



**MASTER BUILDERS
AUSTRALIA**

**MASTER BUILDERS AUSTRALIA
SUBMISSION
TO
SENATE SELECT COMMITTEE ON
HOUSING AFFORDABILITY IN AUSTRALIA
March 2008**

Master Builders Australia Inc ABN 70 134 221 001

building australia



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INTRODUCTION

Master Builders Australia is the nation's peak building and construction industry association, which was federated in 1890. Master Builder Australia's members are the Master Builder state and territory Associations. Over the past 117 years the movement has grown to over 31,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association which represents all three sectors, residential, commercial and engineering construction.

In February, Master Builders was invited by the Australian Senate Select Committee on Housing Affordability to make a submission detailing the organisation's views on this important issue. The Senate has asked the Committee to inquire into and report on the barriers to home ownership in Australia, including:

- a the taxes and levies imposed by state and territory governments;
- b the rate of release of new land by state and territory governments;
- c proposed assistance for first home owners by state, territory and the Commonwealth governments and their effectiveness in the absence of increased supply;
- d the role of all levels of government in facilitating affordable home ownership;
- e the effect on the market of government intervention in the housing sector including planning and industrial relations laws;
- f the role of financial institutions in home lending; and
- g the contribution of home ownership to retirement incomes.

This Submission sets out Master Builders' assessment of the housing affordability challenge facing Australia. The Submission provides a ten year projection of the value and number of residential dwellings that need to be built to meet Australia's social and economic needs. Residential dwelling construction is major area of activity in the economy and has a major influence over economic and social outcomes. The Submission will as far as practicable also address the terms of reference of the Senate inquiry.

EXECUTIVE SUMMARY

The national challenge to housing affordability is complex and multidimensional and made more complicated by the federal system of government. This should not provide any excuse for the Government, or for that matter state, territory and local government to do nothing, or next to nothing, and to shift the blame and responsibility to others.

There is an urgent need to develop a unified national strategy to combat the crisis in housing affordability. Australia has suffered for over a decade from policy neglect at all levels of government.

Whether you look at home ownership, or the rental market, both private and public or even the new form of social and community housing, the only credible conclusion you can draw is the lack of supply. Therefore, the policy response has to focus on supply first. Stimulating demand as a primary policy response can only lead to that assistance being capitalised into higher house prices unless there is a concomitant increase in supply.

The 'housing affordability problem' is not just for first-home buyers - it impacts on those in the rental market, private and public, including what is now called social or community housing. An estimated 186,000 applicants were on public housing waiting lists last year yet only a fraction of them were being allocated accommodation.

Master Builders welcomes Government initiatives for dealing with housing affordability, including: releasing Commonwealth land, setting up a special savings fund for first home buyers, subsidies for rental investment properties and infrastructure assistance to local governments.

The key will be implementing promised improvements in cooperation and collaboration between the Commonwealth Government and the states. The housing issues are real and there are many pieces of the puzzle that form the solution. A problem like this cuts across local, state and Commonwealth responsibilities. It needs a national approach and hence the importance of enhanced cooperative arrangements between the Commonwealth and state governments through the COAG process.

Master Builders calls on all governments to embrace a package of reforms including improved land release and planning approval processes, a review of developer charges with increased funding from general revenue sources and the replacement of stamp duties with less distorting taxes plus less regulation.

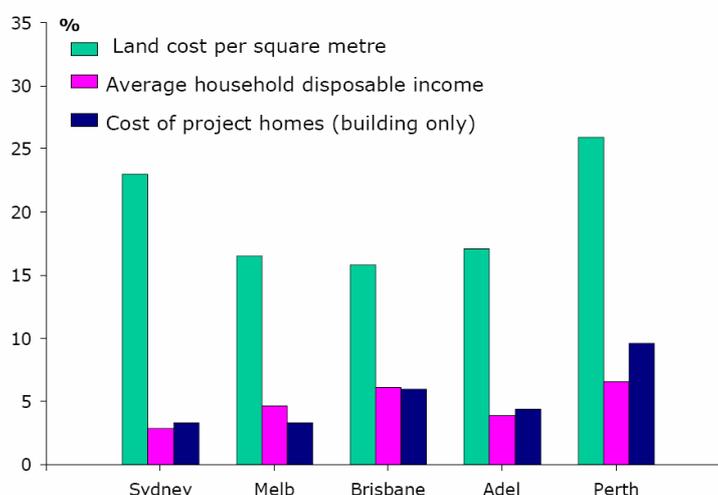
Given the inter relationships between demand and supply it is critical that governments work to address the core structural problem affecting housing affordability, namely supply-side constraints. Unless the supply of land is improved relative to demand, the effectiveness of lowering stamp duty or increasing grants to first home buyers will be reduced, potentially translating into higher prices for owners and tenants.

Above all there needs to be continued fiscal discipline to maintain downward pressure on interest rates.

