

Submission

March 31, 2016

**Submission to the Treasurer,
Hon. Tom Koutsantonis MP**

State Budget 2016



MASTER BUILDERS
SOUTH AUSTRALIA

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1. Introduction

This submission is made on behalf of Master Builders Association of South Australia Inc (“Master Builders SA”), established in 1884 as the peak body representing South Australia’s building and construction industry.

Master Builders SA is committed to building a productive industry and a prosperous South Australian community and economy.

The South Australian building and construction industry directly employs more than 55,000 South Australians across all sectors, including residential, commercial, civil engineering, land development and building completion services. Indirectly, the industry supports tens of thousands more South Australian jobs.

The industry undertakes about \$15 billion of work every year, contributing more than \$1 for every \$7 of economic activity within the State. Indirectly, more than one-quarter of South Australia’s wealth is produced by the building and construction industry.

South Australia’s building and construction industry is focused on the development and transfer of skills into a life-long career. It is consistently among the leading sectors when it comes to training and apprentices and last year provided new apprentice places for more young workers than the Northern Territory, ACT and Tasmania combined.

Master Builders SA is proud of the industry it represents, the jobs it creates, the 11,000 homes it built and extended for families last year and the offices it has built for South Australian businesses.

2. Purpose of submission

The success of South Australia’s building and construction sector is fundamental to every part of the economy. It is at the heart of new business growth, it provides homes for the families and people that live here, and the roads and transport links that connect everyone.

The imminent closure of the State’s auto-manufacturing sector and significant doubts about the future of our defense sector also underpin the vital need to support building and construction. With more than 55,000 jobs based in the sector – and a significant number more reliant upon it indirectly – Master Builders SA believes the State Government should heed warnings to bolster those jobs against future losses and the inevitable impact on the broader economy.

Master Builders SA has already provided a submission highlighting key Budget-neutral reforms that would produce a more resilient sector able to better weather the current slowdown¹. It captured proposals with one aim: building South Australian jobs. Master Builders SA hopes that the Treasurer is open to supporting the reforms contained within that document despite the recent reallocation of relevant Ministerial portfolios given they are likely to build a more resilient sector for decades to come.

Given our sector’s connections and importance to the health of the broader economy, we believe the 2016 Budget is a significant opportunity to create the right conditions for business growth.

We look forward to discussing this turnaround and these propositions with the State Government.

3. Supporting South Australian jobs

Master Builders SA believes there are key initiatives that can help businesses retain and grow the jobs they currently provide.

Invest in productive South Australian infrastructure today

The cost of finance in Australia is at a record low with the official cash rate unchanged at 2 per cent since May 2015. The major concern underpinning the cost of finance, inflation, last topped the

Reserve Bank of Australia's 'range of concern' in the June 2014 quarter and, prior to that, in December 2011². The outlook, both nationally and for South Australia, remains even more subdued³.

This provides an obvious opportunity for the State Government to act on record low finance costs to invest in productive infrastructure.

Infrastructure Australia recently identified eight South Australian projects as being in need of prioritization to ease urban congestion or improve national connectivity⁴. Of these, two – the high-priority Gawler Line upgrade and the completion of the north-south corridor – have the highest impact on the productivity or growth of the building and construction sector.

Completion of the Gawler Line would provide much-needed impetus to the northern suburbs, supplementing the State Government's Northern Economic Plan with a long-term investment in growth-enabling infrastructure. It would act as a key-hole investment and thus drive demand for building and construction in the Playford, Salisbury and Port Adelaide Enfield regions.

The success of South Australia's construction industry is based upon the development of nationally-recognised skills and experience, applied to projects throughout the State. Because industry professionals travel extensively between sites, travel delays can impact productivity and add costs to projects, especially where they distract from time-sensitive projects. Master Builders SA commends the State and Federal Governments for the approval and recent extension of the Torrens to Torrens upgrade to South Road⁵ for the improved productivity it will allow industry. We therefore recommend the completion of this vital arterial for the benefits it will offer all transport-reliant industries including South Australia's building and construction industry.

Recommendations

1. The State Government should take advantage of cheap financing to invest in productive infrastructure that has already attracted general support from Infrastructure Australia. Master Builders SA recommends a focus on the completion of the South Rd arterial as a means of delivering productivity gains to all industries reliant upon transport infrastructure.

2. The completion of the high-priority Gawler Line upgrade should be supported as a focus as an activator of private sector investment in Adelaide's northern suburbs.

3. Master Builders SA recommends the State Government take advantage of the current financing environment to invest in much-needed social infrastructure including a renewed Courts Precinct and a continued renewal of our health facilities.

Master Builders SA notes a recent proposal to fund an extension to Adelaide's tram network through

a new tax on residents and businesses⁶. Master Builders SA has previously raised with the State Government and all members of Parliament its concerns that a review of the general infrastructure charge mooted in the Planning, Development and Infrastructure Bill 2015 might be used to dilute the need for 100 per cent agreement to a new levy or charge, a move which might therefore be used to fund a new Adelaide tram network⁷.

