

Master Builders Australia

## 2016-17 PRE-BUDGET SUBMISSION

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## 1 Introduction

- 1.1 Master Builders Australia is the nation's peak building and construction industry association which was federated on a national basis in 1890. Master Builders Australia is the peak national association for the building and construction industry in Australia. Its primary role is to champion the interests of the building and construction industry, representing residential and commercial building, and engineering construction.
- 1.2 Master Builders has more than 32,000 member-companies with representation in every State and Territory from all parts of the building and construction industry. Our members are large national, international, residential and commercial builders and civil contractors through to smaller local subcontracting firms, as well as suppliers and professional advisers.
- 1.3 The building and construction industry accounts for close to 8 per cent of gross domestic product, and around 9 per cent of employment in Australia. It makes an essential contribution to the generation of wealth and welfare of the community. At the same time, the wellbeing of the building and construction industry is closely linked to the prosperity of the domestic economy.
- 1.4 The cumulative building and construction task over the next decade will require work done to the value of \$2.8 trillion and for the number of people employed in the industry to rise by 300,000 to 1.3 million.

## 2 Overview

- 2.1 The Australian economy, while fundamentally sound, faces two major structural challenges, both of which will determine our longer term economic prospects. The first of these challenges concerns the ongoing need to rebalance the economy onto a path of sustainable economic growth following the ending of the mining investment boom. The second is the ongoing structural fiscal deficit and the policy approach which sets out the path, timing and policy settings required to return to fiscal surplus.

- 2.2 Master Builders recognises the rebalancing of an economy following any major boom period – especially one as significant as that relating to the mining investment boom, and related surge in the terms of trade – presents major policy challenges, not least of which is the capacity and the time needed by most businesses to the changed market conditions. Many businesses, especially small business, find meeting these adjustment challenges particularly demanding.
- 2.3 Against this background, Master Builders believes it is appropriate for well-design and targeted government fiscal and industry policy settings and initiatives to facilitate the smooth transition of the Australian economy, and its constituent businesses. Such policy settings and assistance would help minimise disruptions to the economy, and hence minimise instability in our economic growth prospects.
- 2.3.1 More importantly, it would help to minimise any loss of entrepreneurship and jobs from business cutbacks or closures. The Federal Government's \$20,000 small business tax write-off, announced in last year's Federal Budget, is a good example of a thoughtful structural adjustment facilitation initiative.
- 2.4 At the same time, it is important for governments to support, through ongoing structural reforms, those sectors which are well placed to make an immediate and positive contribution to underpinning the economy, entrepreneurial initiative and employment. The building and construction industry is one such 'driving' sector.
- 2.4.1 As noted earlier, the building and construction industry accounts for close to 8 per cent of Australia's national output (gross domestic product), and around 9 per cent of total employment (or some 1 million people).
- 2.4.2 The cumulative building and construction task over the coming decade will require work done to the value of \$2.8 trillion, with employment in the industry rising to 1.3 million people.
- 2.4.3 The building and construction industry also has a high economic/industry multiplier, reflecting its strong linkages in supply chains from/to key industries such as manufacturing, transport, and wholesale and retail trade.

- 2.5 Master Builders has, for a long time, been an active and vocal advocate for comprehensive and meaningful taxation reform. Most recently, this advocacy has included an expansive submission to the Federal Government for its “RE: Think” Tax White Paper process. In this Budget submission, we again reiterate our call for genuine taxation reform.
- 2.6 Master Builders is deeply concerned at the seemingly unstructured public debate over future directions for Australia’s taxation system, in particular calls for higher taxes/increased tax burdens and for the removal of so-called tax concessions, all under the (misnomered) guise of tax reform.
- 2.6.1 In this context, we are particularly concerned at calls to raise the Goods and Services (GST) rate to pay for government services (which would constitute a net increase in the tax burden), without any countervailing reductions in other taxes (that is, no net increase in the tax burden).
- 2.6.2 The better approach to funding the rising cost, and growing future burden, of government services (such as the National Disability Insurance Scheme), in the first instance, is to look to remove inefficiencies in the delivery of those services, which would reduce pressure on government outlays and obviate the need for tax increases.
- 2.7 Our policy position and advocacy is firmly set, and clear: an increase in taxes is not tax reform; it is simply increasing the tax burden on the already beleaguered Australian taxpayer. As the former British Prime Minister Sir Winston Churchill observed:
- “... for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle.”*
- 2.8 Master Builders fundamental policy objective for taxation reform is to:
- ensure Australia remains globally competitive;
  - ensure Australia remains an attractive destination for foreign investment;
  - and,

- facilitate business and the economy to structurally adjust to rapidly changing domestic and international challenges and opportunities.
- 2.9 Fundamental, genuine and well-designed taxation reform will also assist to repair the structural budget deficit.
- 2.10 This pre-Budget submission sets out Master Builders proposed approaches to addressing these (taxation reform; fiscal consolidation), and other (for example, housing affordability, workplace productivity and skills, and regulation reform) economic policy issues.

### **3 Main Recommendations**

#### **Fiscal Strategy**

- 1 Restore confidence in the Federal Government's economic and fiscal settings to underpin sustained growth in the non-mining sectors of the economy such as infrastructure, commercial and residential building that would, in turn, improve revenue growth and contribute to reining in the structural deficit.*
- 2 Maintain in the short term tax incentives for commercial and other business investment to help bring forward activity and facilitate an economic rebalancing and transitioning from mining to non-mining investment-driven growth.*
- 3 Reassess and recalibrate the composition of reforms needed to address the structural deficit, lift productivity and grow the economy.*
- 4 Ensure responsible fiscal management including the principle of balancing the Budget over the course of the economic cycle and develop a clear and sustainable pathway to a Budget surplus.*
- 5 Retain sufficient flexibility in fiscal policy to meet changing economic conditions.*
- 6 Redirect public spending towards more productive forms of infrastructure outlays and away from recurrent, less productive expenditure.*

## **Taxation**

- 7 *Adopt a holistic approach to tax reform to ensure measures are not considered in isolation or as single issue trade-offs. Any tax “blueprint” must be a comprehensive, detailed and specific package that allows zero “wriggle room” in terms of execution.*
- 8 *No increase in the GST rate without first effecting meaningful and comprehensive tax reform.*
- 9 *Retain the tax exempt status of home ownership and negative gearing.*
- 10 *Provide incentives for the removal of inefficient State/Territory taxes including infrastructure taxes, charges and levies.*
- 11 *Reduce the company tax rate to at least 25 per cent.*
- 12 *Reduce the differential between the higher marginal personal income tax rates and the company tax rate.*
- 13 *Introduce a reducing, stepped rate of capital gains tax.*
- 14 *Simplify tax compliance, especially for small business to free up entrepreneurial energies for more productive purposes, such as generating investment, employment and productivity.*

