

An aerial photograph of Melbourne, Australia, showing the Yarra River winding through the city. The skyline is visible in the background under a sunset sky with orange and yellow clouds. The river is surrounded by lush green trees and parks. In the foreground, there are some buildings and a road.

MBV SUBMISSION FOR STATE BUDGET

2023/24



**MASTER
BUILDERS**
VICTORIA

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INTRODUCTION FROM CEO

Michaela Lihou
CEO Master Builders Victoria

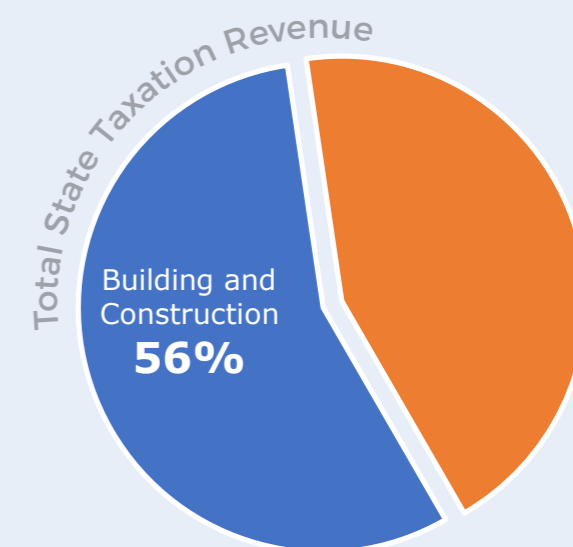


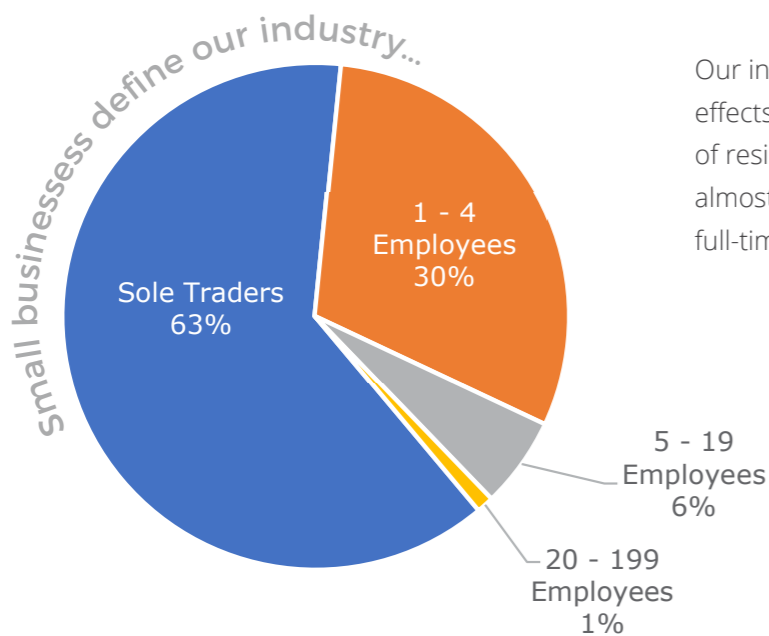
On behalf of MBV, I am pleased to deliver this submission for the upcoming 2023-24 Victorian State Budget. In making this submission, I also take the opportunity to highlight the value the building and construction industry contributes to our economy.

Our sector is one of the most important to the Victorian economy, being the largest full-time employer and enabling the Victorian Government to deliver on important infrastructure and transport commitments. Our industry delivers housing, parks, schools, hospitals, and other important amenities for the liveability of all Victorians, critical to our community's well-being and the state's future prosperity.