1 HOME OWNERSHIP AND HOUSING AFFORDABILITY

- 1.1 Home ownership is one of the cornerstones of Australia's social fabric and it is important that affordable housing is within reach of all Australians. This task is even more urgent now given recent increases in house prices and mortgage repayments which have made it more difficult for new purchasers to enter the market.
- 1.2 The backdrop to the current situation is a long phase of economic prosperity and consumer confidence that has encouraged people to take on more debt. Average weekly earnings have increased significantly in real terms and there has been an enormous increase in the capacity for people to take on more debt, not only through higher incomes but as a result of lower inflation and therefore interest rates. As a result, house prices have risen substantially and housing affordability has worsened, mostly due to higher house prices. It is important to note that building costs have been contained. It is the cost of land that has fuelled rising house prices.

Average annual % change 5 years to June 2006



Source: ABS, economics@ANZ

- 1.3 Under-building is opening a widening gap from what is required to house the population. Lack of supply of housing stock has seen a tightening in the rental vacancy rate with higher rents the result. The shortage of housing is already estimated to be about a third of one year's production and is growing by close to 30,000 dwellings per annum. This is a critical problem because there is an

enormous building task to undertake over the next 10 years on behalf of the Australian community.

- 1.4 To illustrate the challenge ahead for the building and construction industry, Master Builders has produced 10 year estimates showing that the cumulative construction task over the next decade will involve \$1.7 trillion of work done in chain volume (or constant price) terms.
- 1.5 For the residential building sector this will involve an estimated \$820 billion of investment in housing to meet the requirements of the Australian community. The task includes the building of around 1,750,000 new dwellings and work done on renovations, alterations and additions.

1.6 Table: Housing the Nation – The task over the next 10 years

	New Dwellings No.	Houses No.	Other Dwellings no.	Total Housing Investment*
New South Wales	485,000	250,000	235,000	243
Victoria	430,000	300,000	130,000	200
Queensland	445,000	300,000	145,000	205
South Australia	98,000	73,000	25,000	43
Western Australia	226,000	175,000	51,000	100
Tasmania	25,000	20,000	5,000	11
Northern Territory	15,000	8,000	7,000	7
Australian Capital Territory	26,000	14,000	12,000	11
Australia	1,750,000	1,140,000	610,000	\$820

Source: Master Builders Australia

*\$billion, constant prices, includes new dwellings plus alterations and additions.

- 1.7 Master Builders welcomes the Government's range of initiatives for dealing with housing affordability including releasing Commonwealth land, setting up a special savings fund for first home buyers, subsidies for rental investment properties and infrastructure assistance to local governments. **However the range of initiatives by themselves will not provide a long term sustainable solution to providing an adequate supply of affordable housing.**
- 1.8 One key element will be implementing promised improvements in cooperation and collaboration between the Commonwealth Government and the states. The housing issues are real and there are many pieces of the puzzle that form the solution. A problem like this cuts across local, state and Commonwealth responsibilities. **It needs a national approach.**

1.9 The decline in housing affordability is a major concern for home buyers and builders alike. Affordable housing is pivotal to the viability of the residential building industry and a dominant influence on the housing market. Housing costs must be lowered to allow more Australians to enter the housing market and eventually own their own home. Key factors leading to worsening housing affordability over the last decade are:

- Shortage of available land and restrictive land release strategies.
- Council development levies and taxes and charges imposed by state and territory governments.
- Infrastructure costs being loaded on to developers in turn passed on to home buyers.
- Specifications to supply basic infrastructure in subdivisions are often excessive.
- Documentation that forms part of an application for council planning permits to demonstrate compliance with planning schemes are extremely expensive to prepare.
- Regulatory creep is pushing codes and standards higher and impacting on building costs; examples of this are the mandatory five star energy provisions, OH&S proposals for third pipe plumbing systems and accessible housing.
- Compliance costs of uncoordinated local and state government environmental regulations.

2 HOUSING POLICY IMPERATIVES

2.1 Master Builders' analyses conclude that supply-side constraints are at the core of the Australia's **current** housing affordability problems and unless the supply-side improved relative to demand, the effectiveness of demand-side measures will be limited if not negated.

2.2 Master Builders advocates a package of reforms to address the housing affordability challenge including improved land release and planning approval processes, a review of developer charges with increased funding from general

revenue sources and the replacement of stamp duties with less distorting taxes plus less regulation.

2.3 Given the inter relationships between demand and supply it is critical that government policies address the core structural problem affecting housing affordability, namely supply-side constraints and namely residential land. Unless the supply of land is improved relative to demand the effectiveness of lowering stamp duty or increasing grants to first home buyers will be reduced, potentially translating into higher prices for owners and tenants.

2.4 Master Builders analyses shows:

- The core of the problem is structural, to do with costs and inefficiencies related to supply.
- The sustainable solution is to enable greater supply, both horizontal and vertical i.e. greenfield and urban consolidation, including increased supply of private and public rental stock.
- The planning and development process should be reformed to reduce costs and delays.
- Inefficient infrastructure charges and levies should be urgently reviewed because they threaten intergenerational equity.
- Sound economic policy needs to be maintained in order to keep downward pressure on inflation and interest rates.
- Housing affordability measures should be limited to first home buyers and low income renters, both private and public.

