



Master Builders' submission on the 2014-15 State Budget

December 2013

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OLD
TREASURY
BUILDING



MASTER BUILDERS OVERVIEW

The Master Builders Association of Victoria (“Master Builders”) is the peak body representing employers in Victoria’s building and construction industry.

Our membership consists of more than 9,500 builders, subcontractors, manufacturers/suppliers and students. More than 50 per cent of our professional members are small businesses with an annual turnover of \$2 million or less.

Master Builders provides a range of services to members. Many of these would be cost prohibitive if not offered by a not-for-profit group that supports builders, particularly those in small businesses, including:

- Legal advice on matters such as preparing domestic building contracts and resolving building disputes;
- OHS advice, including delivering the Small Business OHS Consultancy Program in partnership with WorkSafe;
- Technical advice on the interpretation of building legislation and provisions of the National Construction Code;
- Training services including Diploma, Certificate

level and short courses designed to meet the needs of the various sectors within the industry;

- ALink, our go to support and advisory centre offering a range of services including placements, Industrial Relations and OHS advice for apprentices, apprenticeship service providers and those seeking a career in the building and construction industry to help reduce the attrition rate of apprentices and to raise the profile of the industry as a provider of rewarding career pathways;
- Our award-winning Virtual Office cloud-based system providing members access to services including e-contracts, e-permits and monitoring of CPD points; and
- Assisting members in preparing applications to become registered builders.

Our priorities for 2014-15 are:

1. *Address housing affordability;*
2. *Invest in infrastructure; and*
3. *Exercise sound financial management.*





BUILDING VICTORIA TOGETHER

The building and construction industry is the second-largest provider of full time jobs in this state, accounting for more than 11 per cent of all full-time jobs in Victoria. With more than 250,000 people working in our industry here, we are a significant contributor to our community's prosperity.

Investing in construction projects stimulates activity and opportunities right across our economy. Major projects deliver thousands of jobs in our sector, inject funds through our materials manufacturers and suppliers industry and provide long-lasting benefits to our community.

This is best illustrated through the East West Link (Stage 1) project, which will secure 3200 construction jobs, infuse up to \$8 billion through our economy and, when completed, the project will slash travel times for cross-city journeys to create a more productive transport network.

Victorians rely on our industry being able to carry out its jobs efficiently, effectively and safely. Our members take great pride in delivering Victorians the quality homes that they live in, the workplaces they build their careers in, the schools that educate our children, the hospitals that help those most in need, the transport system we all utilise and the recreational opportunities we want to have close to home.

Melbourne has quite rightly earned its reputation as the world's most liveable city and our industry is exceptionally proud of the role it has played to build this great city over the course of generations. Likewise, we are proud of the efforts that have gone into building communities right across this state.

In recent years, builders and construction companies have faced some of the greatest marketplace

challenges in more than a decade. Business and consumer confidence has been low, demand has been weak and costs have been rising.

However, there are now signs pointing towards improved conditions. A new national government has helped lift the confidence of consumers and businesses, our economy is strengthening and demand is beginning to pick up.

Master Builders is pleased to see progress has been made on a range of issues we have highlighted to government during the course of this year, including:

- Reforming first home buyer incentives to help stimulate homebuilding activity;
- Trialling partial bid cost contributions as part of the East West Link;
- Updating our overly-complex planning framework;
- Reviewing how development contributions are calculated and charged;
- Moving to introduce a new, quicker, more cost-effective domestic building consumer disputes process;
- Updating bushfire prone area maps to help reduce unnecessary costs of building a home in selected communities;
- Opposing a national workplace health and safety regime that would burden industry with significant costs but not deliver substantial benefits;



BUILDING VICTORIA TOGETHER

- Conducting trade missions to promote our industries to the world; and
- Standing against the introduction of a national licensing scheme that would have been costly, watered down standards, punitively punished small businesses and diminished consumers' access to registered builders and tradespeople.

These reforms have helped strengthen our industry and we congratulate government for this.

Our last State Budget submission, supplied to government nearly 12 months ago, highlighted growing concerns over the rapid drop in jobs across our sector. Since then, Victoria has led the nation in terms of new jobs growth in building and construction.

More than 33,000 jobs have been added to our sector in the 12 months to August, which account for four in ten new construction jobs across the country over that period.

We still face significant challenges. New ways to fund and deliver infrastructure must be identified to help deliver a long term pipeline of capital works projects. Likewise, housing affordability remains an issue for too many Victorian families and a broad scale inquiry is needed to help address this problem.

New solutions must be identified to help resolve old problems. Master Builders and our members stand ready to work together with government to ensure our sector is strong, so that we can keep building Victorians a vibrant, prosperous future.



Source: ABS 6291.0.55.003

Radley de Silva
Chief Executive Officer





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SUMMARY OF RECOMMENDATIONS

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| RECOMMENDATION 1 | Master Builders calls on the State Government to educate first home buyers about government grants and subsidies available to help them into home ownership. |
| RECOMMENDATION 2 | Master Builders calls on the State Government to maintain current first home bonus incentives targeting newly built and off-the-plan homes. |
| RECOMMENDATION 3 | Master Builders calls on the State Government to initiate a broad scale VCEC inquiry into housing affordability in Victoria. |
| RECOMMENDATION 4 | Master Builders calls on the State Government to ensure sufficient land supply is available, appropriately zoned, assessed and suitable for long-term new housing needs in Victoria. |
| RECOMMENDATION 5 | Master Builders supports the State Government in the development of a framework to identify and utilise surplus government land for future development to reduce housing affordability burdens. |
| RECOMMENDATION 6 | Master Builders calls on the State Government to reconsider or better target parallel builder arrangements, to ensure affordable housing options for first home buyers are maintained. |
| RECOMMENDATION 7 | Master Builders calls on the State Government to fund the transition for existing homes to more sustainable energy usage and to establish a date for completion. |
| RECOMMENDATION 8 | Master Builders calls on the State Government to introduce mandatory registration of tradespeople in Victoria. |
| RECOMMENDATION 9 | Master Builders calls on the State Government to reintroduce reward payments, similar to the National Competition Payments system, to ensure planning matters are handled by local councils in an effective and timely manner. |



SUMMARY OF RECOMMENDATIONS

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|-------------------|---|
| RECOMMENDATION 10 | Master Builders calls on the State Government to continue to prioritise infrastructure investment and consider increasing expenditure as a percentage of GSP to address increasing population growth. |
| RECOMMENDATION 11 | Master Builders calls on the State Government to address infrastructure backlogs in our public schools and pursue new capital school work projects as a matter of urgency. |
| RECOMMENDATION 12 | Master Builders calls on the State Government to establish an independent infrastructure advisory body to advise on Victoria’s long term infrastructure needs and identify funding opportunities to help ensure they are delivered. |
| RECOMMENDATION 13 | Master Builders calls on the State Government to boost public transport and road infrastructure to reduce congestion and offer commuters greater choice in their travel options, including maximising the value of our existing assets. |
| RECOMMENDATION 14 | Master Builders calls on the State Government to publicly release further short, medium and long term infrastructure priorities and funding sources, with more specific delivery timeframes in conjunction with the Budget papers. |
| RECOMMENDATION 15 | Master Builders calls on the State Government to continue advocating for equal per capita funding in GST and a fairer share of Federal grants for Victoria, particularly for state-shaping infrastructure projects. |
| RECOMMENDATION 16 | Master Builders calls on the State Government to identify world leading practices in the development of sound public private partnerships. |
| RECOMMENDATION 17 | Master Builders calls on the State Government to simplify procurement processes for public private partnership projects, trial partial bid cost contributions beyond the East West Link and report its findings to industry. |