We firmly believe that the economic value attributed to the city-wide extension of any transport network cannot be accurately linked to certain properties and should therefore remain a cost to all taxpayers through existing tax revenues and capital investment processes. If the State Government disagrees with this approach, Master Builders SA recommends it not be implemented without it being raised as an election issue for determination of all voters, the very people likely to bear the burden of any additional taxes and enjoy the benefits of any related investment.

Recommendations

4. Master Builders SA supports investment in Adelaide transport networks but recommends any attempt to raise funds through a direct levy on households and businesses be taken to an election for approval.

5. South Australian businesses should have the right to access the \$15 million Industry Attraction Fund where such investment would activate sustainable jobs growth or ensure SA companies remain in the State.

Master Builders SA also recommends the State Government renew its focus on upgrading much-needed social infrastructure including the redevelopment of the Courts Precinct and the mooted relocation of the Women's and Children's Hospital. It is believed companies tendering for the former project invested tens of millions of dollars prior to the State Government's cancellation of the project, while the near-completion of the New Royal Adelaide Hospital risks losing essential skilled labour to other sectors while the opportunity exists to build upon that productivity – or risk the building and construction industry's own loss of an essential pipeline.

Expanding the focus of the Industry Attraction Fund

The creation of the \$15 million Industry Attraction Fund and Investment Attraction South Australia sends the right signal to businesses considering relocating to South Australia. It rightly seeks to grow the State's business community by looking elsewhere.

However, there is a risk that the investment will expend considerable resources travelling to develop opportunities whilst overlooking domestic opportunities for business expansion. Master Builders SA recommends that the investment terms of the Industry Attraction Fund be extended to allow South Australian businesses to seek financial support for innovative ventures with long-term employment potential for South Australians. More particularly, it is likely to send a strong signal that the right ideas can attract support from a Government wanting to develop South Australian solutions.

This is a Budget-neutral initiative with significant advantages for the State with the potential for future expansion based on success.

Extending successful licensing and planning models beyond city limits

The State Government has strongly committed to its successful policy of creating a vibrant Adelaide. Master Builders SA believes the Government should build on this success by extending these reforms across Greater Adelaide in the interests of encouraging a new wave of investment.

For example, the State Government has explicitly recognized the early success of the introduction of the small venue licence. A report funded by Renewal SA finds the licence is being used by 46 new ventures employing 433 people (197 full-time equivalent jobs)⁸.

There have been calls to extend the model outside the Adelaide City area⁹ but there has been no support for this move since it was first published in December 2014. Despite some observations from the Australian Hotels Association that there is insufficient demand to extend the model to Adelaide's suburbs¹⁰, Master Builders SA believes entrepreneurs should be encouraged to invest with the provision of a welcoming regulatory environment rather than removing the very tools that have been responsible for job creation.

Recommendations

6. Small bar licensing provisions should be opened to all suburbs as a way of activating small business investment and place-making. These investments have significant flow-on effects to all industries that should not be dismissed as a single-sector issue.

7. An open review of liquor licensing should open categories to promote new investment across industries.

The extension of this successful model has a significant impact beyond the hospitality sector.

The Renewal SA report estimates the establishment of the existing 46 venues created \$7.7 million in fitout work, allowing South Australia's building and construction industry to extend employment of its own skilled trades. The creation of a new venue also creates excitement and an air of activity, providing a much-needed offset for South Australia's low levels of business confidence¹¹, in itself a reason for low levels of business investment.

In addition, South Australian small businesses are showing a commitment to South Australian products, thereby ensuring the benefits of the creation of a new business extend to other South Australian businesses and the people they employ.

For example, small bar Sweet Amber opened in Semaphore in November 2015. Three of its four tap beers are South Australian. More than 50 per cent of the

products sold are sourced from South Australia, providing a ready pipeline for other businesses securing jobs for South Australians.

Yet the proprietors nearly went bankrupt in their 12-month battle to establish their business. The business was required to invest in additional disability access in a heritage building, yet similar access for a nearby pharmaceutical business was subsidized. The costs of compliance created a six-week delay that almost bankrupted the owners.

Sweet Amber would like to expand their business by opening a retail venture next door to house a retail takeaway licence for boutique beers, yet current conditions allow objections from larger licensed venues nearby. In short, current regulations are holding back South Australian investment and, with it, likely jobs expansion.

Master Builders SA therefore recommends the opening of licensing requirements across Greater Adelaide to unlock potential investment and the jobs it may create.

4. Building a job-creation environment

The South Australian Government is in a rare position to affect the future health of the State. It is the governing body that establishes the framework within which businesses, employees and clients interact. It also directly employs more than 115,000 people, making it the largest single South Australian employer.

It is also the biggest single client across South Australia's building and construction sector, and one of the few entities able to underwrite projects exceeding \$100 million. Given that the pathway to national projects for South Australian companies is dependent upon local experiences, this creates a rare situation where the State Government can impact the success of an entire industry through its investment, its regulation and its behaviour.