## **Housing Affordability**

- 15 *Take action with State/Territory jurisdictions to redress the impediments to residential housing supply.*
- 16 *Work with State/Territory jurisdictions to abolish or reduce inefficient taxes and charges.*
- 17 *Through a reinvigorated Council of Australian Governments (COAG), provide ‘competitive, efficiency dividend’ payments to the State, Territory and local Governments for delivering housing affordability policy outcomes against key performance metrics.*

18 *Provide an appropriate level of public housing, giving priority to delivering suitable accommodation to those identified as being in greatest need of assistance.*

19 *Ensure minimum energy efficiency standards do not exceed six stars.*

### **Workplace Productivity**

20 *Ensure as an interim measure increased funding for the Fair Work Building Commission and an effective Australian Building and Construction Commission (ABCC; when reinstated) continues the work of enforcing workplace relations law, particularly in co-operating with dedicated police task forces charged with investigating criminality in the industry.*

21 *Continue to improve workplace relations legislation and the related institutions.*

### **Workforce Skills**

22 *Maintain investment in vocational education and training (VET) for both full qualifications and skill sets commensurate with the future skills needs of the industry. Funding should be directed to skill areas that are experiencing shortages.*

23 *Include the building and construction industry as a priority industry for skills funding, recognising that the industry will require 300,000 new workers over the next decade; and review the Fund's policy guidelines to allow industry based Registered Training Organisations (RTOs) to apply for funding on behalf of member companies to increase take-up, which has been poor.*

24 *Maintain the level of investment in apprenticeships and skills acquisition strategies while making this expenditure more efficient and targeted to industry needs.*

25 *Target financial assistance to employers to lift apprenticeship commencements and completions to deal with a looming skills crisis in building and construction.*

26 *Make apprentice support services more industry driven, increase employer incentives to take on new apprentices and review current pathways into the trades.*

27 *Ensure a quality VET system with increased focus on skill attainment that meet the needs of industry, and which has independent evaluation of RTOs and student learning outcomes.*

## **Regulation Reform**

28 *Effective policy measures to protect the builder/developer and the consumer in the market place from faulty and/or non-conforming building products are essential. Master Builders strongly advocates the supply-to-industry of products that meet and exceed Australian Standards.*

29 *Ensure adequate financial support for the Australian Building Codes Board (ABCB), and charge the Board to lead a concerted program of action to minimise the nature, incidence and impact of variations to the National Construction Code (NCC).*

30 *Master Builders supports a better built environment, however opposes strongly mandatory increases in energy efficiency requirements as this will come at a net economic and social cost.*

## **Infrastructure**

31 *The essential principle underlying any robust and sustainable 'cities policy' must involve allowing key markets to work better, promoting more market-responsive decision-making, and facilitating equality of opportunity.*

32 *Expand the Asset Recycling Initiative as part of an overall increase in direct public sector spending on key economic and social infrastructure.*

33 *Minimise bid-costs for infrastructure provision/financing to ensure the broadest possible range of engagement by potential investors.*

34 *Expand the use of privatisation or other mechanisms for the transfer of existing and prospective infrastructure assets to the private sector.*

## Immigration

- 35 *Set the permanent net migration intake at around 240,000 persons per annum.*
- 36 *Enhance the access of employers to jobs classified as 'semi-skilled' for the purposes of permanent employer-sponsored migration.*
- 37 *Master Builders supports the signing of free trade agreements in principle, however, in supporting free trade, Master Builders is strongly committed to the local building and construction industry, and to the training and upskilling of Australians.*
- 38 *Master Builders supports the abolition of labour market testing for 457 visas. This position is supported by the OECD, which has previously pointed out that employer-conducted labour market testing is not “fully reliable”, and in the Australian context has proven ineffective.*

## 4 Building and Construction Industry Outlook

- 4.1 The economic and industry outlook for the building and construction industry can only be described as mixed. While forward indicators are positive for the industry in the short term, medium to longer term indicators suggest a more challenging operating environment.
- 4.2 Master Builders takes the 'pulse' of the industry through, inter alia, our quarterly *National Survey of Building and Construction* (the most recent of which covers the December Quarter 2015), and monitors the medium to longer term outlook for the industry through our bi-annual *Building and Construction Industry Forecasts* (the most recent of which, at the time of writing, were formed in the December Quarter of 2015).
- 4.3 The near/ short term outlook for the building and construction industry is generally one of positivism and optimism amongst industry players, with most metrics of performance and outlook tilted toward improvement and/or rated as good or better. For instance:
- business confidence remains in positive territory, with solid improvements in profit expectations, while overall industry and own-business conditions continue to firm;

- by sector, both residential and non-residential builders see further strengthening in activity levels over the coming six months;
- by category, sales continue to stage a strong trend recovery, accompanied by a continued positive outlook for employment (both own-employees and sub-contractors), while input costs (especially for labour) are expected to remain fairly steady in the near term;
- by contrast, display centre traffic/ commercial inquiries (which are leading indicators of future sales and thus work-in-the-pipeline) remain flat, although still in positive territory, while availability of finance and of labour (particularly for managerial/supervisory staff) are becoming increasingly greater constraints on activity.

4.4 The medium to longer term outlook for the building and construction industry essentially involves a 'changing of the guard' with non-residential construction expected to enter a broad-based phase of growth just as residential building moves into a cyclical downturn. At the same time, the big fall in engineering construction appears to be coming to an end, to be followed by a period of stabilisation.

4.5 The residential construction sector has experienced an extraordinary upturn in recent times, with dwelling commencements in 2014-15 (at just over 211,000) being close to 50 per cent higher than the level three years earlier.

4.5.1 This upturn has been driven by a number of factors, including sustained low interest rates, the best housing affordability conditions in over a decade, the availability of first home owner grants which favour new ahead of established dwelling, and strong demand from both domestic and foreign investors.

4.5.2 Looking ahead, Master Builders expects dwelling commencements (by count) to peak at around 218,500 in the 2015-16 financial year (FY), before easing back to 202,700 in FY 2016-17 (down 7 per cent), and then to 195,600 in FY 2017-18 (a drop of 3 per cent).

