

14 April 2023

Mr Andrew Barr MLA
Chief Ministers & Treasurer
ACT Government

Via Email: budgetconsultation@act.gov.au

MASTER BUILDERS ACT SUBMISSION TO THE ACT BUDGET 2023-24

Thank you for the opportunity to provide submissions to the 2023-24 ACT Budget.

The 2023-24 ACT budget is being formulated against a difficult economic backdrop and after the local economy is still recovering from the unprecedented impacts of COVID-19 lockdowns. Since the COVID-19 restrictions have eased, new pressures are emerging which have a significant impact on the local building and construction industry, including:

- The highest levels of inflation in over 30 years
- Labour shortages
- Cost pressures in the markets for raw materials, which has resulted in the toughest phase of interest rate increases since the early 1990s, and
- Persistent supply chain disruptions.

While these pressures represent a challenge, they also provide a real opportunity for bold budgetary reform to be advanced and for businesses to be unshackled.

For our industry, the greatest long-term challenges relate to providing for the Territory's future building and infrastructure needs, in particular the supply of housing.

Over recent years, our industry has moved backwards in terms of its productivity performance. Recent developments with respect to industrial relations, including the abolition of the Australian Building and Construction Commission (ABCC), do not bode well for prospects here.

Fortunately, it is possible for us to overcome these obstacles and our budget submission makes detailed proposals which we believe will get us moving forward again. At times of economic difficulty, private sector demand can make the vital difference and our industry has much to offer in this respect.

Our submission addresses measures to address current industry issues, namely:

- Industry cost pressures.
- Declining pipeline of construction work.
- Lack of supply of build-ready land for housing.
- Workforce capacity and capability.
- Navigating the ineffective and inefficient development approval system.

We have also made comments on longer-term issues including infrastructure planning, housing needs, and workforce planning issues.

In making these proposals, our focus is on improving productivity in the industry and allowing for more favourable outcomes when it comes to the cost and quantity of building and construction output. In the past, the supply of new homes has failed to fully keep up with demand with housing affordability deteriorating steadily in response.

We thank you for the consultation on budget preparation held to date and welcome the opportunity to provide the ACT Government with further details about any of our proposals.

About Master Builders ACT

Master Builders ACT is the peak industry association for the building and construction industry. With over 1,000 members across residential and commercial builders, civil contractors, subcontractors, suppliers, and professional sectors of our industry. Our members represent all levels of the supply chain, from the landowner and developer, through to builders, subcontractors, suppliers, designers, and engineers. Our members also include professionals who advise these building industry practitioners, including lawyers and accountants.

We operate Canberra's largest specialist building and construction industry training organisation, MBA Group Training, which currently trains approximately 200 carpentry apprentices and more than 7,000 construction workers in short courses each year.

ACT Building and Construction Industry Snapshot

Building and construction is one of the largest sectors of the ACT economy. Latest ABS figures indicate that the total value of building and construction work done over the year to December 2022 totaled \$4.02 billion in value, comprising:

- \$2.08 billion of residential building
- \$1.20 billion of non-residential building
- \$0.74 billion of engineering construction work

According to ABS January 2023 data, this level of building activity supports a workforce of 19,580 people employed in construction in the ACT. This level of employment comprises 7.6% of all jobs in the ACT.

Our industry also does the heavy lifting when it comes to supporting apprentices and trainees. The building and construction industry is the number one employer of apprentices and trainees in the ACT. As at September 2022 there were 2,215 construction apprentices in-training in the ACT, which represents 33% of all ACT apprentices.

The structure of the building and construction industry is unique in that it comprises a majority of small businesses. Of the 6,532 construction businesses recorded by the ABS in March 2023, 6,433 or 96.8% employed less than 20 employees. It is these small and family-owned businesses which have suffered extremely during COVID-19 lockdowns the resulting economic impacts.

We urge the ACT Government to focus on supporting these local businesses in the 2023-24 ACT budget.

