

10 June 2016

Legislative Assembly
Select Committee on Estimates 2016-17
Community and Industry Representative Groups Survey

Via email: committees@parliament.act.gov.au

Dear Sir or Madam

**Submission from the Master Builders Association of the ACT
ACT Legislative Assembly Select Committee on Estimates 2016-17.**

Thank you for inviting Master Builders Association of the ACT (MBA ACT) to make this submission to the ACT Legislative Assembly Select Committee on Estimates 2016-17.

About the Master Builders Association (ACT)

The MBA ACT represents the interests of commercial builders, residential builders, civil contractors, suppliers/subcontractors and professionals. The MBA ACT is also a Registered Training Organisation and a Group Training Organisation.

Introduction

MBA ACT made a pre-budget submission in October 2015 setting out 5 priorities and a number of recommendations for the 2016-17 budget. Fundamentally, our submission called for the ACT Government to focus on growing the private sector component of the ACT economy, to diversify the economy, and reduce our reliance of Commonwealth Government employment. We called for a budget which delivered:

- A long-term infrastructure plan to underpin growth,
- A capital works program which can be delivered by local contractors,
- A competitive and increased land release program which met demand for various forms of new housing, and
- Continued investment in skills.

This submission focuses on two key areas of interest to the construction industry that are addressed in the 2016-17 budget; the \$2.9 billion infrastructure investment program, and the land release program.

Key Issue 1 - Infrastructure Investment Program

Major Projects

The 2016-17 budget outlines a \$2.9 billion infrastructure program to be delivered over 4 years, which includes 2 major Public Private Partnerships (PPPs); light rail stage 1 (\$623 million over 4 years to 2019-20) and the ACT Law Courts Facilities (\$141 million over 4 years to 2019-20). The budget also includes funding for the development of the University of Canberra Public Hospital (\$212 million).

These major projects combined represent around a third (\$976 million) of the four year infrastructure program.

These major projects are already committed. They have contracts already signed with non-local head contractors. Each contractor has entered into an agreement with the construction union which will lead to inflated wage rates and employment costs.

The inflated wages achieved through these existing agreements, with no productivity improvements, represent poor value for money for the ACT government and tax payers.

Light Rail – Stage 1

The single most significant infrastructure project contained in the 2016-17 budget is light rail stage 1. At the outset it is important to be clear that the MBA supports the light rail project. It is a significant infrastructure investment with potential economic benefits for the entire ACT economy.

In addition to the additional costs being incurred on this project through inflated wage rates, there will be an additional impact on local contractors because of the delivery model. Already the Canberra Metro consortium has announced a direct employment model where around 250 workers will be employed directly by Canberra Metro. The Canberra Times has reported on a number of occasions the increased wage rates that will apply on this project.

Because of the combination of these factors, either:

- The 250 workers will be poached from existing local civil and building contractors, robbing these companies of their 'best and brightest' employees and effectively cannibalising these existing long term local companies, or
- Canberra Metro will import workers from outside the ACT, meaning these employees will return home at the conclusion of the project taking their knowledge, skills and experience with them.

Either way, the local construction industry loses.

At the very least, the MBA would welcome genuine consultation with government and Canberra Metro on the planned local participation plan. This document will be important in

describing how local companies will be engaged throughout the construction phase of light rail.

If industry's worst fears are realised, government cannot rely upon the largest part of the Capital Works Program to assist local industry. It will not maximise employment of local teams. And, it will not leave a legacy of skills, experience and knowledge for local construction teams.

It is important that these points be highlighted because the MBA can see a concerning trend in how the ACT government delivers major projects. We hope government will improve the project delivery model for future stages of light rail, and future major projects, to avoid these impacts on local industry.

Remaining Infrastructure Investment Program

Excluding the two PPPs, around \$2.1 billion¹ of capital works are planned over 4 years. This represents \$752.47 million of capital works in the 2016-17 year, decreasing to just \$68.3 million in 2019-20².

The planned capital works program in 2016-17 (\$752 million) represents an increase from \$699 million announced in the 2015-16 budget. We also acknowledge the overall increase in the total infrastructure investment program (including PPPs) from \$2.7 billion announced in 2015-16 to \$2.9 billion announced this year.

The new construction projects (\$759 million over 4 years) comprise many small and medium sized capital projects (mostly civil construction projects). All of these projects are well within the capability of local contractors. We urge the government to ensure its procurement practices and policies maximise the employment of local contractors using local teams.

When capital works projects are delivered by local contractors, the economic benefit, skills and experience, and a range of other intangible benefits are retained with the ACT. These additional benefits amount to a significant economic benefit which flows through the entire ACT economy.

Capital Works Tender Process

It would also assist industry if the delivery of the capital works program was scheduled over the full 4 years of the capital works program, rather than on a year-by-year basis. In fact, the MBA has previously called on government to publish a 30 year infrastructure plan to set out a clear vision for the Territory's long term infrastructure needs.