SUMMARY OF RECOMMENDATIONS

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|-------------------|---|
| RECOMMENDATION 18 | Master Builders calls on the State Government to investigate the potential to involve superannuation funds in priority infrastructure projects and the use of unsolicited proposals. |
| RECOMMENDATION 19 | Master Builders calls on the State Government to pursue a public dialogue about privatisation of assets such as the Port of Melbourne to fund new infrastructure projects. |
| RECOMMENDATION 20 | Master Builders calls on the State Government to increase the number of trade missions in to showcase our businesses to the world. |
| RECOMMENDATION 21 | Master Builders calls on the State Government to properly investigate the economic benefits of recent infrastructure projects and communicate these to the public. |
| RECOMMENDATION 22 | Master Builders calls on the State Government to consider implementing state-based recommendations outlined in the Productivity Commission’s report <i>Major Project Development Assessment Processes</i> . |
| RECOMMENDATION 23 | Master Builders calls on the State Government to continue pursuing action that will ensure Victoria’s debt profile allows the state to retain its AAA credit rating. |
| RECOMMENDATION 24 | Master Builders recommends healthy budget surpluses as a percentage of GSP be utilised to fund infrastructure and capital works projects. |
| RECOMMENDATION 25 | Master Builders calls on the State Government to actively participate in the Productivity Commission’s review and works with industry to enact any subsequent changes that may boost productivity and make construction projects more affordable. |



TRENDS IN VICTORIA'S BUILDING AND CONSTRUCTION INDUSTRY

1. Current activity remains low, but expectations are on the rise

Master Builders' members across the country participate in quarterly surveys, which canvass their views on the economy, their industry and their business. It provides a leading index on the sentiment of both the residential and non-residential building sectors.

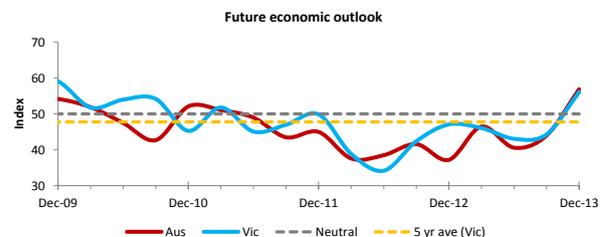
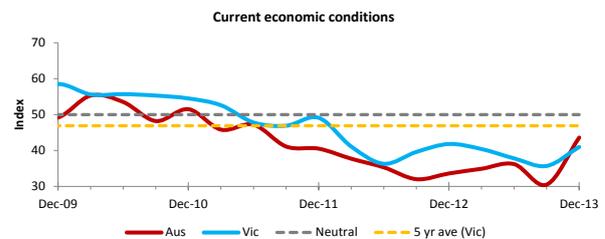
Indices are calculated by taking the difference between the percentage of respondents nominating good or very good (or a rise) conditions and those nominating poor or very poor (or a fall) conditions. An index reading of 50 represents the neutral/no change mark.

Sentiment regarding current economic conditions amongst our members has risen significantly in the past three months following the Federal Election in September.

While sentiment has climbed 5.3 percentage points in the past three months to its highest point since late 2012, it remains significantly below the neutral mark, slightly behind confidence levels reached in other parts of the nation and lower than five year trend levels.

Pleasingly, however, is the significant upturn in the future economic expectations index. This has climbed 11.8 percentage points since September to a rating of 56.1 and now sits at its highest level since December 2009.

With record low official interest rates, modest improvements to consumer and business confidence levels, a depreciation of the Australian dollar and the forming of a stable national government with a strong parliamentary majority, there are many





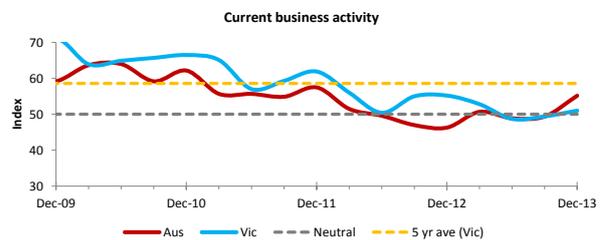
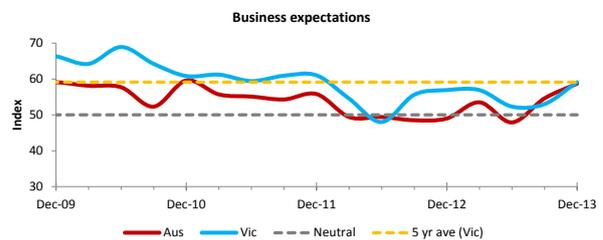
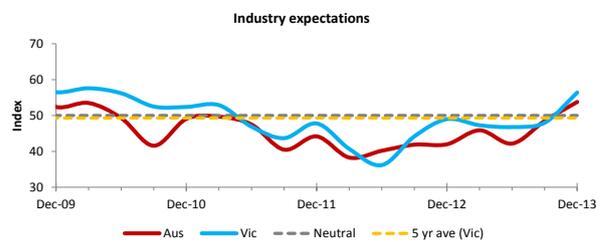
TRENDS IN VICTORIA'S BUILDING AND CONSTRUCTION INDUSTRY

reasons for builders and construction companies in our industry to feel optimistic about the economic fortunes of both Victoria and Australia.

For the first time since early 2011, builders feel that conditions within our industry will improve over the next six months. Rising to 56.4 points (up 8.4 percentage points compared to the previous quarter), this index is now at its strongest level in nearly four years. The index also shows Victorian builders have stronger industry expectations than that of builders in other jurisdictions, continuing a long term trend of resilience within our sector here.

Our members are also reporting a healthy rise in their own business expectations moving forward. This rating has lifted 6.1 percentage points in the past three months to 59.1 points and shows renewed confidence within the industry as more people look to buy a newly built home and as major infrastructure projects like East West Link are nearing commencement. Having experienced the toughest industry conditions in more than a decade, our industry stands ready to make the most of an improving economy.

While remaining hopeful with regards to the future of our industry, builders and construction companies continue to report relatively low volumes of current work. At 51.0 points, this index remains 7.6 points lower than five year trend levels, although for the first time in three quarters it has ticked past the neutral mark. This shows that further efforts are required to stimulate work within the industry, both in residential and non-residential construction sectors.