Building and Construction Industry Workforce

Across industries and skill levels the Australian workforce is experiencing critical shortages which are inhibiting economic recovery and productivity growth. There are a number of elements to these difficulties. We believe that the solution lies in boosting industry participation amongst underrepresented segments, enhancing training and increasing the intake of migrants from overseas to the ACT.

For the construction industry itself, achieving the training outcomes we need for new entrants is contingent on VET funding commitments increasing for the lowest subsidy rate in Australia to be in the top quartile for each building and construction trade.

Ensuring that our future local construction workforce is large and productive enough to be able to deliver on our building and construction needs over the coming decades relies upon attracting and sustaining a steady flow of new apprentices to the industry each year. Perhaps the biggest problem of all is that a large share of apprentices permanently exiting their training prematurely, often because immediate earning opportunities can be more attractive in other industries.

With considerable numbers of older workers permanently retiring from the construction industry each week, the pressure to replace their decades of experience and upskilling is considerable.

One of the great opportunities for Australia's construction workforce lies in enhancing its diversity and striving to increase participation rates amongst those currently underrepresented in our workforce. According to the ABS, as at February 2023, women account for just 15.8 per cent of the ACT's construction industry's workforce. Amongst construction trades workers, where shortages are most acute, women account for just 1.8 per cent of the headcount nationally.

Initiatives like the Women in Civil and Women in Trades programs (which are delivered by the MBA, other stakeholders and with support from the ACT Government) are working hard to improve female participation in construction trades occupations by dispelling some of the misconceptions around the nature of the work as well as through tackling the barriers faced by women wishing to pursue construction apprenticeships. Initiatives provided by the MBA ACT,

including our Women in Construction program, are also supporting women working develop and advance their careers in the construction industry.

ACT Building and Construction Industry Outlook

The latest (February 2023) Master Builders Australia forecasts for the ACT predict total construction activity in 2023-24 to be \$3.242 billion, a 3.8% increase on the previous year. Total construction activity is then expected to increase to \$3.745 billion by 2026-27.

Master Builders Australia forecast of total construction activity for ACT to 2026-27 (millions of 2019-20 dollars)

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
\$3,934	\$3,658	\$3,690	\$3,123	\$3,242	\$3,736	\$3,659	\$3,754
No data	-7.0%	+0.9%	-15.4%	+3.8%	+15.2%	-2.1%	+2.3%

Source: Master Builders Australia produced forecasts and analysis of ABS Building Activity (8752.0)

The level of construction activity forecast by MBA Australia next year has previously been completed in three of the past four years, demonstrating that the industry has capacity to deliver an increase level of total construction work.

In previous years, however, building and construction work was delivered by a predominately local workforce, supplemented by interstate and overseas companies and workers. The ability to attract non-local workers to fill short-term labour shortages will be critical to maintaining the expected future pipeline of total construction activity.

However, the ability to continue to attract these companies and workers into the ACT should not be taken for granted.

A number of recent legislative reforms, including procurement, rescission of sales contracts, mandatory training, and taxation settings have made the ACT a less attractive place for businesses to invest.

Similarly, the severe shortages and high prices for housing to both rent and purchase provides an almost insurmountable barrier to moving to the ACT for work, whether temporary or permanent.

Residential Construction

While the total amount of construction work is expected to steadily increase, the level of construction activity in each sector of the industry is expected to vary significantly.

According to MBA Australia forecasts, new dwelling starts are expected to be impacted the most. A 54.6% decline is predicted in 2022-23. While the decline in 2022-23 and recovery in future years mostly reflects higher interest rates, followed by the eventual return to an environment of lower interest rates, the constraints on new dwelling starts also reflect delays in delivering new residential land and approval delays for new residential projects.

Many of the levers to accelerate new dwelling commencements are within the control of the ACT Government, and we urge the Government to address these issues in the 2023-24 ACT Budget. These levers include:

- Increasing development approvals by providing more resources in the Planning Directorate and concluding the planning reform project.
- Using the planning reform project to changing zoning rules to allow a greater diversity of housing, especially in the RZ1 zone.
- Accelerating the supply of new land by the Suburban Land Agency.
- Proceeding with investigations of future new suburbs so supply is not negatively impacted in future years.
- Accelerating investment in public and social housing to help fill gaps in the residential construction pipeline provided by down-turns in private sector new dwelling construction.

