

17 November 2023

LET6952.pb.jh.Exdir 2023

Hon Cameron Dick MP
Queensland Treasurer and Minister for Trade & Investment
GPO Box 611
Brisbane QLD 4001

Email: treasurer@ministerial.qld.gov.au

Dear Treasurer

I am writing on behalf of Master Builders' membership in relation to the 2024-25 State Budget, in particular measures to help ensure the building and construction industry is well placed to deliver the homes, hospitals, schools, Olympic venues and infrastructure Queenslanders need.

The Queensland building and construction industry is one of the largest providers of jobs, employing over 292,000 Queenslanders. In the last financial year the output from the construction industry totalled \$52 billion. Every \$1 spent on construction then goes on to generate \$3 of wider economic activity.


The construction industry makes up the largest number of Queensland businesses and is heavily weighted towards small and micro business, with over half turning over less than \$200,000 each year.

Over the short to medium term the Queensland construction industry will be called on to deliver an unprecedented pipeline of projects including:

- a 20 percent uplift in housing delivery to meet Queensland's share of the National Cabinet housing targets
- venues and associated works for the 2032 Brisbane Olympics
- the Government's health capital works program
- renewable energy projects
- water projects.

This must be achieved through what is expected to be continued turbulent conditions, with continued labour shortages, construction material price uncertainty, ongoing regulatory changes and extreme weather conditions blowing out construction budgets and programs.

Added to this is the required transformation in construction practices, including the products used, needed to meet the net zero targets.



The challenges to come add to a decade of change, causing cost and stress to an industry that must be sustainable to retain Queensland's strong economic status. The most recent data from the Australian Bureau of Statistics records that general construction costs in Queensland have increased by 32 per cent over the past three years, while the cost to build a house has increased by 45 per cent over the same period. In the same time period the average time from approval to completion for new houses and apartments in Queensland blew out by 3 months. They are now taking 10 months and 29 months respectively.

The challenges have already forced a number of builders into business closures (whether by insolvency or voluntarily) and we are concerned that there are more to come. We need more skilled, experienced participants in our industry, not less.

We are urging the Government to work together with the building industry to ensure that construction costs and build times are managed wherever possible. This needs to start with investing in offsets to the costs to new construction added by the increasing regulatory burden.

We therefore ask that as you frame the 2024-25 State Budget you incorporate the matters set out in this submission, not only for the benefit of the building industry, but as an investment in helping to ensure Queensland has the future buildings and infrastructure that it needs.

Specifically, we are asking for:

1. Tax and investment settings to address the housing crisis
2. Building industry business improvement grant
3. Resilient buildings – strengthening existing at risk homes
4. Carbon reduction - improving energy efficiency of existing buildings
5. Modern Methods of Construction - supporting industry transition
6. Building our industry – supporting new apprenticeships
7. Free access to Australian Standards.

Our submission aligns with the three priorities for Government in growing the economy, namely: more jobs in more industries; delivering better services; and protecting the Queensland lifestyle.

1. Tax and investment settings to address the housing crisis

One of the levers that the Queensland Government has to help manage the spiralling cost of new housing is State-based taxation.

Payroll tax

Government should consider taxation relief for small businesses in our sector, as this is a constraint to productivity in an industry impacted by rising costs and increased regulatory burden.

In particular, the budget should consider raising the threshold for payroll tax for small businesses.

Transfer duty & new builds

Transfer duties (stamp duties) discourage the turnover of housing, distort choices between renting and buying, as well as acting as a disincentive for the ageing population to downsize. The result is reduced investment in the housing market. Master Builders believes that changes are necessary to lower this burden and refocus housing demand and incentivise new builds. The budget should therefore introduce a transfer duty concession for new builds.

The WA government has set an example with its Stamp Duty Concession for Apartments Under Construction to encourage more unit developments.

The most recent building approval data for units in Queensland spiked an unprecedented 296 per cent over September. This followed tax reductions for units (build to rent tax concessions and Brisbane City Council infrastructure charges reductions), showing just how powerful a tool tax concession is.