- 4.5.3 The downturn in dwelling starts reflects factors such as an oversupply of apartments, predicted lower rates of population growth, and a shift in investor sentiment (particularly relating to expectations for capital growth and rental returns on residential property).
- 4.6 The non-residential construction sector has experienced a general weakness in recent times, reflecting reduced demand for new space and a generally weaker economy, and more austere budgets and capital spending by governments.
  - 4.6.1 Looking ahead, the overall value of non-residential building work done is likely to fall by more than 10 per cent in FY 2015-16, with bigger falls expected for transport-related buildings (down over 35 per cent) and office construction (down more than 26 per cent);
  - 4.6.2 Beyond that, non-residential construction generally, as well as building work for the retail and wholesale trade, transport and office sub-sectors are expected to improve across the three years up to and including 2018-19.
- 4.7 The engineering construction sector, by contrast, has experienced what can really only be described as boom conditions over the past five or so years, most notably in the resources sector. However, construction spending in the utilities (in particular, electricity and water subsectors) has also shown strength.
  - 4.7.1 Looking ahead, the overall value of engineering construction work done is expected to fall by more than 21 per cent in FY 2015-16, and then a further almost 5 per cent in FY 2016-17, before recovering slightly in the two financial years following.
  - 4.7.2 For the resources sector, the falls are expected to be more pronounced (down 36 per cent and nearly 20 per cent respectively), but less so for the utilities sector (down 13 per cent, and then flat lining, respectively).
  - 4.7.3 Further ahead, engineering construction in the resources sector is expected to consolidate, while in the utilities sector it is likely to weaken (albeit at a modest pace).

- 4.8 While the performance and the prospects of the three main sectors of the building and construction industry appear mixed, they all face, to varying degrees the same wider economic challenges and risks, such as:
- the future direction for China's economy, given its significance as a destination for our exports (of both commodities and services), and source of capital investment;
  - the future direction of interest rates, which play an important role in home-buyer and business investor decision-making;
  - the need for critical industrial relations reforms to strengthen the rule of law in the building and construction industry, most notably the critical ABCC legislation recently reintroduced into the Federal Parliament; and,
  - the need for a clearly stated medium to longer term net overseas migration intake, which is likely to account for almost 60 per cent of our population growth – with attendant flow on effects to housing and other construction – over the next 15 years.
- 4.9 Master Builders recognises the performance and prospects of the Chinese economy are largely outside the field of influence of the Australian Government. However, the other three – interest rates, industrial relations law, and the migration program – are within their broader grasp.

## **5 Fiscal Strategy**

- 5.1 The key economic priorities for the Federal Government must be to encourage the non-mining business sector to invest and create jobs, and to deliver progressive fiscal consolidation.
- 5.2 The Federal Government must continue efforts to boost confidence in the economic and fiscal settings in order to sustain growth in the non-mining sectors of the economy such as infrastructure, commercial and residential building. A stronger economy would, in turn, improve revenue growth and over time rein in the structural deficit.

- 5.3 The Federal Government needs to continue with meaningful reforms needed to address the structural deficit, lift productivity and grow the economy. This may involve reconsidering the strategic timing involved in returning the Budget to surplus as well as adopting a pragmatic approach to resolving confidence-sapping Parliamentary logjams.
- 5.4 Master Builders is committed to fundamental reform and the requirement to tackle the structural deficit. There is a need to strengthen confidence and business investment. This can be achieved by a more pragmatic approach to the timing of Budget repair measures.
- 5.5 Balancing the Budget is important, but should not come at the expense of well-designed and targeted microeconomic incentives. There is a danger that balancing the Budget and stabilising net debt as a share of GDP could come at the expense of economic reforms which would yield less revenue for the Federal Government in absolute terms.
- 5.6 Master Builders believes the expenditure discipline and reform should be a high priority for fiscal policy. Both revenue and expenditure measures should be evaluated from a perspective of whether they would improve incentives to work, save and invest. Raising higher average tax rates do not pass that test and would be at odds with foremost tax reform. As Winston Churchill once famously said, 'we cannot tax ourselves to prosperity'.
- 5.7 Master Builders welcomes moves by the Federal Government to cut company tax, reduce medium term spending and privatise assets, as this should over time free up resources and assist individuals and businesses to succeed. Also welcome are moves to reduce the regulatory burden on business, individuals and the community by \$1 billion a year through an aggressive agenda to cut red and green tape.
- 5.8 A strong economy is the key to minimising medium-term risks to the integrity of the Budget position. The economic outlook is now reliant on the capacity of non-resource sectors to offset the loss of mining investment as a primary growth driver. But as structural adjustment proceeds, non-mining activity, fiscal consolidation, the exchange rate, cautious consumers and a soft labour market all make for a challenging economic environment.

- 5.9 The impact on the economy of falling commodity prices is affecting Australia's terms of trade, national income and the Budget deficit. On the other side of the ledger, lower oil prices means cheaper petrol that will flow through to stronger household expenditure. Falling terms of trade have triggered a lower exchange rate, which will boost the competitiveness of Australian industry and, eventually, lift profits. Restoration of profits should, in turn, engender a recovery in non-mining investment.
- 5.10 The good news is that the benign inflation and soft economic outlook will allow interest rates to stay low. In this context, Master Builders believes the 2016-17 Budget can augment its primary, medium term focus and play a role in supporting short-term demand.

#### **Investment in infrastructure**

- 5.11 Master Builders supports the ambitious steps taken by the Federal Government to boost growth through investment in infrastructure, in particular their Asset Recycling initiative. This program has the potential to leverage close to \$40 billion of new infrastructure as State and Territory Governments are given tax and other incentives to privatise existing infrastructure and use the money to fund new priority infrastructure. Master Builders recommends the Federal Government consider expanding the important Asset Recycling Initiative.
- 5.12 The Reserve Bank quite rightly argues governments – whether Federal, State, Territory or local - need to do more to promote policies to encourage greater infrastructure spending, given there are limits to what a low interest rate policy can do to support the economy. The investment boost from targeted road and rail projects should begin as soon as possible and contribute to rebalancing the economy. We note Treasury estimates Federal Government-supported infrastructure spending could add 1 per cent of GDP to the economy over the remainder of the decade.

- 5.13 Productivity enhancing infrastructure spending helps to ease bottlenecks and boost productivity. Given current economic challenges, and low borrowing costs, now would be a good time to lift infrastructure spending. However, the delivery of infrastructure in Australia is essentially done by the States and Territories (the Commonwealth funds just 15 per cent) so incentives for States and Territories to lift infrastructure spending appear limited to those States and Territories that have budgeted for strong infrastructure programs.
- 5.14 Financial incentives for States and Territories to sell assets and reinvest the sale proceeds into additional productive infrastructure will expedite provision of critical infrastructure, boost activity at a time when the economy is transitioning, and help lift long term productivity and living standards. Over time the productive capacity of the nation will also be enhanced by reforms that flow from policy reviews of the Federation, the taxation system, workplace laws, the financial system, competition policy and regulation.

