SUBMISSION BY THE

Housing Industry Association

to the

National Commission of Audit

on the

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HIA is the leading industry association in the Australian residential building sector, supporting the businesses and interests of over 43,000 builders, contractors, manufacturers, suppliers, building professionals and business partners.

HIA members include businesses of all sizes, ranging from individuals working as independent contractors and home based small businesses, to large publicly listed companies. 85% of all new home building work in Australia is performed by HIA members.

1 Executive Summary

HIA welcomes the opportunity to contribute a submission to the National Commission of Audit.

HIA notes that the Terms of Reference for the Commission of Audit (the Audit) establish three guiding principles, that:

- Government should have respect for taxpayers in the care with which it spends every dollar of revenue;
- Government should do for the people what they cannot do, or cannot do efficiently, for themselves, but no more; and
- Government should live within its means.

Consistent with these principles, there is significant scope to examine options that not only achieve equivalent or sufficient output with less resources, but to get more from the same resources – provided that the additional output adequately compensates for the retention of existing resource costs.

The Commonwealth faces a trajectory of increasing demand for government services, support and assistance from an ageing population that cannot provide an equivalent, compensatory level of productive output. Demand for health service resources will inevitably increase. Efficiency gains aside, the cost to provide for our ageing population will spiral.

Australia faces a housing undersupply problem. Each year around 20,000 fewer homes are built than required to meet the needs of our growing population. Declining housing affordability and loss of housing choice are two consequences of Australia's sustained housing undersupply. The ongoing deterioration in housing conditions manifests more critically in social housing.

The Commonwealth's commitment to supporting housing for the disadvantaged and for low income households through State/Territory housing funds and grants is substantial. Yet comparatively little feedback exists to inform the Commonwealth on how efficiently and effectively (or otherwise) the taxpayers' money is consumed. The Commonwealth has limited capacity to reconcile the effectiveness of Commonwealth housing payments if the relative output requisites are vague and the reporting responses are lax.

Much more output can be achieved from an equivalent quota of Commonwealth housing resourcing if State/Territory housing payments are tied to predetermined performance targets both in terms of public housing and, importantly, new private housing outcomes.

Housing provides shelter for individuals and for their families. Housing provides a base from which individuals engage with their neighbours, participate within their community and contribute to our national productive output. Home ownership provides financial security during a person's working life and in retirement, and provides many other personal health benefits for individuals and their families. Home ownership will play an ever increasing role in minimizing the escalation of health costs as our population demographic ages.

The Commonwealth's role in enhancing opportunities for Australians to achieve the financial security of owning their home is critical. The short and medium term return dividend for the Commonwealth in achieving this goal is significant.

Residential construction is at a low base, yet new home building and renovations activity alone contributes around 4.7 per cent of Australia's GDP. In a stronger economic climate, the industry can contribute over 6.5 per cent of GDP. An increase of 1.8 percentage points of GDP from residential construction would equate to an additional $2 billion in Commonwealth revenue, $10 billion in State Government revenue and $4.5 billion in local government revenue on average per annum.

"*Improving the overall efficiency and effectiveness with which government services and policy advice are delivered*" should be measured in terms of the value of that advice as much as the process by which that advice is advanced.

The Commission of Audit provides an opportunity for the Commonwealth to expand its leadership role in national housing supply policy, new housing delivery and enhancing the industry's capacity to reverse our housing undersupply, and in doing so, access substantial revenue dividends.

2 Introduction

HIA is the voice of the residential building sector of the Australian economy, and represents some 40,000 members throughout Australia. The residential building industry includes both cottage construction and multi-unit apartment buildings. HIA's membership includes builders, trade contractors, design professionals, kitchen and bathroom specialists, manufacturers and suppliers.

The residential building industry, in particular, is one of Australia's most dynamic, innovative and highly efficient service industries and is also a key driver of the Australian economy.

Of the many challenges facing the Australian economy, two of the most prominent are:

- The ageing and growing population;
- The escalating pressures on Australia's health system.

The ageing of Australia's population has major implications for the composition and use of the nations' (growing) housing stock. Equally important are the effects of housing on the economic and social wellbeing of people over their entire life span, but particularly in old age.

The ageing of Australia's population will reduce the number of working age people supporting our welfare commitments, including those in retirement. Consequently, the rate of improvement in average living standards is projected to fall. This situation places enormous pressure on Australia's capacity to fund the spending pressures generated by this ageing population. The biggest (but not the only big) funding pressure will be on the health system.