Transfer duty 'double-dip'

The budget should also bring an end the 'double-dip' on stamp duty arrangements for new residential development. That is transfer duty should only be paid once on the land and the cost of construction should be exempt from transfer duty.

For a typical house and land package, a builder buys the land, paying transfer duty on the purchase price. When the builder's customer purchases the completed house and land package, they again pay transfer duty, this time on the combined cost of the house and land. The result is that transfer duty is paid twice on the land as well as the cost of construction.

If the same house and land package were to be delivered through separate land and construction contracts the transfer duty would only be paid once, on the land. There is no transfer duty payable on the cost of construction.

This double-dip in stamp duty for 'house and land' packages is an additional \$16,000 for an investor and \$9,000 for a homeowner on a \$500,000 project. This often makes them unviable.

The budget should:

- raise the threshold for payroll tax for small businesses
- reduce transfer duties for new builds
- bring an end the 'double-dip' on transfer duty arrangements for new residential development. That is transfer duty should only be paid once on the land and the cost of construction should be exempt from transfer duty.

2. Building industry business improvement grant

Building industry businesses have experienced enormous stress in the past few years, with COVID, the HomeBuilder-stimulated 'profitless boom', hyper-escalation of materials and labour combined with fixed price contracts and shortages leading to delayed completions, increasing insolvencies, and significant changes to building rules. Building industry businesses have also incurred increased overhead costs due to increasing regulatory requirements, including most recently substantial changes as a result of National Construction Code changes.

An environment of low margins and high risk mean that the construction industry has low investment in research and development and is slow to adopt new technology, leading to lagging productivity.

Improved literacy in computer accounting software can be linked to improved small business profitability¹. Other more advanced software solutions can also increase productivity. A recent report commissioned by Payapps² found enhanced digital adoption can improve cashflow and productivity.

By improving business processes, we believe building industry businesses will be better able to improve productivity and be more likely to have higher business profits and pay accounts on time, leading to improvements throughout the supply chain. It is important for small businesses to be trained in the software to obtain the benefits.

Given the increasing administrative burden placed on building contractors, most of which are small and micro businesses, we believe the Queensland Government could show its support for the building industry, and simultaneously improve productivity and cash flow in this vital sector, by providing a grant program for business improvement software.

The grants should be non-competitive with a simple application process, specifically for building industry businesses to adopt business improvement software. A timeframe for applications could be set to provide certainty of expenditure each year.

It is proposed the Queensland Government provide funding (up to \$5,000 per business per year for the life of the program) for building industry businesses to purchase software solutions that will improve business processes, as well as training in use of the software. Examples of business improvement software could be MYOB, Xero, Payapps, Procore, C2CPro, Cordells, and project trust account software solutions.

¹ M. Belle Isle, B. Freudenberg and T. Sarker (2022), Top of the Grade: Factors that could influence small business literacy, *Journal of Australian Taxation* (24)(1): 5 – 34

² Payapps, Resilience in Construction Research Report for 2023

It is acknowledged there are small business grants available, some of which could relate to business improvement software. However, those programs (that could potentially relate to business improvement software) are competitive grants with restrictive criteria, not specifically related to the building industry and not specific to business improvement software.

We have consulted with the Queensland Small Business Commissioner who is supportive of this proposal.

The budget should:

- provide a 4 year program of grants of up to \$5,000 each year for small-to-medium enterprises in the building industry to adopt business improvement software.

3. Resilient buildings – strengthening existing at risk homes

Disaster resilience of our homes is increasingly important to withstand floods, bushfires and cyclones. Improving the resilience of homes before an event is a cost-effective solution to help mitigate the rising cost of disaster recovery.

The Government's Resilient Homes Fund retrofit program supports homeowners who experienced damage from Queensland's major flood events in 2021 and 2022. Similarly, the Household Resilience Program is a successful government initiative in the north of our State to help homeowners improve the cyclone resilience of their homes.

