MASTER BUILDERS
AUSTRALIA

THE COST OF LETTING PRODUCTIVITY SLIP

CONTENTS

ABOUT

Master Builders Australia

Master Builders Australia (Master Builders) is the nation's peak building and construction industry association, serving as the only representative for all three sectors of the industry: residential, commercial and engineering/civil construction.

Over 130 years, the movement has grown to over 32,000 businesses nationwide, including the top 100 construction companies.

With Master Builders Associations in each state and territory, offices in all capital cities and 34 locations throughout metro and regional Australia, Master Builders is the authentic voice of the nation's building and construction industry.

Membership of Master Builders is a stamp of quality, a demonstration that a builder values high standards of skill, integrity and responsibility to its clients.

Master Builders' vision is for a profitable and sustainable building and construction industry.

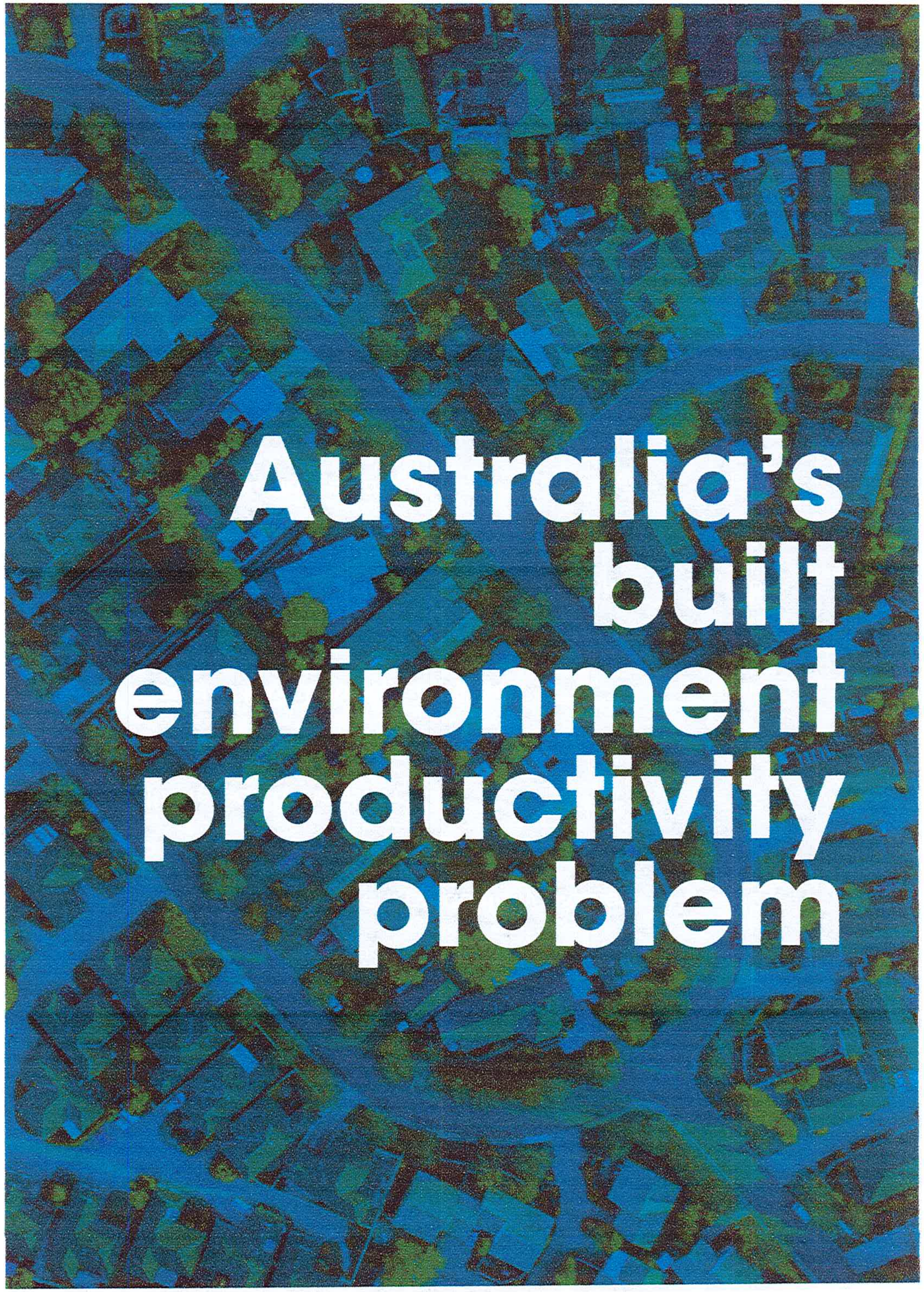
The Centre for International Economics

The CIE is an economic research firm based in Canberra that provides independent, quantitative, evidence-based advice based on in-depth research and data analysis.

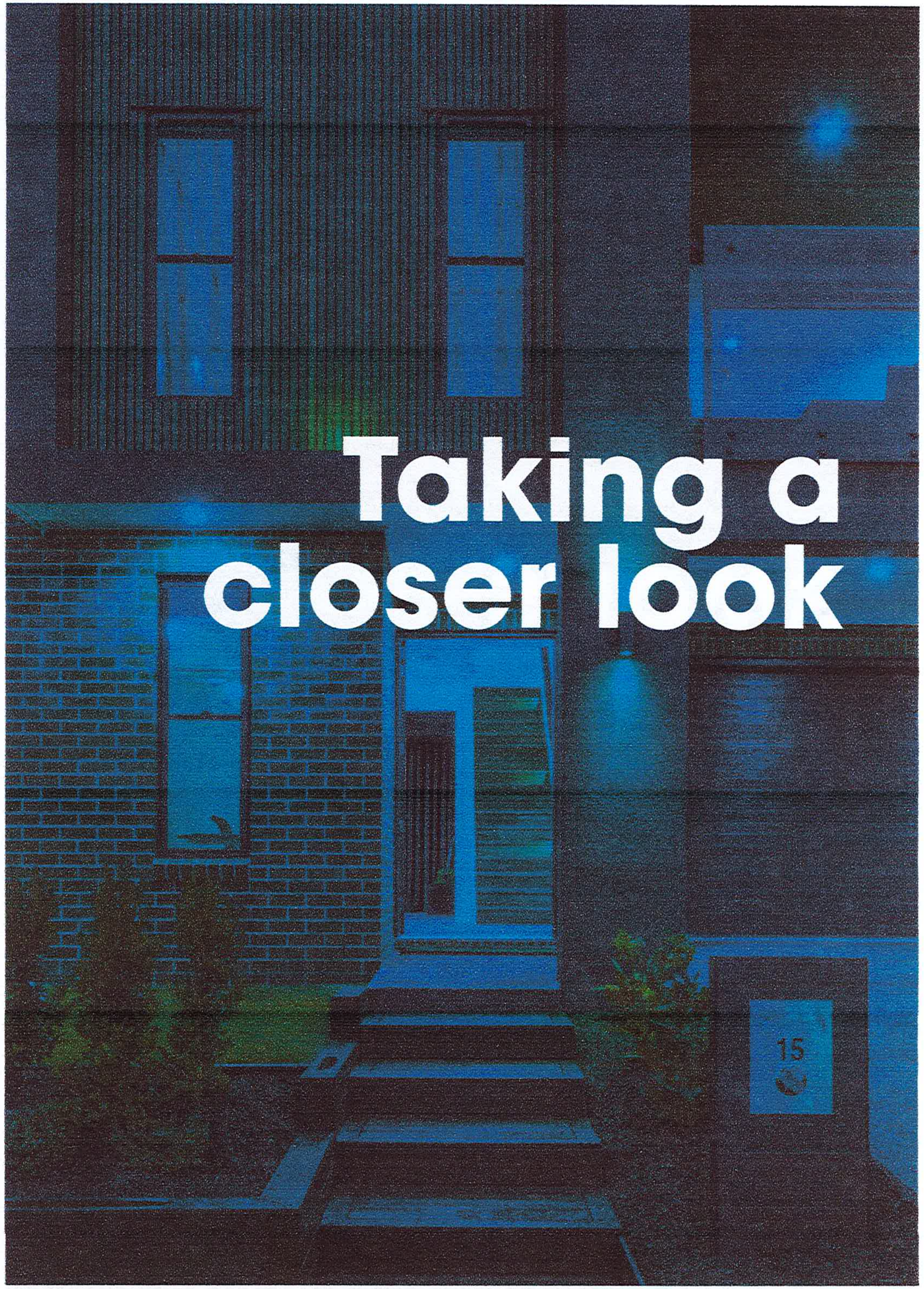
To investigate the impact of the scenarios commissioned, the CIE engaged an economy-wide model. Economy-wide models, which capture the linkages between all sectors and activities in the economy, are a standard and widely accepted approach to quantitative economic analysis. The analysis used the CIE's in-house computable general equilibrium (CGE) model of Australian economies, CIE-REGIONS.