Return to the role of a model client

The Department of Planning, Transport and Infrastructure is managing billions of dollars of construction projects on behalf of the State Government¹². It has established a system of

prequalification to assess businesses before they enter the procurement process to mitigate investment risk. The contracts it produces govern the behavior throughout the supply chain and, as a result, it has an opportunity to act as a model client.

Master Builders SA is concerned that this approach may no longer be a strategic priority for the management of DPTI. Member feedback indicates a return to "hard money" contracts where tendering price is prioritized over quality of contractor, ignoring the risk of company collapses and contested variations that are likely to add to the total cost to taxpayers in the long term.

Additionally, Master Builders SA is concerned that the current review of the prequalification process may be informed by larger entities without an opportunity for prequalified subcontractors – many of whom undertake significant works on a project – to provide input.

As noted in Master Builders SA's recent reform proposal¹³, there is an urgent need for all parties to return to fair pricing and fair practice if the company collapses and losses produced by the current focus on price alone are to be avoided. The current review of prequalification appears to have excluded industry representatives, thus raising concerns that the result will fail to consider the State Government's role as a model client and its broader impact on the building and construction industry.

We recommend and urge the State Government to recommit to this open engagement as soon as possible. Given the significance of that connection to jobs across head- and subcontractors, we believe this is of vital significance.

Recommendations

8. State departments should be reminded of their role to represent the State Government as a model client rather than focus on hard price contracts without an understanding of their long-term consequences for taxpayers and the broader industry.

9. The State Government instruct the Department of Planning, Transport and Infrastructure to re-engage industry bodies such as Master Builders SA at an early stage to limit the potential destructive impact of audits and process reviews. These processes are currently being undertaken with limited industry engagement and risk significant long-term industry damage.

Investment in E-Planning System

Master Builders SA commends the current proposal for an overhaul of South Australia's planning laws. The current state of these laws introduce uncertainty and delays that are widely recognized as a substantial impediment to productivity and investment.

The Expert Panel on Planning Reform has recommended the introduction of an online planning system (E-Planning System) to deliver true operational reform and productivity savings to an industry battling reams of paperwork. In very real terms, the Expert Panel's investigations estimate application

times will be more than halved¹⁴ by an immediate investment in E-Planning with benefits accruing to residents, investors, businesses, local and State Government.

Given a commitment to a cost-recovery approach to fee management for such a system, Master Builders SA recommends the acceleration of this investment, especially given the relatively low value of the underlying State Government investment¹⁵.

Recommendations

10. Master Builders SA recommends early investment in the creation of an E-Planning solution to activate proposed planning reforms. This platform is a key element to delivering essential productivity and efficiency savings to both industry and government.

11. Master Builders SA recommends the creation of a new Ministry for Advanced Construction to serve as a champion for the current step-change of the construction sector and the potential for export earnings and the protection of tens of thousands of South Australian jobs.

12. Master Builders SA recommends the Minister for Advanced Construction accelerate State Government collaboration with Master Builders SA in developing an industry-wide strategy for next-generation construction.

Direct support in the future state of South Australian building

The building and construction industry is undergoing a significant step-change. While Master Builders SA believes there will always be scope for bespoke crafted buildings, there is a significant push underway as a result of advancements in technology and manufacturing.

Victoria has taken a lead in investing in its construction sector. The University of Melbourne boasts a training centre for Advanced Manufacturing of Prefabricated Housing to build an industry around prefabricated components. This combination of construction and manufacturing skills is expected to take a 10 per cent share of a \$150 billion national market by 2025, an investment estimated to create 20,000 new jobs¹⁶. The Victorian State Government has identified construction materials and technologies as "an important enabler in the Victorian economy and a significant sector in its own right"¹⁷.

The exploration of 3D printing and its use in construction also heralds a new wave of construction technologies¹⁸.

Meanwhile, the creation of integrated electronic models of buildings that allow the design, programming and maintenance of building structures among specialist teams ("Building Information Modelling" or BIM) is still nascent in

South Australia while it attracts research funding and practical applications in other states¹⁹.

South Australia is not immune to this shift. Rivergum Homes has invested \$1 million in a research site at Tonsley to focus on construction innovations²⁰, while the Lester Hotel on West Terrace proposes to rely upon imported prefabricated materials to minimize construction periods²¹.

There is a very real risk that a failure to develop local capacity will result in a significant loss of jobs, a loss of technical capability and potential exposure to the introduction of non-compliant building products – the significance of which is still being investigated by a Senate Committee Inquiry

Recommendations

13. The State Government should consider using part of its proposed venture capital fund as seed funding for new construction commercialization ventures that could serve as a cornerstone for new construction technology income streams from overseas and interstate.

14. A State Government project should be mandated as a case study for Building Information Modelling (BIM) to provide a working example of the benefits or lessons of the approach. This could be extended to provide evidence of the success of otherwise of a ‘whole of life’ valuation of assets.