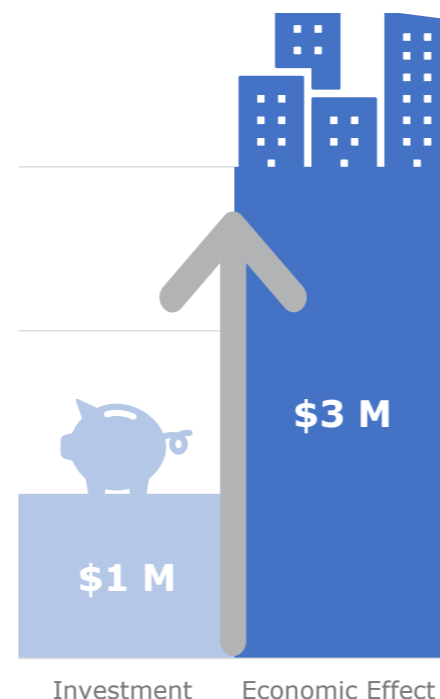
Despite the impacts of the pandemic, building and construction remain a large part of the state's economy. When local government tax is included, it accounts for over 56 per cent of the state's tax revenue.

The value of building and construction work done in 2021-22 accounted for 12.2 per cent of Gross State Product (GSP).





Our industry has one of the largest multiplier effects on our economy. Every \$1 million worth of residential building activity generates a total of almost \$3 million in economic activity, and nine full-time jobs are supported across the economy.



Small businesses and sole traders comprise a very large proportion of our industry. Of the 127,370 building and construction businesses, 62.7 per cent operate as sole traders and 30.4 per cent hire up to four employees. All these businesses continue to be impacted by the shortage and price increases for building inputs, such as materials and labour.

Victoria has invested heavily in infrastructure. It will need to continue this effort as our community works together to navigate and rebuild Melbourne into the global city of opportunity and choice.

This document is the result of extensive research by MBV and consultation with our members.

It highlights the need for the building and construction industry to remain the backbone of our state's economy. The areas our submission covers are:

- Supporting the future of our industry
- Women in construction
- Securing the pipeline of building and construction work
- Housing affordability
- Future proof the building and construction industry

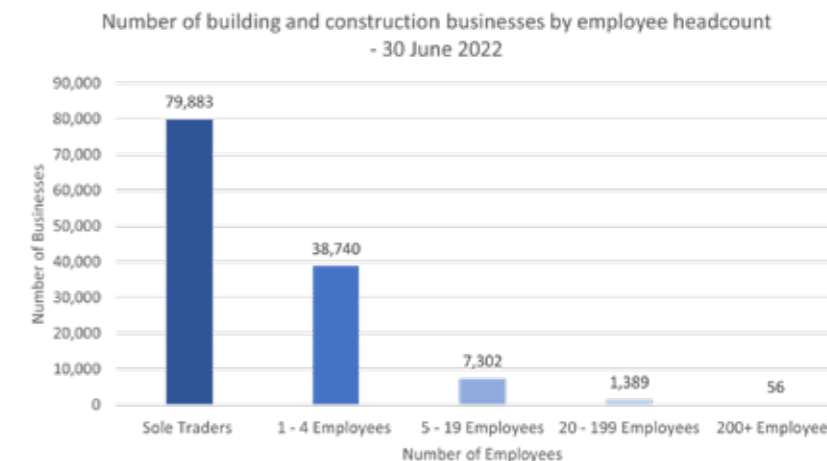
The building and construction industry has demonstrated its commitment to the community of Victoria. Through this submission, we have identified 30 priorities that will help to ensure we can continue to build a better world.

STATE OF THE BUILDING AND CONSTRUCTION INDUSTRY

Building and construction is one of the largest sectors of the Victorian economy. Latest ABS figures indicate that the total value of building and construction work done over the year to September 2022 totalled \$64.2 billion in value. The value of building and construction work done in the 2021-22 financial year was directly equivalent to 12.2 per cent of Victorian Gross State Product (GSP).

Our industry is vital in the provision of full-time employment and support for small business. During November 2022, there were 358,900 people employed in the building and construction industry. 86 per cent of these jobs are full-time, making our industry the largest full-time employer in our state.

Latest ABS data indicates that as of 30 June 2022, there was a total of 127,370 construction businesses in operation across Victoria. This is more than every other sector of the economy. Small businesses define our industry, with 98.9 per cent hiring up to 19 employees. Of this, 30.4 per cent hire less than five employees and 62.7 per cent operate as sole traders.