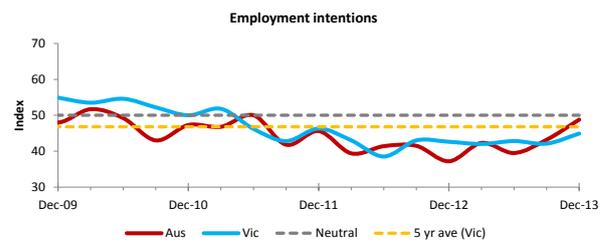
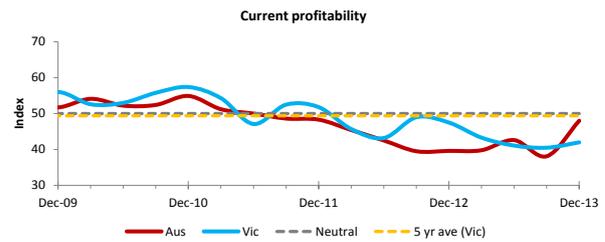
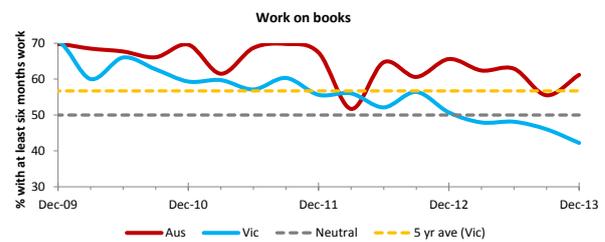
TRENDS IN VICTORIA'S BUILDING AND CONSTRUCTION INDUSTRY

The need for action is further emphasised when looking at the percentage of building companies that have six months or more worth of works on their books. This index has actually fallen 3.8 percentage points since September and, at 42.2 points, now stands at unprecedented low levels. It is a staggering 14.5 percentage points below five year averages in Victoria and 19 percentage points below levels recorded in other states.

As a result, builders are reporting poor profitability levels. Standing at just 42.0 points, this index rating remains in negative territory for the eighth successive quarter, showing the harsh times that builders and construction companies have faced in recent years. With activity levels down in many segments of the industry, it comes as no surprise that our members are reporting dwindling profit margins.

The employment intentions of companies in our sector are also low, having remained below the neutral mark consistently since the start of 2011. This index has climbed 2.7 percentage points in the past quarter to 44.9 points, showing that low activity and profit levels are placing significant pressure on jobs, but the improvement in this rating compared to mid-2012 has helped generate more construction jobs here than anywhere else in the nation over the past 12 months.

The results of Master Builders' surveys show that despite tough conditions, a low volume of activity and poor profit results, the building industry remains confident that our economy and sector will pick up pace in the coming year. This will require action across all levels of government that helps stimulate investment, drive productivity and boost activity in our industry.





TRENDS IN VICTORIA'S BUILDING AND CONSTRUCTION INDUSTRY

2. State of the building industry

Builders across many segments of Victoria's construction industry have faced difficult times recently as they tackle the most arduous market conditions in more than a decade.

The number of new housing starts across the state has fallen 19 per cent over the past three years alone in what has been the largest decline in activity since 1999/2000. As more Victorians consider the benefits of multi-unit homes, such as apartments, townhouses and units, activity in this sector has significantly climbed 32 per cent over the last three years.

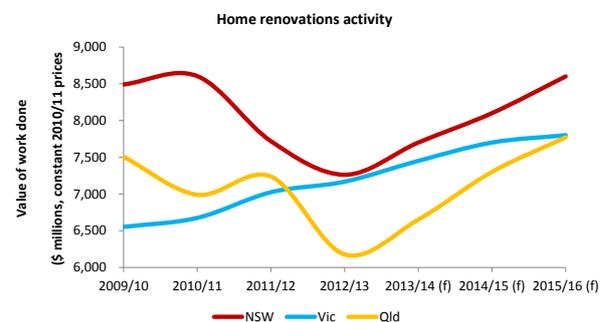
With official interest rates at record lows, strong competition in the market, first home buyer incentives, modest growth in consumer confidence and a rebounding real estate sector, Master Builders currently projects solid growth in the number of new homes that will be delivered in Victoria.

While work in the new homes sector has had troubled times, Victorians have been leading the nation when it comes to investing in home improvement projects. Our state was the only Australian jurisdiction that saw home improvement investment growth in 2012/13, which climbed 2 per cent to nearly \$7.2 billion. We forecast investment in this sector will be further boosted by around \$283 million over the current financial year as well.

Home renovations work has been a boom sector for our industry, with Victorians investing \$616 million more in 2012/13 than they did just three years prior. Over the same time, investment in this sector has fallen by \$1.2 billion in New South Wales and \$1.3 billion in Queensland.



Source: ABS 8752.0, Master Builders (f) denotes forecast



Source: ABS 5206.0, Master Builders (f) denotes forecast





TRENDS IN VICTORIA'S BUILDING AND CONSTRUCTION INDUSTRY

However, our non-residential builders and engineering construction firms have witnessed a significant decline in activity. Collectively, we forecast a 5 per cent drop in the volume of commercial construction work in Victoria in 2013/14 on top of a 6 per cent drop last year. We forecast total commercial construction investment (both non-residential and engineering construction sectors) will be \$2.1 billion lower this financial year than it was just two years ago.

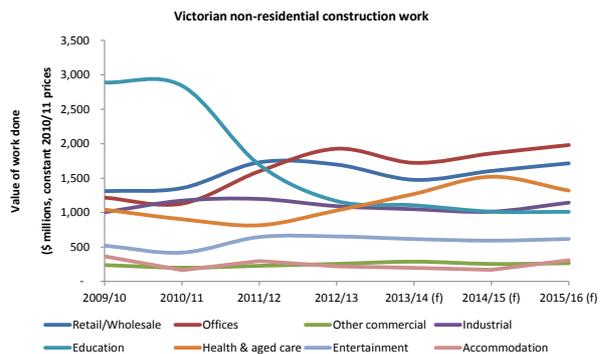
Non-residential building sector activity has declined steeply in the past two years and, with the \$8.2 billion worth of works expected to be completed this year some \$422 million lower than 2011/12. This includes significant declines of \$587 million in the work done for the education sector, which has been particularly hampered by the cessation of the Building the Education Revolution program, and \$255 million in retail/wholesale construction activity. However, with an aging population, investment is being boosted into health and aged care building works (forecast to be \$454 million higher this year than in 2011/12).

Engineering construction works are forecast to be worth \$9.8 billion this financial year, compared to \$11.5 billion two years ago. This includes significant declines in road building activity (down \$555 million since 2011/12), water and sewerage works following the completion of the Wonthaggi Desalination Plant (down \$710 million in the last two years) and in heavy industry construction works such as gas, coal and other minerals infrastructure (down \$453 million in the last two years). The primary area of growth for this sector has been in telecommunications, of which investment has climbed \$278 million in the past two years.