15. Master Builders SA asks the State Government to encourage all departments to actively engage Master Builders SA in the development of statewide policy solutions to ensure the sector takes advantage of national and international opportunities arising from new construction technologies.

following the Lacrosse Apartments fire in Melbourne in November 2014 with major concerns over public exposure to risk²².

Master Builders SA recommends the creation of a Ministerial position to champion Advanced Construction capacity in South Australia to avoid future job losses and a rise in risks to public safety from imported non-compliant materials.

Part of the State Government’s mooted venture capital plan²³ could be used as seed funding for an advanced construction materials commercialization project that could assist South Australian companies develop innovative technology and materials that would deliver export revenues both to those companies and the Fund itself.

The State Government could further champion this transition by mandating BIM as a pilot study on a public investment. It has been estimated that this investment could deliver savings in facilities management of 30 per cent²⁴. This should provide significant reason to investigate the benefits likely to derive to the State Government and its taxpayers.

The use of BIM on a single project could be extended – in partnership with universities and industry – to provide a ‘whole of life’ valuation of the underlying asset. This could provide an understanding as to the long-term operational and maintenance costs of a building, all captured within a single model. This could also provide an understanding of the long-term project costs beyond the initial contract price with a view to extracting best value for taxpayers. Additionally, the model could provide an insight into long-term procurement savings and processes.

Perhaps the most important aspect of this step-change in construction – a unifying strategy – is still lacking, despite the importance of the more than 55,000 jobs attached to it. Master Builders SA will soon be preparing an industry-wide strategy to chart a course that involves South Australian companies and South Australian jobs. We hope that the

State Government will assist with the development of this strategy as a means of preventing the death of another industry and as an investment in the taxation revenue of the future.

Master Builders SA is also aware of some discussion of these matters occurring within government departments. We urge the State Government to use its Ministerial offices to encourage an open and informal dialogue with Master Builders SA to ensure that industry and Government can work together to engineer a stronger future for the State.

A welcoming fiscal environment

Master Builders SA welcomes the State Government's commitment to reforming taxes and, in particular its cuts to non-residential stamp duty that were brought forward at the most recent Mid-Year Budget Review²⁵.

We have noted concerns relating to the creation of a new infrastructure charge to fund public transport and other infrastructure (see *Invest in productive South Australian infrastructure today*, above). Given that the business community would be the likely contributors to such schemes, we recommend the State Government limit its desire to exercise such a power unless unequivocally linked to distinct benefits.

There remain significant opportunities for tax reform. Many measures of the last State tax review²⁶ remain untouched and there remain many measures canvassed in both reports of the Sustainable Budget Commission as delivered to former Treasurer Kevin Foley²⁷.

The business community is driven by confidence to invest, derived from a business-friendly Government and from the

overall willingness to show an active approach to managing taxation structures.

Master Builders SA commends the recent discussion on redistributing and altering GST commitments but feels there remains significant scope for taxation reform at a State-level. We urge the State Government to commit to this process to engage and embolden business investment.

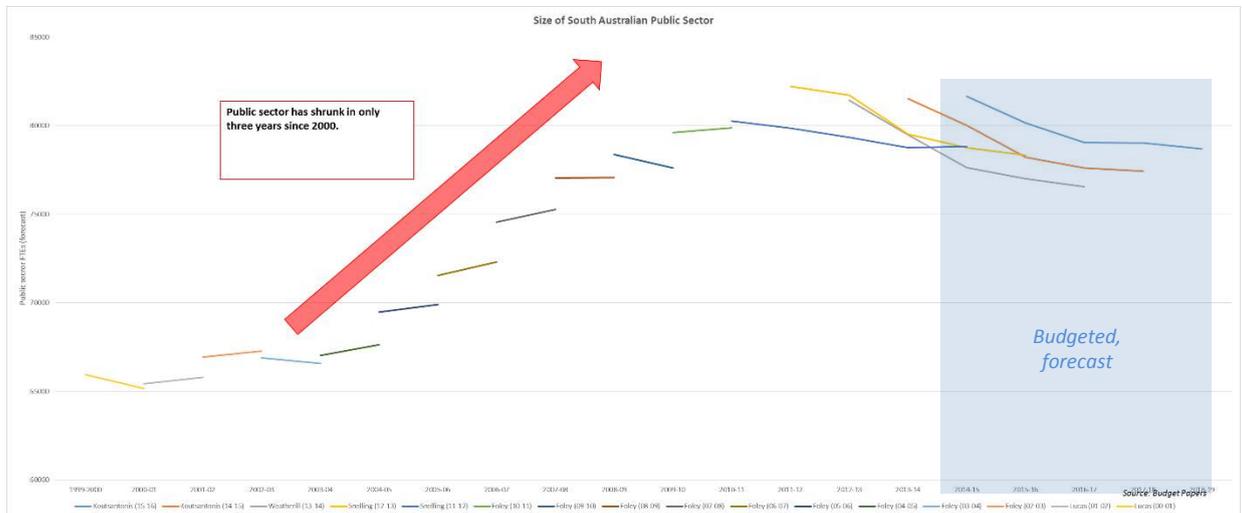
Moving from a growing employer to an enabling government

Master Builders SA believes there is scope to reduce taxation by critically reviewing government services.