The existing resilience programs should be expanded to cover all 'at risk' properties and made permanent to help Queenslanders prepare their home and create a culture of resilient building across the State.

The budget should:

- expand existing home resilience funding programs to cover all 'at risk' properties and be made permanent to help Queenslanders prepare for natural disaster impacts.

4. Carbon reduction - improving energy efficiency of existing buildings

Existing homes

Existing homes contribute approximately 12 per cent to carbon emissions and yet are largely an untapped opportunity when it comes to reducing emissions. At the same time a lot has been learnt from the increased mandates for energy efficiency on new housing in the National Construction Code.

There are approximately 2 million dwellings in Queensland based on census data. There is an enormous potential in upgrading existing homes to reduce our overall carbon emissions.

COAG undertook the Report for Achieving Low Energy Existing Homes³ back in November 2019. The report targeted existing homes of which the majority rate below 3 stars under the National House Energy Rating Scheme (NatHERS). “This large number of homes with poor energy performance provide a significant opportunity for improvement.”⁴

Queensland’s Household Resilience Program has shown the improvements that are possible in existing dwellings with some direction and seed funding from Government.

Master Builders recommends that a program be made available to homeowners looking to upgrade or renovate their home to include additional measures that improve the energy efficiency of the home and reduce their carbon footprint.

The program should consist of a Queensland Government rebate program for homeowners looking to have their home assessed under the Residential Efficiency Scorecard. This is a national, government program (endorsed by the Queensland Government) that assists homeowners to understand which upgrades or renovations would increase the energy efficiency their home (it looks at items such as insulation, improved air tightness, improved glazing, and additional window shading/covers).

Rebates could also be made available to undertake some of the improvement work recommended in the assessment. This should include a requirement to engage a licensed builder or trade contractor (to ensure the work is covered by the Queensland Home Warranty Insurance Scheme and is carried out by a qualified person).

The program would be supported by information tools to guide homeowners.

³ <https://www.energy.gov.au/publications/report-achieving-low-energy-existing-homes>

⁴ Page v

Existing small commercial buildings

We also submit that a rebate program should also apply to small businesses owning or long-term leasing commercial buildings to incentive greater energy efficiency of these buildings.

The budget should:

- include funding for a rebate for homeowners to increase the energy efficiency of their home by undertaking an assessment under the Residential Efficiency Scorecard and then to undertake the upgrades recommended in the assessment (with a licensed contractor)
- include a rebate program for small businesses owning or long-term leasing small commercial premises to increase the energy efficiency of these buildings.

5. Modern Methods of Construction – supporting industry transition

In its Olympics and Paralympics legacy submission, Master Builders called for an innovation centre to be established, both physical and virtual, to support the Queensland building industry transition to greater adoption of Modern Methods of Construction (MMC)⁵.

We are an industry facing skilled labour shortages, an acute housing shortage, unpredictable weather, net-zero targets and a massive infrastructure program of work, all requiring new and more efficient ways of constructing.

MMC is one pathway to address our challenges - encompassing a systems-thinking approach and digitalisation, along with greater use of prefabricated buildings and building components manufactured offsite.

A focus on locally-manufactured building components made from sustainable materials can greatly improve the industry's productivity and support the achievement of net-zero targets. Less embodied emissions in materials, less freight emissions, and less construction waste can result.

Prefabricated building components, such as wall systems, and floor and roof cassettes, can greatly reduce construction timeframes.

The Queensland Government has already taken the step of establishing a Rapid Accommodation and Apprentice Centre in Brisbane with another to be established in Cairns. Further expansion of

⁵ www.mbqlld.com.au/data/assets/pdf_file/0024/243645/Submission-Olympics-and-Paralympics-legacy-Jun-23.pdf

training and innovation opportunities, including embracing prefabricated building components in addition to volumetric offsite construction, while complementing the work of Building 4.0 CRC, is required to achieve the required efficiencies.