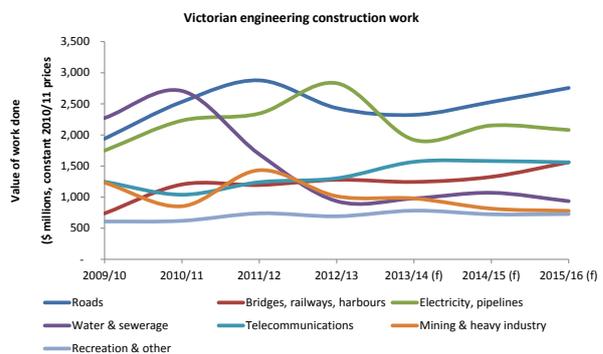
Activity in some parts of this sector is expected to

climb as works commence on major projects such as East West Link and the Port of Melbourne upgrade.

The State Government has a pivotal role to play in supporting the construction industry, as a significant purchaser of construction work as well as through strong economic management and cutting red tape to ensure our industry remains competitive.



Source: ABS 8752.0, Master Builders (f) denotes forecast



Source: ABS 8756.0, Master Builders (f) denotes forecast

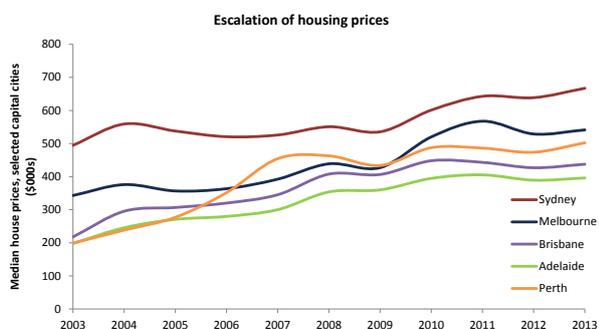


**PRIORITY 1: ADDRESS
HOUSING AFFORDABILITY**



PRIORITY 1: ADDRESS HOUSING AFFORDABILITY

The latest data from the Real Estate Institute of Australia shows that the median metropolitan house price in Melbourne has increased by 58 per cent between 2003 and 2013, from \$343,000 to \$541,000. This presents a major challenge for first home buyers trying to enter the housing market.



Source: Real Estate Institute of Australia

Increased housing stress is demonstrated in a recent report by Australians For Affordable Housing (*Housing Costs Through The Roof*, 2011), which indicates that over 180,000 Victorian households are in housing stress, with 21 per cent of first home buyers in Melbourne experiencing housing stress compared to 15 per cent in Sydney.



Source: ABS 5609.0

In the face of difficult economic times, first home buyers have represented a diminishing share of the overall home buying market in Victoria and for the last three years, they have represented less than one in five home purchasing transactions. This has fallen to significant lows in 2013/14, with first home buyers representing record lows of just 12.2 per cent of dwellings financed in September 2013 and just 14.7 per cent the previous month, perhaps fuelled by recent speculation regarding possible property bubbles and stories of a surge in real estate sales activity.

First home buyer incentives are vital to supporting jobs and activity in our industry. A reduction in home ownership rates in younger people also has the potential to pose long-term economic consequences for our state, as home investment helps people to build up assets that can be used right through to retirement.

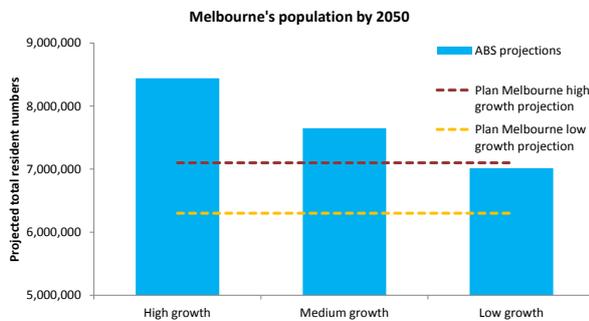
"In the face of difficult economic times, first home buyers have represented a diminishing share of the overall home buying market."

Since 2000/01, nearly 120,000 grants have been provided to help first home buyers purchase a newly built or off-the-plan home. Many of these homes may not have been built, or had their construction significantly deferred, if it were not for these grants. Master Builders commends the State Government's recent boost to first home owner grants and stamp duty reductions. We believe more can be done, however, to educate first home buyers of the government grants and subsidies that exist to help them build personal equity through the property ladder, which would also flow on to support jobs in the homebuilding industry.



PRIORITY 1: ADDRESS HOUSING AFFORDABILITY

At the same time, the Australian Bureau of Statistics (ABS) projects that Melbourne’s population alone could increase from just over 4 million in 2013 to between 7.6 million and 8.4 million by 2050, well above projections provided for in the recent Plan Melbourne strategy.



Source: ABS 3220.0, Plan Melbourne pp. 5 and 26

Population growth is a key driver of economic growth and prosperity, as demonstrated in a 2011 paper by Saul Eslake published by the Reserve Bank of Australia Productivity: The Lost Decade. This report shows that between 2000/01 and 2009/10, nearly half of the growth in real gross domestic income across Australian was from population growth.

It is imperative that government policies meet the needs of this population growth and that sufficient homes be available to ensure housing affordability issues are not exacerbated. For without this population growth, our long term economy is likely to suffer.

This chapter outlines a number of initiatives we believe the State Government needs to fund in the 2014/15 Budget to improve housing affordability, keeping it at the heart of government policy making.

"Between 2000/01 and 2009/10, nearly half of the growth in real domestic income across Australia was from population growth."



RECOMMENDATION 1: Master Builders calls on the State Government to educate first home buyers about government grants and subsidies available to help them into home ownership.

RECOMMENDATION 2: Master Builders calls on the State Government to maintain current first home bonus incentives targeting newly built and off-the-plan homes.



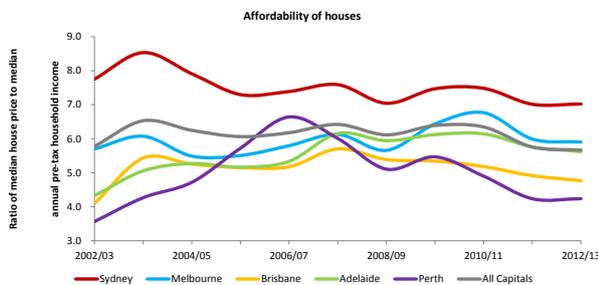
PRIORITY 1: ADDRESS HOUSING AFFORDABILITY

1. Conduct a VCEC inquiry into housing affordability

Housing affordability has been a key issue for Master Builders and its members, highlighted by our *Is Anybody Listening?* campaign in 2010.

It has been pleasing to see that since then, housing affordability has eased in Melbourne and is now at its best point in four years, according to our index that measures the ratio of median house prices against median pre-tax household income.

Our index shows that over the past two years, housing affordability in Melbourne has improved by nearly 13 per cent, from a ratio of 6.8 in mid-2011 to 5.9 in mid-2013.