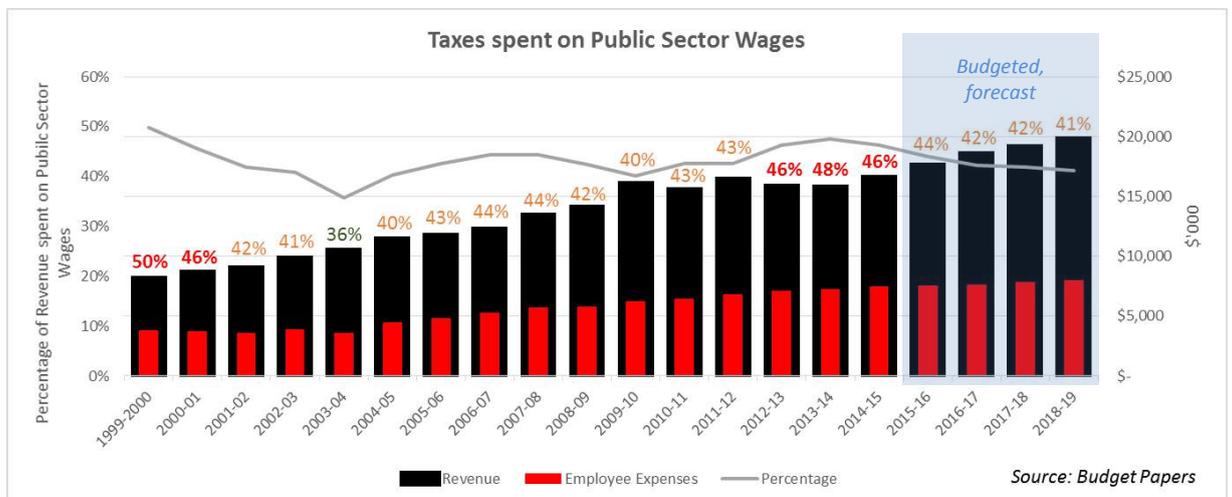
The State Government directly employs about 115,000 people in the State²⁸, and is therefore South Australia's largest single employer. The size of the public sector has swelled significantly since 1999 and, despite Budget forecasts of falling public sector numbers, has only shrunk three times over that period. Master Builders SA commends the Treasurer for limiting the growth of the sector, but forecasts of falling numbers have repeatedly not been met, according to State Treasury data:

Recommendations

16. The State Government should continue to pursue its commitment to taxation reform to produce a sustainable Budget and embolden business investment.



Despite this, more than 40 per cent of every tax dollar received by the State Government is spent on public sector wages. Recent restraint contained within Budget forecasts signal an improvement from the 48 per cent recorded in 2013-14 but there remains significant scope to improve the return on taxpayer funds:



Perhaps more importantly, the ordinary hourly rate for public sector employees in South Australia continues to outstrip that of the private sector²⁹. While this can be seen as a means of attracting the best staff, it is a practice that pits a taxpayer-funded State Government against businesses struggling to cope with margin pressures.

This is of greatest concern when it is considered that taxpaying businesses and households are then funding investment attraction packages for the private sector to create new jobs.

The need for the recommended shift from growing employer to enabling government is best displayed with the recent cuts to the Skills for All program. Despite Government acknowledgement that the cost of providing courses through the public sector was more than twice as costly as public sector delivery³⁰, the State Government used its control of funding policy to create a near-monopoly for its state-funded training centres. This decision has resulted in direct job losses in the private sector³¹ at a time when the State Government is seeking to build private sector capacity.

Master Builders SA supports a more efficient public sector and welcomes measures undertaken to build a sustainable Budget. However, common-sense use of taxpayer funds would in this case have

Recommendations

17. Indistinct efficiency dividends should be abandoned as a measure of attaining more sustainable Budget expenditure, and replaced with the identification of specific programs to be cut. This is likely to deliver identifiable savings with specific public sector cuts, leading to a more sustainable Budget outcome.

18. The State Government should reaffirm its commitment to the doctrine of competitive neutrality to ensure there is no repeat of the situation that saw the subsidization of an inefficient TAFE SA by the defunding of efficient private sector training operators.

19. Master Builders SA recommends the State Government consider combining prequalification and trade licensing to create an entity more focused on due diligence, consumer protection and lean processes.

dictated a commitment to industry-driven outcomes rather than the more expensive TAFE SA solution. Master Builders SA believes a change of approach would provide better results and less demands on South Australian taxpayers. In turn, this would support the State's private sector and its desire to grow and create more jobs for a healthy South Australia.

Master Builders SA recommends the State Government move away from its reliance upon efficiency dividends to achieve Budget savings – an approach that did not result in savings, according to FTE numbers displayed above – and instead focus on specific programs to be cut. This will deliver personnel savings, or free funds to be redirected to necessary and valued functions.