There is an inextricable link between Australia's changing demographic profile and the provision of housing supply and services. To provide a limited number of examples:-

- An ageing population will require greater success in addressing presently inadequate private and public housing supply.
- A projected increase in lone person households will affect housing design and type.
- An increase in the proportion of the population with a disability will have implications for renovations activity.
- Changing demographics signal the prospect of a reduction in dwelling sizes and point to an increase in low density attached dwellings.
- An ageing population will add pressure on housing location and proximity to existing and new infrastructure and services.
- An ageing population will add pressure to rental markets.

As the demographic profile of Australia changes due to both the continued need for high levels of overseas migration and the ageing of the population, the importance of adequate, efficient, and therefore 'value for money' provision of housing supply will grow.

Historically, housing has received less policy attention with regard to an ageing population than the areas of income, health care, and labour force participation because these other areas are where large increases in expenditure are projected. For example, in the Intergenerational Report (IGR) there are implicit references to housing but the direct policy discussion and framework is less evident.

While housing programs to support low income and disadvantaged households will inevitably grow, the rate of the growth can be arrested.

There are considerable savings and efficiencies available to government from a more targeted and transparent funding model for public and social housing provision, and a more efficient and less onerous taxation and regulatory framework for private housing supply.

A related factor is the need for closer examination of the links between housing and wider ageing policy issues, such as the role that Australia's (growing) housing supply can play in alleviating pressure on the nation's health budget outlays through the increased prospect of ageing in place.

3 Efficiency Gains

3.1 Commonwealth Investment in Housing Programs

Commonwealth allocations for social/public housing programs to support low income and welfare housing exceed $4.5 billion every year. Investment in social/public housing through CRA payments alone will exceed $3.9 billion in 2013/14. That commitment is expected to grow exponentially – to cover rising land construction and building costs, additional costs to accommodate people in the homes during their aged years, greater demand from an ageing population (many) with unfunded retirement expectations and provision of infrastructure and services in close proximity to their homes.

Reducing current and future demand for Commonwealth housing assistance can be achieved through returning Australia's home ownership rate to it long term average.

However, entry to home ownership has numerous barriers. Housing affordability, access to finance, suitable housing type, size and location, all impede households from securing a home of their own. Many of these obstacles fall within the responsibilities of the state/territory and local governments.

It is an unfortunate fact that the Commonwealth receives little feedback from funding recipients concerning the outcomes and value of taxpayer's investment in social/public housing programs. The efficiencies and effectiveness of these housing programs lack transparency and scrutiny.

Much can be gained by tying Commonwealth funding for public/social housing programs to related performance targets, particularly targets with both strategic and practical housing delivery benchmarks. Recognising the importance of several housing programs to support disadvantaged households, the performance targets should be proportionate, pro-rata and outcomes specific.

Importantly, the funding benchmarks should target new housing supply and establish agreed outcomes for new house numbers, type, size, location, and facilities for households with particular needs, including provision for ageing in place.

Future social/public housing demands of the state and territories can be accommodated more efficiently and effectively through state/territory expressions of interest as to the nature of those needs, their respective (commitment) to delivery mechanisms and timelines, and their performance in meeting agreed targets.

3.2 Productivity

Regulatory reform of new home affordability will alleviate cost of living pressures, diminish the prospect of bouts of damaging inflation of existing property prices, return home ownership rates to the longer term average and relieve pressure on the spiraling cost of Commonwealth housing programs.

It will also increase economic output, improve national productivity and increase Commonwealth revenue.

For every billion dollars of value-adding activity in home building, there is $5 billion dollars of economic activity generated throughout the economy, particularly in manufacturing and retail.

Independent work by the Centre for International Economics reveals that just a 1 per cent productivity improvement in home building through avenues such as the removal of workplace restrictions, reductions in planning approval times and the reform of environmental controls, building regulation and apprenticeship training, can generate a step change in overall economic activity of more than $1 billion a year; larger productivity improvements therefore have the capacity to generate multi-billion dollar annual economic gains for Australia. Further, regulatory reform in home building provides long-term benefits for other sectors, including manufacturing and exports.

For example, by removing ATO contractor payment report requirements, the Commonwealth would save an estimated $400 million in industry costs, boast GDP by $800 million and generate a flow on in Government revenue of more than $200 million.

Fully funding the publication of the National Construction Code and making it freely available online is a further (modest) example of efficiency gains through Commonwealth investment. Industry would save in excess of $40 million, GDP would lift by around $40 million, and Government revenue would climb by a factor of four time the investment cost.