2.5 The focus of the Senate Inquiry is on addressing the immediate challenges of housing affordability. **However the Senate inquiry must not lose sight of the longer term housing policy fundamentals.**

2.6 Home ownership is an integral part of Australia's social fabric. It has contributed much to the social harmony and stability which has brought many social and economic benefits. The role of home ownership as a social good must therefore be properly recognised by governments.

- 2.7 Shelter is a basic human need and is increasingly recognised as a fundamental right. Affordable, quality housing remains essential to Australia's quality of life and it is important to pursue policies which will ensure the effective delivery of such housing to all Australians.
- 2.8 Decent, affordable housing for all Australians has been a goal of all Commonwealth Governments since Federation. The importance of striving towards this goal cannot be underestimated. As well as providing shelter, secure housing helps people to cope with economic, social and health issues.
- 2.9 Home ownership is an integral part of Australia's social and economic fabric. It has contributed much to the social harmony and stability which has fostered improved socio-economic outcomes. These benefits include greater incentives for civic involvement, security of tenure that increases community participation and minimises disruption to social networks, reduced incidences of socially disruptive behaviour and reduced welfare dependency. This is why the role of home ownership as a public good has always been recognised by all governments.
- 2.10 Widespread falls in home ownership will ultimately result in a decline in the quality of life of the Australian community.
- 2.11 Master Builders' housing policy therefore advocates:

- **Protection of the tax-exempt status of the family home.**

There is no empirical evidence to support the proposition that the tax exempt status of home ownership undermines the equity or efficiency of the tax system. Master Builders therefore strongly advocates the continuation of the tax exempt status of the family home.

- **Retention of current negative gearing provisions.**

There are no specific aspects of the current tax arrangements that provide a bias towards investment in property relative to other investments or other asset classes. Indeed, the ability to offset losses from one activity against income or profits from another is part of the normal operation of the Australian tax system.

Existing tax arrangements for investors do not explicitly discriminate in favour of investment in housing. It is also not correct to assert, as some have done, that

rental housing investment is unique in the manner and extent to which it can be geared.

The current tax arrangements remain broadly neutral between private investment by individuals in rental housing, equities, and in commercial property. In each case, investors can benefit either directly or indirectly from negative gearing, depreciation and capital works deductions, and the CGT discount.

Master Builders strongly supports retention of the current negative gearing provisions. In the main, most investors are 'mums and dads' who provide the bulk of investor/rental housing and are therefore the major source of affordable housing in Australia. Any changes can only create a housing affordability crisis as was the case when negative gearing was disallowed in the late 1980s.

- **Maintenance of the First Home Owners Grant Scheme.**

As noted in an earlier section, the core structural problem affecting housing affordability relates to supply-side constraints so unless the supply of land is improved relative to demand, the effectiveness of demand-side measures will be limited or negated. Notwithstanding this, Master Builders submits there is a strong case to raise and then index the compensation payments under the current First Home Owners Grant Scheme (FHOG).

The original and underlying policy principle of the FHOG was to ensure that first home buyers were not financially disadvantaged by the increase in the cost of new homes as a result of the introduction of the GST. The then Government, in releasing 'Tax Reform – Not a New Tax, a New Tax System' (ANTS) in August 1998, recognised the importance of the housing sector in the Australian economy and, in particular, the impact that the GST would have on first home buyers. The explicit policy objective was to compensate first time buyers of new homes.

The GST compensation policy was premised on an assumption that the GST would raise the prices of new homes by about 4.7% and the fact that existing home owners would benefit from a rise in the value of their homes.

In the period since the introduction of the GST on 1 July 2000, a number of events have occurred that have diminished the value of the \$7,000

compensation package. Master Builders submits there is a strong case to index the compensation payment under the current FHOG Scheme to maintain the intended policy objectives stated in ANTS and to bring the grant into line with other areas of spending which are indexed annually to maintain their real value.

Failure to index the grant would invalidate the initial policy objectives of compensating for the impact of the GST on first time new home buyers so that intergenerational equity is maintained.

Indexing of the FHOG is also self-funding and should involve no net cost to the Budget. Essentially, as the prices of houses increase and, assuming no change in profit margins or labour input ratios, the amount of GST raised in the process of building the house should also increase by the same amount. The indexing of the Grant is therefore funded by higher GST receipts.

Master Builders also advocates that a higher grant be applied to those purchasing new homes rather than to those purchasing established homes.

It is the purchase of new homes which directly adds to activity in the housing area and which also brings advantages in terms of the significant flow-on effects to upstream and downstream industries.

Master Builders advocates that the Government increase the grant for new houses to \$15,000 and that both this and the existing grant for established houses be indexed to the CPI.