Source: ABS 3220.0, *Plan Melbourne* pp. 5 and 26

This affordability improvement comes as Melbourne's median house price dropped from \$567,400 in 2010/11 to \$541,200 in 2012/13 – a decline of 5 per cent.

At the same time, the median annual gross household income in Melbourne climbed more than 9 per cent, from nearly \$83,900 in the year ending June 2011 to \$91,700 in the last financial year.

Despite the improvements in housing affordability, Melbourne's houses remain less affordable than all

other Australian capital cities except for Sydney and are also less affordable than they were a decade ago.

A key factor here is land-use and planning policies. The Victorian Competition and Efficiency Commission report *Local Government for a Better Victoria: An Inquiry into Streamlining Local Government Regulation* (2010) found the total costs to business of complying with land-use planning and building regulations are between \$500 million and \$875 million per year.

Of this, around \$180 million of incurred costs are due to unexpected delays in land-use planning decisions.

"Melbourne's houses remain less affordable than all other Australian capital cities except for Sydney and are also less affordable than they were a decade ago."

There are a range of widespread taxes, charges and government policies that directly impact housing affordability. From development charges to stamp duty, open space provisions to bushfire management provisions, from planning fees and delays to sustainability measures, more and more costs are being piled onto the costs of new homes. These are costs being borne by home buyers.

Some estimates indicate that between 20 and 40 per cent of the cost of a new home or house and land package relate to imposed taxes, levies, charges and fees across multiple levels of government.



PRIORITY 1: ADDRESS HOUSING AFFORDABILITY

Research detailed in the Productivity Commission's draft *Geographic Labour Mobility* report (2013) also highlights the issue of government fees payable on home purchases. The draft report finds that government charges represent some 4.7 per cent of the costs of purchasing an existing home in Melbourne – that is nearly \$23,400 for a home worth \$500,000.

The research also indicates government charges for existing houses in Melbourne is higher than nearly all other Australian capital cities, except for Adelaide (4.8 per cent) and Darwin (5.0 per cent). Cities such as Sydney (3.8 per cent) and Brisbane (1.8 per cent) have sufficiently lower government charges applied to housing than what is the case here.

In addition, the review into Australia's taxation system, led by Dr Ken Henry, found current government tax systems within the property sector to be highly inefficient. The review also concluded that beyond taxes and charges, other government policies significantly impact housing supply and affordability, including planning and zoning regulations, planning approvals processes and land releases.

Master Builders strongly believes it is time government commissioned a broad scale review by the Victorian Competition and Efficiency Commission (VCEC) into housing affordability across Victoria. This review should identify the various public policies that increase the costs of new and existing homes, investigate the efficiency and outcomes of such policies and recommend ways that housing affordability can be boosted to benefit Victorians.

RECOMMENDATION 3: Master Builders calls on the State Government to initiate a broad scale VCEC inquiry into housing affordability in Victoria.

2. Address land supply issues

Land supply remains a key issue driving housing affordability in Victoria, with the Department of Transport, Planning and Local Infrastructure's most recent *Victorian Residential Land Bulletin* showing that lots in subdivision plans for the March 2013 quarter continued to fall, down 14 per cent on the previous quarter and that ABS dwelling approvals for metropolitan Melbourne fell to 7,629, down 20 per cent on the previous quarter.

It is vital that the State Government ensure land supply keeps up with demand to help ensure Victorians can achieve the great Australian dream of owning their own home.

Master Builders also supports initiatives outlined in *Plan Melbourne* to develop a framework to identify and utilise surplus government land for future development and urban renewal, which will help reduce housing affordability burdens and provide a welcome revenue boost.

RECOMMENDATION 4: Master Builders calls on the State Government to ensure sufficient land supply is available, appropriately zoned, assessed and suitable for long-term new housing needs in Victoria.

RECOMMENDATION 5: Master Builders supports the State Government in the development of a framework to identify and utilise surplus government land for future development to reduce housing affordability burdens.



PRIORITY 1: ADDRESS HOUSING AFFORDABILITY

3. Reconsider parallel builder arrangement rules

Master Builders is concerned about the impact new parallel builder arrangements are having on the development industry and housing affordability.

Where it was previously possible for the buyer (in particular, first home buyers) to contract with a single builder for a house and land package, they are now required to contract with a developer for the land, and separately contract with a builder to construct the new home on the land. This is adding significant time and cost to the process.

We believe this rule needs to be reconsidered, or at a minimum better targeted to ensure Victorian home purchasers are offered greater choice and more affordable housing options.

RECOMMENDATION 6: Master Builders calls on the State Government to reconsider or better target parallel builder arrangements, to ensure affordable housing options for first home buyers are maintained.

4. Promote sustainable energy usage

At the 2010 election, the Coalition committed to support the transition of all existing housing stock to meet an average of five-star energy rating as soon as possible. This is vital to reducing Victoria's dependence on brown coal, which is impacting on our carbon price.

It is estimated 1.46 million existing household require upgrades by 2020 to meet the five-star average. This will not only assist with reducing emissions, but reduce cost of living pressures on households struggling with rising electricity bills.

Master Builders believes funding is needed urgently to help households affordably transition to more sustainable energy usage and to set a date for completion.

RECOMMENDATION 7: Master Builders calls on the State Government to fund the transition for existing homes to more sustainable energy usage and to establish a date for completion.

5. Introduce trades registration

Developing skills and professionalism in our industry will help tackle housing affordability by driving productivity.

Victoria currently has less than 2000 Domestic Builder Limited registrations. In states where trades-people are required to be registered, there are some 90,000 registered practitioners in Queensland and 85,000 in New South Wales.

Volume home builders operating across state borders where trades licensing is in place report much higher productivity levels and less costly building practices than in Victoria.

This is reflected in construction performance. Evidence from a major volume builder demonstrates, for example, that Queensland has significantly better benchmarks with starts to practical completion for single storey jobs 20 per cent faster than Victoria at an average of 19 weeks in 2012.

"Developing skills and professionalism in our industry will help tackle housing affordability by driving productivity."



PRIORITY 1: ADDRESS HOUSING AFFORDABILITY

This would also provide a source of new net revenue for the State Government. The then Queensland Building Services Authority reported just over \$29 million in revenue for licensing renewal and application fees in its 2012/13 Annual Report, a \$1.05 million increase on the previous financial year.

Master Builders urges the State Government, the Victorian Building Authority and the Department of Transport, Planning and Local Infrastructure to reform trades registration systems here.

RECOMMENDATION 8: Master Builders calls on the State Government to introduce mandatory registration of tradespeople in Victoria.

6. Introduce reward payments

Lengthy decision-making timeframes by local councils across the state add costs for the building industry and exacerbate affordability issues.

Data from the Department of Transport, Planning and Local Infrastructure's *Planning Permit Activity in Victoria Annual Report 2012/13* shows that only 66 per cent of the total 51,710 planning permit applications received were decided within the 60 day statutory time frame.