The small size of construction businesses is reflected in their pattern of turnover. The majority (59.2 per cent) turn over less than \$200,000 per year, with just over one in five (22.4 per cent) earning less than \$50,000 annually. Just 1.4 per cent of building and construction businesses have annual revenues more than \$10 million.

A 2020 research report by NHFIC highlights how the structure of construction activity affects output and jobs across the broader economy. It is estimated that for every \$1 million worth of residential building activity generates \$3 million worth of economic activity and supports nine full-time jobs. This is because the nature of residential construction requires high levels of input from building materials, labour, and professional services.

In terms of our industry's outputs, about \$21.0 billion worth of civil and engineering construction was carried out over the year to September 2022. In addition to this, residential building work totalled \$23.4 billion over the same period with \$15.8 billion in non-residential building activity.

Latest figures show that work started on about 62,309 new homes over the year to September 2022, of which 38,920 were detached houses (62 per cent of the total). Over the same period, about 57,073 new homes were completed and became available to live in for the first time. The 2021 Census found that the average number of people per household was 2.5, meaning that a roof was put over the heads of an additional 142,683 Victorians.



MEDIUM TERM OUTLOOK FOR BUILDING AND CONSTRUCTION

The latest Master Builders Australia (MBA) forecasts assess the prospects for activity up to 2026-27. The current environment is difficult for building and construction with a range of challenges on both supply and demand sides within the market. MBA forecasts that total construction activity will slip by 3.6 per cent during 2022-23 largely because of weakness in residential building. Beyond that, activity is projected to recover gently before picking up from the middle of the decade onwards. By 2026-27, the volume of work is forecast to reach \$61.2 billion.



Residential building

MBA predicts that around 50,660 new home starts will likely occur across Victoria in 2022-23. This would represent a 24.4 per cent reduction from 2021-22's outcome. The sharp reversal in activity is shared by both the detached house and higher density sectors within the market. For Victoria, 2022-23 is likely to represent a low point. Looking beyond this, in 2026-27 new home building volumes will likely recover to around 64,990. Both parts of the market will contribute to this, however, higher density home building will perform a bit more strongly. This expectation assumes that inward migration to Melbourne will return to the type of levels seen before the pandemic. The strengthening projected for higher density home building means that by 2026-27, the detached house share of new home building in Victoria is likely to drop to 60 per cent compared with about 63 per cent today.



Non-residential building

Non-residential building in Victoria dropped by 7.3 per cent during 2020-21 but recovered most of its losses during 2021-22 (+6.9 per cent). MBA forecasts that activity here will continue to grow consistently over the forecast horizon. This will involve the volume of work rising from \$14.92 billion in 2021-22 to \$18.50 billion in 2026-27. Projects related to retail and commercial building are likely to expand at a faster pace, while some of the gains made in the industrial building space will be erased.



Engineering construction

MBA forecasts the volume of civil and engineering construction activity will increase modestly from \$19.11 billion in 2021-22 to \$19.63 billion in 2026-27. This takes in the consideration that building and construction activity will receive an additional boost due to the state's successful bid to host the Commonwealth Games in March 2026. This impact is expected to be particularly large in the host venues outside of Melbourne, including Geelong, Ballarat, Bendigo and Gippsland. The Victorian Government has bid to invest significantly in community infrastructure, including housing and world-class sports facilities in these areas.

SUPPORTING THE FUTURE OF OUR INDUSTRY



Increasing skilled migration

MBV requests that occupations in the building and construction industry be included on the target sector list for skilled visa nomination. We also welcome the Victorian Government’s support to include building and construction occupations on the Priority Migration Skilled Occupation List. There are acute shortages in trades across our sector, including electricians, bricklayers, carpenters, roofers, plumbers, and construction managers. Additionally, there is a critical shortage of site supervisors, estimators, drafts people, building surveyors, and engineers.