Many more examples of productivity improvements will be articulated to the Government through the current round of Commonwealth reviews and Inquiries. It is important however to acknowledge that net national benefit (including Commonwealth revenue) is often better achieved through strategic and effective investment in productive programs/funding that support and motivate industry, rather than withdrawing resources or imposing greater tax and other regulatory impediments.

3.3 Leadership

Australia needs to lift its home ownership rate by 15 per cent to return to its historically higher levels relative to other developed nations. The national benefits are evident.

However, new housing supply is hampered by (among other things) state/territory planning delays, unnecessary regulatory interference, inadequate infrastructure delivery and maintenance, and overwhelming taxation. The barriers grow more ominous every year.

Too often governments at all levels blame shift. Housing supply and housing affordability and public/social housing adequacy suffer as a consequence.

Housing supply is a responsibility shared by all levels of government, yet there is little evidence of leadership or effort to redress a decade of declining stock (relative to population growth).

The Commonwealth needs to invest in leading the housing supply agenda. Through innovative infrastructure funding models, underwriting infrastructure programs, placing housing supply on the objects of state/territory legislation (rather than opposing housing ‘development’ at every stage), and setting short and medium term targets for both public/social and private housing through agreements with the state/territories, the Commonwealth can elevate home ownership rates, relieve rental costs, increase retirement security, lift GDP and government revenue, and reduce the cost of Commonwealth housing assistance programs.

3.4 Environment

Environment Protection and Biodiversity Conservation Act

The Federal Government has a responsibility under the Environment Protection and Biodiversity Conservation Act (EPBC Act) to manage approvals (or refusals) for projects which affect nationally listed threatened and endangered species.

The legislation overlaps equivalent state/territory legislation concerning threatened and endangered species, and in some cases the same species are identified both levels of legislation, requiring two separate (duplicate) approvals.

This duplication and mismatch of legislative authority causes unnecessary delay and additional cost on housing supply, primarily for land and multi-residential developments. Further, the requirements can affect a legally zoned and titled, single residential block of land and hence a single home owner.

The overlap between EPBC Act and state/territory responsibilities should be removed and the operational approval aspects of the Act be deferred to the states/territories through relevant agreements.

Climate change research and policy

The Federal Government has committed significant resources and funding into climate change and adaptation research over the past six years with little 'end user' information or reliable and accessible data outcomes.

Any continuation of these research projects or attempts to reconcile the relevance of outcomes from previous research should be considered separately against criteria at least identical to the terms of reference for this Commission of Audit.

While the Commonwealth may have a role to play in establishing national-based information and national benchmarks, it should avoid any duplication or trade-off in responsibilities for policy development on environmental matters, which are the responsibility of the state/territories.

Further funding for the investigation of climate change and adaption should only proceed where there is a direct link to outcomes that fall within the scope of the Commonwealth's authority/responsibility and where project outcomes are well defined, measurable and achievable – prior to research/project commencement.

Building regulations

The National Construction Code (NCC) is developed and published through an agreement between the Commonwealth and State/Territory Governments, and is adopted by all jurisdictions through state/territory building legislation.

The development of the NCC has had a proven tangible benefit to the Australian economy. However the benefits are being undermined by a process that allows state/territory variations, and more detrimentally, local government variations that set conflicting and often excessive standards. These variations, usually under the guise of environmental and planning intentions, are rarely considered from a broader national perspective, and less often are they contemplated from a cost-benefit or RIS perspective. They are inconsistent with the national code, and in many instances, they are modified to varying extents between states, territories and local governments.

To lock in the value for money obtained from the National Construction Code, the Commonwealth should examine options to restrict variations to our national code for construction.

3.5 Pitfalls of Under-Investment

The residential construction industry contributes more than $100 billion in activity each year.

Due to the considerable flow-through impact that residential construction has to the wider domestic economy, primarily but not solely through the manufacturing and retail sectors, the health of the industry affects tens of thousands of Australian businesses and in excess of 1 million workers.

The new home construction sector is excessively taxed and already operating in a business environment of distinct disadvantage relative to the existing residential property market, and most other sectors of the Australian economy. Independent research finds that on virtually any basis of measurement, the taxation burden borne by Australia's new home building sector is disproportionately large. Among Australia's largest industrial sectors (those 27 sectors add more than $10 billion to the Australian economy), the new home sector is the second most heavily taxed in relative terms.