As such, Master Builders recommends the introduction of a system for rewarding or penalising councils to ensure that planning permits are handled in an effective, timely manner, similar to the National Competition Payments system.

The Council of Australian Government's (COAG) Reform Council's recent *Lessons for Federal Reform* paper (2013) notes that reward payments have been effective in encouraging reform and that even rela-

tively small reward payments have been effective in encouraging reform.

"Lengthy decision-making timeframes by local councils across the state add costs for the building industry and exacerbate affordability issues."

A system that works to encourage innovation and sound public policy decisions amongst the states could also work if Victoria introduced a similar mechanism with local councils, without necessarily needing to provide additional total funding.

RECOMMENDATION 9: Master Builders calls on the State Government to reintroduce reward payments, similar to the National Competition Payments system, to ensure planning matters are handled by local councils in an effective and timely manner.





PRIORITY 2: INVEST IN INFRASTRUCTURE

Master Builders welcomes the State Government commitment to invest a record \$5.8 billion in state-shaping infrastructure and an average of over \$5 billion a year over the forward estimates. The latest projections from the ABS show that by 2050, Melbourne's population is likely to reach between 7.6 million and 8.4 million people.

In order to accommodate this growth, investment in infrastructure must remain a key priority of the State Government to promote productivity, create employment, stimulate economic growth and ensure Victorian's continue to have access to quality services.

A recent internal report by the Department of Education, obtained by *The Age* (5 December 2013) showed that despite record investment infrastructure, public spending on Victoria's school infrastructure is at its lowest level in almost a decade.

This is supported by the Victorian Auditor-General's report *Implementation of School Infrastructure Programs* (2013), which notes that 33 per cent of schools (505) currently have buildings considered below standard.

If our public schools are to accommodate an estimated 50,000 new students by 2021, with almost 18,000 to enrol in growth area schools in Wyndham and Whittlesea alone, infrastructure backlogs and new school projects must be addressed as a matter of urgency to ensure that children are not forced to travel long distances to schools outside their neighbourhoods.

Furthermore, Master Builders believes the State Government should consider increasing Victoria's overall infrastructure expenditure. The New South Wales (NSW) Government for example, dedicated

\$15.5 billion (including \$9.1 billion from the General Government Sector) – 3.1 per cent of gross state product (GSP) - towards infrastructure in 2013-14 (\$60 billion over 5 years), compared to \$5.8 billion (around 1.3 per cent of GSP) in Victoria. If we are to address our infrastructure backlog, we must find new ways to boost investment.

As think tanks such as the Canadian Centre for Policy Alternatives emphasise, low interest rates means there is no better time to invest in infrastructure to boost economic growth and create new jobs, which is applicable in the Victorian context.

Standard and Poor's November credit rating of our state highlighted the need to establish a capital expenditure program of greater than 15 per cent of all expenditure, however in 2013/14 it says our ratio will be 13.2 per cent, declining to 12.1 per cent in the next financial year.

This chapter outlines a number of initiatives the State Government needs to fund in the 2014/15 Budget to facilitate infrastructure investment and ensure our fair share of federal grant allocations.

RECOMMENDATION 10: Master Builders calls on the State Government to continue to prioritise infrastructure investment and consider increasing expenditure as a percentage of GSP to address increasing population growth.

RECOMMENDATION 11: Master Builders calls on the State Government to address infrastructure backlogs in our public schools and pursue new capital school work projects as a matter of urgency.



PRIORITY 2: INVEST IN INFRASTRUCTURE

1. Establish an independent infrastructure advisory body

Master Builders calls for an independent infrastructure advisory body to be created in Victoria to investigate the long term infrastructure needs to support our growing population and identify innovative funding, procurement and delivery options for major projects in partnership with industry.

A 2013 report by the Melbourne Institute *Vision Versus Prudence: Government Debt Financing of Investment* found that the establishment of an independent and transparent infrastructure body to undertake cost-benefit assessments of investment projects, combined with public release and scrutiny, would support a higher level of debt finance, as infrastructure would be selected more rigorously and transparently.

Based on the experience of similar bodies elsewhere, we believe this would also help to ensure Victoria receives a fair share of national funding and provide a much needed interface between the government and private sector that could widen funding opportunities for major projects.

RECOMMENDATION 12: Master Builders calls on the State Government to establish an independent infrastructure advisory body to advise on Victoria's long term infrastructure needs and identify funding opportunities to help ensure they are delivered.

2. Provide greater transport options for commuters

The majority of travel by Melburnians occurs by motor vehicle and VicRoads' data shows that over the 10 years to 2010/11, the number of vehicle kilometres travelled in Melbourne grew 16 per cent – from 23.5 billion to 27.3 billion kilometres.

Furthermore, the costs to Melbourne's economy if commuters continue to drive will climb to \$6.1 billion by 2020, up from \$3.0 billion in 2007 (Bureau of Transport and Regional Economics, 2007) due to congestion delays and higher costs for operating vehicles, as well as air pollution and noise impacts.



At the same time, Census data shows that public transport usage is growing three times faster than Melbourne's population. More than 280,000 people utilised Melbourne's trams, trains, buses and taxis to work on Census day in 2011, compared with 209,918 in 2006.

A new report from Southern Cross University, *Commuter Costs and Potential Savings* (2013) has found that full-time workers who drive between Melbourne's suburbs and the central business district spend between \$6000 to \$10,000 more per year on average commuting than workers who use public transport.



PRIORITY 2: INVEST IN INFRASTRUCTURE

Master Builders wants to see a greater investment in both public transport and road infrastructure projects, to offer commuters greater choice in the mode of transport they decide to use, reduce ‘lost time’ and boost our economy. These include:

- Delivering future high capacity heavy or light rail options, including Melbourne’s Metro Rail Capacity Project;
- Continuing work on reducing the number of level crossings across the metropolitan area;
- Widening the Tullamarine Freeway to boost access to and from Melbourne Airport;
- Creating additional free ‘park and ride’ facilities around key public transport nodes;
- Investigating Brisbane’s model of dedicated busways and bus tunnels that, in some circumstances, deliver similar benefits more cost-effectively than new rail lines; and
- Making better use of our existing assets, through initiatives such as introducing freeway management systems like those on the M1 corridor, better utilising emergency lanes and ensuring shared road use priorities are established to provide preference to certain transport modes such as light vehicles, trams, trucks or cyclists on certain roads.

RECOMMENDATION 13: Master Builders calls on the State Government to boost public transport and road infrastructure investment to reduce congestion and offer commuters greater choice in their travel options, including maximising the value of our existing assets.

3. Identify and publicly release an infrastructure works pipeline

Master Builders has welcomed the State Government’s commitment to the East West Link, Regional Rail Link, Port of Hastings and Metro Rail Capacity Project.

It is vital that short, medium and long term infrastructure priorities like these, their funding sources and timeframes for delivery are identified and publicly released to allow our industry to be best placed to build these city-shaping projects more efficiently.