Budget Priorities

- **Review the Temporary Skill Visa framework and guidelines to increase the prospect of transition from temporary to permanent migration to stabilise the skills shortage**
- **Lower the Skilling Australians Fund Migration Levy to make it more accessible for employers**

Supporting the future of our industry

MBV welcomes the introduction of Certificate IV in Training and Assessment (TAE) to the funded course list in 2022 and supports the removal of barriers to entry for those with extensive industry experience, including the upskilling requirements and more part-time study options.

Budget Priority

- **Specific investment in teacher training for enterprise and industry RTOs.**

Supporting apprentices

MBV welcomes the measures implemented by Apprenticeships Victoria with the ongoing programs, including Big Build Apprenticeship, Apprentice Innovation Fund and the Learn and Earn initiatives. MBV is encouraged by the continued support by Apprenticeships Australia offering financial incentives to employers of first and second year apprentices.

Budget Priority

- **Ongoing solid financial support for apprenticeship commencements and completions to ensure the pipeline of skilled trades in construction.**

Flexible pathways into the building and construction industry

Flexible pathways will assist and showcase the opportunities across the entire building and construction life cycles, such as surveyors, engineers, architects, builders and trades.

Budget Priority

- **Further support and research to identify and fund flexible pathways in the building and construction industry.**

Recognising and rewarding schools for supporting VET

Secondary schools are celebrated for student ATAR results and the number of students who study at university. The attainment of a pre-apprenticeship can disadvantage students from finding an employer when they want to undertake an apprenticeship. For some students, moving to an apprenticeship pathway before 18 years of age is a valid and successful career pathway.

Budget Priority

- **Schools to be recognised and rewarded for the number of students who take up an apprenticeship and complete a VCAL/VCE Vocational Major or ATAR pathway, not just University pathways.**



Mental Health

MBV welcomes the Government's election promise to support mental health for the building and construction industry. Men working in building and construction workers aged 15-24 are more than twice as likely to take their own lives than the general population. MBV looks forward to the Andrews Labor Government \$4 million investment to establish a new mental health training program for apprentices of all trades.

Budget Priority

- **Commitment to the \$4 million investment to establish a new mental health training program for apprentices of all trades.**

Well-resourced Regulator

MBV welcomes the Victorian Government's ongoing support for the Victorian Building Authority. MBV supports a pragmatic and transparent regulator for our Industry. Independent reports and the Building Systems Review indicate improvements are needed for less red tape and robust regulatory oversight.

Government funding must continue to be provided and sustained to ensure the VBA, as a regulator of our industry, can deliver the statement of expectations to ensure a safe and quality-built environment. MBV supports a well-funded and resourced regulator who works collaboratively with the sector to impact the built environment positively. This will enable the VBA to carry out industry changes such as compulsory continued professional development and licensed trades.



WOMEN IN CONSTRUCTION

Work done by the Building Industry Consultative Council (BICC) has proven that our industry is open to change. Implementing Victoria's Women in Construction Strategy and the Construction Industry Gender Equality Policy will guide businesses to access 50 per cent of the population. Increasing the participation of women in building and construction impacts industry sustainability and innovation and positively influences the employment choices, financial stability, and well-being of many Victorian women.

To achieve gender equity, substantial changes to industry culture, practices, attitudes, and behaviours are necessary. These changes will only be realised through collaborative and sustainable business partnerships between Government, employers, employees, industry associations and unions. Increasing the potential pipeline of women wanting to work in building and construction requires a concerted, whole-of-industry approach to sourcing, attracting, training, and retaining women workers.