## 6 Taxation

- 6.1 Master Builders welcomes the clear recognition by the Federal Government of concerns relating to the taxation system in Australia. The keenly awaited White Papers on Taxation and on Reform of the Federation provide important opportunities for meaningful action on the numerous inefficient taxes and charges which unnecessarily inflate the cost of supplying new buildings.
- 6.2 The Australian taxation system must be efficient, globally competitive and fair if the nation is to meet the major economic and public policy challenges ahead, keep Australia as an attractive destination for investment and to maintain capital inflows. Key challenges are: structural integrity of the budget, ageing of the population; globalisation of the world economy; continuing structural change; lifting productivity performance; and improving international competitiveness.
- 6.3 More needs to be done to ensure the tax system rewards entrepreneurship and reduces compliance costs for business particularly small business. In this context, the Federal Government's current tax review is an opportunity to lay down a pathway to achieve a more efficient taxation regime in Australia.

- 6.4 The building and construction sector is one of the most intensely taxed in Australia, and bears a direct and indirect tax burden from all levels of government — Federal, State and Territory and local. This high and onerous tax burden distorts investment decisions, discourages entrepreneurship and innovation, reduces business investment and employment opportunities, and diverts scarce resources into unproductive and unnecessarily costly tax compliance within a key sector of the Australian economy. These impacts, in turn, reduce housing affordability, increase housing stress and add to the fiscal burden on governments for housing assistance.
- 6.5 Master Builders believes strongly that a holistic approach to tax reform is essential. Measures must not be considered in isolation or as single issue trade-offs. Rather, any tax “blueprint” must be a comprehensive, detailed, and specific package that allows zero “wriggle room” in terms of execution.
- 6.6 Master Builders priorities for tax reform are to:
- retain the tax exempt status of home ownership and negative gearing;
  - reduce the company tax rate to at least 25 per cent;
  - reduce the differential between the higher marginal personal income tax rates and the company tax rate;
  - introduce a reducing, stepped rate of capital gains tax;
  - simplify tax compliance, especially for small business to free up entrepreneurial energies for more productive purposes, generating investment, employment and productivity;
  - remove inefficient State/Territory taxes as a priority;
  - no increase to the GST rate without first effecting significant tax reform; and,
  - a temporary investment tax incentive.

- 6.7 Master Builders disagrees with those commentators who believe there should be changes to certain tax policies such as the tax exempt status of home ownership, negative gearing and capital gains. Master Builders strongly believes the pros and cons of tax policies like owner occupier exemptions, capital gains tax and negative gearing should be considered in the widest possible context. Rather than individual taxes being considered in isolation, a holistic approach to tax policy is imperative.
- 6.8 As the Productivity Commission noted: “Ostensibly ‘quick fixes’ – such as limiting negative gearing or removing the CGT discount for housing – could detract from rather than promote more efficient investment.” (Productivity Commission, *First Home Ownership Inquiry*, p. XXV, 2004)
- 6.9 Master Builders emphasises that the Henry Review into *Australia’s Future Tax System* provided an exhaustive examination just over five years ago, with the Federal Government’s Tax White Paper process set to provide another opportunity for a wide ranging review.
- 6.10 Importantly, in categorically stating the current taxation treatment of housing is not the major source of supply constraints in the Australian housing market, the Henry Review made the point very strongly that any reforms designed to change the tax treatment of investor housing should only be considered once the housing supply issue had been resolved.
- 6.11 The housing supply issue has not been resolved. The two key recommendations flowing from the Henry Review’s analysis of Australia’s housing affordability challenge — free up zoning and planning; and set appropriate infrastructure charges (developer charges) must be top priorities for the Federal Government. In the taxation sphere, Master Builders advocates urgent reform of inefficient and costly infrastructure taxes, charges and levies.

- 6.12 In the context of Master Builders call for a reduction in the company tax rate to at least 25 per cent, many countries have been reducing their company tax rates and Australia is once again slipping in terms of international competitiveness. Master Builders therefore recommends further reductions in the company tax rate which maintains Australia's global tax competitiveness. Master Builders welcomes the Federal Government's commitment to cutting the company tax rate, but believes a transitioning of the rate to at least 25 per cent by 2025 should be the aim, subject to successful resolution of the structural deficit.
- 6.13 Master Builders calls for a reduction in the differential between the higher marginal personal income tax rates and the company tax rate. Such a measure would help improve tax compliance and, through lower income tax rates, improve productivity and workforce participation (especially by secondary and marginal earners) and act as an incentive for domestic saving which would, in turn, lower the cost of capital for business, especially smaller businesses.
- 6.14 In the area of capital gains tax, Master Builders calls for the introduction of a reducing, stepped rate of capital gains. This would reduce the CGT burden and encourage longer-time horizon investment as well as discourage speculative investments. Master Builders would propose assets held for: less than 1 year have 100 per cent of CGT subject to tax; 1 to 2 years have 50 per cent of CGT subject to tax; 2 to 5 years have 25 per cent of CGT subject to tax; to 10 years have 10 per cent of CGT subject to tax; and more than 10 years have 0 per cent subject to tax (that is, CGT free).
- 6.15 In the area of tax simplification, Master Builders continues the call for ongoing efforts to simplify business tax compliance. The inefficient collection and administration of taxes distorts economic decision making. Raising revenue to fund government outlays must be done as efficiently as possible. And the increasing complexity and volume of Australia's tax law represents an ongoing burden for Australian business.

- 6.16 Resources devoted to compliance with an unnecessarily complex tax system could be used more productively. Master Builders is also particularly concerned that complexity and its resulting compliance burden falls disproportionately on small business which cannot take advantage of economies of scale. This unfairly disadvantages small businesses relative to large.
- 6.17 Removal of inefficient State/Territory taxes should be a priority. Master Builders would encourage the Federal Government to look at the removal of inefficient State/Territory taxes in the wake of the Taxation and Federation White Papers. There is an opportunity to develop a blueprint for reform of Australia's federalism model in order to achieve a more efficient taxation regime. Reform needs to be far-reaching and practical, should consider proposals for the removal of inefficient taxes and charges and should not be unduly influenced by the status of State and Territory budgets.
- 6.18 Stamp duties discourage residential and commercial property transactions. The duties manifest themselves widely at the State/Territory level and can represent a significant burden.
- 6.19 Master Builders calls for, as a first step, the abolition of stamp duty on business conveyances of real property to be followed by the careful consideration of the possible benefits of the abolition of stamp duty on residential property. The reason for caution is twofold. First, such a step must not be considered in isolation – revenue from stamp duties is significant and there will need to be offsetting revenue. Secondly, given the history of tax reform the process, governance and legislation are all critical ingredients that need to be “locked-in” so as to engender confidence that undertakings will be honoured. In this context, Master Builders notes with considerable concern the commitment to abolish stamp duties on business conveyances made in the 1999 Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations that, a decade and a half later, has not been fully delivered.