Providing a proper, planned, coordinated infrastructure pipeline such as Infrastructure NSW’s annual five year plans, delivered as part of each State Budget, to identify specific major infrastructure projects to be undertaken as a priority, as opposed to 25 year windows as outlined in *Plan Melbourne*, helps provide industry with the certainty to plan its resources and support jobs. This system also helps to drive competition and reduce bid costs, ensuring government receives value for money in its infrastructure programme.

RECOMMENDATION 14: Master Builders calls on the State Government to publicly release further short, medium and long term infrastructure priorities and funding sources, with more specific delivery timeframes in conjunction with the Budget papers.



PRIORITY 2: INVEST IN INFRASTRUCTURE

4. Ensure our fair share of GST and Federal grant funds

Victoria is not getting its fair share of Goods and Services Tax (GST) revenue, meaning we are missing out on hundreds of millions of dollars each year that could be used to fund transport projects, new hospitals and better schools.

In 2013/14, Victoria received 22.6 per cent of GST revenue, down from 22.9 per cent (costing around \$207 million) in the previous year, despite our 25 per cent share of Australia’s population. As Standard & Poor’s indicated in its November review of Victoria’s credit rating, Victoria is currently a “donor state, meaning that it receives less than its average per-capita share of the goods and services tax pool.”

Master Builders agrees with the Victorian Treasurer’s comments that “the GST system is broken and needs to be fixed” and we support the State Government in continuing to advocate for Victoria to receive a more equitable share of GST funding. as well as a fair share of Federal grants and assistance, particularly in the infrastructure sector.

It is time for Victorians to receive an adequate share of funding and that our state stop being treated as a ‘donor state’ through the GST allocations.

RECOMMENDATION 15: Master Builders calls on the State Government to continue advocating for equal per capita funding in GST and a fairer share of Federal grants for Victoria, particularly for state-shaping infrastructure projects.

“It is time for Victorians to receive an adequate share of funding and that our state stop being treated as a ‘donor state’ through GST allocations.”

5. Support public private partnerships

In a period where government revenues are increasingly constrained, the use of public private partnerships (PPPs) play a vital role in the supply and ongoing management of new services.

A report by Allen Consulting Group and the University of Melbourne *Performance of PPPs and Traditional Procurement in Australia (2007)* found that PPPs offer a statistically significant cost efficiency over traditional procurement methods.

If approximately \$400 billion is invested in infrastructure in Australia over the next decade and PPPs account for 10 to 15 per cent of the market share, they are expected to generate around \$6 billion in potential benefit to the community.

Master Builders therefore calls on the State Government to dedicate resources to identify leading practices in the development and delivery of sound PPP models from across the world that can be applied to the infrastructure projects and services to benefit our community to take advantage of these benefits.

We also support the trial of partial bid cost contributions that forms part of the East West Link (Stage 1) procurement model. This move will help protect those bidders who are ultimately unsuccessful in obtaining the rights to deliver and maintain a nominated PPP project, as proposals and



PRIORITY 2: INVEST IN INFRASTRUCTURE

tender costs appear to be escalating and becoming more complex, taking up significant staff, time and financial resources for bidding companies often for no reward. We encourage the State Government to continue trailing this on other capital works projects and report back its findings to industry.

RECOMMENDATION 16: Master Builders calls on the State Government to identify world leading practices in the development of sound public private partnerships.

RECOMMENDATION 17: Master Builders calls on the State Government to simplify procurement processes for public private partnership projects, trial partial bid cost contributions beyond the East West Link and report its findings to industry.

6. Seek alternative sources of infrastructure funding

In addition to PPPs, the State Government should also look to work with Infrastructure Australia to earmark assets for privatisation, including to superannuation investors, which on average have allocated just 5 per cent of their \$1.3 trillion funds to infrastructure.

The New South Wales Government’s move to offer long term private leases for Port Botany and Port Kembla, which has seen net proceeds of around \$4 billion to be invested in the NSW Government’s infrastructure fund – Restart NSW, is a model that states like Victoria should consider following on from the privatisation of assets in the 1990s to pay down public debt.

The formal transaction process is also underway to privatise the Port of Newcastle and a large scale

privatisation of Queensland’s power and port assets is currently being set up.

Master Builders urges the State Government to investigate the involvement of superannuation funds in priority projects and pursue a broader public dialogue around privatisation of assets such as the Port of Melbourne, which could generate billions of dollars, as well as the recycling of government assets.

We also encourage the State Government to continue to increase the number of trade missions to significant overseas markets to raise Victoria’s international profile and attract greater foreign investment and interest in construction projects locally.

RECOMMENDATION 18: Master Builders calls on the State Government to investigate the potential to involve superannuation funds in priority infrastructure projects and the use of unsolicited proposals.

RECOMMENDATION 19: Master Builders calls on the State Government to pursue a public dialogue about privatisation of assets such as the Port of Melbourne to fund new infrastructure projects.

RECOMMENDATION 20: Master Builders calls on the State Government to increase the number of trade missions to showcase our businesses to the world.



PRIORITY 2: INVEST IN INFRASTRUCTURE

7. Better communicate the economic benefits of existing infrastructure

Recent dissent to vital infrastructure projects, such as the East West Link, highlights the need for the State Government to properly examine the economic benefits of existing infrastructure projects and more effectively communicate these to the public.

Economic analyses are compiled as part of developing project business cases, but are rarely carried out after a project has been completed.

We believe it is essential to better promote the benefits infrastructure projects have on local communities and that such work would help raise public awareness of such benefits, whether they be traffic or travel time reductions, impacts on property values, social and environmental outcomes or liveability improvements.

RECOMMENDATION 21: Master Builders calls on the State Government to properly investigate the economic benefits of recent infrastructure projects and communicate these to the public.

8. Improve development assessment processes for major projects

A new report by the Productivity Commission *Major Project Development Assessment Processes* highlights the opportunity to improve the development assessment and approval regulatory framework for major projects in Australia.

A number of key areas were identified as being in need of improvement including approval timeframes, duplication, conflicting objectives, regulatory uncertainty, lack of consultation and

enforcement.

Master Builders recommends the State Government consider the range of proposed reforms including a 'one project, one assessment, one decision framework' for environmental approvals, that includes strengthening bilateral assessment and approval agreements between the federal and state levels to reduce costly duplication and improving coordination between regulatory agencies in Victoria.

RECOMMENDATION 22: Master Builders calls on the State Government to consider implementing state-based recommendations outlined in the Productivity Commission's report *Major Project Development Assessment Processes*.



**PRIORITY 3: EXERCISE
SOUND FINANCIAL
MANAGEMENT**



PRIORITY 3: EXERCISE SOUND FINANCIAL MANAGEMENT

Victoria's public sector financial position is the envy of Australia, with a strong budgetary position, the security of its AAA credit rating and a long-term history of successive budget surpluses dating back the mid-1990s.

