MASTER BUILDERS QUEENSLAND
The home of building

3 June 2019

Ms Tricia Rooney
Director, Industrial Relations Strategic Policy
Portable Long Service Leave Levy Consultation
Office of Industrial Relations

Email: QLeavelevy@oir.qld.gov.au

Dear Ms Rooney,

**Proposed changes to QLeave levies: Consultation Regulatory Impact Statement**

Thank you for the opportunity to provide a revised submission on the proposed changes to the QLeave levies. The following is an update of our submission of 30 May 2019 to include the additional information received from the Department also on the 30 May.

Master Builders recognises the importance of ensuring the sustainability of the Portable Long Service Leave (PLSL) fund and providing mental health and suicide prevention programs for the building industry; however, we do not believe that there is any justification for increasing the QLeave levies.

We are opposed to:

- increasing the PLSL levy
- including GST in calculating the levy amount
- increasing the workplace health and safety levy.

We support:

- expanding the scope of the QLeave levies to cover all projects over $80,000.

## Sustainability of the scheme

**The case has not been made that the scheme is unsustainable into the medium-term.**

The Regulatory Impact Statement (RIS) is inadequate. It does not provide financial modelling for the future costs and income of the scheme. Nor does it consider the future expected construction activity or industry employment trends.

The findings of the latest actuarial work need to be the basis of any decision on the sustainability of the scheme, but it is unclear how this has informed the RIS.

The information that has been included in the RIS states that the funding ratio of assets to the Accrued Benefits Liabilities of the scheme is still within the target range of 105%-120% - a full four years after the 2014 changes that are the focus of the RIS.

The evidence from the 2017-18 QLeave Annual Report points to a fund that is sustainable, at least into the medium-term. In 2017-18 the scheme was still achieving a positive comprehensive income of $24 million.

**The number of workers under the scheme cannot be reconciled with employment in our industry.**

The RIS claims that the levy must be increased to respond to the influx of registered workers but provides no analysis of why there has been an increase.

The total number workers registered in 2017-18 grew 11% to 338,000, while the Australian Bureau of Statistics (ABS) reports that the total number employed in our industry fell 6% to 237,000 by May 2018. Over the past five years the number of registered workers has increased by 21% while the number employed in our industry has increased by only 6%.

There is now an extra 100,000 (43%) people registered under the scheme than work in our industry.

We note that this can be explained in part by the mortarium in 2017-18 on deregistering inactive workers. In the past years this process has reduced the number of registered workers on average by 25,000.

The question therefore remains, why do we have an "increase in the number of workings becoming eligible for long service leave". The QLeave is a mature scheme that has been running for well over 10 years. Any increase in eligibility can only be due to an increase in registered workers and the increase in registered workers is out of proportion with the increase in industry employment.

We are concerned that there are workers registered who are not "substantially engaged" in the construction industry.

## Impact on new construction

**The impact on the cost of new construction projects, especially new housing in regional Queensland must be quantified.**

Currently the industry is trying to absorb the cost of the new Waste Levy and the changes to the Building Industry Fairness Act. Adding to this, the State Government has withdrawn investment in new housing with the end of the boost to the First Home Owners' Grant.

These challenges come at a time when the building industry is already struggling. The latest ABS data indicates that the total number of new dwellings approved has fallen by 19% over the past 12 months. Approvals for new housing in the regions has fallen to the lowest level since current reporting began back in 2001.

While the levy increase being proposed appears modest, any increase in costs can affect the viability of a construction project, particularly new housing. This is because new housing is most often dependent on mortgage funding. Lenders will only agree to a mortgage if the valuation stacks up; that is a valuation across both existing and new housing. If the cost of new housing moves too far above existing housing, as it already has in many of the regions, the mortgage many not be forthcoming, and the project will not go ahead.

## Response to the Specific Proposals

### 1. Changes to the tiered levy structure

Removing the tiered structure will increase the number of projects on which the levy is payable. This will generate additional funds as well as 'spreading the load' more equitably across the industry. Currently there is huge degree of cross-subsidisation. The workers on building projects that are currently exempt or pay a concessional rate, are benefiting from the levies, without the projects they work on contributing their share.

The 2014 decision to raise the threshold from $80,000 to $150,000 and to provide concessions for major projects was inequitable. The concessions to these small and major projects has left the rest of the industry to bear the cost.

Master Builders supports applying the existing rates across projects above $80,000.

### 2. Re-instating GST

The proposal to charge the levy on GST is a tax on a tax. Including GST in the calculation unfairly inflates the total project costs by including costs that are not project liabilities as they will be offset by an input tax credit.

The 2014 changes were made to clarify this anomaly and should stand.

Master Builders does not support this change.

### 3. Increasing the PLSL levy

In 2017-18 the levies were applied to $30 billion of building activity. For the same period, total building activity was $44 billion according to ABS data. That is one third of building activity that is not contributing to the levies. Removing the tiered levy structure and applying the levy equally to all projects over $80,000 is therefore, the first step to improve the sustainability of the scheme.

There then needs to be robust evidence of the amount needed to ensure the long-term sustainability of the scheme. The most recent actuarial work must be the starting point for any change to the levy.

In the absence of the clear evidence, Master Builders does not support an increase to the levy.

## 4. Increasing the WHS levy to provide dedicated funding for mental health and suicide prevention programs

We acknowledge that mental health and suicide are major problems in our industry that must be addressed.

Workplace Health and Safety Queensland recognises this and funds a significant mental health and well-being program, in part from the (about) $40 million in levies that are already being collected each year. There is no justification for increasing the current Workplace Health and Safety levy to provide additional funding. Removing the tiered structure for the levies would increase the funds available for these programs.

Master Builders does not support increasing the Workplace Health and Safety levy.

## Master Builders Proposal

In summary, in order to minimise the impact the levies will have on the cost of construction we propose that:

1. the QLeave levies are applied to all projects over $80,000
2. GST continues to be excluded from the calculation of the levies
3. there is no increase to the Portable Long Service Leave levy
4. there is no increase to the Workplace Health and Safety levy to fund mental health and suicide prevention programs.

No matter what changes the Government decides, the timing of the change must be carefully considered. Construction contracts have a long lead time. To allow new projects to be properly costed we are recommending that the industry be provided with at least four months' notice before the changes take effect.

If we can provide any further detail on any of the points raised, please do not hesitate to contact us.

Yours sincerely,

Grant Galvin
Chief Executive Officer