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Hon Cameron Dick MP
Queensland Treasurer and Minister for Trade & Investment
GPO Box 611
Brisbane QLD 4001

Email: treasurer@ministerial.qld.gov.au

Dear Treasurer

I am writing on behalf of Master Builders' membership in relation to the 2023-24 State Budget, in particular measures to help ensure the building and construction industry can continue to deliver for Queenslanders as it navigates challenging economic conditions.

The Queensland building and construction industry is one of the largest providers of jobs, employing over 262,000 Queenslanders. It contributes \$31 billion to the state's income; nearly one tenth of the total. Every \$1 spent on construction generates \$3 of economic activity.

The construction industry makes up the largest number of Queensland businesses and is heavily weighted towards small and micro business, with over half turning over less than \$200,000 each year. Businesses that are increasingly burdened by administrative red tape, a tidal wave of regulatory changes, lack of support for builders and trade head contractors and ongoing economic volatility.

The building and construction industry delivers the homes, schools, hospitals and other buildings that Queenslanders need. A strong industry is essential to our economy and our way of life.

2023 is set to be another turbulent year for an industry which continues to navigate the instability of the COVID economy, unprecedented weather conditions and looming regulatory change in the National Construction Code (NCC).

The cost of construction materials continues to climb, and the lead time for materials and trades, combined with extreme weather conditions, are blowing out construction programs.

The most recent data from the Australian Bureau of Statistics records that the increase to construction inputs was 18 per cent over the past year. In just three years the cost to build a house in Queensland has increased by 42 per cent.

These challenges have already forced a number of builders into business closures (whether by insolvency or voluntarily) and we are concerned that there are more to come. We need more skilled, experienced participants in our industry, not less.

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As we move into the new financial year, we are urging the Government to do more, and to work together with industry to ensure that spiralling construction costs are managed wherever possible, such as investing in offsets to the costs to new construction added by the regulatory burden.

We therefore ask that as you frame the 2023-24 State Budget you consider the matters set out in this submission.

Transition to NCC 2022

The National Construction Code 2022 (NCC 2022) will introduce substantial changes to the way residential and other buildings are constructed. The NCC 2022 is due to commence 1 May 2023, and 1 October 2023 for the energy efficiency and livable housing changes.

While there can be no dispute that the measures are intended to achieve important social objectives, there is also no dispute that they come at a cost to new construction (and major renovations). A cost that will be carried by those buying or building a new home or undertaking a major renovation. Unfortunately, the cost is likely to also be borne by the building industry, whether it be in cancelled contracts or unexpected cost increases.

The changes introduced with NCC 2022 will have significant negative impact on the capacity of the building industry to deliver new housing and upgrade existing housing.

Experience from our members on the ground has shown that the cost will be in the order of \$8,000 for the accessible housing provisions and \$20,000 for the energy efficiency provisions for each new home, depending on the type and location. This is in addition to the waterproofing changes commencing 1 May 2023 which also come at a cost.

With costs already blowing out, the number of new home contracts in Queensland is declining. And with builders already doing all they can to navigate the shifting sands, allocating the time needed to incorporate changed practices and new designs into their construction programs is “breathtakingly stressful”.

Implementing both livable housing and energy efficiency changes in 2023, in addition to the other changes in NCC 2022, is of genuine concern, particularly when there has been no support or assistance from Government to date. Victoria is the only other state introducing both substantial changes in 2023, and that jurisdiction has worked with industry and produced guidance and training for industry and rebates for energy efficient homes. Queensland has not provided any of this. Queensland-specific guidance and training is required as our climate zones differ.

The constraints on the type of the housing that can or will be delivered is also of concern. The livable housing changes hit small dwellings and dwellings on small lots the hardest. Some builders are reporting that smaller homes (less than 160 sqm) are no longer viable and will be removed



from their range. Granny flats, small units, tiny homes and kit homes will all need to find the space for large toilets, corridors and doorways or not be built. They also need to consider the step-free path of access from the property boundary and associated cost.

Designs, product supplies, manufacturing processes and building practices will need to change.

Yet, there is little communication to industry of the impacts, and no assistance to meet the challenges of these changes in such a short timeframe.

Master Builders has been engaging with the Department of Energy and Public Works over many, many months to try and obtain sensible arrangements to lessen the blow for builders and for housing delivery. Our requests include:

- **Longer transition time** to enable sufficient guidance, training, design changes and supply chain changes. Government is yet to meaningfully engage with industry (builders, trades, certifiers, modular home manufacturers) or consumers on the nature of the changes and how best to implement them.