- 6.20 As noted earlier, the key to good tax reform must be to take a holistic approach, to not consider measures in isolation or as single issue trade-offs. To repeat, the tax “blueprint” must be a comprehensive, detailed, and specific package that allows zero “wriggle room” in terms of execution.
- 6.21 For the same reasons, Master Builders would not support an increase in the GST rate without first effecting significant and ‘enabled’ tax reform.
- 6.22 Master Builders recommends that the cumulative influence of GST be removed. In particular, GST imposed on stamp duty is unacceptable. It is a tax on tax. It cannot have been the intention of the Federal Government that tax reform would result in situations where tax on tax on tax could arise. For example, on a warranty insurance premium for domestic builders, GST is first applied to the premium, followed by an additional 10 per cent stamp duty. A broker’s fee is calculated, which in turn has GST added to it. Master Builders view is that the stamp duty should be calculated on the GST excluded premium price.

## **7 Housing Affordability**

- 7.1 Master Builders welcomes the clear recognition by the Federal Government of the ongoing problem of housing (un)affordability across all Australian capital cities, and a growing number of regional growth areas. The White Papers on Taxation and on Reform of the Federation, and the Senate Inquiry into housing affordability and the recently announced inquiry into affordable/social housing, provide important opportunities for action on the plethora of inefficient taxes and charges, and of structural barriers which unnecessarily inflate the cost of home purchase and supply.
- 7.2 Master Builders calls on the Federal Government to take action to address the numerous bottlenecks and impediments to supply in the residential building sector. The Federal Government must provide leadership to work with State, Territory and local jurisdictions to remove unnecessary supply constraints and abolish or reduce inefficient taxes and charges.

7.3 The adequate supply of appropriate and affordable housing is a critical part of the Australian economic and social fabric. Australia has one of the highest rates of home-ownership in the world. More than two-thirds of Australians currently own or are in the process of buying their own home. The high rate of home ownership and strong public policy commitment over many years by governments of both major political persuasions to home ownership has enriched Australia both in economic and social terms. Home ownership and the adequate supply of a diverse range of housing are integral parts of Australia's social fabric. This must remain a key policy objective for all governments - to ensure affordable housing is available for all Australians.

A co-ordinated and proactive public policy agenda by Federal, State and Territory, and local governments is needed to facilitate home ownership and to reverse the trend which is seeing homeownership increasingly being out of reach of a growing share of the Australian population. Concomitantly, there is a growing undersupply of public and private rental housing that is putting upward pressure on rent levels. The cost of a family home has increasingly become unattainable as a confluence of circumstances has worked against an average Australian ho

7.4 Key factors that have led to a worsening of housing affordability include:

- shortage of available land and inefficient land release strategies;
- infrastructure costs being loaded onto developers and in turn passed on to home owners;
- excessive infrastructure specifications in subdivisions;
- excessive development levies, taxes and charges imposed by State and Territory Governments;
- excessive planning and building requirements;
- regulatory creep pushing codes and standards higher than required; and,
- unco-ordinated State/Territory and local Government environmental regulations.

- 7.5 Master Builders calls on the Federal Government, through a reinvigorated COAG, to provide ex poste 'competitive, efficiency dividend' payments to State, Territory and local governments for delivering housing affordability policy outcomes against key performance metrics.
- 7.6 Key elements of a robust National Housing Affordability Agenda (NHAA), and associated 'competitive, efficiency dividend' payments, include:
- tangible outcomes in improving the efficiency, and the supply-side efficiency in particular, of the Australian housing market;
  - annual publication by the Federal Department of Industry on its website of a rigorous and transparent stocktake of approaches to developer/infrastructure charges by all local governments in Australia. The stocktake would examine the nature, the processes involved and the incidence of the charges imposed on 'brownfields' and 'greenfields' (both fringe and infill) developments for a normalised set of developments;
  - an efficient housing market, which would have a number of features, including one not burdened by unnecessary distortions: to market prices (the principal method by which housing demand signals being transmitted to housing suppliers); and, by regulatory, and poorly targeted subsidy and taxation intervention;
  - streamlined and simplified development approvals processes. Achieved through, inter alia, greater reliance on code-based assessment, identification of best practice development approval procedures amongst State, Territory and local governments, as well as expanded use of performance monitoring and benchmarking;
  - local governments to develop and promulgate individual realisable Land Release Plans for their own jurisdictions over a ten year rolling time horizon. These Plans would, inter alia, identify specific tracts of land within own-jurisdictions, set down timelines for their prospective availability for residential development, any regulatory or other requirements which may impede the land release process, generally and for specific tracts of land, and nominate those tracts which would be 'development-ready' within five years;

- the realisation of a genuine, rigorous, enforceable and uniform building code and regulatory system to ensure the development and continuation of an efficient and competitive building industry. The COAG members should also continue to play an active leadership role in the ongoing development and refinement of the NCC as the central document specifying a national set of building requirements; and,
- ensuring the State and Territory Governments honour an existing, long overdue commitment to abolish stamp duties on business conveyances of real property. This would be followed by a rigorous review of the impact of stamp duty on residential property, and alternate approaches to revenue-raising.

7.7 In the medium to long term, committing to a NHAA by removing or ameliorating structural legislative, regulatory and fiscal impediments to housing supply will result in less outlays in transfers and in the provision of public and social housing, and less upward pressure on inflation. In other words, there is a structural dividend to be gained.

7.8 Master Builders housing policy also advocates:

- maintaining the tax-exempt status of the family home;
- retaining the current negative gearing provisions;
- provision of an appropriate level of public housing, starting with decisive action to provide suitable accommodation for the more than 43,000 persons, assessed as being in greatest need, on public housing waiting lists. This equates to unmet demand for over 16,500 public housing dwellings; and,
- mandatory minimum energy efficiency standards not to exceed six stars.