The CIE used a special version of the CIE-REGIONS model with 53 sectors including three building and construction sectors: residential construction, other construction, and construction services. That model has been used regularly by the CIE for a wide range of economic analysis, including evaluation of tax burden and reforms, employment projections, and contributions of the building and construction industry.

This report details individual measures tested in the CIE analysis. That is: labour supply shortages, excessive materials price growth, declining labour productivity from industrial relations legislation reform and the impact of government housing initiatives.



Australia's built environment productivity problem



Taking a closer look

The built environment is crucial to the maintenance and enhancement of our living standards. The building and construction industry's capacity to undertake this mamonth task can only occur through productivity growth.

Unfortunately, productivity in the building and construction industry has been in reverse with labour productivity declining in seven of the last nine years, declining by 18 per cent over the past decade.

This matters because deteriorating productivity slows the delivery of our built environment or in some cases means it is never built. Then the final cost of all types of building and construction work ends up being higher and takes longer to be completed. In housing alone, which is facing a serious supply shortfall, the average cost of building a home has increased by 39.8 per cent since 2019.

With over 445,000 businesses in the building and construction industry around 98 per cent of them are small in size and make up a workforce of over 1.35 million people.

This structure delivers great flexibility and connects communities around the country, but the industry is highly susceptible to multiple and unique vulnerabilities.

In recent years, the delivery of new homes and related infrastructure has been obstructed by ongoing challenges that are happening concurrently, including:

- supply chain constraints and cost escalation;
- fixed price contracts not being fit for purpose;
- low to zero profit margins impacting industry's capacity to continue work;
- labour shortages adding to project delays and uncertainty;
- industrial relations reforms constraining and prohibiting productivity growth;
- macroeconomic cost pressures (inflation and higher interest rates);
- lack of additional support, especially for the large share of small businesses, meaning that increased regulation, and administrative obligations are taking up more time better spent on the tools;
- unpredictable weather events contributing to uncertain project timeframes;
- ambitious regulatory change altering traditional methods of construction, requiring sector upskilling whilst the industry is struggling to remain profitable; and
- economic uncertainty impacting business confidence and appetite to take on projects because of unknown/ unquantifiable risks.

It is a productivity maelstrom and cause for significant concern.

Unpredictable circumstances push business models to the limit, and we have seen this play out with insolvencies at record highs in the sector.

A positive sign is that there are still more businesses entering the industry than leaving, but it is the responsibility of governments and industry to ensure these businesses are given the best chance at success and focus on preventing issues before they arise.

The role productivity plays here cannot be ignored. The cost of doing nothing is not restricted to the industry but ripples through the broader economy.

Previous Master Builders modelling found for every dollar invested into the building and construction industry, three dollars are returned to the economy.

The housing crisis and its broader economic impacts have been front and centre over several years and exemplifies the building and construction industry's productivity woes.

Demand for building and construction activity. including housing, is projected to be strong over the forecast horizon to 2028-29, but supply is not able to keep up, with declining productivity a key barrier.

There have been attempts to release supply pressures through incentives and reforms targeted at delivering more housing which will only be effective if productivity issues for the industry are addressed in tandem.

Master Builders' most recent building activity forecasts show that Australia is likely to fall short of the Housing Accord target of 1.2 million new homes by more than 100,000 homes.

These forecasts intentionally capture capacity constraints regarding access to labour and industrial relati ons reform as well as broader macroeconomic indicators (e.g. interest rates, inflation, unemployment, Gross Domestic Product (GDP)).

If the building and construction sector is to prosper and the ambition to deliver more housing is to be met, addressing productivity constraints needs to be a priority for all levels of government and industry.

Master Builders has identified in its submission to the 2024–2025 Federal Budget that this can be best achieved by reducing regulatory burden, winding back damaging industrial relations changes, investing in the long-term capacity of the building and construction industry and meeting workforce needs through targeted policies (e.g. migration and a greater focus on vocational education). More detail on these advocacy priorities is in Appendix A.

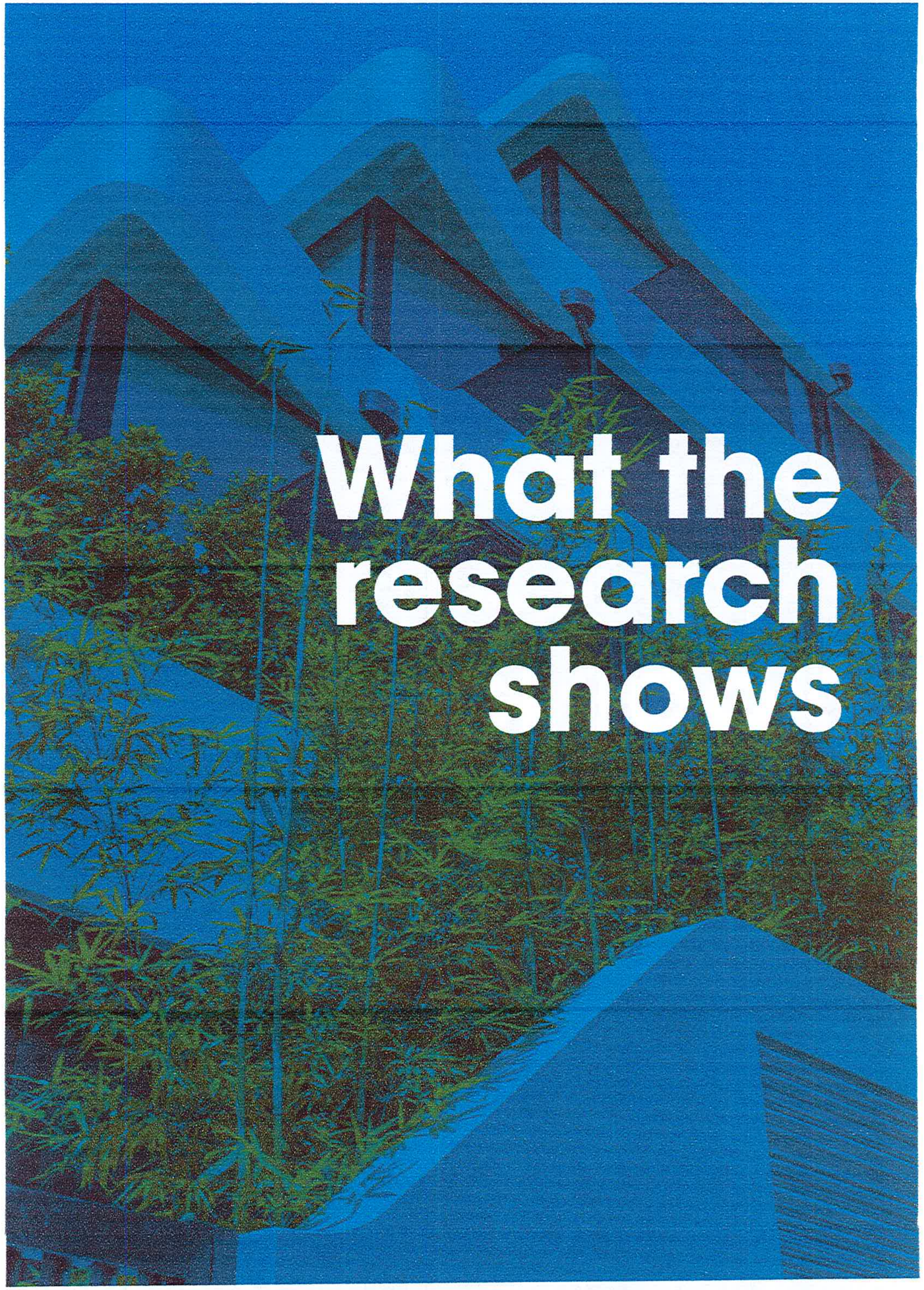
To understand the economic impacts of key issues in the industry, Master Builders has commissioned the CIE to assist in the development of this report.