Industry is redesigning plans, training staff and marketing to consumers on the basis of a moving feast and with minimal support from Government. NCC 2022 was released in October 2022. An amended version with adjustments to livable housing provisions was released in December 2022 and we understand that further changes are still under consideration by the Australian Building Codes Board (ABCB).

We are calling for government to provide support, guidance, information and training to assist industry and consumers to understand the substantial changes contained in NCC 2022 and for this to be made available well ahead of 1 October 2023.

Master Builders is doing all we can to train and inform industry of the changes. However, much more is needed to reach the entire industry in a consistent way.

- **Sensible exemptions to reduce construction costs.** We are asking for small concessions for Queenslanders and houses on posts (often necessary in flood zones). The NCC 2022 provisions now recognise the challenges in providing accessibility with these type of dwellings and provides an exemption to the requirements for step-free access up to the front door. After climbing the steps to the door, the other requirements remain for providing a step-free entrance and increased accessibility inside the house.

For raised houses this means that there is no other option to provide a step-free entry into the house via an external entry door (most houses will safely provide access through the attached garage). This leaves the house exposed to the risk of future water ingress. Once

inside there must be a bathroom with a level threshold and a hobless, step-free shower. To build these dual requirements will require expensive solutions. The same access can be achieved without the additional cost and increased risk by adding ramps should they be needed at any point in the life of the house.

We are also calling for a slight adjustment of the allowable step into the room containing the hobless, step-free shower to enable some tolerances in the building process to achieve a workable solution.

- **Sensible exemptions for small dwellings** including auxiliary dwellings (granny flats), container or kit homes and small houses, units and townhouses. These are all important products to ensure housing affordability but the larger space required for the toilet, corridors and doors, and step-free path to the front door will make many of them unviable.
- **Credits towards 7 stars** to include for better-than-required whole of house assessment outcomes.
- **Rebates for customers** to offset the increased cost of delivering the changes and help ensure that new housing continues to remain viable. The Government's successful Household Resilience Program illustrates what can be achieved when the Government is directly involved.

Government must do more to see that the changes are implemented in a practical and cost effective way.

The budget should include an investment in comprehensive guidance materials, templates and training for industry, information for consumers and sensible exemptions and/or rebates for expensive solutions.

Improving energy efficiency of existing homes

Existing homes contribute approximately 12 per cent to carbon emissions and yet are largely an untapped opportunity when it comes to reducing emissions. A lot has been learnt from the increased mandates for energy efficiency on new housing.

There are approximately 2 million dwellings in Queensland based on census data. There is an enormous potential in upgrading existing homes to reduce our overall carbon emissions.

COAG undertook the "Report for Achieving Low Energy Existing Homes" back in November 2019. The report targeted existing homes of which the majority rate below 3 stars under the National

House Energy Rating Scheme (NatHERS). “This large number of homes with poor energy performance provide a significant opportunity for improvement.”¹

Queensland’s Household Resilience Program has shown the improvements that are possible in existing dwellings with some direction and seed funding from Government.

Master Builders recommends that a program be made available to homeowners looking to upgrade or renovate their home to include additional measures that improve the energy efficiency of the home and reduce their carbon footprint.

The program should consist of a Queensland Government rebate program to assist homeowners undertaking upgrades or renovations to add additional modifications that increase the energy efficiency of the existing home (this would include items such as insulation, improved air tightness, improved glazing, improved efficiency of appliance). It should include a requirement to engage a licensed builder or trade contractor (to ensure the work is covered by the Queensland Home Warranty Insurance Scheme and is carried out by a qualified person).

The program should be supported by information tools to guide homeowners.

The budget should include funding for a homeowner rebate and information tools to better enable homeowners to them to undertake upgrade work to their homes, with a licensed contractor, to make them more energy efficient.

Access to Australian Standards

Over 100 Australian Standards are referenced in the NCC. It is not possible to comply with the NCC without access to relevant Australian Standards.

In Queensland, the NCC is referenced in the *Building Act 1975*, therefore the Australian Standards referenced in the NCC are part of the legal framework for building and construction.