The Construction Training Centre has submitted to Minister Farmer a Business Case in support of a Construction Innovation Hub, which is supported by Master Builders as it aligns with our proposal in our legacy submission.

This can be amplified by Government signalling to the private market its intention to support prefabricated building components in construction. This could be through an Economic Development Queensland pilot project.

The budget should:

- provide funding for a Construction Innovation Hub in accordance with the Business Case submitted by the Construction Training Centre.

6. Building our industry – supporting new apprenticeships

With the enormous pipeline of work ahead of us in Queensland, we must ensure a strong pipeline of apprentices are entering and remaining in our sector.

Acknowledging the assistance already in place, to incentivise businesses to take on more apprentices in our State, the Queensland Government should supplement existing programs and further subsidise apprentice wages in the construction industry.

A 50 per cent rebate on first year apprentice wages would assist businesses to make the decision to take on an apprentice.

The budget should:

- subsidise construction industry apprentice wages through a 50 per cent rebate on first year wages.

7. Free access to Australian Standards

Over 100 Australian Standards are referenced in the National Construction Code (NCC). It is not possible to comply with the NCC without access to relevant Australian Standards.

In Queensland, the NCC is referenced in the *Building Act 1975*, therefore the Australian Standards referenced in the NCC are part of the legal framework for building and construction.

Yet, it is not possible to read Australian Standards without paying a subscription. The lowest cost option for referenced Standards is currently through a 'NCC Primary References Set' available at a cost of \$1090.58 p.a..

The Australian Building Codes Board (ABCB) is responsible for the development of the NCC and is formed by Intergovernmental Agreement. Under the current agreement (2020), the States, territories and Commonwealth collectively invest \$8 million p.a. in Australia's construction code. Queensland's contribution is \$725,000 for 2022-23.

With a new agreement due, Queensland should look to increase the contribution each Australian government to better place the ABCB to undertake its important role.

Increased funding would also create an opportunity to provide free access to Australian Standards referenced in the NCC.

Standards Australia reported in its Annual Review that in 2022 it had operational costs of \$55 million per annum and that the Building and Construction sector made up 17 per cent of the work of Standards Australia. Therefore, the proportion of the operational costs for Standards Australia that can be subscribed to building and construction can be rounded to \$10 million p.a.. An additional cost is the extensive, dedicated resources and expertise provided by industry to the development of Standards, at industry's own cost.

For Australia's 105,377 building construction businesses, the cost of accessing Standards would exceed \$115 million per annum (based on the 'NCC Primary References Set' at \$1090.58 a year, excluding consideration of additional costs for those who do not meet the small business qualifier). This is more than twice the current total operational costs of Standards Australia.

A far more efficient option would be to provide the \$10 million Standards Australia needs for the building and construction industry, shared amongst all governments. For Queensland this would increase Queensland's contribution the ABCB to just \$1,632,330 p.a.

The budget should:

- allocate additional funding to the ABCB for Queensland's share of the required payment to Standards Australia for those Standards referenced in the NCC to be freely available.

Summary

If the construction industry is to be able to deliver the housing and infrastructure a growing Queensland needs and to continue serve as the cornerstone of our economy, there needs to be additional support from Government and offset to the additional regulatory challenges that are being imposed.

Government can work with industry to achieve productivity improvements, including collaborative project approaches on its own contracts, free access to applicable laws (referenced Australian Standards), lessening taxation burdens, supporting transition to changed construction methods, and attracting skilled workers.

Government can also support industry by providing rebates for home renovations to improve energy efficiency and rebates to homeowners where compliance with NCC 2022 comes at an excessive cost (e.g. Queenslander-style homes). Small and micro grants targeting productivity can make a marketed improvement to the sustainability of our industry.

A strong industry is essential to our economy and our Queensland way of life. We look forward to continuing to work with the Queensland Government in supporting the building industry in our State.

Regards,

Paul Bidwell
CEO

Copy to: Hon Mick de Brenni MP, Minister for Energy, Renewables and Hydrogen and Minister
for Public Works and Procurement