- **Reduction in the burden, and simplification of, business compliance.**

Master Builders reminds all governments that the home buyer is the ultimate victim of increased taxation and other government imposed regulatory burdens. It is critical that the three levels of government cooperate and to coordinate their policies affecting residential development. Here there is an important role for COAG with active participation of industry to address problems created by uncoordinated, ad hoc decision making among the three levels of government and which negatively impact on housing affordability.

2.12 Master Builders' policies relating to public and social housing are driven by a number of compelling social and economic reasons for the provision of housing assistance by governments.

- 2.13 Housing assistance helps to relieve poverty, provide a stable and secure home environment, enhance employment prospects, contribute to better health and provide one of the critical components for social harmony and Master Builders therefore strongly supports the provision of well targeted government support for low income renters in both the private and public rental sectors.
- 2.14 Public and community housing is an essential part of the mix in meeting the housing needs of low income and disadvantaged households in Australia.
- 2.15 For certain target groups public housing stock provides the most secure form of accommodation and should therefore be maintained and funded appropriately by governments.
- 2.16 The existing Commonwealth-State Housing Agreement should be maintained as the primary means of funding public housing and setting criteria for the quality of housing stock and levels of assistance.
- 2.17 Public housing should not be expected to provide an alternative to home ownership. Public housing should concentrate on solving the problems of those in unique social housing difficulty.
- 2.18 The key to tackling the long term challenge of affordable housing is to increase the supply of housing, both in the private and public sector. For the public sector this means maintaining funding in real terms and in reviewing the efficiency and effectiveness of the delivery system for this sector of housing.
- 2.19 Master Builders is concerned to see that the Commonwealth continues its funding commitment under the Commonwealth State Housing Agreement.
- 2.20 If the private sector can bring their expertise to the cost effective delivery of public and community housing then this will be to the benefit to those currently on long waiting lists for public and community housing and therefore struggling in the meantime in the private rental market.

3 TAXES AND LEVIES IMPOSED BY STATE AND TERRITORY GOVERNMENTS

3.1 Government taxes and charges are a major contributor to the cost of a house and land package. In an example below, State government and local government taxes, levies and development charges represent \$163,803 or more than three quarters of the \$213,803 total government impost on a new house and land package in Sydney's North West.

TYPE OF PRODUCT AND REGION	FEDERAL GST	STATE GOVERNMENT					LOCAL GOVERNMENTS			
		Stamp Duty Developer	Stamp Duty Purchaser	Land Tax	State Infrastructure Charges	STATE TOTAL	Infrastructure charges & Section 94	Application fee & Council Rates	LOCAL GOVT TOTAL	
NEW HOUSE AND LAND PACKAGES										
Sydney South West	\$544,115	\$47,727	\$5,403	\$19,115	\$2,975	\$17,500	\$92,721	\$26,000	\$817	\$26,817
Sydney North West	\$570,240	\$50,000	\$6,320	\$20,240	\$3,471	\$50,000	\$130,031	\$33,172	\$600	\$33,772
Hunter	\$361,240	\$31,818	\$1,645	\$11,240	\$942	\$5,000	\$50,645	\$10,500	\$642	\$11,142
Tweed	\$465,740	\$40,909	\$4,028	\$15,740	\$1,594	\$5,000	\$67,271	\$12,000	\$900	\$12,900
Maroochy	\$412,475	\$36,364	\$2,212	\$12,475	\$1,313		\$52,364	\$13,000	\$900	\$13,900
Redland	\$464,225	\$40,909	\$3,258	\$14,225	\$3,750		\$62,142	\$14,194	\$1,682	\$15,876
Ipswich	\$319,325	\$28,182	\$1,688	\$9,325	\$721		\$39,916	\$15,107	\$1,395	\$16,502
Gold Coast	\$391,775	\$33,409	\$2,380	\$11,775	\$1,721		\$49,285	\$15,333	\$1,065	\$16,399
Melbourne	\$366,660	\$31,818	\$2,750	\$16,660	\$3,292		\$54,520	\$5,400	\$1,017	\$6,417
Canberra	\$425,550	\$37,273	\$3,928	\$15,550	\$1,470		\$58,221	\$0	\$780	\$780
Adelaide	\$248,530	\$21,818	\$682	\$8,530	\$660		\$31,580	\$1,563	\$292	\$1,854
Mandurah	\$310,700	\$27,273	\$328	\$10,700	\$80		\$38,381	\$0	\$1,273	\$1,273
Perth	\$373,700	\$32,727	\$4,483	\$13,700	\$4,548		\$55,458	\$0	\$614	\$614
NEW HOME UNIT PROJECTS										
Sydney	\$570,240	\$50,000	\$6,860	\$20,240	\$4,788	\$8,000	\$89,888	\$8,000	\$3,305	\$11,305
Brisbane	\$422,825	\$37,273	\$4,350	\$12,825	\$3,000		\$57,447	\$6,250	\$2,010	\$8,260
Maroochy	\$345,200	\$30,455	\$1,288	\$10,200	\$322		\$42,264	\$7,576	\$712	\$8,288
Gold Coast	\$319,325	\$28,182	\$1,946	\$9,325	\$1,814		\$41,267	\$10,319	\$1,279	\$11,598
Melbourne	\$318,960	\$23,631	\$5,500	\$13,960	\$2,726		\$45,817	\$5,400	\$970	\$6,370
Perth	\$457,700	\$40,386	\$4,230	\$17,700	\$1,497		\$63,813	\$1,950	\$3,025	\$4,975
Adelaide	\$432,080	\$37,727	\$4,671	\$17,080	\$3,769		\$63,247	\$5,794	\$2,441	\$8,235

