MASTER BUILDERS. QUEENSLAND

The home of building

20 April 2018

Hon Jackie Trad MP
Deputy Premier, Treasurer and Minister for Aboriginal and Torres Strait Islander Partnerships
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Dear Minister

I am writing on behalf of Master Builders' membership in relation to the 2018-19 State Budget, in particular measures to drive activity in both the residential and commercial construction sectors.

While pockets of the building and construction industry are performing strongly, challenges remain. In the south east, building approvals are trending down and while many of the regions are seeing an increase in demand, this comes off a low base. Likewise, the non-residential sector is experiencing some improvement, but again off a low base.

Many investors have left the market as lending constraints bite and owner-occupiers often struggle to afford new housing. Builders are responding to the affordability challenge by squeezing margins, often to razor-thin levels.

These practices are not sustainable: we need to find new ways to drive down or at least contain the cost of new construction. In doing this, the Queensland Government needs to consider the role it plays in the adding to the cost of construction. In fact, there are reports that anywhere between 20 and 40 per cent of the cost of a new home is made up of government taxes, duties, levies and charges.

We need to find ways to stimulate demand, especially for those builders who are looking to maintain their employment and training commitments to staff in the wake of the downturn in unit construction. As a major client, Queensland Government has an important role to play here.

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 in its role as the cornerstone of the Queensland economy. We therefore ask that as you bring together the 2018-19 State Budget that you consider the following.

Waste Levy

The 2018-19 State Budget is expected to contain details of a new Queensland waste levy. Master Builders is opposed to the introduction of such a levy due to the significant additional expense it will add to the cost of new construction. Builders are already incurring significant cost and time in responsibly managing waste on construction sites. The levy would be an additional cost.

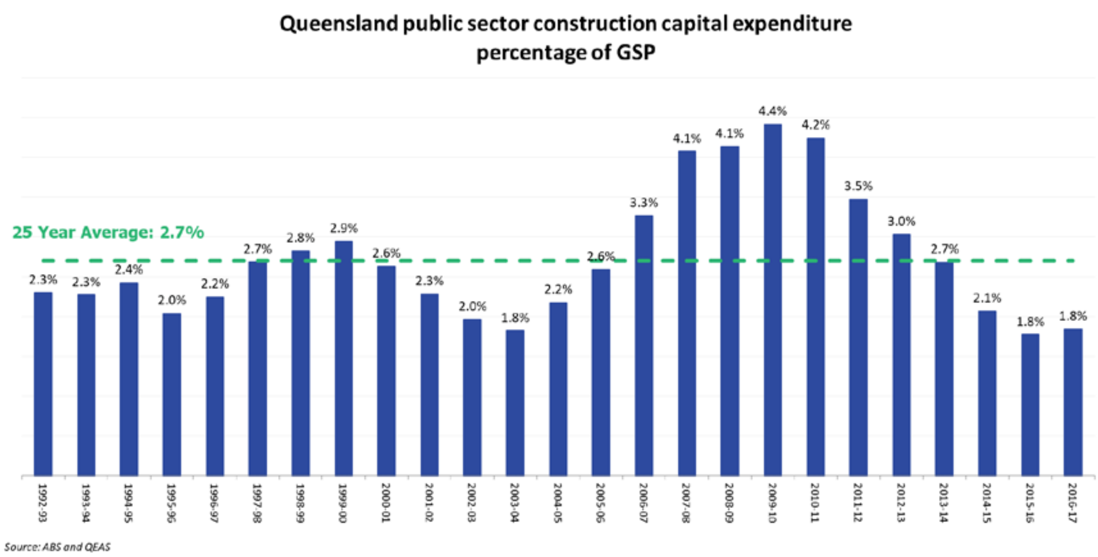
Regulatory requirements, which can appear sensible on the surface, can have prohibitive cost implications and a waste levy is a clear example of this. For example, if the Queensland levy is similar to the New South Wales $138 per tonne levy, this could add a further $2,000 to the cost of a new home in Queensland. For a home buyer, especially in the regions, a cost hike of this scale may be the difference between being able to secure a mortgage and not.

Our recommendation: Before introducing a waste levy, the Government should first quantify the full cost and provide evidence of a clear net benefit to the community. If there is evidence of a net benefit then Government must ensure the cost is not unfairly borne by new homebuyers or those investing in new construction either directly or indirectly.