The report identifies the productivity conundrum faced by the industry and reforces the long-held positon of Master Builders that impacts need to be viewed on a cumulative basis as opposed to silos.

An optimistic and conservative approach has been taken with this research given the multitude of variables that can impact the building and construction industry.

Given the scale of change occurring in the industry, including ever-changing legislation and regulation, it has been determined that this research will be produced annually over the next three years to analyse the impact of ongoing government policy reform and macroeconomic impacts on the cost of building and productivity in the sector.

The report complements Master Builders' bi-annual building and construction sector forecasts, with this first edition focusing on housing. Future editions of this report will consider other parts of the industry.



What the research shows

Master Builders engaged the CIE to analyse the impact of four economic scenarios on the performance of the Australian building and construction industry and the wider economy over the five-year period from 2023–24 to 2027–28 over a five-year period.

The research considered the economic impacts associated with:

- prolonged labour shortages;
- persistence of excessive materials price growth;
- limited elements of recent industrial relations reforms; and
- Federal Government housing initiatives progressing as planned (full list in Appendix B).

The research measured the impact on:

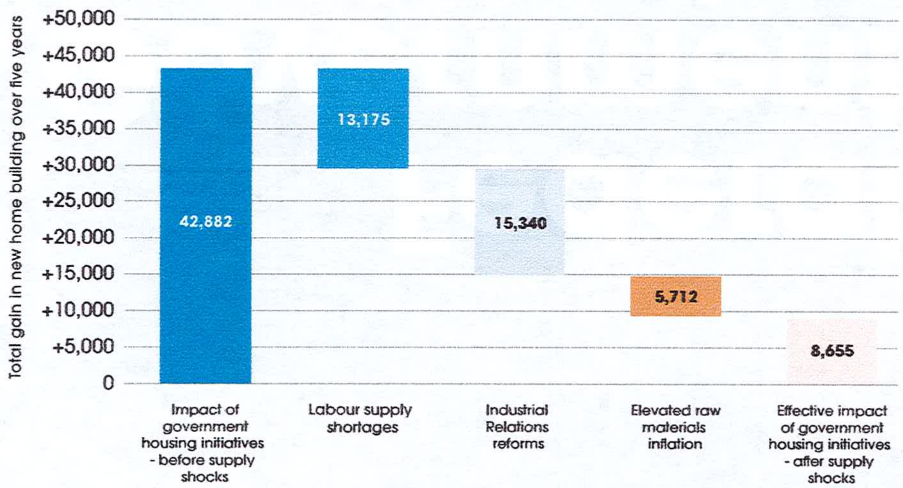
- the number of homes getting built;
- the total volume of construction industry output;
- the total size of Australia's economy or GDP and the final price of building and construction output; and
- building and construction industry employment outcomes.

It is important to preface from the outset, the research **does not** measure several factors but these may be considered in future iterations:

- the full impact of the existing labour shortages within the industry. This work is currently being undertaken by BuildSkills Australia;
- the cost of enterprise bargaining negotiations for the building and construction industry that are currently under negotiations in several states and territories;
- the abolition of the Australian Building and Construction Commission (ABCC);
- the impact of measures in the recent Closing Loopholes Bill including a suite of changes to independent contracting, changes to labour hire regimes, and increased union powers and delegate rights.

The CIE found that **while Federal Government investment in housing and productivity improvements would have a positive impact on the economy, these benefits will be effectively neutralised by prolonged labour supply shortages, materials price growth and declining labour productivity resulting from the industrial relations reforms that have been quantified in the modelling.**

How construction supply shocks erode the benefits of government housing policy initiatives



Source: Master Builders Australia analysis of the CIE research.

The analysis suggests that should the full suite of government investment in housing and productivity initiatives progress it will boost new home-building starts by 42,882 over a five-year period.

However, labour shortages, the quantified elements industrial relations legislative reform, and the potential for excessive raw materials price growth could end up eroding much of that benefit. Noting that additional industrial relations reforms that are likely to diminish productivity have not been included in the modelling.

Should an unfavourable set of supply side settings prevail over the next five years, new home building starts would be reduced by over 34,220. This would eliminate most of the dividend from the suite of government housing initiatives, meaning an additional 8,654 new home starts over five years – rather than 42,882.

The analysis also identifies that long-term labour supply shortages lead to larger reductions in GDP while in the near-term materials cost increases have the biggest negative impact on GDP.

Unobstructed, the CIE analysis estimates that the government's housing supply initiatives would yield significant economic benefits. These include:

42,882
additional new home building starts

$19.6bn
gain in total construction output over five years

27,140
average number of extra construction jobs over five-year period

CIE's research then estimated what the effects would be if the limited, quantified elements of the unfavourable changes to the industrial relations framework were rolled out against the backdrop of a steadily increasing labour shortage and a resurgence of raw materials inflation. Combined, these three disruptions would mean:

-34,227
reduction in new home building starts over five years

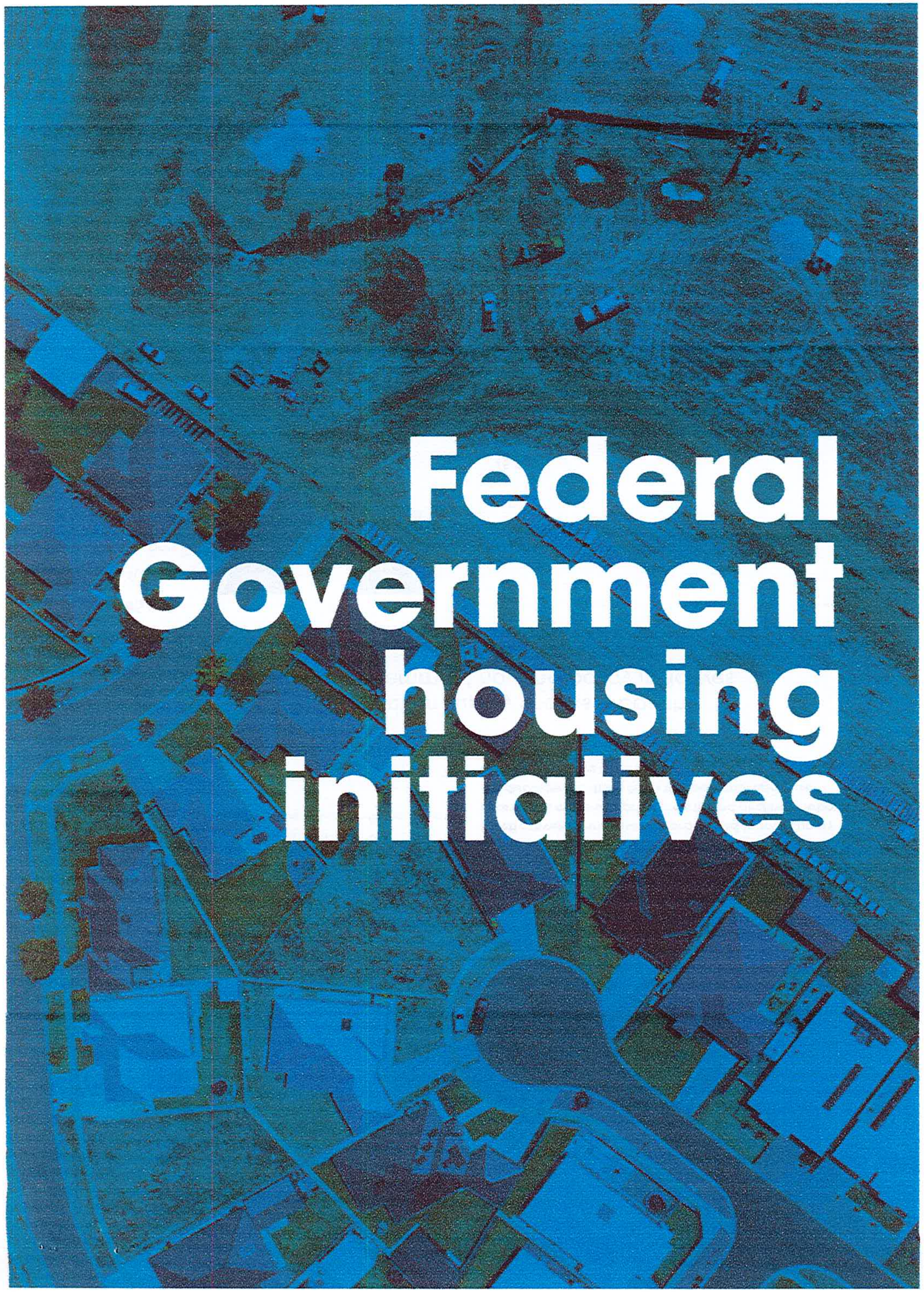
-54,968
average reduction in construction industry job count over five-year period