These are no easy feats to achieve and have required diligent, prudent financial management over the past two decades, including by the current government. As Standard and Poor's stated in November, the government has:

...continued to demonstrate fiscal discipline through its response to ongoing revenue challenges. The government has made difficult political decisions, including containing wage growth and reducing the number of public servants.

Master Builders notes that Victoria remains the only state in the nation to hold a stable AAA credit rating from both major ratings agencies – Standard & Poor's and Moody's.

According to government statements, the AAA credit rating is saving taxpayers \$170 million a year through lower borrowing costs compared to states such as Queensland and Western Australia, which no longer access this premium rating.

The Mid-Year Budget Update shows healthy surpluses are on track to be delivered over the next four years. In fact, the projected surplus over the forward estimates period to June 2017 has climbed 16 per cent compared to the State Budget – from \$5.1 billion forecast in May to \$5.9 billion today.

Debt is forecast to peak in 2014/15 at a modest 6.7 per cent of GSP while government infrastructure investment is expected to rise to more than \$7 billion

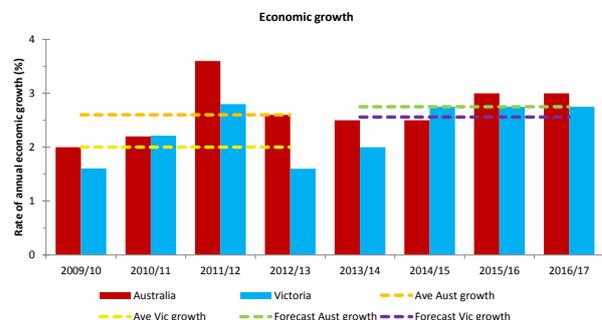
in a single financial year for the first time.

Despite the absence of a mining and resources boom, Victoria's economy has continued to grow, albeit below trend rates. However, the state is faring well, particularly considering the precarious global financial issues of recent years.

The building industry relies on a strong economy, fuelled by consumer confidence in the residential building sector and by business confidence in the commercial construction sector.

Economic growth is fundamental to growing our industry. The Mid-Year Budget Update forecasts an increasing rate of economic growth over the forward estimates (average of 2.56 per cent a year) compared to the past four years (average 2.0 per cent annually).

Over the last four years, our state's economic growth per annum has been an average of 60 basis points lower than Gross Domestic Product (GDP) growth, however over the next four years it is projected to be just 19 basis points lower than national economic growth.



Source: State and Federal Budget papers and Budget Update papers



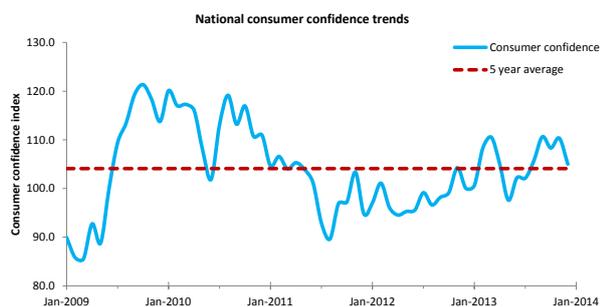
PRIORITY 3: EXERCISE SOUND FINANCIAL MANAGEMENT

Moody's has highlighted the links between our industry and economic growth, saying our state's 2012/13 below trend economic growth was a result of "weaker trends in household spending, housing construction, and business investment, as well as sharp declines in public capital investments."

This chapter outlines the priorities for sound economic management that Master Builders believes should continue to be pursued by the State Government. These are in addition to previous recommendations contained in this submission, such as infrastructure expenditure and privatisation opportunities.

1. Retain AAA credit rating by keeping debt low and delivering healthy surpluses

Consumer confidence has improved following the Federal Election, but recent declines in this measure indicate further work is required by governments across the nation to instil confidence amongst consumers.



Source: Westpac-Melbourne Institute Consumer Sentiment Index

Likewise, NAB Business Surveys show a recent retreat in business confidence from the post election highs recorded in September. However, the index is consistent with long-run average levels.

Maintaining Victoria's hard fought for AAA credit rating is significant in ensuring consumer and business confidence in our economy.

As Moody's stated in its December 2013 credit analysis of Victoria, the implementation of the government's strategy to pay down long term debt is important to the state's credit outlook. Specifically, Moody's said a factor that could jeopardise our AAA credit rating includes:

A loosening in the government's resolve to constrain expenditure growth to the degree necessary to bring the budget back into balance as planned and the associated constraint in debt accumulation could result in downward pressure on the (AAA) rating.

A key factor in paying down debt will be the State Government's ability to deliver healthy budget surpluses. The Mid-Year Budget Update shows that government surpluses will rise from 0.1 per cent of GSP in 2013/14 to 0.7 per cent by 2016/17.

Master Builders believes that healthy targets for budget surpluses as a percentage of GSP should be established and that sufficient capacity for infrastructure investments be included.

The surpluses are also critical to maintaining our current credit rating and strengthening confidence across all sectors of our economy. As Moody's stated this month:

The government has implemented a budgetary redress program to narrow the deficit and stabilize the debt burden and its continued commitment to achieve these targets is important to the state's credit outlook.



PRIORITY 3: EXERCISE SOUND FINANCIAL MANAGEMENT

RECOMMENDATION 23: Master Builders calls on the State Government to continue pursuing action that will ensure Victoria's debt profile allows the state to retain its AAA credit rating.

RECOMMENDATION 24: Master Builders recommends healthy budget surpluses as a percentage of GSP be utilised to fund infrastructure and capital works projects.

2. Rising construction costs

The Productivity Commission is conducting a public inquiry into public infrastructure to look at ways to encourage private financing and funding of major infrastructure projects.

As part of this inquiry, the commission will be conducting a broad review into the costs of construction as well as the competitiveness and productivity in the delivery of infrastructure.

This follows strong advocacy for such an inquiry by the Victorian Government, as well as acting to strengthen the state's construction code guidelines and establish the Construction Code Compliance Unit.

In the *Securing Victoria's Economy* statement, construction costs are cited as having risen by 42 per cent in non-dwelling building construction, 48 per cent in engineering construction and 54 per cent in new dwelling building for the decade to 2011.

The statement also indicates that Australia has some of the world's highest construction costs for high-rise apartments, CBD offices, hospitals, schools and roads. Even more disturbing is that Melbourne

appears to be more expensive than cities like Sydney and Brisbane when it comes to delivering infrastructure as well as residential and commercial building.

Clearly such news indicates reforms are necessary to boost productivity and reduce costs in our industry in order to guarantee our sector's competitiveness, generate new jobs and make a long-lasting contribution to the state economy.

Master Builders believes it is essential that infrastructure, new homes and other buildings be affordable for Victorian taxpayers, families and businesses. It is our hope that the Productivity Commission's review assists in meeting this aim.

RECOMMENDATION 25: Master Builders calls on the State Government to actively participate in the Productivity Commission's review and works with industry to enact any subsequent changes that may boost productivity and make construction projects more affordable.

"Australia has some of the world's highest construction costs for high-rise apartments, CBD offices, hospitals, schools and roads."