Capital Expenditure

Investment in public buildings and engineering construction represents an investment in the future prosperity of our state: it is vital to our Queensland lifestyle, the 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 along with that 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 1.8 per cent in 2016-17. One third below the 25-year average of 2.7 per cent (as illustrated in the chart below).



For 2016-17 alone this has meant a spending shortfall of $2.9 billion from the 25-year average.

The building and construction industry, as a major contributor to the Queensland economy, has been the first to experience the effects of this falling investment. While the need for new schools, hospitals and other infrastructure continues to grow, the Government's investment in them has gone backwards.

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 now, 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 $2.9 billion annual expenditure on top of the $6 billion spent on public sector building and construction (residential and non-residential buildings together with engineering construction) in 2016-17 (A spend which was just 1.8 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 $1.3 billion annual expenditure on top of the $0.8 billion spent in 2016-17 (A spend which was just 0.3 per cent of gross state product.)

- **Ensure allocated budget is spent, 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 three years reveals only 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 nearly $4.3 billion across this period. The capital budget for 2018-19, once allocated, must be spent.

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, as well as the impact of project bank accounts, on Government projects before they are rolled out industry-wide.

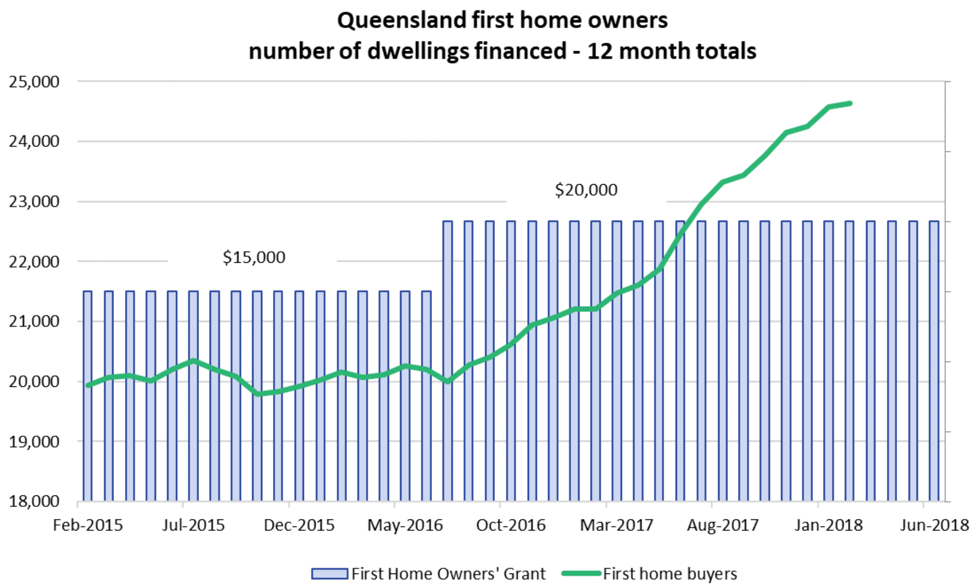
A clear pipeline that incorporates all projects for all government agencies, in one location, will help industry to plan their tender and procurement processes.

A copy of the analysis commissioned by Master Builders that supports our recommendations is attached.

First Home Owners' Grant

The boost in the Queensland First Home Owners' Grant (FHOG) to $20,000 has been an important tool in bringing first home owners into the market, but it's scheduled to come 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. The data shows that the FHOG has been very effective in helping first home owners into the market.



Source ABS, Master Builders

Now is not the time to put the brakes on the momentum it has generated. As demand for inner city units, and with it investment housing slackens, there is an opportunity to continue to encourage first home owners to consider a new build.

Our recommendation: We strongly urge the Government to extend the FHOG beyond 30 June 2018.

Transfer Duty

Another one of the levers that the Queensland Government has control of is transfer duty. Transfer 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.

While we recognise the central role the tax plays in the Queensland Government's revenue base, there is an opportunity to address a particularly inefficient aspect of transfer duties, in particular the way they are applied to house and land packages.

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 home owner on an average $500,000 project. This often makes them unviable.

Our recommendation: We are calling on the Queensland Government to end the 'double-dip' on transfer duty (stamp duty) arrangements for new residential development.

- → Transfer duty should only be paid once on the land.
- → The cost of construction should be exempt from transfer duty.

We believe that together, avoiding new taxes, increasing capital expenditure and committing to spending allocated budget, retaining the boost to the FHOG and revisiting transfer duty 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