Welcoming a more innovative approach to Government services

As an industry body, Master Builders SA is committed to the long-term health of the building and construction industry. The reputation of our members – respected as professionals in their own right – often suffer from licensing breaches that go unchecked or uninvestigated by reason of a lack of resources.

Master Builders SA believes there is scope for a significant change in licensing that might offer the industry a reduction in red tape and a boost in opportunities for Government projects. Further, consumers are likely to benefit from a combination of prequalification and licensing regimes with the application of a similar assessment system to that applied by the Australia Taxation Office³².

The ATO's benchmarking system identifies ranges of acceptable business outcomes including profits, costs of goods and services, expected turnovers – effectively

producing industry ranges within which businesses are expected to fall. This information can provide useful business feedback about the success of their operations – a side-effect that has been widely recognized³³ – but might also be employed by licensing authorities to identify high-risk licensees at risk of collapse. Given the capacity for such a system to better protect consumers from rogue operators, Master Builders SA recommends the creation of a 90-day working group to scope the potential for this project.

Master Builders SA also notes its intention to undertake a review of the current licensing system.

We have previously made submissions concerning the need for significant change in the area of residential pre-purchase inspections³⁴ but have received little engagement about reforms we believe

may positively protect consumers. Further, we believe the lack of policing of some high-profile cases³⁵ has raised concerns about the system within industry circles. We will share the results of our review in coming months.

Recommendations

20. Master Builders SA recommends the creation of a 90-day project to investigate the potential for the introduction of benchmarking processes currently used by the Australian Taxation Office within South Australian licensing processes as a means of identifying operations at high risk of collapse.

21. Master Builders SA recommends the introduction of a new licensing and education regime for residential pre-purchase inspections to protect vulnerable consumers.

22. The State Government should match the best interstate payroll tax regimes in response to ongoing concerns about interstate competition.

The right tax settings for the right jobs for South Australia's future

The State Government has previously altered tax settings to encourage and support South Australia's small businesses and apprentices.

Now is not the time to change those settings.

The unemployment rate for South Australians aged 15-24 is the seventh-highest monthly result reported since 2000³⁶ and risks the creation of a generation without work.

More broadly, recent data from the Australian Bureau of Statistics shows only 60.3 per cent of the 22,246 South Australian construction businesses operating in June 2011 were in existence four years later³⁷. Those employing fewer than 20 people were least likely to survive: only 73.2 per cent were in business at June 2015.

Master Builders SA again recommends the matching of interstate payroll tax regimes to maintain the State's competitive advantage but suspects there is little Government appetite for such a change in the short term. Instead, it is urged as a medium term priority.

However, the impact of the extension of the small business payroll tax rebate, extended in last year's budget for the 2015-16 year³⁸, should not be underestimated. Given that small businesses are more likely to fail, reducing the cost

impact of payroll tax may produce more sustainable businesses in the short term.

As South Australia's building and construction sector is dominated by small and medium businesses,

the health of the entire sector is likely to benefit from a further extension of the small business payroll tax rebate.

Recommendations

23. The State Government should extend the small business payroll tax rebate for businesses with payrolls up to \$1.2 million for two more years.

24. Payroll tax exemptions for apprentices and trainees should be reintroduced to encourage the reversal of growing levels of youth unemployment.

25. The State Government should actively consider extending the weighting for local jobs, supplies and investment under the Industry Participation Policy from the current 15 per cent weighting to 20 per cent.

Master Builders SA recommends a two-year extension of the payroll tax rebate for employers with payrolls less or equal to \$1.2 million on the same eligibility criteria as provided in 2015-16.

Similarly, the revival of the payroll tax exemption for apprentices and trainees³⁹ is recommended as a focused means of reversing South Australia's growing youth unemployment problem. It is recommended that this occur for a period of two years to provide a solid base for a recovery.

The right commitments for South Australia's future

The Northern Territory recently announced an increase in the weighting of local content to 20 to 25 per cent for all contracts and tenders⁴⁰, proclaiming it to be the highest weighting in the country.

Master Builders SA believes the state of the South Australian economy would benefit from a clear focus on creating the conditions for local demand. However, there is also an understanding that businesses and Government must be free to provide efficient outcomes for shareholders and taxpayers; there should be no in-built premium for buying local.

Master Builders SA therefore suggests there is scope to expand the current Industry Participation Policy beyond its 15 per cent loading for South Australian employment, supplies and investment. The State Government has already committed to an increase on larger projects for Adelaide's Northern suburbs and the Northern Connector project⁴¹. Master Builders SA submits this program should be expanded across the State and its weighting in a bid assessment increased to 20 per cent.

5. Building a stronger economic future

South Australia is facing significant structural change as evidenced by the death of previously dominant industries⁴², doubt as to the future of others⁴³ and a general lack of business confidence about the future⁴⁴.

While confidence in the building and construction sector has recently improved⁴⁵, there remains doubt as to a sustainable plan for the growth of the South Australian economy in the long term.

The State Government has invested in institutions aimed at building long-term structures to attract investment to the State. Master Builders SA believes there is scope for similar investments to yield long-term benefits for South Australia.