Against this backdrop, any taxation changes that are detrimental to residential building activity and to businesses engaged in the sector will not represent a net positive for either the Australian economy or Commonwealth revenue.

3.6 Skills and Workforce Capacity

Equally, any reduction in the Commonwealth's investment to support workforce capacity in the sector would be detrimental to the health of the industry, the Australian economy and Commonwealth revenue.

While workforce capacity is a significant challenge for all industry sectors, the ageing profile of construction industry workers is particularly worrying. Meanwhile, the demand for new skills is increasing.

Investment in upskilling the existing workforce and securing well trained new tradespeople through their successful completion of an apprenticeship/traineeship is critical for new housing supply if it is to meet the demands (in terms of quantum and innovation) of our growing (and ageing) population.

Apprenticeships:

The existing apprenticeship system is under extreme pressure with an alarming decrease in new apprenticeships across most industries in 2013.

The building industry is one of the worst affected, both in shorter and longer terms. The longer term consequences of under-investment in youth skills development (trade apprenticeships) are especially concerning.

A typical four year indenture period for most building trades ordinarily impacts the rate of incoming skills' capacity. The situation is made worst by the declining rate of apprentice commencements, due in part to the small (micro) business nature of trade contractors in the residential building industry and the depressed level on national new home building activity over recent years. It has been and continues to be a very difficult environment to take on apprentices.

The recent apprentice wages decision by Fair Work Commission has added significant costs for independent contractors to train an apprentice, further jeopardising the industry's future workforce capacity.

The Commonwealth cannot afford to cut back its investment in apprentice support and incentives programs. While spending constrain may be useful in other areas of expenditure, Commonwealth apprenticeship support in the residential building industry in the form of greater commencement, retention and completion incentives for employers is an imperative.

There has been a shift in emphasis to the *Australian Apprenticeship Mentoring program (AAMP)* to improve retention rates. Whilst HIA provides a major successful apprentice mentoring service, and supports the continuation of the program beyond the scheduled completion date of 2015, this should not be funded at the expense of traditional financial incentives for employers to take on and retain apprentices.

Industry Group Schemes (IGSs) have a proven track record of higher apprentice retention rates, and successful outcomes, yet with declining funding support, the percentage of apprentices indentured under IGSs is declining. Government would achieve a greater return on investment by financially supporting IGSs, for both employment outcomes and mentoring. IGSs are in effect industry co-contribution models and as such are best placed to meet industry need, and achieve better apprentice and employer matching, leading to higher retention.

New apprentice models are being investigated through the *Alternative Apprenticeship Pathways Program*, which is currently on hold. This program must be retained and funded, if Australia is to find new innovative and cost effective ways for future apprenticeships. However the *Accelerated Apprentices Program,* has been used as a means by some to promote competency based progression to achieve wage escalation agendas. This program could be replaced by the *Alternative Apprenticeship Pathways Program*.

Training:

The Commonwealth funds a number of training programs under the banner of *Skills Connect*. In broad terms, the up-skilling of the existing workforce is a worthy objective and will lead to greater productivity and returns for the economy.

However, improvements could be made to the funding models to provide better outcomes at reduced cost to Government. The first area of saving could be in reducing funding to non-critical skills industries, such as fitness, beauty, etc.

All levels of building and construction industry training should be retained as a high funding priority. Programs such the *National Workforce Development Fund* (NWDF) have delivered significant outcomes and quality results, but have only focussed on the existing workforce and not assisted new entrants.

The employer contribution component has also been increased to the detriment of small business.

The predecessor to this program, the *Productivity Placement program (PPP),* was more successful and should be re-introduced. These programs have produced significant employment results for the building industry in recent years and should be extended and enhanced, not reduced.

Funding for apprenticeship training is typically through User Choice funding, which is administered by the states/territories. With rising costs to training, including greater compliance costs to meet ASQA requirements, there are moves to increase the apprentice user pays component – a further disincentive for young people to take on an apprenticeship. The User Choice funding needs to be increased to offset the additional costs imposed by state/territory jurisdictions. Alternatively, the Commonwealth needs to address the rising costs through intervention with the states/territories.

Funding for training capital works, under the *Education Investment fund (EIF)* and *Indigenous Industry Skills Centre (IISC)* fund is essential for a healthy competitive educational environment. However these funds have been sporadically administered, favour major government institutions and lack focus on cost effective smaller industry-based registered training organisations (RTO). Outcomes from these programs can be improved through a more coordinated and cooperative approach with industries and greater smaller business engagement.