-$27.9bn
hit to total construction output

-$422.9bn
reduction in total economic activity across Australia over five years

This all means that the substantial benefits resulting from the current set of government housing initiatives could be partially or wholly cancelled out by a combination of supply-side challenges. This outcome is likely to worsen when the full package of industrial relations reforms have been modelled.

These outcomes must be avoided.



Federal Government housing initiatives

The National Housing Accord, to which Master Builders is a signatory, involves an ambitious target of delivering 1.2 million new homes over the five years to 30 June 2029. Meeting and sustaining this volume of output would represent success in the decades-long struggle to match supply with demand.

Australia has never delivered 1.2 million new homes over a five-year period. The closest was during 2014–18, when a total of 1.1 million new dwellings were commenced.

Over the five years from 2024–25 to 2028–29, Master Builders forecasts that 1,087,325 million new home starts will take place. Australia is likely to fall short of the Housing Accord target by more than 100,000 homes.

There have been a number of positive Federal Government housing initiatives announced in the last two years that aim to increase the number of new homes built and incentivise investment in housing.

The initiatives include proposed reform to planning, zoning and land supply which are expected to yield a one per cent productivity uplift by 2027–28 in the building and construction industry.

The CIE Report estimates that this collection of government housing measures will have the effect of:

27,140

additional jobs generated in the building and construction industry over five years on average – including 46,610 extra jobs in the first year

42,882

boost to new home building

$19.6bn

in building and construction output

These results are detailed in the table below.

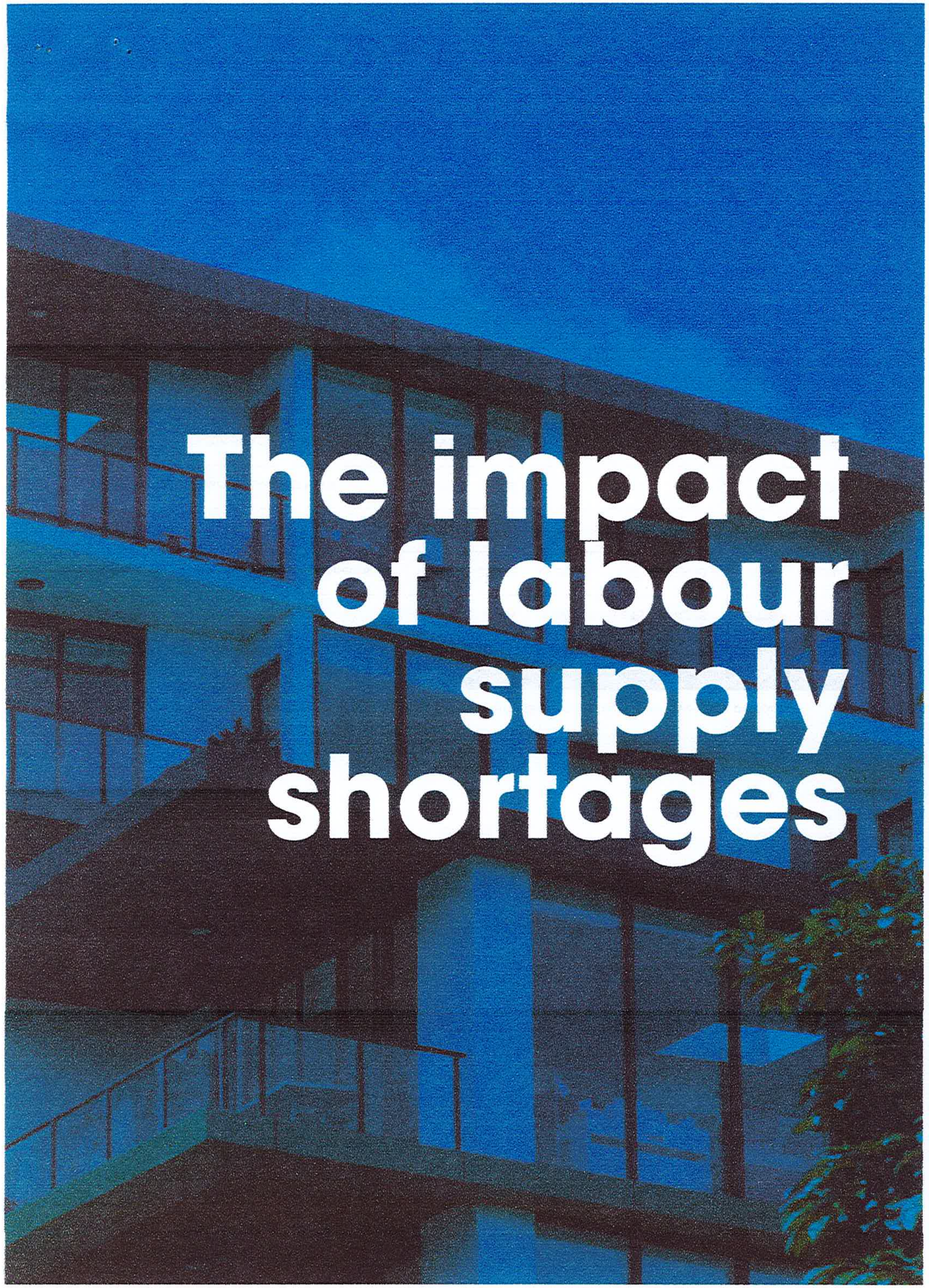
These results are good news for the building and construction sector, as well as for the Australian economy as a whole.

It is vital that these measures are progressed in full and further work is undertaken to address the barriers to workforce participation, materials costs and supply if Australia is to meet its Housing Accord objectives.

Table 1: Estimated economic benefits arising from government housing initiatives over five-year period

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	5-YEAR TOTAL	5-YEAR AVERAGE
Number of new home building starts	+11,413	+10,982	+7,161	+6,964	+6,361	**+42,882**	**+8,576**
Construction employment (number of people)	+46,610	+38,840	+19,910	+16,230	+14,080		**+27,140**
Effect on GDP (+/- $ millions)	+$2,193	+$2,042	+$1,394	+$1,299	+$1,275	**+$8,203**	**+$1,641**
Final cost of construction outputs (+/-%)	+0.7%	+0.5%	+0.3%	+0.2%	+0.2%		**+0.4%**
Effect on total construction output (+/- $ millions)	+$5,914	+$5,379	+$3,059	+$2,697	+$2,523	**+$19,572**	**+$3,914**

Source: Master Builders Australia analysis of CIE research



The impact of labour supply shortages

Labour shortages remain the biggest source of cost pressure and disruption for the building and construction industry which impact the final cost and timeline for building new homes and infrastructure.

The industry is facing chronic workforce shortages and struggling to find the workers needed to meet ambitious building targets.

In a survey of members of the Master Builders network in April 2024, the majority (66 per cent) of respondents said that sourcing workers was the biggest issue facing the building and construction industry right now. Other issues that were identified as difficulties included excessive regulation (56 per cent of respondents) and the high cost of materials (49 per cent).

When asked if it is a struggle to find suitably qualified workers, 85 per cent of respondents said it was. Of the reasons given for this, 68 per cent of respondents said the cost of employing people is getting too expensive, 53 per cent said they are not appropriately skilled, but 72 per cent said the workers simply are not there.