Towards a more efficient and productive South Australia

The Australian Productivity Commission has a wide ambit to research issues of national importance. These issues are particularly significant for South Australia given the challenges ahead.

Recommendations

26. Master Builders SA recommends the Economic Development Board be repurposed and refocused as a new statutory body, Productivity and Infrastructure SA, with responsibilities including productivity investigations and liaising with Infrastructure Australia.

27. Productivity and Infrastructure SA should have the broad remit of improving South Australian productivity, including investigating private and public sector impediments to achieve long-term economic improvements.

Master Builders SA recommends the Economic Development Board be repurposed and refocused to create a new statutory body, Productivity and Infrastructure South Australia.

This body should have a similar wide ambit to investigate economic blockages that might be holding back the State, and to provide the State Government with an independent review of the State's infrastructure needs.

This body would provide valuable information for DPTI's next iteration of its 30-Year Plan for Greater Adelaide and be of significant value for reviews to be undertaken by the newly-established Planning Commission. In addition, it could undertake long-term investigations of significance to the productivity of South Australian industry, including the identification of costs of South Australian housing and the long-term cost of focusing on tender price at the expense of ignoring the impact of variations and contract disputes on long-term taxpayer value.

It would ideally be apolitical and have close connections with industry and Infrastructure Australia to allow a true focus on productivity and future business growth, which would therefore lead to growth in state taxation revenues. Its independent nature would also provide the State Government with political distance from issues it might not

otherwise raise – but might be needed for the betterment of the State.

Master Builders SA has previously recommended the establishment of two bodies, Infrastructure South Australia and a state-based Productivity Commission⁴⁶. The combination of these two bodies as part of a repurposing of the Economic Development Board would provide the State with much-needed scope for the transition we are currently undertaking.

Towards a safer South Australia

Master Builders SA commends the State Government on the reorganization of SafeWork SA and its willingness to work with Master Builders SA and the Construction, Forestry, Mining and Energy Union to deliver meaningful reform for the construction sector⁴⁷.

Master Builders SA believes the benefits of this reform can be extended by a further merger between SafeWork SA and Return to Work SA. Similar mergers in Victoria and New South Wales delivered significant administrative savings while also reducing compliance demands. Master Builders SA recommends the agencies be directed to develop a business case for consideration within the next

Recommendations

28. Master Builders SA recommends SafeWork SA and Return to Work SA prepare a business case for merger within six months of the delivery of the Budget. Such a merger could deliver significant Budget savings and cut business compliance costs.

29. Master Builders SA recommends continuation of the First Home Owners Grant and off-the-plan stamp duty concessions to avoid market disruption during a contracting cycle.

30. Master Builders SA believes there is a case to be made for expanding the current stamp duty concession for off-the-plan purchases to all property purchases less than the median price for Adelaide and without a geographic restriction as a means of improving affordability and driving demand.

three months with a view to releasing a discussion paper within six months.

The recent tragic deaths on the site of the New Royal Adelaide Hospital⁴⁸ has once again highlighted the vital role played by SafeWork SA. However, the lack of industry feedback over the specific risks of the first fatality has highlighted a significant hole in South Australia's workplace safety regime. Lessons learned from the event – even as the investigation unfolded – may have created a more responsive regime across South Australia's construction sites and therefore reduced the overall risk in one of the world's highest-risk industries.

Master Builders SA believes there is scope for the adoption within a South Australian construction context of a regime similar to that employed by the Australian Transport Safety Bureau (ATSB)⁴⁹, where aviation safety investigations and reports are made available to the public in a time-sensitive manner. This allows industry participants to quickly respond to lessons learned from accidents but also allows the regulator to take a stricter approach to incidents given the publicly-available information. In short, it could provide a timely and valuable feedback mechanism of benefit for the South Australian public.

This is not a settled policy position of Master Builders SA at this juncture. However, we believe there may be scope to develop a similar system for all industrial fatalities to reduce risk for all participants.

Master Builders SA's Workplace Health and Safety Committee is investigating the possibility of extending the ATSB system to South Australian construction sites. We hope to liaise with SafeWork SA and responsible Ministers to develop a safer South Australia.

Towards affordable housing

Master Builders SA notes the State Government's use of stamp duty concessions and direct grants to produce interest in inner-city apartments and to provide some relief for first home buyers.

Stamp duty concessions for the off the plan apartments were introduced in June 2012 and expanded in October 2013. The concessions, which can contribute \$21,330 in savings, are currently set to end June 2016.

The first home owners grant (FHOG) on new homes was increased from \$7000 to \$15,000 in 2012, while the grant for established homes was introduced at \$7000 in July 2000 and removed in July 2014.

Master Builders SA believes that these incentives need to be continued in the short-term. The most

recent survey of our members showed housing affordability to be the biggest constraint on economic activity in the sector, rising steadily from an index reading of 68.6 points in June 2015 to 76.2 points in December 2015⁵⁰. Any rolling back of first home buyer grants would have a significant impact on the sector and the ability of the next generation of South Australians to own their own home.