Source: Report prepared by Property Council of Australia

3.2 The Table clearly demonstrates that it is government charges and the method by which urban infrastructure services are charged for that are the significant contributors to housing costs. Accordingly, it is these factors that require urgent attention if any sustainable solution to the housing affordability problem is to be achieved.

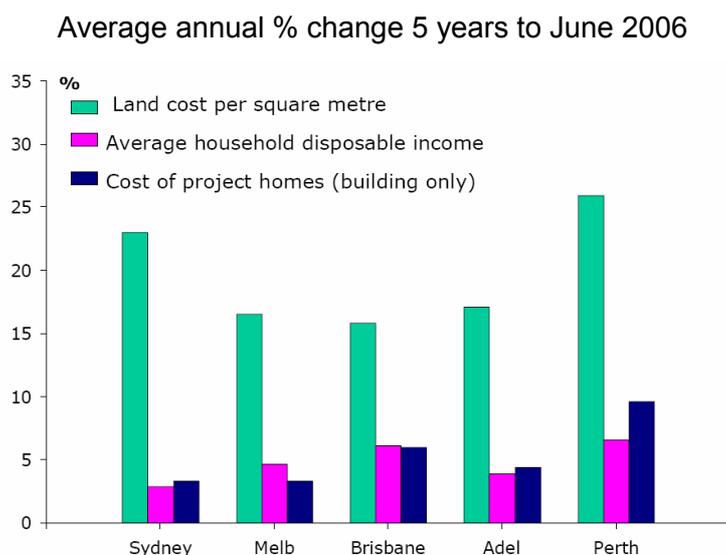
3.3 Master Builders advocates:

- a whole of government review of charges and levies related to residential development at the state and local government levels;
- a whole of government review to establish an equitable, cost-efficient and transparent formula for financing urban infrastructure;
- State governments phase out stamp duties on residential properties particularly for first home buyers; and

- The Commonwealth Government demonstrate leadership through the Council of Australian Governments (COAG) to address the problems created by uncoordinated, ad hoc decision making among the three levels of government and to redress the rapid increases in residential development charges.

4 RATE OF RELEASE OF NEW LAND BY STATE AND TERRITORY GOVERNMENTS

- 4.1 In this section the issue of both new release or greenfield, and infill or urban consolidation is addressed. Given that the core of the housing affordability problem is structural, to do with costs and inefficiencies related to supply, the sustainable solution is to enable greater supply, both horizontal and vertical i.e. greenfield and urban consolidation.
- 4.2 Restrictions on greenfield supply of land are driven by State and local government policies to reduce urban sprawl. Limiting urban sprawl became a predominant policy as governments became increasingly less willing to fund new urban infrastructure associated with growth. Public policy now typically seeks to contain growth within existing urban footprints, citing the need for more efficient use of existing infrastructure (through higher density) and attempting to prescribe this outcome by creating urban land boundaries around major cities. Poor greenfield release has led to inadequate dwelling construction relative to underlying demand.
- 4.3 Residential land undersupply is a major national issue which is now having long term affordability impacts, creating major market distortions. Limited land supply, induced by restrictive land release policies of State and local governments, is a significant driver of rising housing costs. It is important to note that building costs have been contained. It is the cost of land that has fuelled rising house prices.



Source: ABS, economics@ANZ

- 4.4 A national understanding of land supply issues is required given the impact of non local factors and population settlement patterns. Australia needs a standard methodology for measuring the interaction between supply of and demand for housing in Australia.
- 4.5 Federal, State and local governments need to develop coordinated strategic land release plans to make housing more affordable. Unless swift and fundamental shift in policy occurs, future Australians may witness the evolution of a 'rent-not-buy' model of housing at odds with the nation's tradition of home ownership.
- 4.6 Urban consolidation should also be a key element in improving housing affordability and at the same time providing more sustainable cities. Whilst it has been encouraged by State and Territory governments, urban consolidation is often rejected by local government and the community. Urban consolidation needs to be encouraged in a more coordinated way and the benefits better promoted through the wider community. Policies on urban consolidation should be consistent, with the overriding objective of ensuring housing remains affordable.
- 4.7 There is case for councils to commit to a strategic plan to put in place projected infill percentages in and around transport nodes and receive incentives from State governments when those targets are met. In general, councils need to play a more strategic role in planning and encourage and promote development of the type and location to suit the council residential development plan. Improved processes need to be put in place to streamline appeals by residents to allow development

approvals to be issued with, in some cases, variations to the original design. Performance based codes for medium density by all local governments could be introduced, with deemed to satisfy provisions modeled on the BCA.

