

8 April 2019

Hon Jackie Trad MP
Deputy Premier, Treasurer and Minister for Aboriginal and Torres Strait Islander Partnerships
GPO Box 611
Brisbane QLD 4001

Email: treasurer@ministerial.qld.gov.au

Dear Minister

I am writing on behalf of Master Builders' membership in relation to the 2019-20 State Budget, in particular measures to drive activity in both the residential and commercial construction sectors.

2019 is turning out to be a challenging year for the building and construction industry, which is facing deteriorating economic conditions along with significant changes in government policy at both a state and federal level.

We expect the residential sector to slip from the 42,000 dwelling commencements in 2018 to under 40,000 in 2019. The drop will be largely in the detached housing sector, with the impact felt right across the state. The latest building approvals saw approvals for areas outside South-East Queensland drop to their lowest levels in 15 years and Queensland approvals sitting at their lowest level since 2014.

Tightening in finance requirements is largely to blame and while we have previously hoped that solid underlying market fundamentals of employment growth and an increasing population might help mitigate against the contraction, the latest figures prove the problem persists. This is of significant concern particularly for regional Queensland.

Non-residential construction is also struggling. Demand in the most important segment, retail and wholesale trade buildings, is expected to decline significantly over the year. Investment in the tourism industry has passed its peak and work on aged care facilities will also fall away in 2019.

The signs of recovery that we saw in early 2018 are officially gone, making it more important than ever before to consider measures to stimulate demand.

As we move into the new financial year, we are urging the Government to do more to ensure that the building and construction industry can continue its role as the cornerstone of the Queensland economy. We therefore ask that as you frame the 2019-20 State Budget you consider the following.

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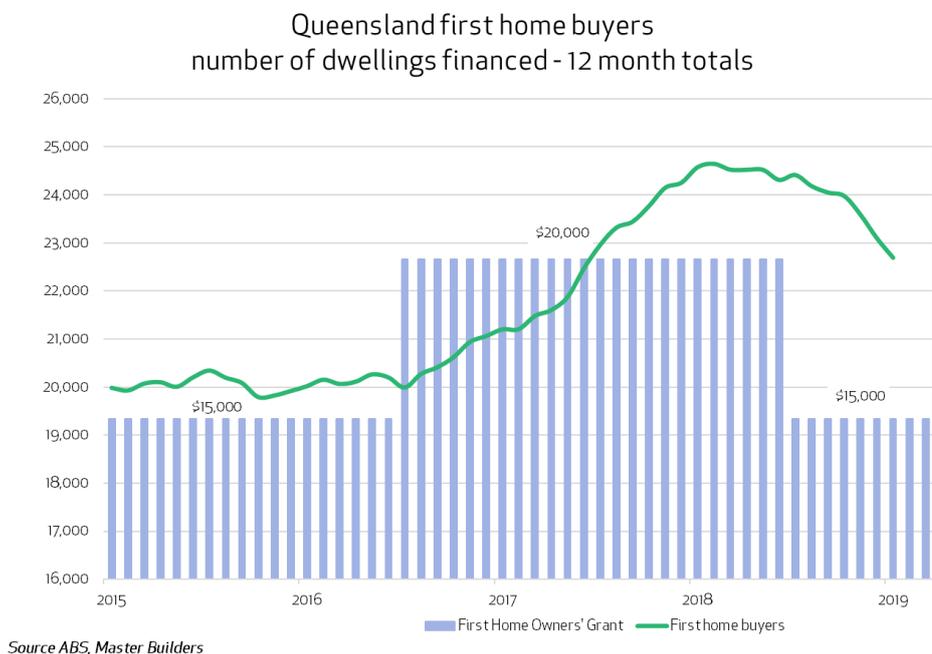
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First Home Owners' Grant

The boost in the Queensland First Home Owners' Grant (FHOG) to \$20,000 was an important tool in bringing first home owners into the market, but it came to an end on the 30 June 2018.

The correlation between the boost to the FHOG and the number of first home buyers entering the market is striking as illustrated by the graph below. During the two years it was offered, there was a 48 per cent increase in the number of grants, with a large number of these in regional areas.



Building approvals for new dwellings in regional Queensland are now at the lowest they've been in over 15 years and since the current regional data reporting commenced.

Our regions need support to get building again. A return of the boost would help regional Queenslanders get into their first home as well as providing a much needed 'shot in the arm' for regional businesses.