Master Builders Australia forecast of total new dwelling starts for ACT to 2026-27 (millions of 2019-20 dollars)

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
5,121	5,196	5,865	2,660	5,590	5,000	5,550	6,000
No data	+1.5%	+12.9%	-54.6%	+110.2%	-10.6%	+11.0%	+8.1%

Source: Master Builders Australia produced forecasts and analysis of ABS Building Activity (8752.0)

Non-Residential Construction

Non-residential building activity in the ACT is predicted to continue its historically bumpy path. This sector includes a significant level of expected Federal and ACT Government construction expenditure. However, it is also heavily dependent on private sector and institutional construction investment by universities, private schools, office building owners and retail investment.

In order to maintain Government expenditure in non-residential construction, there are two important actions that can be taken by the ACT Government:

- Firstly, maintaining its commitment to deliver a strong pipeline of ACT Government funded construction projects, including schools, health and community infrastructure.
- Secondly, the ACT Government has an important role to play to encourage investment by the Federal Government into local infrastructure projects. This investment should include direct investment in construction projects and investment in the investigation, planning and design of future construction projects.

Master Builders Australia forecast of total non-residential building activity for ACT to 2026-27 (millions of 2019-20 dollars)

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
\$1,195.0	\$974.8	\$1,234.9	\$1,125.0	\$1,134.8	\$1,208.9	\$1,216.5	\$1,192.5
No data	-18.4%	+26.7%	-8.9%	+0.9%	+6.5%	+0.6%	-2.0%

Source: Master Builders Australia produced forecasts and analysis of ABS Building Activity (8752.0)

Engineering and Civil Construction

The sector which appears to have the strongest forecast for 2023-24 is the engineering and civil construction sector. However, the high levels of construction expenditure in the short term for this sector assumes commencement of Stage 2 of Light Rail. The MBA Australia forecasts assume Stage 2 is expected to be completed by 2024, at a total cost of at least \$1.9 billion.

Based on experience from Stage 1 of light rail construction, local companies are not expected to benefit greatly from this expenditure during the construction phase. Not including this major item, small and family local civil construction businesses will require support through a steady, reliable, pipeline of small and medium sized civil construction projects. These projects will likely include bike and footpath upgrades and extensions, road upgrades, new community spaces and parks.

Master Builders Australia forecast of total engineering and civil construction for ACT to 2026-27 (millions of 2019-20 dollars)

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
\$649.3	\$652.9	\$657.0	\$728.4	\$854.1	\$878.2	\$808.8	\$783.1
No data	+0.6%	+0.6%	+10.9%	+17.3%	+2.8%	-7.9%	-3.2%

Source: Master Builders Australia produced forecasts and analysis of ABS Building Activity (8752.0)

Summary of Master Builders ACT Proposals

Our budget proposals respond to the immediate pressures confronting building and construction, namely:

- Industry cost pressures.
- Declining pipeline of construction work and lack of long-term infrastructure plan.
- Lack of supply of build-ready land for housing and failure to meet our future housing needs.
- Workforce capacity and capability.
- Navigating the ineffective and inefficient development approval system.

Specific Master Builders ACT Proposals

Dealing with industry cost pressures:

- ACT Government to offer flexibility in contractual dealings with building and construction companies whose operations have been hampered by cost spikes, labour shortages and other supply chain complications when procuring ACT funded capital works.
- ACT Government to offer new building and construction contracts which fairly and appropriately share risk between key stakeholders.