Despite a sizeable workforce of 1.35 million Australians, the industry has an annual exit rate of eight per cent. Currently, the industry is meeting only half the rate of growth needed per year to offset losses from retirement and natural attrition.

Historically, the job vacancy rate within building and construction has been lower than the economy-wide average. This disparity has shifted recently with the vacancy rate moving closer to the economy-wide average.

Over the past year, Australia's building and construction workforce has grown 4.1 per cent with an additional 53,170 people employed in the industry.

To replace those leaving the industry and to fully match increased demand, it is likely that at least 593,000 new workers need to be attracted into the construction industry over the next five years. This is a minimum figure and may need to be even higher should more people than expected exit construction over this period. It is important to point out that this projection takes no account of the extra workers required to put us on the path towards a net-zero economy over the coming years. Put simply, our workforce challenge for the coming years is enormous.

Diminishing productivity will magnify these requirements even further.

Current supply conditions make it unlikely that we get all the workers we need. In its modelling exercise, the CIE has explored what would happen if the gap between demand and supply for construction workers were to widen steadily over the next five years – with an initial one per cent shortfall eventually reaching 5 per cent by the end of the five-year horizon.

"Finding suitable qualified workers limits the volume of work we are able to take on, often passing up on opportunities to undertake additional projects."
– Formwork business, ACT

"We are struggling to find key workers across many fields from trades (including labourers, ceiling and walls, window installers, concreters, steel fixers, mechanical installers) to white collar staff such as HSE advisors, Site Managers, Project Managers and Contracts Administrators. The shortage of available resources has caused us to be short staffed in some key areas."
– Builder, WA

"As a head contractor, we find it challenging to recruit experienced project management staff who are 'job ready' to run projects in their own capacity. We also find it challenging to source subcontractors who have sufficient workforces to resource their projects."
– Residential Builder, ACT

"We cannot find plant operators or truck drivers. Most of my own plant stands idle. We have had to outsource our own work to get production, but it comes at a higher cost to us. We cannot find carpenters, so we have to pay groups to carry out this work at a higher cost, which impacts our ability to secure contracts. All our trades contractors are suffering the same issues and consequently are charging a premium ... to take on our work. Everything is costing more for less productivity."
– Commercial & Civil Construction Builder, QLD

"Finding qualified workers has become a significant challenge, impacting operational efficiency and growth...Above all, the overarching problem is the sheer scarcity of workers. With fierce competition for skilled labour and regional housing challenges deterring new talent, we often face operational strains due to a stretched team, leading to project delays and added pressure on existing staff. This multifaceted issue significantly hinders our ability to efficiently operate and expand."
– Builder, SA

As prefaced earlier in this report, the CIE has taken a conservative estimate of a one per cent shortage in the first year and its aggregated impact. Master Builders are currently awaiting work to be finalised by BuildSkills Australia to understand the full impact of the current shortage.

The CIE found that a worsening labour shortage of this nature would result in:

-73,000 fewer people in the building and construction industry by the end of the shortage's fifth year

-13,175 loss of new home building starts

-$7.72bn decrease in building and construction output

-$57.0bn reduction in GDP

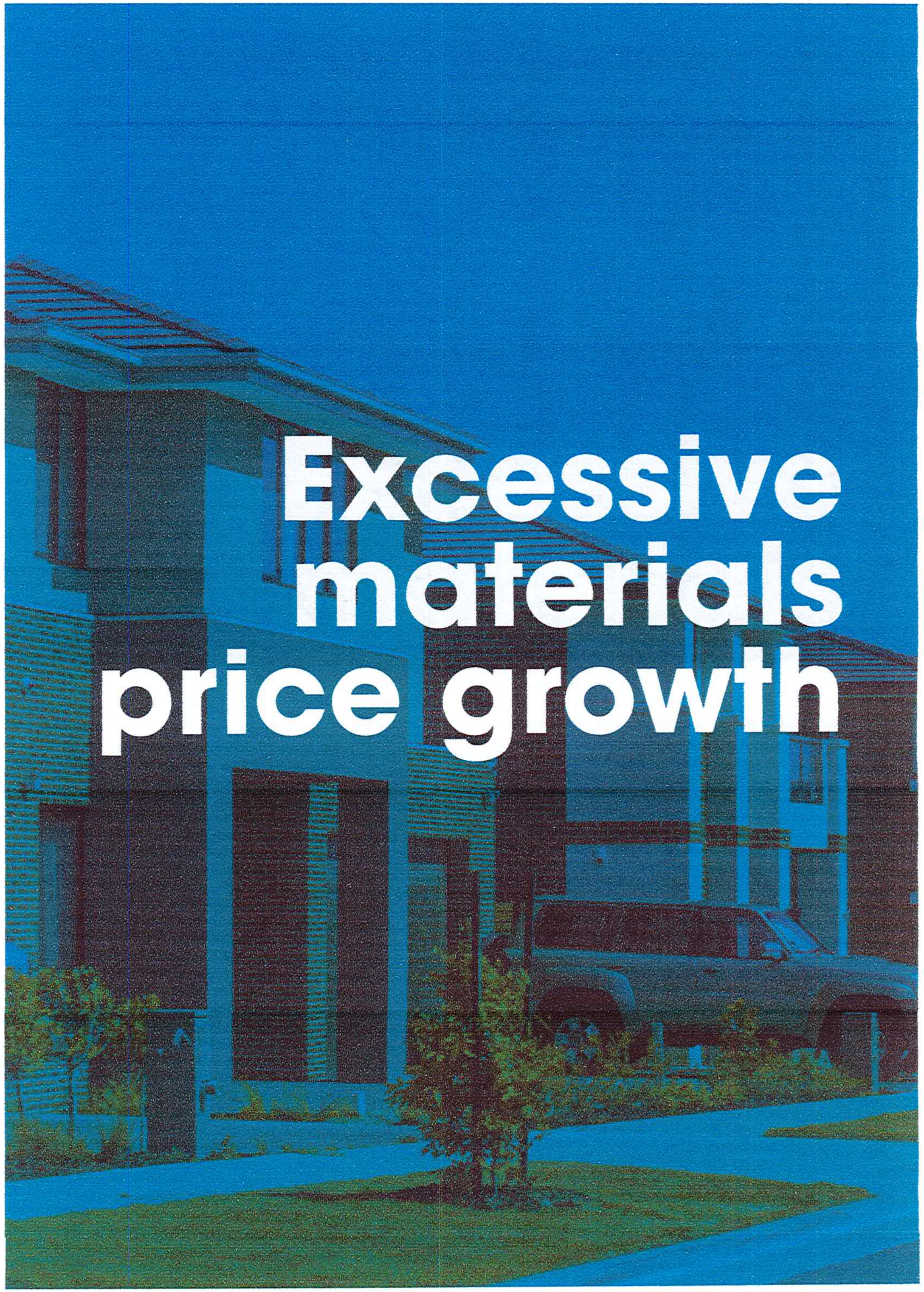
+3% average building and construction output being over 3 per cent more costly

Table 2: Estimated economic cost of prolonged construction labour shortage over five-year period

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	5-YEAR TOTAL	5-YEAR AVERAGE
Number of new home building starts	-671	-1,494	-2,600	-3,833	-4,578	**-13,176**	**-2,635**
Construction employment (number of people)	-13,530	-27,590	-42,200	-57,310	-72,940		**-42,714**
Effect on GDP (+/- $ millions)	-$3,843	-$7,665	-$11,523	-$15,332	-$18,658	**-$57,021**	**-$11,404**
Final cost of construction outputs (+/-%)	+0.6%	+1.2%	+1.8%	+2.4%	+3.0%		**+1.8%**
Effect on total construction output (+/- $ millions)	-$497	-$1,041	-$1,569	-$2,085	-$2,531	**-$7,723**	**-$1,545**

Source: Master Builders Australia analysis of CIE research

Excessive materials price growth



Materials input costs for house building have grown significantly in recent years. The unanticipated nature of these cost surges and fixed-price nature of building and construction industry contracts, meant that profit margins were reduced or erased for many businesses. The result has been increased financial stress, with many operators forced to curtail the scale of their business operations.