Budget Priorities

- **To increase the diversity, equity and inclusion of women in building and construction, MBV asks for \$20 million in funding to ensure:**
 - **A sector review to evaluate the areas of change needed in building and construction to encourage and support diversity, equity and inclusion in our industry**
 - **An awareness program to support and encourage the building and construction industry to adopt changes identified in the review**
 - **Support and guidance to assist teachers, parents, and the broader community in understanding the benefits of a career in building and construction**
 - **Funding of industry programs that lead to tangible employment outcomes**
 - **Funding for the Building Equality Policy implementation, compliance, and monitoring.**



SECURE THE PIPELINE OF BUILDING AND CONSTRUCTION WORK

Strengthening the supply chain

Supply and skill shortages are two critical issues for our industry that impact building and construction work. This has strained our ability to deliver anything from apartments to residential housing and other infrastructure. We applaud the Victorian government for appointing the Commissioner for Better Regulation and the Red Tape Commissioner to investigate supply shortages in our industry. MBV was an active contributor to the development of the Commissioner’s Supply Chain Review, which provided a series of recommendations for the Victorian Government.

Supporting these recommendations mitigates the risk of supply shortages occurring again within the next 30 years. The efforts of the Residential Construction Costs Working Group have also been a positive step forward in discussing tangible short to long-term solutions for our industry.

Supporting small Victorian businesses

Since the start of the pandemic-related supply chain issues, MBV has raised concerns that impacts of price rises, fixed-priced contracts, and challenges to profitability could result in greater insolvencies. Our industry has remained resilient throughout the pandemic, and insolvencies remain low compared to figures in 2019, before the pandemic. Nevertheless, we continue to hear more reports of businesses winding down or bringing forward retirement due to challenging business conditions.

The RBA’s decisions to raise interest rates to curb inflationary pressures have begun to dampen building activity. Builders will require a pipeline of profitable work ahead to secure positive cash flow into the future.

Budget Priorities

- **Provisions such as cost escalation clauses, better planning delivery, and long-term investment into building, construction, and infrastructure to ensure business longevity and sustainability.**

Contractual relief for business certainty

The commercial and residential sectors are under ongoing pressure from skills, trade shortages, and rising costs. Most recent ABS figures have highlighted that the average material prices in Melbourne, Victoria continue to rise faster than CPI. Over the twelve months to the December 2022 quarter, CPI rose 7.8 per cent. Meanwhile, prices for steel, concrete, cement and sand, and timber have risen by 22.1, 19.4 and 15.9 per cent respectively. Our industry cannot share these rising costs immediately, like other prices found within the basket of goods and services measured within CPI. This is due to the nature of contracts in both commercial and residential sectors. A growing es within the industry are reluctant or unable to offer fixed contract prices on specific inputs given the current price volatility and uncertainty.

MBV appreciates the intent behind the Victorian Government’s proposed Parliamentary inquiry into investigating payment security for tradespeople in our industry. However, a review of current contractual limitations and modernising the payment framework across all building and construction sectors would enable more payments to occur within the industry more freely.

Commercial Sector

As the bankroller of major projects and investments in infrastructure, the Victorian Government plays a crucial role in acting as a model client for the broader industry. Government and industry must work collaboratively to address the challenges associated with input cost escalations. Government should consider the investment in reviewing contract designs used across its departments to ensure better value for money, drive greater efficiencies, and fairer risk allocations.

There are a variety of measures towards achieving this that have set a precedent both in Australia and internationally. Other states, such as Western Australia and South Australia have allowed for the use of rise and fall clauses for state projects. Similarly, the Government in Ireland agreed to pay up to 70 per cent of inflation-related construction costs and allow for rise and fall provisions on Government projects.

Budget Priorities

- **Reviewing the standardisation of Victorian Government contracts to drive greater efficiencies and fairer risk allocations for both government and industry.**
- **Rise and fall contracts to be used for Victorian Government projects, similar to agreements by the Irish, WA and SA governments.**
- **Reduced validity periods for project tendering to reflect volatile market conditions.**

Residential Sector

Similarly, the residential sector would benefit from the review of the Domestic Building Contracts Act to modernise the current framework. A review of the current contracting framework will enable builders and consumers alike to achieve greater transparency and value for money, ensure greater efficiencies and regulate cashflow for businesses in the sector.