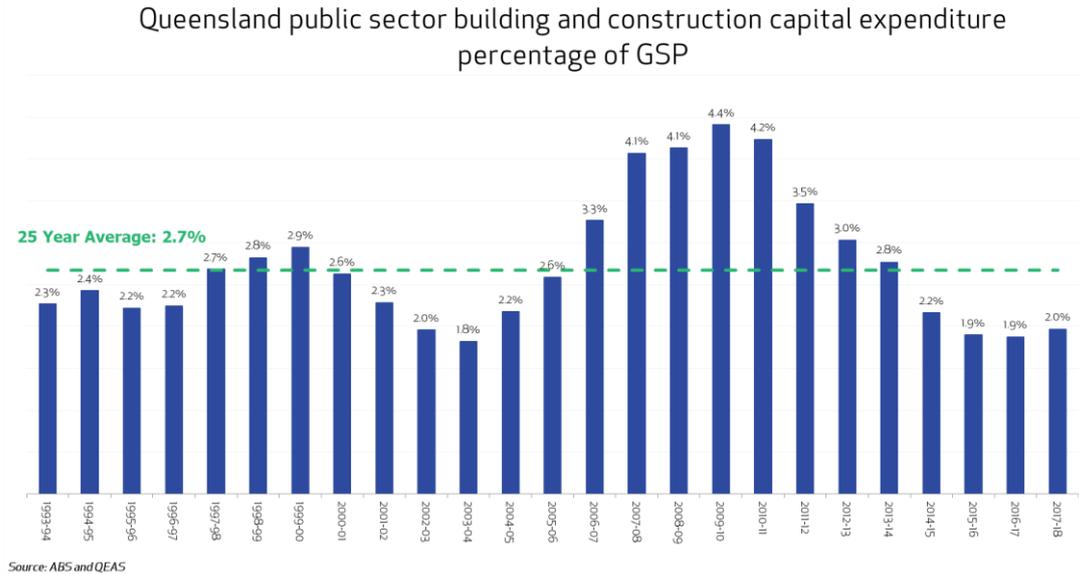
Our recommendation: Master Builders strongly urges the Government to bring back the boost to the FHOG for regional Queensland.

Capital Expenditure

Investment in public buildings and engineering construction represents an investment in the future prosperity of our state: it is vital to the Queensland economy and the building and construction

industry. Capital expenditure on public buildings and engineering construction positions Queensland for economic growth and is essential if we are to meet the needs of a growing population spread across our large state.

In contrast, while Queensland has continued to grow (and with it the need for new schools, hospitals and other infrastructure), our investment in public buildings and engineering construction has fallen. Since 2009-10, spending has decreased from 4.4 per cent of Queensland gross state product to 2.0 per cent in 2017-18. One quarter below the 25-year average of 2.7 per cent (as illustrated in the chart below).



For 2017-18 alone this has meant a spending shortfall of \$2.5 billion from the 25-year average.

Employment and training outcomes cannot be sustained in the face of such a significant drop in State Government spending. Skilled workers developed by Queensland construction companies are following the work and relocating across the border. We cannot expect this workforce to return to Queensland without continued opportunities for stable work. This need is made even more urgent, as the commercial sector comes off the record high demand for inner city units. The industry is ‘geared up’ and looking for new sources of work. If this fails to eventuate more capacity and jobs will be lost to the southern states.

Our recommendations:

- **Set spending benchmarks**

To ensure that a growing Queensland continues to have the buildings and infrastructure it needs, and the construction industry can provide long-term employment opportunities, we are calling on the

Government to establish a **Queensland Public Sector Building and Construction Capital Expenditure Benchmark**. The benchmark should be set at the 25-year average of 2.7 per cent of gross state product.

This would mean an additional \$2.5 billion annual expenditure on top of the \$6.9 billion spent on public sector building and construction (residential and non-residential buildings together with engineering construction) in 2017-18. A spend which was just 2.0 per cent of gross state product.

We also recommend a **second benchmark, for the public (residential and non-residential) building component** of the total spend. This should also be set at the 25-year average which for this component is 0.6 per cent of gross state product. This would mean an additional \$1.1 billion annual expenditure on top of the \$1.1 billion spent in 2017-18.

- **Ensure allocated budget is spent efficiently and identify a clear pipeline of projects**

In addition to allocating more funding for building and construction projects, the Government must ensure that the money allocated in its budget is spent.

Analysis of Queensland Budget Paper No. 2 over the past four years (to 2017-18) reveals just over four in every five dollars have been delivered against the budgeted amount for capital purchases. Cumulatively, the Queensland public sector underspend for capital purchases amounts to over \$6.1 billion across this period.

The money the Government spends must also be to the greatest effect. Bid costs for Government tenders need to be minimised. This can be achieved by carefully quantifying the costs of additional requirements as a result of the Queensland Government's new procurement policy.

A clear pipeline that incorporates all projects for all government agencies, in one location, will help industry to plan their tender and procurement processes.



We believe that together, avoiding new taxes, returning the boost to the FHOG in regional Queensland, increasing capital expenditure and committing to spending allocated budget will increase demand for new construction, creating a wave of investment and jobs.

These changes will place Queensland in a stronger position to attract more interstate and international investment.

We look forward to continuing to work with you towards building a stronger, prosperous economy for Queenslanders.

Regards,

Grant Galvin
CEO