The rapid increase in the cost of materials over the last few years has added more pressure to profit margins for building and construction businesses. Expensive raw materials are not just a problem for this industry – they impact GDP, the cost of building for the consumer, and have an effect on the supply chain as a whole.

The cost of building material inputs started to outpace growth in 2015 and saw a significant jump in 2020. Between December 2020 and June 2023, input costs were 11.3 per cent, and output costs were 8.5 per cent per annum.

During the COVID-19 pandemic, building materials cost inflation was at its highest since the 1970s. Over the year to June 2022, the overall cost of building materials rose by 17.3 per cent. However, cost pressures were even more acute for products like steel (+39.1 per cent) and timber (+24.2 per cent).

Building materials inflation has since decelerated steadily, although price pressures remain significant for cement, ceramic and concrete products.

The CIE report explores what would happen if materials cost inflation across the economy remained high for the next five years.

Such a scenario would result over the next five years in:

-$252bn
reduction in GDP

-5,710
fewer new homes getting built

-4,410
lower average construction industry headcount over five years

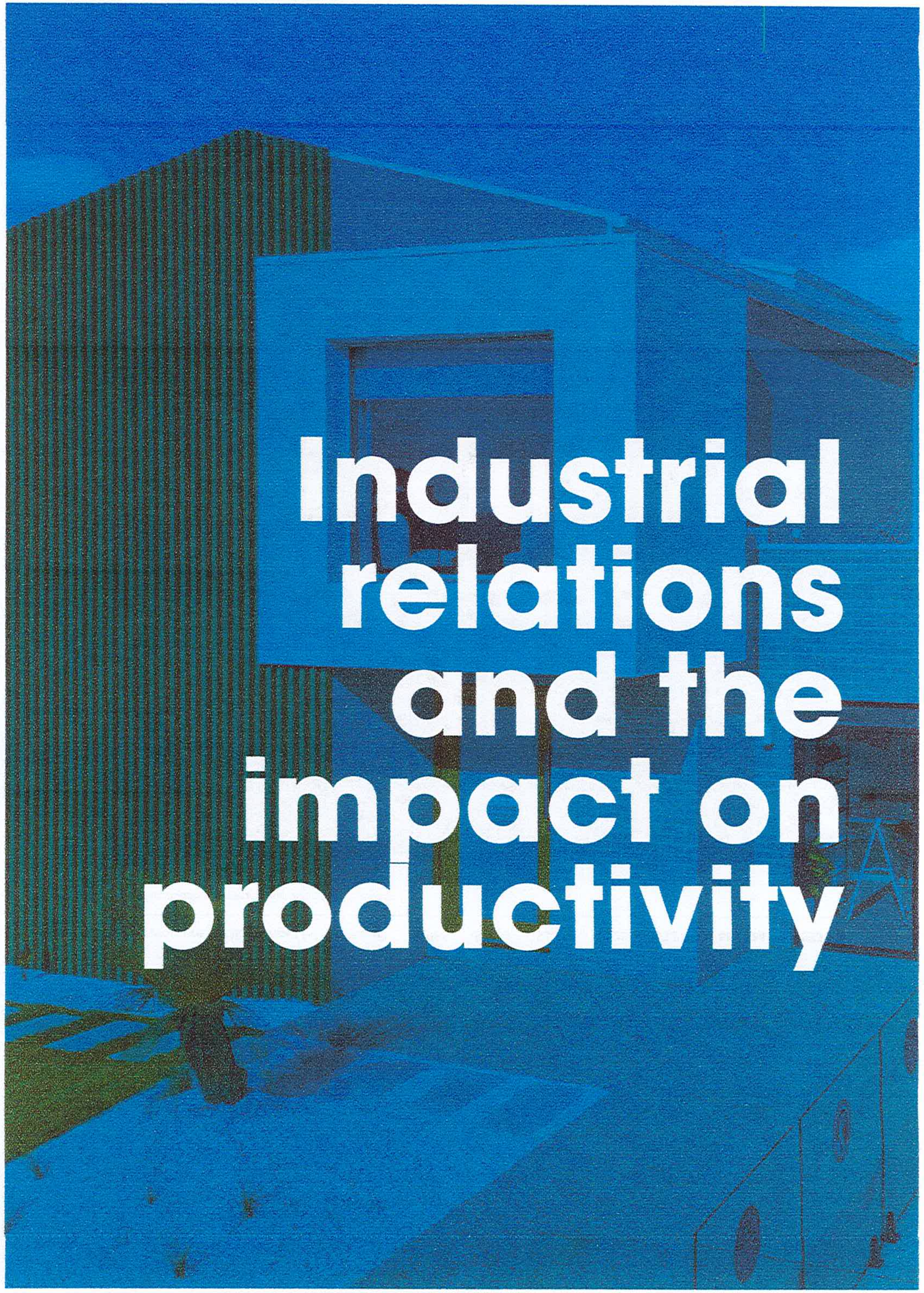
-$4.3bn
decrease in building and construction output

These results are detailed in the table below.

Table 3: Estimated economic cost of resurgent raw materials inflation over five-year period

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	5-YEAR TOTAL	5-YEAR AVERAGE
Number of new home building starts	-1,606	-1,441	-1,265	-942	-458	**-5,712**	**-1,142**
Construction employment (number of people)	-7,150	-5,840	-4,480	-3,050	-1,550		**-4,414**
Effect on GDP (+/- **$ millions)**	-$82,421	-$66,697	-$50,975	-$34,715	-$17,694	**-$252,502**	**-$50,500**
Final cost of construction outputs (+/-%)	+1.4%	+1.1%	+0.9%	+0.6%	+0.3%		**+0.3%**
Effect on total construction output (+/- **$ millions)**	-$1,368	-$1,158	-$883	-$596	-$297	**-$4,302**	**-$860**

Source: Master Builders Australia analysis of CIE research



Industrial relations and the impact on productivity

Over the last two and a half years, the Federal Government has legislated a set of complex industrial reforms known as the Secure Jobs Better Pay Bill and the two Closing Loopholes Bills. A number of changes were implemented that will impact the building and construction industry either directly or indirectly:

- changes to independent contracting;
- the abolition of the Australian Building and Construction Commission (ABCC);
- new union powers and delegate rights;
- introduction of multi-employer bargaining;
- changes impacting casual workers; and
- changes to labour hire workers and subcontractors.

These changes increase uncertainty, legal risk and costs for businesses and consumers.

It is not yet possible to know what the precise impact will be with some associated regulations yet to be made public. For example, an amendment passed in February 2024 provided an opt-out provision for independent contractors from the new definition of employment based on meeting a high-income threshold, which has not yet been quantified.

A new round of union pattern enterprise bargaining arrangements is also underway in several states and territories which will be incorporated in future iterations of this report.

However what is know is that these impactswhat we do know is these impacts undermine labour productivity in the construction industry and right across the economy even at a basic level of increased regulatory burden and adapting to these changes.

The CIE estimates how a reduction in labour productivity resulting from industrial relations legislation would change the performance of the economy. In doing so, it conservatively assumes that the labour productivity reduction would affect the building and construction industry by 0.25 per cent and the 10 sectors of the economy that supply it by two per cent.

This assumption was made by looking at the changes to casual workers, some changes affecting independent contractors and multi-employer bargaining.

The analysis condenses the effects into a series of illustrative productivity shocks for the broader impacts of potential outcomes. Over the next five years:

-15,339
result in fewer new homes built

-$15.9bn
worth of building and construction output

-$113.4bn
reduction in Australia's total GDP

-7,840
fewer jobs in the construction industry for a five-year period

These results are detailed in the table on the following page.