## 8 Workplace Productivity

- 8.1 Master Builders policy emphasis is on industrial relations reform that must deliver productivity benefits. Industrial relations reform must be a high priority to meet Australia's current and future economic needs. This requires productivity based reform that includes assessment of the effectiveness of current labour market policy and regulation, and reforms that redress the economic vulnerability of contractors against unlawful industrial action.
- 8.2 Master Builders attaches high priority to the reinstatement of a strongly empowered, industry specific regulator for the building and construction industry (albeit that Master Builders fully supports the work of the Fair Work Building and Construction agency). In this context, Master Builders continues to support the timely passage of the *Building and Construction Industry (Improving Productivity) Bill 2013* (Productivity Bill) and the *Building and Construction Industry (Consequential and Transitional Provisions) Bill 2013* (Transitional Bill).
- 8.3 Master Builders has consistently argued for a strong industrial relations regulator to be in place in the building and construction industry. Both Bills would restore the ABCC and provide appropriate underpinning powers to that organisation. The ABCC need to be re-introduced to the industry in order to ensure a return to compliance with the rule of law on building sites, and to boost the industry's and the nation's productivity. These matters were made abundantly clear following the release of the final report of the Royal Commission into Trade Union Governance and Corruption in December 2015.
- 8.4 Master Builders fully supports the related allocation of federal police to dedicated joint task forces such as was established in Victoria. Further funding for similar task forces where the particular State or Territory Government is sympathetic to that matter should be established and federal funding allocated. Additional funding should be made available to ensure the agencies charged with prosecuting the matters referred from the Royal Commission are adequately funded.

- 8.5 In addition, the ABCC once formed should be provided with additional resources so active consideration of the manner in which matters referred to the police may be monitored and reported on, and liaison with the relevant police task forces is properly formalised.

## 9 Workforce Skills

- 9.1 Master Builders seeks ongoing reforms that will improve the VET system, particularly in ensuring industry's confidence in the quality of training delivery and in the qualifications being issued, which will elevate trades to the centre of the economy and focus on ensuring Australian workers are highly skilled and job ready.
- 9.2 There were just over 1,050,000 people employed in the building and construction industry in 2015, which represents around 9 per cent of total employment. The industry is the largest employer of skilled tradespeople in the Australian economy with approximately two thirds of the workforce employed in skilled roles.
- 9.3 Master Builders recommends the Federal Government maintain investment in post-secondary education, particularly skills training, commensurate with future needs of the building and construction industry. At a time when the proportion of skilled jobs is increasing, the number of State-funded training places has been static while Commonwealth investment in skills has been falling.
- 9.4 In particular, Master Builders seeks the building and construction industry to be included as a priority in the Industry Skills Fund to recognise that some 60,000 new entrants will be required each year to meet the projected employment growth of 300,000 over the next decade and to replace some 30,000 workers who leave the industry through attrition.
- 9.5 Master Builders seeks modifications to the Industry Skills Fund which will enable industry-led RTOs to access the fund directly to skill new entrants and to upskill existing workers. Current Fund policy guidelines prohibit RTOs from accessing the Fund directly and this has been a major contributor to the Fund being unable to invest in the construction industry's workforce, even where growth opportunities can be identified.

- 9.6 Master Builders estimates that completions of construction trades apprenticeships need to more than double over the current decade in order to meet employment demand for skilled tradespeople. Master Builders calls for reforms that can deliver effective assistance to employers and apprentices and harmonise training and apprenticeship regulation within Australia.
- 9.7 Employer confidence has seen them reluctantly reduce apprentice intake and/or put off apprentices in the past two years. Group Training Organisations (GTOs), which have a significant role in construction apprenticeships owing to the project-based nature of construction work, have been particularly hard hit. Policies which support GTOs to undertake their very important role in developing apprentices for the construction industry must be a priority for funding.
- 9.8 The current apprenticeship system is in need of a major review to address how more young people can be attracted to work in the trades, how employers can be supported to take young people on, and how the training system can deliver flexible and effective skills for the future.
- 9.9 The basic employer incentive for taking on and retaining apprentices has been static at around \$4,000 for many years, which represents a tiny fraction of the net cost of on-the-job training, administration and wages. Employer incentive payments are even more an imperative against the background of increasing wages and conditions being imposed as a consequence of industrial relations decisions that came into effect on 1 January 2014.
- 9.10 In the short term, limited and tightly targeted financial assistance to employers should be the most appropriate policy response to dealing with a looming skills crisis. Assistance could have the following key elements:
- re-phasing the standard employer incentive (\$1,500 at commencement and \$2,500 at completion) to \$1,500 at commencement, \$1,500 at 18 months and \$1,000 at completion, in recognition that apprentices who make it through to third year are more likely to complete their studies. Further, as the payment has been static for many years, a 15% increase over the next three years should be considered to support employers to ultimately lift apprenticeships; and,

- introduce a 'sign-on' bonus of \$3000 on top of the standard employer incentive for construction trades in demand to support employers to take on apprentices to help meet the need for an additional 300,000 skilled workers over the coming decade.

- 9.11 Master Builders calls for a quality VET system with an increased focus on skills attainment outcomes. The Australian Skills Quality Authority (ASQA) should work more closely with industry to identify and respond to instances of poor practice, without increasing the red tape and cost burden on all providers. Auditors should have experience in the construction industry when auditing construction courses. Master Builders seeks an independent ratings system for RTOs that can provide advice to consumers on the quality of delivery for each RTO.
- 9.12 In relation to higher education, Master Builders National Survey has revealed persistent difficulty in filling highly skilled professional positions in the industry across all stages of the economic cycle. This challenge is likely to worsen, as growth in demand for highly skilled roles will far exceed demand for other roles in coming years. Documents such as the ANET Scoping our Future report (2010) have clearly demonstrated the shortfall in Australian engineers and project managers available to meet employment demand. Construction is one of the industries where this shortfall is most keenly felt.
- 9.13 Master Builders urges the Federal Government to work with industry and education providers to implement a multi-faceted approach to enlarging the pipeline of engineers and construction professionals. Such an approach would promote increased interest in engineering and construction management among school leavers, facilitate closer industry linkages to undergraduate programs, and enhance career development opportunities for early career graduates.

## 10 Regulation Reform

- 10.1 Master Builders welcomes the Federal Government's aggressive agenda to cut red and green tape with moves to reduce the regulatory burden on business, individuals and the community by \$1 billion a year.
- 10.2 The building and construction industry is one of the most heavily regulated industries across all three jurisdictions. The red tape burden impacts on all business, large and small. Unnecessary compliance costs and business regulations, such as 'red' and 'green' tape must be eliminated. The burden of regulation and the poor administration of those regulations are arguably the biggest single drag on Australia's productivity.
- 10.3 According to a report by Deloitte Access Economics, *Unleashing Productivity* (2014), when combined, the costs of administering and complying with public and private sector rules equate to an estimated \$250 billion a year. A cost saving of just 10 per cent of that total (without a net loss of the matching benefits of rules) would equal 1.6 per cent of national income, ranking its impact with some of the largest reforms Australia has ever seen. Even these amounts are a considerable underestimate as the biggest burden of regulation comes from their negative effect on incentive, enterprise and innovation across the economy.
- 10.4 Master Builders calls on the Federal Government to continue to promote the process of removing regulation that is unnecessarily burdensome, complex and redundant or duplicates regulation in other jurisdictions. We also call for a major review of all regulations with the express aim of reducing the compliance burden and removing any unnecessary complexity.
- 10.5 Effective policy measures to protect the builder/developer and the consumer in the market place from faulty and/or non-conforming building products are essential. Master Builders strongly advocates the supply-to-industry of products that meet and exceed Australian Standards. The compliance of manufacturers to these standards is paramount for the successful building of our nation.

