MASTER BUILDERS QUEENSLAND
The home of building

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Hon Mick de Brenni MP
Minister for Public Works and Procurement
GPO Box 2457
BRISBANE QLD 4001

Email: epw@ministerial.qld.gov.au

Dear Minister

Separation of Home Warranty Insurance premium from maximum deposit amount (Queensland domestic building contracts)

The deposit a builder can request from a consumer under a domestic building contract (with a value over $20,000) has been capped at 5 per cent for over 20 years. The 5 per cent must include the cost of the Queensland Home Warranty Insurance premium.

With the review of the Home Warranty Scheme underway, the proposal of separating the Home Warranty Insurance payment from the maximum deposit amount is under consideration. Master Builders, along with other industry stakeholders, supports this proposal.

The limited deposit amount causes significant problems for a builder's cashflow, increasing financial vulnerability and restricting the amount of up-front investment that can be made to ensure the best outcomes for the project. For these reasons industry has been calling for an increase to the maximum deposit amount for years.

The upfront costs that need to be regularly covered by the deposit are now more in the order of 10 per cent of the contract value (excluding the insurance premium of around 1 per cent), based on member feedback. Increased upfront costs, with increases well above inflation, include approval fees, energy assessment fees, design fees, site investigation costs, safety requirements, etc. The list of items that are likely to be included in these upfront costs and overheads are detailed at **Annexure 1**.

Master Builders surveyed members on the impact of the 5 per cent deposit cap on their business (**Annexure 2**) a few years ago. The challenges to the cashflow and the resulting financial stress was the most common theme and stresses have amplified more recently. Cashflow problems can also lead to project delays, impacting when material and sub-contracting orders can be placed. It exposes businesses to greater risk which may have knock effects for security of payment and adds financial costs to running the business.

The Minimum Financial Requirements call for builders to ensure that they monitor their cashflow limits and maintain minimum assets. Security of payment laws require prompt payment of subcontractors and suppliers. Restricting a builder's cashflow through a maximum deposit that does not adequately cover upfront costs is at odds with the regulatory framework.

It has been a policy priority of Master Builders for a number of years to increase the deposit for domestic building contracts to better cover these upfront costs. While the separation of the Home Warranty Insurance premium from the maximum deposit amount will not achieve the increase needed, it will go some way toward improving the cashflow for builders and better providing for these upfront costs, in turn improving financial stability.

Separation of the insurance premium from the deposit will not result in any additional costs to consumers overall and will ensure consumers are aware of the home warranty scheme insurance policy in place. Builders can still collect the premium from consumers and lodge with the QBCC, thereby not adding to the workload of the regulator.

We are hopeful that you will support what we believe is a sensible solution.

Yours sincerely,

Paul Bidwell
CEO

Annexure 1 – Indicative costings on a domestic building project

The costs that are payable prior to receiving the initial deposit or on contract signing include:

- quotation costs (site visits, client meetings, printing plans, consultation meetings, estimation)
- overheads (staffing, office, equipment, QBCC licensing costs, accounting and financial reporting, advertising & sales commission)
- site signage, fencing and erosion control
- contract documentation with owner
- surveyor (boundaries & contours) / survey plan
- underground services survey
- preliminary council check
- soil report
- engineering
- building plans
- review of plans against livable housing requirements of NCC
- plumbing & drainage plans
- energy efficiency report, from May 2024 including whole-of-home assessment (e.g. BERS)
- product specification
- Pre-ordering of materials with long lead times
- building approval
- Workplace health and safety plans and requirements
- Subcontract, employment and supplier agreements
- material and sub-contractor deposits
- QLeave Levy
- Builders insurances (public liability, construction, other)
- **Home Warranty Insurance**

Depending on the site and the project there may also be a number of other early expenses necessary for a successful build. These include:

- site specific design (bushfire, flood, acoustics, slope, coastal area etc)
- council siting variations (relaxations)
- water/sewer connection fee
- effluent disposal report
- percolation reports/septic design if non-sewered site
- demolition approval
- environmental requirements

Annexure 2 – Impact of Limited Deposit Payment (Master Builders Member Survey)

Impact

The challenges to the cashflow and the resulting financial stress was the most common theme. Cash flow problems can also lead to project delays, impacting when material and sub-contracting orders can be placed.

> *"It can be a challenge to fund the work until you get to the first progress payment, particularly when there is large amounts of materials to purchase etc and labour costs."*

> *"It's impacting a lot on the cash flow, where again you can run in to trouble with QBCC."*

> *"If its a bigger job, the 5% deposit rule can negatively impact business proceedings for months. This is also assuming that the client doesn't delay on future payments."*

Exposes business to greater risk with knock effects for security of payment.

> *"On a couple of occasions when the client has not gone ahead with the contract prior to the slab progress payment, we have lost money on the project."*

Adds financial costs to running the business.

> *"It means that the business is now carrying the build, in essence we have become the bank."*

Impacts are felt more keenly by small business.

> *"Running a small business is all about cash flow and the 5% has never been enough. It puts us behind the eight ball from the start."*

> *"Stretches the liquid funds of the business, as I'm only a small family business, basically pushes small guys out of the market and the already established businesses gain a monopoly by default. It is a bit of a tilted system."*

> *"Being a small business and a sole trader, it has a huge impact. For example, on our last job the 5% deposit was roughly $18,450. Our window company wanted $32,000 deposit upfront to order windows/doors as being a sole trader (who has never been late on an account payment) they will only give us an account of $35,000 and require us to pay the difference upfront on the order. Our timber company wanted $12,000 to order the timber on a $32,000 order which needed to be paid on placing the order. These orders need to be placed immediately due to processing times and when those products are required onsite. We carry these costs until the draw can be made as the stage payments rarely will cover these amounts before their stage. With windows/doors being enclosed stage, this was over six months on this Job. Add to that administration for contracts, QLeave levy, QBCC insurance, Certifiers fees etc we are expected to carry a huge amount of expense and essentially act as the bank for the works for large amounts of money."*

> *"We are forever chasing, stressing about the works being completed."*

It can stifle business growth.

"It has an impact on capital and staff resourcing investment decisions."

It may have ramifications of the quality of the product.

"It diminishes our capacity to do more extensive pre works - such as administrative and WHS works etc."

"It's frustrating to rush to a slab stage to get to break-even point."

"I understand we are supposed to do the work prior to getting paid but we should not be doing works on a project with no money down to start the actual digging. If the govt are forcing security of payment on builders why are we having to float a build from inception. There needs to be a bit more money down to ensure that we can cover costs especially ones that can't be floated on an account such as wages and subbie costs."

"We should not have to carry upwards of 35% of project for the first quarter of the project when we have only received 5% ourselves."