4.8 Most States and local governments require developers to cover all infrastructure costs. Many local governments are also imposing development levies. These costs and levies impact greatly on housing affordability.

4.9 Master Builders Australia advocates:

- Promotion of urban consolidation and maintenance of neighbourhood character;
- Better utilisation of existing infrastructure;
- Promotion of medium and high density developments adjacent to transport routes;
- Assistance with alleviating land shortages;
- Reduction in development levies;
- Nationally consistent infrastructure standards; and
- Assistance to improve housing affordability.

5 PROPOSED ASSISTANCE FOR FIRST HOME OWNERS AND THEIR EFFECTIVENESS IN THE ABSENCE OF INCREASED SUPPLY

5.1 Master Builders welcomes the Government's range of initiatives for dealing with housing affordability including releasing Commonwealth land, setting up a special savings fund for first home buyers, subsidies for rental investment properties and infrastructure assistance to local governments.

5.2 **The range of initiatives introduced by the Government will not by themselves provide a long term sustainable solution to providing an adequate supply of affordable housing.**

5.3 Master Builders' analyses conclude that supply-side constraints are at the core of the Australia's **current** housing affordability problems and unless the supply-side

improved relative to demand, the effectiveness of demand-side measures will be limited if not negated.

5.4 Master Builders calls on all governments to embrace a package of reforms including improved land release and planning approval processes, a review of developer charges with increased funding from general revenue sources and the replacement of stamp duties with less distorting taxes plus less regulation.

5.5 Master Builders analyses shows that the core of the problem is structural, to do with costs and inefficiencies related to supply, therefore:

- The sustainable solution is to enable greater supply, both horizontal and vertical i.e. greenfield and urban consolidation, including increased supply of private and public rental stock.
- The planning and development process should be reformed to reduce costs and delays.
- Inefficient infrastructure charges and levies should be urgently reviewed because they threaten intergenerational equity.
- Sound economic policy needs to be maintained in order to keep downward pressure on inflation and interest rates.
- Housing affordability measures should be limited to first home buyers and low income renters, both private and public.

6 ROLE OF ALL LEVELS OF GOVERNMENT IN FACILITATING AFFORDABLE HOME OWNERSHIP

6.1 The national challenge to housing affordability is complex and multidimensional and made more complicated by the federal system of government. This should not provide any excuse for the Government, or for that matter state, territory and local government to do nothing, or next to nothing, and to shift the blame and responsibility to others.

6.2 Australia has suffered for over a decade from policy neglect at all three levels of government - Federal, State and local and Master Builders has for some time been calling on Federal, State and territory governments to urgently examine a unified national strategy to combat the crisis in housing affordability.

- 6.3 There has been very little the Federal government can do constitutionally given that housing is a state government responsibility. However, the Federal Government can show leadership by bringing the states together through the COAG process.
- 6.4 Elsewhere in this submission, Master Builders has detailed how all governments need to embrace a package of reforms including improved land release and planning approval processes, a review of developer charges with increased funding from general revenue sources and the replacement of stamp duties with less distorting taxes plus less regulation.
- 6.5 The key to the solution to the problem will be implementing promised improvements in cooperation and collaboration between the Commonwealth Government and the states. The housing issues are real and there are many pieces of the puzzle that form the solution. A problem like this cuts across local, State and Commonwealth responsibilities. It needs a national approach and hence the importance of enhanced cooperative arrangements between the Commonwealth and state governments through the COAG process.
- 6.6 Above all there needs to be continued fiscal discipline to maintain downward pressure on interest rates.

7 EFFECT ON THE MARKET OF GOVERNMENT INTERVENTION IN THE HOUSING SECTOR INCLUDING PLANNING AND INDUSTRIAL RELATIONS LAWS

- 7.1 In this section of the submission, Master Builders addresses government intervention in the housing market including regulations, planning and industrial relations laws.
- 7.2 For the past five years there has been a commitment by State and Territory governments to reduce State and Territory variations to the Building Code of Australia. Many variations have been omitted but some still exist. However, there appears to be further development by State and Territories which are producing new variations to the Building Code of Australia.
- 7.3 Under a federated government system this is permitted because although we have a national Building Code of Australia, it obtains its regulatory status by being referenced by each State and Territory Building Acts and Building Regulations. This