- 10.6 Master Builders remains committed to working with the Australian Competition and Consumer Commission (ACCC) in promoting product safety in the building and construction supply chain and with the Building Ministers Forum (BMF) in their consideration of approaches to mandatory product certification.
- 10.7 Master Builders warns the adoption by COAG of the National Energy Productivity Plan (NEPP) 2015 – 2030 is unlikely to achieve its stated outcomes. Master Builders supports a better built environment, however opposes strongly mandatory increases in energy efficiency requirements as this will come at a net economic and social cost.
- 10.8 Master Builders business regulation policy priorities focus on reducing the regulatory burden, particularly for small business. Many of the smaller businesses in the building and construction industry are family run — often a husband and wife partnership whether incorporated or not — through which, in the main, the husband carries out his particular trade. While we recognise, in general, small business will be best served by policies that promote the interests of the business community as a whole, the inherent differences associated with small businesses must also be taken into account.
- 10.9 Master Builders advocates specific small business policies that:
- reduce the complexity of the tax system for small business;
  - reduce the compliance costs of regulation;
  - increase the ability to access debt and equity finance; and,
  - facilitate small business participation in government procurement.
- 10.10 Master Builders calls for effective national building regulation. The overarching priority should be to ensure a national uniform and enforceable building code and regulatory system is in place to enhance productivity and efficiency in the industry.
- 10.11 Master Builders remains concerned at the sizeable (and growing) number of variations to the (supposedly) uniform NCC by State/ Territory, but more significantly, local governments around the nation. Such variations add to uncertainty in regulatory compliance for builders, and add to the costs of construction.

- 10.12 A growing lack of transparency and governance as well as the lack of consultation on the part of regulators involved in administering and developing building codes and regulations are also of concern. The Federal Government should press for COAG to adopt, and State and Territory governments to implement within their respective jurisdictions, a “Regulator Performance Framework”.
- 10.13 Master Builders is concerned at the ongoing and very serious problem of the differential classification and treatment of employees and independent sub-contractors between and within jurisdictions in Australia. In the federal domain, this problem is particularly onerous under industrial relations and taxation law.
- 10.14 The status and treatment of employees versus sub-contractors under federal law is a significant issue for the building and construction industry given these people are critical to driving efficiency and productivity in the building and construction industry.
- 10.15 Master Builders recommends the Treasurer direct the Australian Taxation Office (ATO) to establish a Government-Industry Working Party to implement by the end of 2015 the proposed system of statutory registration for independent contractors, and advance the necessary changes in federal law, regulation and/or administration.
- 10.16 Master Builders supports the voluntary Guidelines for Liveable Housing Design following on from the National Dialogue on Universal Housing Design Strategic Plan and would be concerned if opposing guidelines were to be developed, creating confusion and stalling current momentum.

## 11 Infrastructure

- 11.1 Master Builders welcomes the increased policy attention being given by the Federal Government to Australia’s cities. A well-designed ‘cities policy framework’ will usefully complement the substantial volume of work on ‘regional policy’ which has been undertaken by successive Federal, State and Territory Governments of both political persuasions.

- 11.2 The essential principle underlying any robust and sustainable ‘cities policy’ (which must interface seamlessly with ‘regional policy’) must involve allowing key markets to work better, promoting more market-responsive decision-making, and facilitating equality of opportunity, rather than prescribing rigid interventions and/or given outcomes which favour those who live and work in cities over those who choose to live and work elsewhere.
- 11.3 Against this background, Master Builders looks forward to working with the Federal Government in its proposed Green/White Papers on ‘the future of Australia’s cities’ as they are progressively developed and released over the coming year.
- 11.4 Master Builders endorses the ambitious steps taken by the Federal Government to boost growth through investment in infrastructure, most notably their Asset Recycling initiative under which State and Territory Governments are given tax and other incentives to privatise existing infrastructure and use the money to fund new priority infrastructure. We strongly recommend the Federal Government consider expanding its Asset Recycling Initiative.
- 11.5 The Federal Government’s reforms to the governance of Infrastructure Australia will create a more independent and transparent body, better able to develop a national view on infrastructure and to derive better value for money in relation to spending on projects of national economic significance.
- 11.6 It is a self-evident truth an efficient and high-quality infrastructure base is vital to Australia’s productivity, international competitiveness and sustained economic growth and development. Without capacity-enhancing investment in infrastructure, both by the public and the private sectors, Australia’s economic performance will stagnate and living standards will decline.
- 11.7 Inadequate public sector investment in infrastructure by successive Federal, State, Territory and local governments in the past is being manifest in worsening bottlenecks, inadequate urban infrastructure (both in capital cities and in major regional areas), and ailing services in our hospitals, schools and other social infrastructure. These pressures will only compound as Australia’s population grows, from around 24 million now, to more than 29 million by 2030 – an increase of around one quarter in just 15 years.

- 11.8 Australia faces a major infrastructure challenge over coming decades, both in the maintenance and the remediation of existing infrastructure assets, and investing strategically in expanding our infrastructure base. This 'infrastructure challenge' could amount to around \$30 billion annually for the decade to 2020, with financial institutions estimating it could cost between \$600 billion and \$770 billion to deal with existing infrastructure gaps alone.
- 11.9 The public sector has for many years failed to adequately finance Australia's core infrastructure needs and appears even less likely to be able to do so in the future, pointing toward an even greater role for the private sector in infrastructure supply. Public sector spending on infrastructure, at around 3 to 4 per cent of gross domestic product (GDP), has been inadequate to supply key economic and social infrastructure, and should be lifted progressively to at least 6 per cent of GDP by 2020.
- 11.10 All levels of government need to:
- redirect spending from recurrent and less productive expenditures, toward investing in efficiency and competitiveness enhancing infrastructure.
  - improve policy co-ordination within, and across, the various tiers of government, with the COAG taking the lead in developing an integrated plan for Australia's economic and social infrastructure needs.
  - remove impediments, such as unfavourable capital-raising, regulatory, taxation regimes, to greater private sector investment in infrastructure.
- 11.11 Master Builders calls for a broader and deeper role for the private sector in infrastructure supply in Australia. However this should not simply substitute for inadequate public sector infrastructure supply especially in uneconomic (both still fundamentally worthwhile) and/or social infrastructure which is the proper role of the public sector.