Master Builders SA also believes the off-the-plan concession has resulted in very real economic benefits to the sector and the city. We recommend the extension of this concession for two years beyond June 2016 to ensure South Australia's building and construction industry is not hit by a lapse of activity similar to Defence's "valley of death". Ideally, this concession would be extended across metropolitan Adelaide to provide direct relief for those challenged by housing affordability – in a way that does not restrict their choice of where they choose to live.

Investing in a stronger industry

In the wake of the collapse of Tagara Builders, Master Builders SA undertook a thorough review of current practices and protections in the building and construction industry. This review gathered

representatives from across the sector to assess what changes were needed to produce a stronger industry with more resilient participants who could then grow out of South Australia and on to the national stage.

The result, *Improving the South Australian Construction Industry*⁵¹, proposes changes across licensing, education, procurement and insolvency – all aimed at ensuring there would be less fallout from the next slowdown or collapse. At the direct request of Treasurer Tom Koutsantonis, all proposals are Budget neutral.

No formal response has as yet been received, although Small Business Minister Martin Hamilton-Smith has engaged with Master Builders SA to coordinate a response across the many departments connected to this proposal.

Of the recommendations within that document, several are relevant for Budget consideration.

Master Builders SA has recommended that the State Government combine licensing and prequalification processes to reduce compliance costs for industry and to deliver efficiency savings for Government and taxpayers. This combined entity would ideally be able to build a licensing system that actively detects unviable businesses through lodged financial reports in much the same way that ASIC uses financial benchmarks to identify audit risks. This system would also allow for the graduated assessment of

licence holders as recommended by the Senate Economics Committee into Insolvency Practices in the Construction Industry⁵², thus allowing South Australia to lead the country in probity and consumer protection.

Recommendations

31. Licensing and prequalification regimes should be consolidated to reduce business compliance costs and deliver real savings for consumers and the State Government.

32. Master Builders SA recommends the expansion of the current prequalification regime to record third-party assessments of private sector projects. This will provide an authoritative form of due diligence but also allow South Australian companies to tender for more interstate projects on the basis of a larger sample of work. This is imperative given the current paucity of Government projects.

Master Builders SA has also recommended the current prequalification reporting system administered by the Department of Planning, Transport and Infrastructure be expanded to capture the completion of private projects as opposed the taxpayer funded projects currently in place. DPTI's prequalification register is currently used as a form of due diligence by many parties, but the paucity of government projects means there is a lack of relevant and timely information by which prequalified companies can be assessed.

Recommendations

33. Master Builders SA recommends the State Government enable and protect growing South Australian building professionals by providing a fee-for-service backing for a guarantee or bond scheme to allow small businesses to avoid providing cash retentions which are more at risk in the event of client collapse. This initiative can be seen as an extension of Home Indemnity arrangements which carry minimal risk yet produce sufficient revenue to cover essential costs.

Developing a fee-based "Part B" assessment would provide a broader range of projects by which companies can be assessed, and also allow those projects to be considered for national prequalification; at present, South Australian companies face additional challenges on the national stage because of this lack of activity.

Master Builders SA believes this reform would make a significant difference to industry as it would improve information by which all can assess the financial viability of companies, while empowering South Australian companies to grow on the national stage.

There also exists an opportunity for the State Government to play a role in supporting small businesses most at risk from a corporate collapse. As the most liquid of assets, cash retentions present a high level of risk in the event of corporate collapse. Many businesses instead rely upon

bank guarantees or surety bonds to limit financial risk in the event of builder collapse and to reduce the demands on a contractor's capital base.

However, bank guarantees or surety bonds may not be available to all contractors or businesses. In particular, smaller businesses may not have the capital base to secure such a guarantee. Ironically, these are the companies most at risk in the event of corporate collapse. The State Government could support such guarantees through a scheme akin to that behind the provision of Builders Warranty Insurance. It is envisaged that exposure could be limited to those without other options. The State Government could recover its costs on a commercial basis.

Master Builders SA recommends the adoption of this proposal for its ability to empower small business in the State without an imposition on the State Budget.

6. Conclusion

The recommendations within this document are intended to improve the health of South Australia's building and construction industry with minimal impact on the State Budget. Improved margins are likely to benefit the industry as a whole, as is increased economic activity, but these proposals are aimed at protecting industry participants from the impact of company collapses.

Master Builders SA has based this submission on input from its members, leading industry figures and specialist staff, and thanks those parties for their valuable contributions. Additional work will be undertaken to focus on significant reforms regarding Security of Payment and other areas of importance to the sector, and these will be delivered to the State Government as they are completed.

Master Builders SA will pursue these recommendations with the State and Commonwealth Governments and with other regulatory participants, and looks forward to discussing it further as soon as possible.

Master Builders SA is the peak body representing the State's building and construction sector and the 55,000 jobs it creates. We would appreciate every opportunity to contribute the benefit of that knowledge and experience in any ongoing industry consultation.

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