Table 4: Estimated economic cost of reduced labour productivity over five-year period

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	5-YEAR TOTAL	5-YEAR AVERAGE
Number of new home building starts	-2,436	-2,726	-3,183	-3,549	-3,445	**-15,339**	**-3,068**
Construction employment (number of people)	-7,550	-7,690	-7,840	-7,990	-8,130		**-7,840**
Effect on GDP (+/- $ millions)	-$21,781	-$22,108	-$22,605	-$23,170	-$23,699	**-$113,363**	**-$22,673**
Final cost of construction outputs (+/-%)	+0.1%	+0.1%	+0.1%	+0.1%	+0.1%		**+0.1%**
Effect on total construction output (+/- $ millions)	-$2,986	-$3,159	-$3,221	-$3,281	-$3,277	**-$15,924**	**-$3,185**

Source: Master Builders Australia analysis of CIE research

“These new laws will put too much pressure on small businesses.”
– Scaffolder, VIC

“As a builder who is preparing to enter the affordable housing market, I would strongly consider abandoning the whole idea. The threat of headaches to come just don't seem worth it.”
– Builder, WA

“If this legislation is padded, it will be the last nail in the coffin for an already struggling building industry. I have been working in the building industry for almost 50 years running a successful building business.”
– Builder, VIC

“More regulations and redtape will slow building and deter more subcontractors and young builders from entering the industry you will also encourage experience Builders to retire early like myself.”
– Builder, VIC

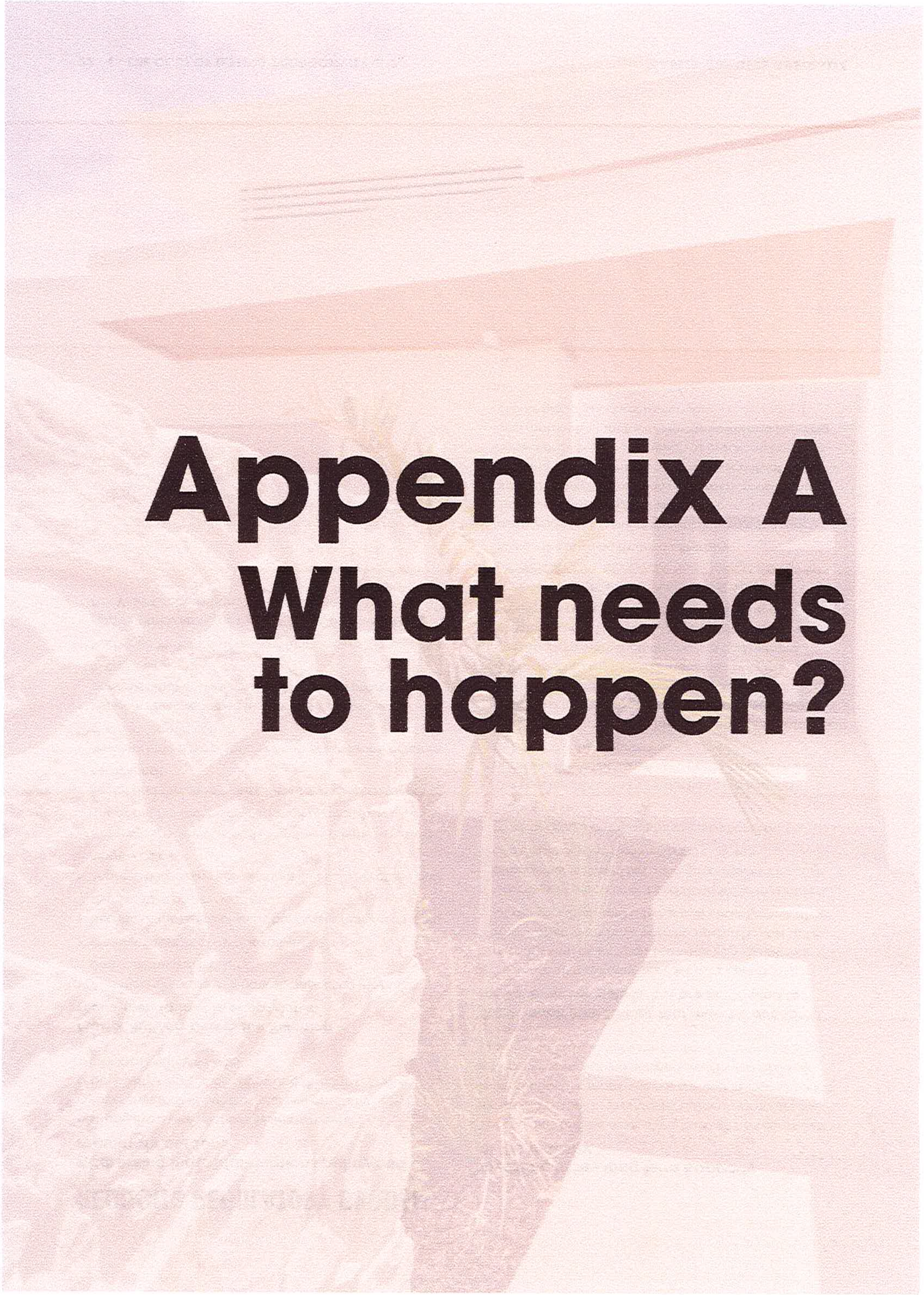
“The compliance, administration and risks involved in operating a construction company is taking more and more time, this is just another time/cost increase that takes us away from actually doing productive work, which will increase pricing to the end users, just another Labour Gov't industrial relations debacle.”
– Builder, VIC

“After more than 25 years in business, I will seriously be considering closing the doors and letting our almost 50 employees go if this goes through. Sometimes the medicine is worse than the ailment and this is most certainly the case with this proposed legislation.”
– Builder, QLD

“'Same job same pay' or anything of the like will destroy efficiency, productivity, and quality in the building industry.”
– Builder, NSW

“With all the construction companies going broke how can they put even more compliance issues on us? This takes man hours to meet their new standards which means paying people to do this.”
– Builder, NSW

“We have worked tirelessly to setup a business that ultimately is based upon subcontracting to several local businesses, in Tasmania. We are finally getting things off the ground and building something we can be proud of... It was all for nothing... This is displayed all over the news as something great that will help everyday Australians, and while I'm sure this may be the case in some households, it is certainly not the case for ours.”
– Construction Business, TAS



Appendix A
What needs to happen?

For the building and construction sector to prosper, and if in between the ambition to deliver more housing is to be met, addressing productivity constraints must be a priority for all levels of government and industry.

Improving productivity is the key to lowering the cost and time it takes to build homes, roads, railways, airports, office buildings, factories, shops and warehouses, tourism infrastructure, schools, hospitals and other community infrastructure.

The building and construction industry is made up overwhelmingly of small businesses. The time it takes for these businesses to recruit and train staff, implement regulatory and legislative requirements, manage a business and keep up with changing policy priorities is significant.

The Government must align its policies with the long-term objectives of the industry. The earlier these foundations are laid, the easier it will be to release housing crisis pressures in the long-term.

Master Builders has long advocated for additional measures to improve industry resilience through the following:

A stable economy and increased productivity:
Inflation must be controlled, which requires a focus on the supply side of the economy and a meaningful push to boost industry productivity which has been falling like many areas in the economy.

Establishing a fairer approach to risk:
There must be a better approach to the level of risk involved in building and construction, so that it is shared more fairly by everyone in the chain and not simply loaded onto the builder.

Enhanced enforcement of existing laws:
It is crucial to enforce existing laws more effectively, condemning those who break them and ensuring rogue operators face the full force of the law.

Building business resilience and education:
Businesses, particularly small enterprises, should be supported to develop resilience and operate sustainably and financially. Strengthening businesses' skills benefits both the industry and the wider community.

Addressing inefficient and unnecessary business costs:
Reducing burdensome regulations and ensuring laws operate effectively and consistently is essential to relieving businesses of cost and compliance pressures. State and territory security of payment laws, for instance, need to be streamlined. Master Builders has long supported greater uniformity and simplicity in security of payment regimes based on principles such as prompt payment rights, a rapid adjudication process, and a simple, informal, and flexible approach.

Master Builders has identified in its pre-budget submission for the May 2024 Federal Budget that this can be best achieved by reducing regulatory burden, winding back damaging industrial relations changes, investing in the long-term capacity of the building and construction industry and meeting workforce needs through targeted policies. More detail on these advocacy priorities follow.

REDUCING REGULATORY BURDEN

Addressing industrial relations policy and regulatory burdens

A strong industrial relations system underpins a competitive, modern and productive economy. Lifting productivity needs to be supported through a flexible workplace relations system.