- 11.12 The private sector can contribute to closing Australia's existing and prospective infrastructure deficits by:
- more efficient provision of current infrastructure through, for example, the privatisation of existing infrastructure assets.
  - supplying, whether in the form of construction, operation and maintenance, appropriate infrastructure, in particular of an economic nature, beyond that provided by the public sector alone (known as 'additionality').
- 11.13 Master Builders notes calls for greater engagement by superannuation institutions in financing infrastructure assets, whether by purchasing existing infrastructure assets (that is, privatisation; with revenues being used for 'capital recycling'); and/or funding the creation of net new infrastructure assets ('additionality'), either directly or indirectly (through the purchase of special purpose tradeable financial instruments).
- 11.14 While Master Builders shares the wider business concern at the inadequacy of our national infrastructure base, we remain firmly of the view the primary function of Australia's superannuation industry is to provide retirement incomes for superannuation fund holders, with investment strategies and practices of superannuation institutions directed solely toward delivering the optimal risk-return outcomes for fund holders.
- 11.15 Against this background, Master Builders would oppose mandatory requirements for superannuation institutions to invest (or not invest) in any particular asset classes or products. Rather, Master Builders considers infrastructure to be one of a range of potentially suitable asset classes which a diversified superannuation fund could constructively consider for allocating some part of its investment profile.
- 11.16 Master Builders calls for a two pronged policy approach for improving the financing of Australia's infrastructure needs, by the:
- public sector – increased direct financing of public economic and social infrastructure, and in identifying and then remedying regulatory and other government-sourced barriers to the effective operation of the infrastructure supply market; and, the

- private sector – identifying and then actioning market-based opportunities, for example in matching the demand-side (infrastructure providers) with the supply-side (financial institutions and other interested investors).

11.17 Key elements of the policy which are properly the function of the government/ public sector include:

- increasing the direct public sector spending on key economic and social infrastructure to at least 6 per cent of GDP by 2020;
- minimising bid-costs for infrastructure provision/financing to ensure the broadest possible range of engagement by potential investors (including simplified and streamlined processes for smaller investors in infrastructure);
- minimising the political risk associated with investment in infrastructure, in particular ‘start-stop’ decision-making, and changing the processes, rules or other key elements of a project once underway;
- expanding the use of privatisation or other mechanisms for the transfer of existing and prospective infrastructure assets to the private sector, including ‘capital recycling’ (using revenue from the sale of existing infrastructure assets to fund the development of new infrastructure); and,
- developing and marketing, as appropriate, public infrastructure bonds as tradeable financial instruments on terms and conditions which appeal to a broad spectrum of investors.

11.18 Key elements of the policy which are properly the function of the private sector include steps by:

- financial institutions and other investors to broaden and deepen their capacity to evaluate the absolute and the relative merits of infrastructure as an asset class, and specific infrastructure projects as investment vehicles within a diversified investment/lending portfolio.

- financial institutions and other investors to obtain better information on opportunities for investing in infrastructure, either on their own, through relevant industry or professional associations, and in conjunction with counter-parties in the infrastructure supply chain.
- the financial sector more broadly, including the investor community and infrastructure providers, to create tradeable financial instruments, such as private infrastructure bonds, which could be used to finance infrastructure projects in denominations which appeal to a broader range of investors (in particular, smaller investors).

## 12 Immigration

- 12.1 Master Builders overarching policy principle is to support a strong migration program, particularly for economic and skilled migration. However, in doing so we are strongly committed to the training and upskilling of Australians and to supporting local employment.
- 12.2 A well-managed and -targeted immigration program is an important policy lever which brings a range of social and economic benefits to Australia.
- 12.3 It adds to the supply of skilled labour, increases accumulated savings and contributes to domestic investment and expanded domestic consumption. Immigration also brings indirect benefits by increasing innovation and connectedness with the rest of the world, and by promoting a vibrant, cosmopolitan and outward-looking Australian culture that is better equipped to meet the challenges of the future.
- 12.4 Master Builders policy principle is to support Free Trade Agreements and therefore welcomed the China – Australia Free Trade Agreement (ChAFTA) along with the signing of other free trade agreements. In supporting free trade, Master Builders is foremost strongly committed to the local building and construction industry, and to the training and upskilling of Australians.

- 12.5 The cyclical nature and periods of high levels of investment and activity in the building and construction industry means employers often need to supplement the local labour force with skilled migrants.
- 12.6 In this context, the building and construction industry continues to face serious labour force challenges, relating both to an expected increased demand for managerial, skilled and unskilled labour and to replacing the exiting and/or retirement of a sizeable number of skilled workers over the next decade.
- 12.7 Master Builders estimates, based on current industry labour force attrition rates and growth projections, around 60,000 entrants to the industry will be required each year, on average, over the next decade with around two-thirds (or some 40,000 people) of this demand being for skilled positions. These figures compare with construction trades apprenticeship commencements of 23,900 in 2015 (up from 18,000 in 2014), where generally some 65% will not complete their qualification.
- 12.8 Managing the immigration program to achieve an optimal flow of migrants will help maximise the economic and social benefits they offer and contribute to ensuring Australia's longer-term social and economic needs are met.
- 12.9 Master Builders recommends the Federal Government pursue an annum Net Overseas Migration (NOM) program intake of around 240,000 persons. This figure reflects our commitment to a 'bigger Australia' and increasing skills pressures across a number of sectors of the Australian economy, and in the building and construction industry in particular.
- 12.10 At the same time, a targeted skilled migration program is needed to ensure Australia's economic and productivity potential is realised. Against this background, at least two thirds of Australia's permanent migrants enter through the Skill stream.
- 12.11 In addition to helping to address skills shortages, the program intake must take into account the changing skill needs of the labour market.

- 12.12 Due to the project nature of work in the construction industry, the migration program intake needs to help business and industry meet labour requirements during peak periods of employment, where skill shortages can become a significant barrier to successfully completing construction projects.
- 12.13 Against this background, the '457 visa' program should remain uncapped and responsive to the nation's skills needs with the migration program filled by people who have previously held a temporary visa in Australia.
- 12.14 Master Builders believes labour market testing for 457 visas is unnecessary and should be removed. This position is echoed by the OECD, which has previously pointed out that employer-conducted labour market testing is not "fully reliable", and in the Australian context has proven ineffective.
- 12.15 The Federal Government should also enhance access of certain occupations, currently classified as 'semi-skilled' for the purposes of permanent employer-sponsored migration which could best be achieved by including priority semi-skilled on the Employer Nominated Skilled Occupation List on a case-by-case basis; and apply a functional English standard for skilled migrants, consistent with the ability to read and understand workplace instructions and safety standards.