



**Submission to the Productivity
Commission Inquiry into
Geographic Labour Mobility**

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CONTENTS

1	Introduction	1
2	Purpose of the submission	1
3	Overview	1
4	Geographic labour mobility & housing.....	2
5	Stamp duty reform.....	4
6	Housing supply reform	5
7	Infrastructure and amenity.....	6
8	Education and professional standards	8
9	Conclusion	10

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1 INTRODUCTION

- 1.1 Master Builders Australia Ltd (Master Builders) is the peak national association for the building and construction industry in Australia.
- 1.2 Master Builders' primary role is to champion the interests of the building and construction industry, representing residential and commercial building, and engineering construction. Master Builders has more than 33,000 member-companies with representation in every State and Territory in Australia, the great majority of which are small to medium sized enterprises. Membership of Master Builders' represents 95 per cent of all sectors of the building and construction industry.
- 1.3 The building and construction industry accounts for almost eight per cent of gross domestic product and more than nine per cent of employment in Australia. Owner-occupied housing and other property investments account for over two-thirds of the asset portfolio and wealth of ordinary Australians.

2 PURPOSE OF THE SUBMISSION

- 2.1 Master Builders makes this submission in response to the Draft Report on Geographic Labour Mobility released by the Productivity Commission in November 2013 (Draft Report).

3 OVERVIEW

- 3.1 Building and construction is both a factor in labour mobility – in that the availability of housing and infrastructure affects people's choices about where to live – and a beneficiary of labour mobility given the wide geographic spread of available construction work.
- 3.2 Substantial barriers to geographic labour mobility could lead to construction projects taking place at a higher cost-price than

otherwise, finishing in a longer timeframe, or in the worst case not happening at all.

- 3.3 Geographic labour mobility is of particular importance given the necessity of labour the building and construction industry 'being where the work is'. That is, telecommuting and similar remote work arrangements are simply not an option for the great majority of those working in the building and construction industry. While an architect or an engineer may be able to 'telecommute' to the build, the project manager, the bricklayer, the plasterer, the tiler, the electrician, the plumber, and the other key professionals and skilled tradespeople have to be in situ, wherever the work may be.
- 3.4 The Draft Report confirms that geographic labour mobility in Australia is generally low, with just 3.5 per cent of people moving between labour markets in a given year. At the same time the report suggests that the barriers to mobility are moderate and not easily subject to public policy intervention. In other words, people may resist relocation to a large degree for family, cultural or lifestyle reasons rather than because there are specific financial and other impediments to relocation. However, in the three specific areas of housing supply, infrastructure and professional standards, Master Builders argues that substantial impediments to geographic labour mobility do exist and should be addressed by government.

4 GEOGRAPHIC LABOUR MOBILITY & HOUSING

- 4.1 The Productivity Commission has identified a number of housing-related impediments to geographic labour mobility, including insufficient overall housing supply; and within that supply a lack of affordable housing (Draft Report, page 21).
- 4.2 These impediments can be particularly problematic for areas experiencing stronger population growth, where they are likely to be reflected in housing demand exceeding housing supply, and in turn rising dwelling prices and/or rents.

- 4.3 The Productivity Commission also identified two important government policy settings which adversely impact housing supply, and therefore geographic labour mobility – namely, taxation and land use planning.
- 4.4 Master Builders shares the Productivity Commission's views on page 22 of the Draft Report that inefficient land use planning processes and delays in the release of land for residential development limit the supply of housing. Moreover, conveyancing taxes (stamp duties) impose additional costs on property transactions, resulting in lesser property exchanges than would occur in the absence of these taxes. Indeed, the Draft Report on page 143 goes on to say: *"Stamp duty stands out as the most significant transitional impediment"* to geographic labour mobility.
- 4.5 Research undertaken by the Productivity Commission highlighted the magnitude of the stamp duty burden (Draft Report, page 161). The stamp duty burden on a median priced house in Darwin was \$28,116, just ahead of Sydney (\$24,290) and Melbourne (\$21,970). For Perth the figure was \$20,438, followed by Canberra (\$19,490), Adelaide (\$15,930), Hobart, \$11,295) and Brisbane (\$6,825).
- 4.6 The PC also reported home buyers in Adelaide can expect to pay an additional property transfer fee of \$2,825, while for those buying in Melbourne it would be \$1,339 and in Brisbane it would be \$962.
- 4.7 Against this background, Master Builders' supports the related Draft Recommendations to the effect that:

... state and territory governments should remove or significantly reduce housing-related stamp duties, and increase reliance on more efficient taxes such as broad based land taxes.

State and territory governments should ensure there is a responsive housing supply through efficient planning and land release.