Presently tender opportunities for capital works are typically released early in the financial year (following the approval of the budget), with a lack of any tender opportunities in the months leading up to the approval of the following years budget. Since capital works are designed and constructed over long time periods (which often exceed the annual budget

¹ Includes \$160,676 of ICT and \$204,776 of plant and equipment

² Volume 3, Table 5.1.1: Summary of 2016-17 Infrastructure Investment Program

process), the stop-start nature of capital works delivery makes it difficult for contractors to prepare and plan future work programs. It would greatly assist if Government's Procurement and Capital Works department, and other relevant departments, could continue to tender capital works over the full 4 years of the capital works program.

Urban Renewal Program

The capital works program includes a significant investment in urban renewal with funding of \$493 million over four years for the Urban Renewal Program. The most significant component of the Urban Renewal Program is public housing redevelopment, which accounts for \$393 million³ of this funding. This program provides valuable residential construction opportunities for the local building industry. Government's commitment to this program is strongly supported by the MBA. We welcome Government's continued consultation and cooperation with the local building industry on the roll-out of this program.

Key Issue 2 – Land Release Program

The Land Release Program is an important part of the ACT's economic plan. Not only because house construction represents a significant part of ACT economy, but because housing construction (or more specifically the type of new housing construction) helps achieve the ACT's housing affordability objectives and other social and economic goals.

Put simply, if insufficient housing is supplied, house prices increase, putting greater pressure on housing affordability and exacerbating the social impacts that result. And, if employees moving to the ACT cannot access a range of housing types, this will prove a barrier to employers growing their business in the ACT.

The connection between insufficient land release and price increases has been clearly demonstrated by the rapid price increases in Throsby, compared with the prices achieved in previous land releases at Moncrieff. Insufficient land releases in the ACT has also led to rapid growth of new suburbs beyond the ACT borders.

According to ABS figures, total dwellings approvals have been steadily declining since 2010-11. According to Figure 1.3.5 in Volume 3 of the ACT budget, the number of detached houses approved in the ACT has been decreasing at faster rates. As at March 2016, approvals for houses represented around 1,000 out of more than 5,000 total dwellings approvals⁴.

According to ABS figures⁵, housing approvals by type over the last 3 years (total dwellings and % of total) are shown below:

³ Volume 3, page 185

⁴ Volume 3, Figure 1.3.5: Dwelling approvals by type, original data

⁵ www.abs.gov.au - 8731.0 - Building Approvals, Australia

Total Dwellings	Houses	Semi-detached	Flats or units	Total
2013-14	1,752	559	2,320	4,631
2014-15	1,305	641	2,302	4,248
2015-16 (10 months to Mar)	697	1,022	1,765	3,484
Land Release Program	1,060	455	3,035 ⁶	4,550

% of Total Dwellings	Houses	Semi-detached	Flats or units	Total
2013-14	38%	12%	50%	100%
2014-15	31%	15%	54%	100%
2015-16 (9 months to Mar)	20%	29%	51%	100%
Land Release Program	23%	10%	67%	100%

This analysis shows that approvals for single detached houses have been declining in both number and percentage of total dwellings. Approvals for units and apartments have been increasing. Total dwelling approvals, although lower than the 2010-11 peak, have settled around mid-4,000's.

The lack of supply of land for single detached housing is now at record lows, and is forecast to continue next year if the 2016-17 Land Release targets are achieved. This is causing severe constraints on building opportunities for many of our residential builder members. This decrease in opportunity is not expected to be off-set by more semi-detached building opportunities, with only 10% of land release planned to be in this form of housing.

In addition, to the impact on the building industry, the mix of housing supplied through the land release program does not need community demand. 1,060 single detached housing does not provide sufficient housing for families, young couples purchasing a house, or other purchasers seeking to live in a detached house.

As a result, approvals and land sales for single housing blocks in areas such as Googong, South Jerrabomberra and Murrumbateman are taking up this demand. Consequently the economic benefits are transferred from the ACT to NSW, with many of the services (schools, health care, and the like) still provided by the ACT.

To boost the supply of land for single housing, the MBA recommends additional opportunities be identified for detached housing construction. This may involve the release of development sites to the private sector. As well as boosting supply, this suggestion would have the added benefit of creating a more competitive land development market, putting competitive pressure on housing prices, and provide more capacity for a number of developers (including the Land Development Authority) to meet supply.

⁶ Assumes Asset Recycling Initiative dwellings are units or apartments

Conclusion

The MBA ACT welcomes the opportunity to contribute to the 2016-17 ACT budget. As the peak industry body representing the construction industry (the Territory's largest non-government industry), the recommendations in our pre-budget submission and this submission, are aimed at helping the ACT Government grow the overall ACT economy, in particular growing the private sector components of the economy. We believe that a more diversified economy, and strong private sector economy, will ultimately benefit the building and construction industry and the interests of our members.

We would welcome the opportunity to discuss any aspect of our submission in further detail at the Select Committee on Estimates meetings.

Yours sincerely



Michael Hopkins
Deputy Executive Director