- enables the States to adopt regulation that differs from the Building Code of Australia, a process which defeats its purpose.
- 7.4 There needs to be a greater focus and emphasis upon nationally consistent regulations applicable to their region and environment.
- 7.5 Further inconsistencies are created when local government decides to develop local building regulations. Many of these local government regulations are developed in isolation without appropriate consideration being given to requirements of the Building Code of Australia and Australian standards. Often these regulations conflict with other construction standards commonly adopted by builders. Local government does not complete a RIS process to justify any proposed new regulations.
- 7.6 The proliferation of Australian standards over recent years has become a major issue for the Building industry. Trying to keep up with the volume of change with training and awareness programs has been an issue for builders. Australian standards should only be amended or new standards developed when there is a demonstrated need for change. A rigorous, cost benefit analysis must be completed to support the change.
- 7.7 A further critical issue that impedes efficiency is the number of Australian standards that are, in turn, referenced by other Australian standards. Currently there are approximately 100 standards referenced by the Building Code of Australia, those standards reference approximately 700 (secondary referenced standards) and those 700 reference approximately another 1500 (tertiary referenced standards) These numbers need to be dramatically reduced because not only are builders experiencing compliance concerns, the cost of purchasing all these standards is extremely expensive. For all participants in the system.
- 7.8 There has been a process adopted by local government to move regulations out of the Building Standards into planning schemes across Australia. This process has permitted local governments to move forward with their specific requirements without the appropriate rigor being applied when developing regulations as required by the Australian Building Codes Board and Standards Australia.
- 7.9 Building Regulations should not form part of local planning provisions. The planning schemes and their provisions should only apply to the site use, rezoning,

etc and specify what type of building can be built on the land with specific controls limited to set backs, heights and the general building form.

7.10 There is growing red tape and additional processes emerging in the private certification process for building permits. Over recent years the administration and reporting process for certifiers has grown and taken the original efficiencies and cost savings away from the private certification model. Master Builders advocates that cutting the red tape in reporting and consent stages of the process will assist in streamlining building permits and return the original efficiencies to the system. Master Builders recommends that other reforms be implemented, as follows:

- Further streamline the private approval process.
- Keep regulations simple and easily understood.
- Reduce the rate of change to regulations.
- Reduce the number of technical standards.
- Provide consistent regulations across Australia.
- Ensure regulations are not the first step to deal with perceived problems.
- Regulations should set minimum criteria.
- A demonstrated need for regulation has to be developed by those proposing to regulate.
- Local government should be prohibited from developing building regulations that contradict the Building Code of Australia and Australian standards.
- All regulation (if needed) should be supported by properly proscribed regulatory impact statements.

7.11 Master Builders Australia believes more reform is needed within the planning approval system. Councils need to effectively develop strategic planning frameworks and separate the approval process to encourage more investment expenditure and propagate opportunities for growth.

7.12 Master Builders believes councils should be encouraged to set up panels to assess controversial and complex applications. Panels with independent industry experts

- will add a more transparent process and eliminate the unfair criticism which falls on the council assessment process. Private sector certification is needed to take the burden of current workloads from councils. All work must be limited to applications that can be assessed against specific criteria.
- 7.13 As of Right development will also alleviate basic applications coming to council. This concept permits owners to complete work without a permit if compliance with the planning scheme is achieved.
- 7.14 All planning schemes need to be easily accessible and written in plain English. Councils should also be encouraged to put in place electronic lodgment systems. This allows for applicant to lodge their application online 24 hours, seven days a week. It also allows the applicant to track where the application is within the system. It is happening in isolated councils but needs further promotion. The basic information needed for applications for housing should be standardised. All application forms and details requiring information and data must be standardized and be available for lodgment electronically.
- 7.15 Mandatory checklists at pre assessment meetings will form lists of reports, plans, etc to be lodged for any application. Then check lists will set out what the applicant has to provide to get approval. These lists are developed upfront and agreed to by council and the applicant, and will prevent councils asking for further information during the assessment process.
- 7.16 The referral process to statutory referral authorities needs to be reviewed. Referrals should be made before the entire application is received and for standard referrals a council should be able to approve the development without a referral to the authority.
- 7.17 Experienced planning staff must be retained. Through delegation, this will also improve turnaround times for permits. Some councils are taking 20 to 30 weeks to process standard multi-unit developments. This is unacceptable. Master Builders will continue to lobby governments to put structures in place to encourage local governments to have greater emphasis on turnaround times, consistent decisions and independent expert decisions. Master Builders believes that mediation at council level should be mandatory.
- 7.18 The Development Assessment Forum should continue and be adequately resourced to improve the planning approval process across Australia and widely

circulate and promote the policy objectives to all levels of government seeking further reform. The DAF is a joint government/industry body that has successfully and cooperatively worked together for a number of years in identifying and developing planning reform initiatives. The valuable work of this forum should therefore form the basis of further planning reforms. In addition, Master Builders recommends:

- Involving independent experts in decision making
- Creating a statutory framework for private certification
- Allowing more compliance with planning schemes
- Making planning schemes easily accessible
- Promoting electronic lodgments
- Mandating council checklists at pre-assessment application
- Encouraging mediation at council level
- Standardising information needed for part of planning applications
- Improving referral processes
- Standardising application forms and processes
- Retaining experienced planning staff at local government level
- Supporting Development Assessment Forum (DAF) model recommendations.