Delivering a Sustainable and Reliable Pipeline of ACT Government construction projects:

- Deliver on last year's budget announcement to build \$6.4 billion of infrastructure over the five years to 2025-26, with an appropriate mix of small and medium sized projects for all sectors of the building and construction industry which can be released for tender in the short term.
- Ensure a rolling \$5 billion, 5 year, pipeline of infrastructure and capital works projects is always in place.
- Invest in appropriate design and documentation of capital projects to both improve the quality of tender documents, and to increase the bank of build-ready projects available for tender to local construction companies.
- Develop a long-term infrastructure plan for the ACT which incorporates infrastructure funded by the ACT Government, infrastructure funded by the Commonwealth Government, infrastructure procured by Icon Water and Evoenergy, and any other relevant infrastructure to support the Territory's long term growth.

Supply of build-ready land for housing & Addressing our long term housing needs

- Accelerate the investment in the planning, construction, and sales of land through the Suburban Land Agency to meet current demand and address our historical undersupply of build-ready land for housing.
- Review the design and lot mix of future suburbs delivered by the Suburban Land Agency to ensure there is appropriate supply of affordable land to meet the needs of first home buyers.
- Commence the planning studies, site investigation, design and approval of future new suburbs to ensure there is a long-term supply of land for new housing.
- Investigate models to partner with the private sector to increase the supply of build-ready land for housing.
- Addressing cost of living, housing affordability and availability measures which encourage population growth and attraction of key workers to the ACT to support our future economy.
- Increasing the supply of public and social housing to meet the needs of the ACT community.
- Set annual housing targets for the ACT based on the new National Housing Accord and provide regular reports against the delivery of these targets. As part of this reporting, set out how estimated future demand for land is determined, and report on the number and location of zoned and development-ready lots, disaggregated by infill/greenfield and permitted density.
- Amend planning and zoning rules that currently allow only single detached houses, to allow more dense development 'as of right' along key transport corridors, with height limits set up front; relax regulations limiting the use of secondary dwellings and dual occupancies, and relax minimum carpark requirements for developments where there is good access to public transport.

Workforce capacity and capability

- Increase apprenticeship subsidies for all trade apprenticeships, including carpentry and plumbing apprentices which are currently provided the lowest subsidy in the ACT compared with any other State or Territory.
- Develop a workforce transition plan, with appropriate funding for re-skilling and new trade apprenticeships, to meet the needs of the ACT's electrification transition.
- Continue funding for Women in Civil, Women in Trades and other pre-apprenticeship programs to help attract a diverse workforce to the building and construction industry.
- Tackle lower trade apprenticeship completion rates by offering incentives for successful completions and continued funding to employers for apprenticeship commencements.
- Provide resourcing to promote vocational education and training pathways, and trade apprenticeship opportunities, for school leavers.
- Funding the development of a digital apprentice sign-up and onboarding platform.
- Work with the Commonwealth Government to prioritise skilled migration into the ACT.
- Leverage the NCVET data to develop and publish VET quality indicators at the RTO level to enable prospective students, apprentices and employers to make informed decisions about their training pathway and training provider, to incentive RTOs to strive for excellence, and to inform decision making on funding for training delivery.

Navigating the ineffective and inefficient development approval system

- Invest in additional resources, including new landscape design, urban design and architecture positions, to support the outcomes-based planning system.
- Adequately resource the Environment, Planning and Sustainable Development Directorate to implement the recommendations of the 2018 Building Confidence Report.
- Provide funding for industry training to support the upcoming amendments to the National Construction Code amendments.
- Adequately fund the National Capital Design Review Panel so that proponents can book review meetings in a timely fashion and so the Panel can appropriately support the new outcomes-focused planning regime.

Conclusion

We have attached the Master Builders Australia February building and construction industry forecasts in full to assist you to analyse the expected outlook and issues confronting the ACT building and construction industry.

We note that in the current highly volatile economic climate, any forecasts should be read with caution. We encourage the ACT Government to remain in close consultation with the MBA to understand how our forecasts are expected to be adjusted.

We are available to discuss any aspect of this submission.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Michael Hopkins', with a long horizontal flourish extending to the right.

Michael Hopkins
Chief Executive Officer

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