Builders are consumers too, and to protect consumers, builders must be allowed to share the unprecedented cost increases in a transparent process. Price increases are generally shared with consumers in many other areas, such as fuel, food, and retail. For example, when oil price increases, the price paid by consumers at the service station goes up within the hour. Notwithstanding that prices generally increase slightly yearly, the nature of fixed price contracts means that builders and tradespeople are expected to operate and lock in prices for extended periods of time, regardless of supply chain disruptions. This can be as long as 12-18 months, even two to three years in advance. Contractual limitations will only push builders to continue to work within a “business-as-usual” framework as we continue to recover from the pandemic.

Budget Priorities

- **A modernised review of the Domestic Building Contracts Act (1995).**
- **Discussions with banks to facilitate the use of cost escalation clauses and allow for more payment stages for ensure ongoing cashflow.**
- **Cost escalation clauses to be inserted in Domestic Building Contracts, so builders are not left to hold all the risk due to price increases. This should be extended to contracts above and below the contract value of \$500,000.**

HOUSING AFFORDABILITY

Social Housing

Master Builders is a signatory to the Federal government’s Housing Accord which is committing to build a million houses over five years from commencing in 2024. MBV looks forward to the development of the Housing Accord and working collaboratively with industry and all levels of government to resolve the shortage of social and affordable housing.

State investment in social housing and the incentivisation of private investment in social housing can be used to quickly generate activity in the building and construction industry whilst addressing an area of need for Victoria’s homeless.

MBV commends the Victorian Government for committing to build 12,000 social and affordable housing by 2024 through the \$5.4b Big Housing Build Initiative. MBV proposes that more guidance in the tendering process will allow greater inclusivity for smaller contractors to be involved in the delivery of more homes. Greater transparency and support in the tender process will mean that existing resources can be allocated more efficiently, allowing additional businesses to benefit from this injection, particularly in regional areas.

Budget Priorities

- **Development of a long-term strategy with ongoing investment to deliver social housing to support our community’s needs. Opening up this tender process will demonstrate greater certainty for our industry in securing a pipeline of work to support our State’s economy.**
- **Collaborative relationship between government and industry in delivering social and affordable housing to avoid potential bottlenecks.**
- **Purchase ‘distressed assets’ for use as social housing. In times of economic downturn, purchasing assets will address the shortage of social housing and support homeowners who may be forced to sell in a weak market. In the short term, this will create greater stimulation across multiple segments of the economy. Purchasing will also allow the State to own assets to appreciate in the medium to long term.**
- **Support build to rent as a long-term asset class, with financing support to create favourable subsidies and modified tax treatment to be financially viable.**



Reduce the taxation burden on housing

Eliminating stamp duty tax and replacing it with a more broad-based land tax will encourage households to upsize and downsize, benefiting both home buyers and our economy. States such as NSW and ACT are in the process of switching away from stamp duty, and Victoria should follow suit. The National Housing Finance and Investment Corporation (NHFIC) has reported that Victoria has the most to gain from removing stamp duty. Victoria has Australia's largest effective rate of stamp duty. Stamp duty tax equates to a loss of 0.34 per cent in Victoria's State Final Demand each year, compared to 0.26 per cent in NSW. Stamp duty is also a highly volatile source of revenue for governments.

To support housing affordability, MBV proposes the removal of housing subsidies that can place upward pressures on dwelling prices in-line with a broader plan to replace stamp duty taxes with a broad-based land tax. This would provide a budgetary cushioning during the change in projected taxation revenue.

It is widely accepted that assistance to first-home buyers can contribute to higher house prices. Assisting prospective home buyers increases the number of people wanting to buy a home and the amount they can borrow. The additional demand, if not accompanied by an increase in the number of homes available, places pressure on house prices and reduces housing affordability.

MBV believes that such supports could be leveraged more effectively. For example, restricting first-home buyer grants and stamp duty concessions to the building or purchase of new homes would result in more new homes getting built and help address one of the root causes of deteriorating housing affordability.

This has the benefit of ensuring that there is a strong connection between the grants and new housing supply, which in turn helps to moderate the impacts of grants on house prices.