Master Builders makes the following recommendations to support this:

- Abandon all changes negatively impacting the building and construction industry.
- Preserve freedom of association laws.
- Recognise the needs of small businesses and encourage them to take on new workers.
- Improve bargaining laws without ineffective redtape and lengthy delays.
- Reflect that employers and employees are the two most important parts of an employment relationship.
- Be fair and simple to reduce disputation and enhance compliance.
- Promote effective operation of competitive market forces and fair competition.
- Preserve and strengthen fundamental economic principles that underpin a free, stable and productive economy.
- Recognise the importance of an industry specific regulator.
- Appropriately resource the Fair Work Commission and Fair Work Ombudsman.

Investing in the long-term capacity of the industry

The majority of businesses in the building and construction industry are small in size. Master Builders advocates for more support for those within this sector in managing the increasing cost of doing business. As the cost of doing business inflates, so does the final cost to the consumer.

Some recommendations that must be accepted by Government include but are not limited to:

- Government must offer flexibility in its contractual dealings with building and construction companies whose operations have been hampered by cost spikes, labour shortages and other supply chain complications.
- Government procurement and standard form contracting arrangements should not penalise contractors for costs and delays beyond their reasonable control.
- Make access to all mandatory international and Australian standards free.
- The cost burden of the introduction of regulation – particularly relating to net zero transformation – should be offset through grants and subsidies.
- Government should allow for the National Reconstruction Fund to be fully leveraged to help expand Australia's onshore manufacturing and distribution capacity with respect to key building materials like timber, steel, modern manufacturing output and net zero transformation. This should be supported by a sector-based plan on delivering better local outcomes.
- Consideration should be given to widening the jurisdiction of the Modern Manufacturing Strategy to include the building materials industry.
- Identify and facilitate collaboration across the supply chain for industry productivity transformation in the key areas of: workplace relations, contracts, procurement including government procurement, security of payment, innovation in building materials or practices, boosting local materials manufacturing capability and fostering reliable global supply of materials.

ADDRESSING HOUSING SUPPLY NEEDS

Australia's struggles with housing affordability have persisted for decades because supply does not keep up with demand.

Demand for building activity is projected to be strong over the forecast horizon to 2028–29, while the biggest constraint is in supply. To meet housing demand and targets, it is imperative that Government policy interventions and spending are effective and do not constrain capacity to deliver.

Master Builders makes the following recommendations to support the delivery of more housing:

Taxes, charges and levies

- Taxes, charges and levies need to support and not hinder the delivery of housing.
- Current negative gearing and capital gains discount tax incentives should remain in place because they support supply of more rental stock in the housing market.
- No principal residence should be subject to any additional taxes such as capital gains tax.
- Foreign investment should be leveraged in such a way that expands the supply of new homes and infrastructure.
- The taxation system should be utilised to offset electrification costs and the transition to net zero.

Communities

- Government should deliver targeted measures that help expand the stock of new homes in regional areas, for key workers, migrants and vulnerable people in the community.
- Continue community, city and regional focused approaches to investment in built environment infrastructure through genuine partnerships across levels of government that collectively support growing communities.

Improve institutional investment in housing

- Implement recommendations made by the National Housing Supply and Affordability Council to help attract institutional investment.

Net Zero

- All levels of government support a national consistent approach to minimum energy efficiency rental requirements.
- Ensure regulatory settings for more liveable and energy efficient homes are workable, affordable and effective.
- In the regulatory change environment, government needs to shift its focus to renewable energy connection and capacity as well as improving performance of existing homes.
- The Federal Government's commitment to delivering NatHERS 7-star or state/territory equivalent social and afforable homes as part of its spending commitments on housing is the start of the process for improving dwellings for this type of housing asset.
- Governments should commit to achieving NatHERS 5-star in existing state/territory public and community housing dwellings.
- Increasing required NatHERS ratings also increases the importance of allotment orientation which requires land use planning requirements for developments that are designed to contribute to be assessed for energy efficiency outcomes.
- The taxation system should be utilised to offset electrification costs and the transition to net zero.

Government spending

- Spending allocations must comprehensively support Housing Australia in delivering its mandate.
- Banks and other lenders have a responsibility to keep mortgage finance accessible to those wishing to move from renting to owning their home. Similarly, competitive conditions in the provision of insurance, legal and other services used by homebuyers must be regulated in a way that produces optimal pricing and quality outcomes for consumers.
- Resources must be provided to allow the delivery of an effective National Housing and Homelessness Plan that deals with the challenges in delivering affordable housing options for all Australians.
- Expand the size of Housing Future Fund capital investment to $20 billion.
- All levels of government should commit to redirect 1 per cent of development taxes and charges to social and affordable housing.
- Government should roll out measures that help expand the stock of new homes in regional areas so that migrant labour inflows can be accommodated more readily.

Addressing labour shortages

Master Builders has long advocated for Government investment that will help solve workforce supply issues faced in the building and construction industry.

Some recommendations that must be accepted by Government include but are not limited to:

- Overhauling the apprenticeship system to encourage young people, and people not traditionally drawn to Vocational Education and Training to trade roles.
- Investing in apprenticeship salary subsidies for employers and financial incentives for apprentices and not to help them manage the increasing cost of living.
- Supporting campaigns that perpetuate the bias for school leavers towards higher education and away from vocational education and training.
- Adapting the Vocational Education and Training award to allow for more flexible patterns of work and part-time apprenticeships.
- Supporting programs like Women Building Australia that seek to support women in the building and construction industry and grow female participation.
- Funding programs that improve culture in the building and construction industry.
- Ensuring the tax system is set up to support small businesses, not hinder them.
- Removing unnecessary regulation, redtape and administrative burden that is layered on the small businesses that make up the building and construction industry.
- Including migrants skilled in building and construction roles and trades to enter Australia via fast-tracked pathways including but not limited to the Core Skills visa pathway in the Skills in Demand visa.
- Ensuring skilled migrants are easily able to work in their qualified trade in Australia – especially if their requirements for qualification are comparable or of better quality than their domestic counterpart.

Appendix B Government housing initiatives

In recent times, the Federal Government has launched a number of initiatives aimed at expanding the supply of new homes and tackling some of the obstacles in their way.

The National Housing Accord is one of the main pillars of this. It seeks to deliver 1.2 million new homes over a five-year period, a quantum of housing output that has never been achieved before. Under the Housing Accord, a $3 billion bonus fund is available to for states and territories that build more of their share of the one million new homes set out in the original Housing Accord announced in October 2022.

As well as the Housing Accord, the full set of current government housing supply initiatives includes:

- the $10 billion Housing Australia Future Fund (HAFF).
- A Social Housing Accelerator (SHA) worth $3 billion.
- The May 2023 Federal Budget provided $1.7 billion in funding to allow the National Housing & Homelessness Agreement (NHHA) to be extended for another year.
- Under the Housing Support Program, $500 million in competitive funding will be provided for state and local governments to kick-start housing supply through activation payments.
- The liability cap for Housing Australia was increased by $2 billion in the May 2023 Federal Budget.
- That Budget also allocated $10.5 million in Commonwealth Rent Assistance (CRA) over four years from 2023–24 to 2026–27.
- Reforms to planning, zoning, land release and other measures, including updating state, regional, and local strategic plans to reflect housing supply targets, promoting medium and high-density housing in well-located areas close to existing public transport connections, amenities and employment, and streamlining approval pathways.
- The Home Guarantee Scheme (HGS) provides three types of Guarantees for eligible home buyers to buy a home sooner with lower deposit (as little as 5 per cent for First Home Guarantee and Regional First Home Buyer Guarantee and 2 per for Family Home Guarantee). The Scheme has helped more than 86,000 people. A total of 50,000 places are available for 2023–24.
- Help to Buy Program (HTBP) will provide eligible homebuyers with an equity contribution of up to 40 per cent for new homes and 30 per cent for existing homes for 40,000 Australian households over four years.

Reform to planning, zoning, land supply and other measures is expected to boost the productivity of the building and construction industry.

For example, rezoning and increased land release will reduce land supply costs; planning reforms will simplify the regulation process and reduce delays. Ultimately, this can all be expected to reduce costs to the building and construction industry.

However, it is not clear at this point what the final effects of the specific reform measures will be. As a result, CIE assumes the reform will lead to a 0.5 percentage point increase in the building and construction sector's productivity, and gradually increase to a 1 percentage point in productivity improvement by 2027–28.

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