

9 April 2020

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Hon Cameron Dick MP
Treasurer and Minister for Investment
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Dear Treasurer

I am writing on behalf of Master Builders' membership in relation to the 2021-22 State Budget, in particular measures to shore up the capacity of the building and construction industry to continue in its role as the cornerstone of the Queensland economy.

The Queensland building and construction industry is one of the largest providers of jobs, employing over 230,000 Queenslanders. It contributes \$28 billion to the state's income; nearly one tenth of the total. The construction industry makes up the largest number of Queensland businesses and is heavily weighted towards micro business, with over half turning over less than \$200,000 each year. Businesses that are unlikely to be well placed to weather ongoing volatility.

2021 is turning out to be a challenging year for the building and construction industry, which continues to navigate the instability of the COVID economy.

There has been an unprecedented spike in demand for new residential construction off the back of the Australian Government's HomeBuilder grant, the Queensland Government's regional boost, relaxed mortgage lending criteria, a spike in interstate migration and the Australian government's early access to superannuation access scheme; all in an environment of continued low interest rates.

This is at a time when the cost of construction materials is spiralling out of control and the lead time for materials and trades is blowing out construction programs. Ongoing natural disaster insurance repair work, caused by hailstorms in Brisbane and Rockhampton in 2020, continue to monopolise many trade contractors and materials. Imported materials are still being delayed by COVID supply chain disruptions and a wet summer has reduced the number of days on site, further adding to the backlog.

The non-residential construction is experiencing a different set of problems with a lack of investment hampering demand. Approvals for non-residential work have plunged 16.4 per cent over the past 12 months, falling to \$8.0 billion and there is no sign of it turning around.

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As we move into the new financial year, we are urging the Government to do more to ensure that residential and commercial construction is sustainable into the long-term.

We therefore ask that as you frame the 2021-22 State Budget you consider the following.

Cost of Building Regulation

New regulation to mandate accessible housing in the National Construction Code (NCC) is being considered. If imposed, this would be the latest example of regulatory costs being added to new construction.

While there can be no dispute that accessible housing is an important social objective, there is also no dispute that it comes at a cost. In the case of accessible housing, the recent regulation impact statement confirmed that mandating accessible housing in the NCC would result in a cost greater than the benefit. Also, this cost will be carried by a relatively small group of people – those buying or building a new home.¹

The cost of achieving a social objective, such as accessible housing should be borne by the whole community and not just a narrow section of the community. Asking new home owners to wear the cost compromises housing affordability, squeezes builder margins - risking security of payment - and blunts productivity. Additional regulation also restricts the ability to run an efficient business, adding additional compliance costs that hit small business the hardest.

The building and construction industry needs to remain efficient and profitable if it is to continue its role as the cornerstone of the Queensland economy. As the Queensland Productivity Commission reports the “quality of regulation has a direct bearing on productivity and economic growth”.²

Therefore, in the case of accessible housing, instead of adding new regulatory costs, **the government needs to allocate funding for a non-mandatory approach**. If the government is serious about ensuring accessible housing then now is the time to deliver on the non-mandatory options available to it. As a start this should include funding:

- pilot projects to demonstrate how accessible housing can be achieved;
- subsidy for homeowners who include accessible housing features; and
- non-mandatory NCC accessible housing handbook providing a best practice guide using Livable Housing Australia design guidelines.

¹ CIE, *Proposal to include minimum accessibility standards for housing in the National Construction Code: Consultation Regulation Impact Statement*, July 2020

² Improving Regulation, March 2021, p. 1

Capital Expenditure

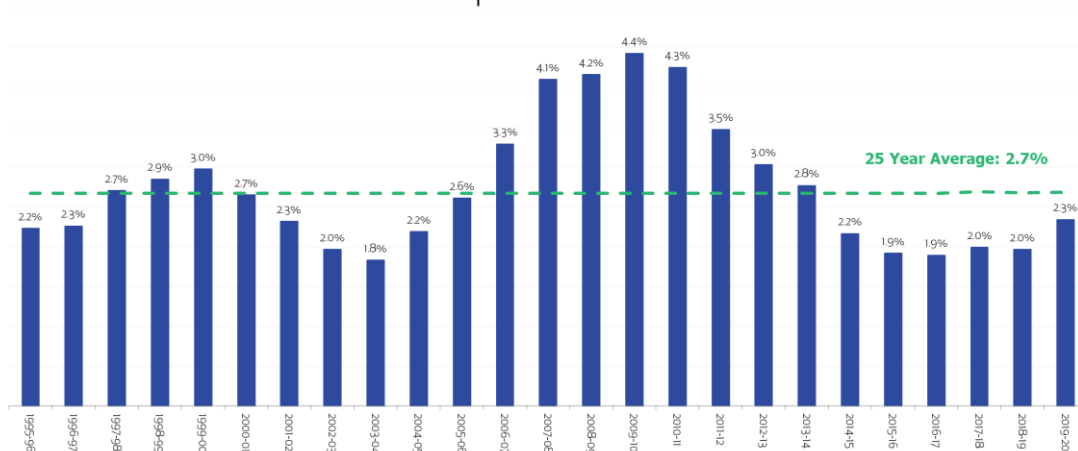
Investment in public buildings and engineering construction represents an investment in the future prosperity of our state: it is vital to the Queensland economy and the building and construction industry. Capital expenditure on public buildings and engineering construction positions Queensland for economic growth and is essential if we are to meet the needs of a growing population spread across our large state.

As Queensland continues to grow (and with it the need for new schools, hospitals and other infrastructure), our investment in public buildings and engineering construction has not kept pace. In recent years inroads have been made but there is more to be done.

Since 2009-10, spending has fallen by one-fifth from \$10.77 billion to \$8.46 billion in 2019-20. From 4.4 per cent of Queensland gross state product to just 2.3 per cent (illustrated in the chart below).

For 2019-20 alone this has meant a spending shortfall of \$1.23 billion from the 25-year average.


Queensland Public Sector Building and Construction Capital expenditure
per cent GDP



Source: ABS and QEAS

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 \$1.23 billion annual expenditure on top of the \$8.46 billion spent on public sector building and construction (residential and non-residential buildings together with engineering construction) in 2019-20.



Within this total spend we also recommend consideration be given to the public building component (as opposed to engineering and civil work). Over the last 10 years the Queensland government's capital expenditure has been weighted towards engineering and civil construction (roads, bridges, water etc) – 77 per cent in 2019-20. We are recommending a **second benchmark, for the public (residential and non-residential) building component**. This should also be set at the 25-year average which for this component is 0.6 per cent of gross state product.

In past years Master Builders has urged the Queensland Government ensure that the money allocated in its budget is spent. We commend the Queensland Government on the improvement in this area but flag that this has now started to dip once more. The most recent data shows that over the past year only 93 cents in the dollar have been delivered in Queensland Government capital purchases against the budgeted amount, compared to a high of 96 cents in the dollar back in 2017-18. The total underspend across the past five years is now \$4,394 million.

Lastly, we continue to call for a **clear pipeline of all construction projects for all government agencies in one location**. This will help industry to plan their tender and procurement processes.

We believe that funding social objectives, such as accessible housing, directly rather than through regulation and increasing capital expenditure will help industry through this volatile period and allow it to focus on what it does best; delivering the buildings Queenslanders need.

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

Regards,

Grant Galvin
CEO

