, followed by another long period of land drought.

The current method of releasing land for housing must improve.

With the exception of the recent sale of Denman-Prospect to a private developer, the majority of new residential land has been developed, marketed and sold by the government owned Land Development Agency. Government's own budget papers reveal the government's overhead cost to run the agency is 12.5%, around double of the overhead cost paid by a private developer. But delivery of land by the private sector is not only more efficient, the private sector is more nimble to deliver land to meet market needs, and more innovative. Further, if government releases land to locally based private developers, the multiplier benefit from the construction activity will be retained in the ACT.

CFMEU

As has emerged in the Royal Commission into Trade Union Governance and Corruption, there would appear to be significant levels of union-coordinated market manipulation in the ACT's commercial construction industry. More than fifty witnesses gave evidence in July 2015 in Canberra about alleged threats by the ACT CFMEU to exclude competitors from the commercial construction industry unless they met various union demands.

Those demands vary, but allegedly include that businesses enter into pattern enterprise agreements, pay for union memberships, make 'donations' to union or related entities etc, and (in the case of one former ACT CFMEU official) even cash payments. While the demands vary, the central alleged threat appears to be the same: threats against contractor's livelihoods – i.e. meet the union demand or else 'you won't work in the commercial construction industry'. These alleged threats of market-exclusion are said to be enforced through interference with clients, workplace disruption and verbal and physical intimidation.

The evidence led before the Royal Commission supports Master Builders ACT's 2015 submission to the Royal Commission, which detailed the results of an anonymous member survey, some of which are replicated below:

- 58.4% of approximately 100 respondents reported threats by the CFMEU to exclude the Master Builders member from the market if they did not agree to the CFMEU's pattern EBA;

- 32.29% of approximately 100 respondents reported being asked to make ‘donations’ to the CFMEU or related business entities in exchange for ‘industrial peace’, with 7% reporting being asked for outright bribes;
- 51.6% of approximately 100 respondents reported being told by the CFMEU that they could not perform work unless their employees / subcontractors joined the CFMEU;
- 41% of approximately 100 respondents reported physical intimidation by the CFMEU, while
- 71.8% of approximately 100 respondents reported verbal intimidation by the CFMEU.

The effect of the ACT CFMEU’s behaviour appears to lead to the creation of union-coordinated construction cartels, a matter now being investigated by the Australian Competition and Consumer Commission. While hard to calculate, this is generally considered to artificially inflate construction costs by approximately 20-30%, not only because of the various demands extracted by the ACT CFMEU, but more significantly due to reduced competition by emerging small to medium size businesses, which cannot afford to meet union demands and are excluded from the market. Indeed, such corruption tends to impact disproportionately on smaller subcontractors (such as those who have given evidence to the Committee) and to entrench the grip of larger competitors on the commercial market.

The 2016-17 Budget consultation paper reports that the government has committed to a \$2.8 billion capital investment program. Because of inflated construction costs resulting from CFMEU-led anti-competitive behaviour, the government (and consequently the ACT community) is delivering the capital investment program at grossly inflated construction prices. Without these inflated prices a substantial part of the ACT budget deficit would disappear, or could be invested in the economic growth of the city.

The community should be outraged at this level of waste. The government must do its part to help rid the construction industry of these anti-competitive forces.

Housing diversity - NIMBYs

Delivering a diversity of housing which meets the changing needs of Canberra’s households is an important part of positioning the ACT as a globally competitive and attractive city to live and work. Traditionally housing in the ACT is focused on new detached housing on the urban fringe, and high density apartments in centres. However, housing types such as dual occupancies, town houses, and units are not being delivered in the numbers needed to meet demand. An increasing demand for a variety of housing forms is being reported, particularly in the inner South and inner North districts. However, too often these areas have the highest levels of community opposition. This ‘NIMBY’ attitude forces purchasers to often unsuitable and expensive housing on the urban fringe or in high density apartments.

Key Recommendations:

1. The ACT land release program be overhauled, and future new land release areas be released to the private sector.
2. That the current method of identifying land release targets be more sophisticated. Targets should be identified for low density (detached housing), medium density and high density housing, and the targets aim to deliver sufficient supply to meet demand plus 6 months of supply for each segment within 2 fiscal years.
3. Review community consultation processes and third party appeal rights for urban infill projects, with a view to making it easier for urban infill projects to be delivered throughout the ACT. Planning and design controls which discourage low to medium housing options in suburban areas should be lifted.

Investment Priority 5: Build Skills

The building and construction industry is a large sector of the ACT economy, and also has constantly changing training needs. Advancements are currently occurring in construction technology, methodology, safety and sustainability as well as the internationalisation of the industry at large. Specialised training in new and innovative construction techniques and methodologies in particular requires increased future investment. This results in changing needs and delivery of education and training to maintain skills of current industry professionals and offer opportunities for new entrants into the construction industry.

The majority of training for the building and construction industry is provided by private training organisations, and in Canberra, by the ACT government owned, Canberra Institute of Technology (CIT). MBA Group Training has grown to become one of the largest, most successful, and highly regarded local providers of construction industry training. While we believe our focus on quality training will serve the long term interests of our industry best, not all of our competitors agree. 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.

To ensure that the government's investment in construction industry training (both directly to CIT and via subsidy's to MBA and others), we urge government to increase its focus on the quality of private training providers. We encourage government to hold to account those providers not serving the best interests of their students, and ultimately our industry, and the Territory.

To assist quality training providers, funding received from the Territory government through the Apprentice Training Fund for user choice and skilled capital funding is vital. We urge government to maintain this level of funding to ensure the construction industry is supplied with quality apprentices to meet demand.

Key Recommendations:

1. That government maintain the current levels of Apprentice Training funding.
2. That government provide some seed funding to private training providers to help establish a system of Continuing Professional Development training to maintain the skills and quality of existing construction industry workers.

Conclusion

The MBA ACT welcomes the opportunity to contribute to the 2016-17 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 diversity economy, and strong private sector economy, 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.

A handwritten signature in blue ink, appearing to read 'Michael Hopkins', with a long horizontal flourish extending to the right.

Michael Hopkins
Deputy Executive Director