Yet, it is not possible to read Australian Standards without paying a subscription. The lowest cost option for referenced Standards is currently through a ‘NCC Primary References Set’ available only to small businesses at a cost of \$908.82 p.a..²

The ABCB is responsible for the development of the NCC and is formed by Intergovernmental Agreement. Under the current agreement (2020), the States, territories and Commonwealth collectively invest \$8 million p.a. in Australia’s construction code. Queensland’s contribution is \$725,000 for 2022-23.

¹ Page v

² Two licenses on the basis of a 3 year subscription, <https://store.standards.org.au/set-product?setCode=SET00021>

With a new agreement due, Queensland should look to increase the contribution each Australian government to better place the ABCB to undertake its important role.

Increased funding would also create an opportunity to provide free access to Australian Standards referenced in the NCC.

Standards Australia reported in its Annual Review that in 2022 it had operational costs of \$55 million per annum and that the Building and Construction sector made up 17 per cent of the work of Standards Australia. Therefore, the proportion of the operational costs for Standards Australia that can be subscribed to building and construction can be rounded to \$10 million p.a. An additional cost is the extensive, dedicated resources and expertise provided by industry to the development of Standards, at industry's own cost.

For Australia's 96,000 building construction businesses³, the cost of accessing Standards would exceed \$87 million per annum (based on the small business package at \$908.82 a year, excluding consideration of additional costs for those unable to access the small business option). This is more than twice the current total operational costs of Standards Australia.

A far more efficient option would be to provide the \$10 million Standards Australia needs for the building and construction industry, shared amongst all governments. For Queensland this would increase Queensland's contribution the ABCB to just \$1,632,330 p.a.

The budget should include a commitment from Government to fund the Australian Building Codes Board, including free access to Australian Standards referenced in the National Construction Code.

Fair contracting

Master Builders is also asking for Government to take a flexible approach in its own building projects to allow for compensation to builders for unforeseen price rises and to minimise projects not proceeding post tender.

The Western Australian Government, in its budget, provides some leadership here. It has been reported that the budget included a \$30 million financial relief scheme to assist head contractors with rising costs on government projects; a flexible approach to progress payments providing cash flow support for builders; and a commitment to including rise and fall contract provisions in future government contracts.

Master Builders also requests Government provide funding for collaborative project workshops for all projects with a duration of 12 months or more. It is suggested these workshops be

³ Australian Bureau of Statistics, 8165.0 Counts of Australian Businesses

independently facilitated and held at commencement and at appropriate intervals throughout applicable projects. Collaborative project environments produce better project outcomes as well as a better work health and safety environment (including psychosocial safety).

The budget should include an investment from Government to hold facilitated project team workshops on Government building projects to improve the culture and working relationships during the project. Government procurement should also include greater use of more collaborative forms of contract with early contractor involvement (such as 2 stage managing contractor and ECI).

Tax and investment settings

Another one of the levers that the Queensland Government has control to help manage the spiralling cost of new housing is State-based taxation.

We request Government reconsider payroll tax rates or the payroll tax threshold for small businesses, as this is a constraint to productivity in our sector.

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 a \$500,000 project. This often makes them unviable.

The budget should bring an end the 'double-dip' on transfer duty (stamp duty) arrangements for new residential development. That is transfer duty should only be paid once on the land and the cost of construction should be exempt from transfer duty. The budget should also consider raising the threshold for payroll tax for small businesses.

Skilled labour

Labour shortages remain a major concern in our industry. We encourage consideration of temporary licensing to enable trade contractors who have worked interstate or overseas with a certificate qualification in their trade, along with relevant experience, to work for a Queensland licensed head contractor for a limited period of up to 12 months.

Summary

If the construction industry is to be able to navigate these unprecedented times and to continue serve as the cornerstone of our economy, Government must support the sector and stop imposing additional challenges. Reasonable regulation coupled with support for implementation is needed. We need policy considerations that benefit all of industry; solutions should consider the health of the entire industry and not pit each party against the other nor place all obligations and costs on the builder.

Government can work with industry to achieve productivity improvements, including collaborative project approaches on its own contracts, free access to applicable laws (referenced Australian Standards), lessening taxation burdens, supporting transition to changed construction methods, and attracting skilled workers.

Government can also support industry by providing rebates for home renovations to improve energy efficiency and rebates to homeowners where compliance with NCC 2022 comes at an excessive cost (e.g. Queenslander-style homes).

We look forward to continuing to work with the Queensland Government in supporting the building industry in our State.

Regards,

Paul Bidwell
CEO