Budget Priorities

- **The elimination of stamp duty tax in a long-term taxation plan to be replaced with a broad-based land tax.**

Greater urban densification and land supply

Urban densification remains a key long-term policy goal for MBV. Our state is projected to have a total population of ten million, with almost eight million in Melbourne by 2051. We must ensure the appropriate planning and development settings are in place to prepare for this population surge. Growing housing demand means adequate land supply is needed. Ensuring greater urban densification can also assist with broader policy goals, such as the Housing Accord.

Residential land is the most critical factor in developing every new home. No other input to new housing production can have a massive effect on the price and eventual volume of new home supply. Releasing more land to meet growing demand will mean land prices and new home prices can decrease. Reports of land shortages in regional Victoria have placed greater urgency on the Victorian Planning Authority (VPA) to lead, develop and deliver a pipeline of state-led land releases across Victoria, with an initial focus on Wodonga, Geelong, Ballarat, and Bendigo.

Incentives for more significant urban densification will play a crucial role in housing our State's growing population. More significant expansion of 'as-of-right' codified planning to fast-track planning approvals for non-contentious development will also support urban densification.

Budget Priorities

- **To take proactive steps to activate land by requesting the VPA to urgently lead, develop and deliver a pipeline of state-led releases across Victoria with an initial focus on the Wodonga, Geelong, Ballarat and Bendigo areas.**
- **Released land should be appropriately subdivided to ensure that energy efficiencies and savings can be maximised in designing homes.**
- **Incentivising development of high-density residential buildings such as apartments, secondary dwellings, and duplexes for local governments.**
- **Local Governments to be required to set targets to provide greater supply options and to be rewarded for good performance.**
- **Greater expansion to fast-track planning approvals for non-contentious developments such as secondary dwellings and subdivisions.**



Improved planning delivery

The Victorian Planning System is an integral tool to ensure future developments meet the needs of our communities and protect the long-term interests of our built environment for all Victorians. Whilst the current system may deliver successful outcomes for its intended objective, there are concerns that the process of obtaining planning approval through local government is fragmented, making it difficult for those requiring permits to navigate and obtain them on time.

Implementing a digital tool to assess compliance through the design process, so applications are readily approved will be a positive step forward. MBV recognises that much work is in progress to develop e-Planning and e-Approval tools to improve compliance and process. However, we emphasise the importance of appropriate funding for the practical delivery of the much-needed improvements to the current inefficiencies through the planning permit process.

Budget Priority

- **Funding to be provided to local governments to expedite the digitisation of planning controls so that designers and planners can work with a codified planning system.**



FUTURE PROOF THE BUILDING AND CONSTRUCTION INDUSTRY

Investment into the circular economy for building and construction.

The Building Product Assurance Framework for the building and construction industry is fragmented. This matter has been identified as a concern in the Building Confidence Report, and Building Systems Review prepared on behalf of the Federal Government and State governments. Whilst some consider this a primary responsibility of the Federal Government, MBV believes that State Governments have equal responsibility to address this matter and support the building and construction industry to deliver a better-built environment for communities.

Budget Priorities

- **A compulsory product certification be developed to support our industry in making informed decisions in the design phase and ensuring product compliance, environmental impacts, embodied energy, and the reuse of building materials.**
- **Further investment is also required for:**
 - **Training across the industry - architects, designers, specifiers, and builders.**
 - **Establishing a complete and local network of waste transfer and recycling facilities.**
 - **Developing markets for recycled and repurposed materials.**
 - **Tracking of materials to eliminate counterfeits and product substitution.**

The work of the Department of Environment, Land, Water and Planning (Recycling Victoria: a new economy 2020) and of the Australian Housing and Urban Research Institute (Inquiry into housing in a circular economy) has highlighted the vital role of circular economy principles for the building and construction industry. Applying circular economy principles to building and construction processes is critical to reducing environmental impact and process inefficiencies as a resource-intensive industry. For our industry to implement circular economy principles, the investment must be supported by a framework that includes a compulsory product certification system and the introduction of a searchable database of materials and their properties.

LEADING A FUTURE READY INDUSTRY THAT BUILDS A BETTER WORLD



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