7.19 The domestic building industry is largely non-unionised. This factor, together with a heavy reliance on contractors, has brought about an increase in the efficiency and reduction in cost of the home building sector versus the efficiencies achieved in the commercial sector. The commercial sector has historically lagged behind the domestic sector's productivity because of restrictive work practices, workplace disharmony and illegal strike behaviour which are only now disappearing.

7.20 Master Builders strongly supports the independent contracting system that underpins efficiency and lowers costs in the building industry.

7.21 In the building and construction industry, business uses independent contracting arrangements to deliver the following efficiencies:

- contractors can enter the industry with very little capital outlay resulting in a very competitive environment, as barriers to entry are low;
- the system provides an important opportunity for skilled tradespersons with the necessary motivation to significantly increase their earnings with their income directly related to their efficiency in the actual time they work;
- the system is administratively simple and reduces supervision considerably as the principal contractor does not incur the administrative overheads of employing staff;
- there is an incentive to solve problems which develop on site quickly and effectively, as contractors do not get paid for delays, while employees, on the other hand, have little incentive to solve such problems;
- a contractor quotes a price for a job which reflects the situation in regard to work on hand and the market price reflects the level of demand;
- results based contracts are generally more efficient than time costed labour working towards the same ends;
- the production process requires a variety of tasks that require different skills at different points in time and the completion of these tasks to a certain level of quality can be easily monitored, so it is well suited to the work of contractors;
- due to the fluctuations in demand in building and construction, there is much competition between firms and there can be much uncertainty about demand, so many firms prefer to use contract labour;
- the current skills shortage in the industry means that contractors are able to mobilise quickly and more efficiently place themselves to meet the needs of companies, projects and the industry at a particular time;
- regional variations in prices paid to contractors encourages mobility of those contractors which helps to achieve and improve balance within regional markets; and

- the housing sector, which predominately uses contractors, has, unlike all other sectors in the construction industry, not faced any major stoppages or strikes as a contractor is bound by the contract he enters into in respect of the work to be performed and has an incentive to get on with the job.

7.22 Use of contractors throughout the building and construction industry is one of the most positive features of the Australian labour market. The workplace relations system should facilitate contracting, not seek to regulate it. Regulation of contractors should arise from commercial law, not from workplace relations law.

7.23 In this regard, Master Builders advocates strengthening the independent contractors' legislation so that there is a statutory underpinning to the common law test through a government agency which registers independent contractors. Registration of this type would increase certainty. The process would require minimum Australian Government supervision, save for random audits.

7.24 Master Builders policy on this issue is set out in detail in its Workplace Relations Blueprint 2007.

8 ROLE OF FINANCIAL INSTITUTIONS IN HOME LENDING

8.1 The vast majority of homebuyers require finance to complete the purchase of a home. The financial sector, therefore, plays a crucial role in converting the home ownership 'dream' into reality.

8.2 Deregulation of the financial sector in the 1980s was a much needed reform, removing a number of inefficiencies and constraints on home lending. Despite recent concern that some mortgage lenders may have become lax in terms of lending standards, Master Builders has no reason to believe that current criteria for obtaining loans is deficient. There should not be a return to the more prescriptive or heavy handed, pre-reform regulatory environment.

8.3 Master Builders does not believe there has been any systemic failure of the financial system and notes recent comments by the Governor of the reserve Bank of Australia, Mr Glenn Stevens to the effect that he was satisfied with the integrity of the Australian financial system.

8.4 Master Builders notes that for most people, the purchase of a home is the most important financial transaction they will make during their lifetime. It would be

beneficial, particularly for first home buyers, if governments encouraged people to seek financial guidance before they purchased a home. Such a scheme should not be mandatory and the burden should not be placed on financial institutions.

9 CONTRIBUTION OF HOME OWNERSHIP TO RETIREMENT INCOMES

- 9.1 For the vast majority of households, homeownership is seen as part of their retirement incomes on the basis that most will own their homes by the time they retire.
- 9.2 While in most cases the asset will not generate a positive cash flow, home ownership is a plus not only in the sense that it avoids rental payments but in terms of the emotional security it provides for the home owner. These benefits, in turn, lead to wider public good aspects such as contributing to social harmony and stability and fostering improved socio-economic outcomes. It also increases community participation and minimises disruption to social networks, reduced incidences of socially disruptive behaviour and reduced welfare dependency. This is why the role of home ownership as a public good has always been recognised by all governments.
- 9.3 The Senate Inquiry needs to recognize the importance of home ownership and access to affordable housing as a critical area of public policy that therefore needs to be supported.
- 9.4 For many, retirement incomes are drawn down from a combination of pensions and superannuation. Increasingly, for some people particularly those aged 70 and more, this is insufficient and one of the drivers behind the increasing popularity of reverse equity mortgages.