5 STAMP DUTY REFORM

- 5.1 Stamp duties have a number of appealing features for State and Territory Governments. These include simplicity of administration, and minimal avoidance.
- 5.2 However, stamp duties have substantial disadvantages. These include inefficiency; inequity; volatility; and, the burden on buildings.
- 5.3 By contrast, land taxes do not tax capital development (that is, the commercial or residential structures constructed upon the land).
- 5.4 The Report of the Henry Tax Review made a clear and unequivocal statement recommending the abolition of stamp duties and their replacement (for revenue purposes) with a broadly based land tax:

“Ideally, there would be no role for any stamp duties ... in a modern Australian tax system. Recognising the revenue needs of the States, the removal of stamp duty should be achieved through a switch to more efficient taxes, such as [...] land taxes.” (p. 263)
- 5.5 Master Builders sees substantial commercial and economic merit in moving from the current stamp duty-based to a broad land tax based system of property taxation.
- 5.6 However, Master Builders support for such a transition is conditional on a number of factors, which must be delivered as an overall package, with the State and Territory Governments giving a ‘single undertaking’ to all of the elements, without exception.
- 5.7 Amongst the most important of these pre-conditional elements are that any legislative and other changes to increase reliance on a broadly based land tax:
 - 5.7.1 be directly and formally linked to countervailing and at least equal reductions in the stamp duties on impacted property;

5.7.2 occur in a progressive manner over a reasonable transitional period, with the ‘grandfathering’ of existing stamp duty/land tax payments on any given property asset; and

5.7.3 be revenue-neutral for the fiscal account.

6 HOUSING SUPPLY REFORM

6.1 Home ownership and the adequate supply of a diverse range of housing options are a vital component of the national economy and Australia’s social fabric.

6.2 Master Builders believes strongly a key policy objective for the Federal Government must be to ensure affordable housing is accessible for all Australians.

6.3 A number of factors have led to a worsening of housing affordability, including inefficient land release strategies, unreasonable development levies, taxes and charges, excessive planning and building requirements, and uncoordinated local and state government environmental regulations.

6.4 Delivering a responsive housing market can be realised by Federal, State and Local Governments supporting Master Builders’ Reform Agenda on Housing Affordability, the key elements of which are:

6.4.1 Introducing payments to higher-performing local governments based on national competition policy principles. This would reward best practice performance and encourage improved delivery of housing-related services;

6.4.2 Streamlining and simplifying development approval processes through greater reliance on code-based assessment and identification of best practice development approval processes in State, Territory and Local Governments;

6.4.3 State and Local Governments developing and implementing realistic and tailored Land Release Plans setting out

timelines for the release of identified land for residential development and implementing measures to overcome regulatory or other impediments to the process;

6.4.4 Creating a genuine, comprehensive and enforceable uniform building code and regulatory system. The Council of Australian Governments must play a leading role in developing the Building Code of Australia into a nationally-consistent set of building requirements recognised as the central authority by all jurisdictions;

6.4.5 Ensuring State and Territory Governments honour their commitment to abolish stamp duties on business conveyances of real property. This should be followed by a rigorous review of the impact of stamp duty on residential property; and,

6.4.6 Annual publication of developer and infrastructure charges applied by all local governments in Australia. This would examine the incidence of such charges and the processes followed when they are imposed on “brownfields” and “greenfields” developments.

7 INFRASTRUCTURE AND AMENITY

- 7.1 Australia’s vast size and low population density will always create natural challenges for geographic labour mobility. Appropriate investment in transport infrastructure – road, rail, air and maritime – is therefore crucial to assist people to move or commute to areas where there is an excess demand for labour.
- 7.2 The Draft Report notes widespread concerns about inadequate road infrastructure (particularly in the north of NSW), underinvestment in rail and specifically rail freight capacity and a reduction in air services capacity on regional routes (p. 234). This concern is shared by Master Builders, and in this respect we note the likely shelving of several major rail projects in the current budgetary environment.
- 7.3 Beyond transport, provision of utilities, communications infrastructure, schools, hospitals, public recreational facilities, cultural spaces and

other amenities can have a significant impact on where people choose to live. There is often an unacceptably large lag between the emergence of population growth in a region (such as the Kimberley or Bowen Basin) and the development of appropriate local infrastructure and amenity, which have historically been provided mainly by state and territory governments. This is one factor that has led to a heavy reliance on “fly-in-fly-out” workforces. The current fashion for shifting responsibility onto the private sector through ‘indenture agreements’ is at best a stop gap measure and at worst a cost-shifting exercise lacking in transparency and clear outcomes.

- 7.4 Australia as a whole faces a major infrastructure challenge over coming decades, both in the maintenance and the remediation of existing infrastructure assets, and investing strategically in expanding our infrastructure base. This ‘infrastructure challenge’ could amount to around \$30 billion annually for the decade to 2020, with financial institutions estimating it could cost between \$600 billion and \$770 billion to deal with existing infrastructure gaps alone.
- 7.5 Without capacity-enhancing investment in infrastructure, Australia’s economic performance will stagnate, geographic labour mobility will be discouraged and living standards will decline. State and Federal Governments must develop innovative funding arrangements and more effective public infrastructure investment policies with priority on economic and social infrastructure to boost economic activity and social wellbeing.
- 7.6 Some of the specific policy steps that could be taken to enhance infrastructure provision and geographic labour mobility include:
 - Increasing the direct public sector spending on key economic and social infrastructure to at least 6 per cent of GDP by 2020;
 - Minimising bid-costs for infrastructure provision/financing to ensure the broadest possible range of engagement by potential investors (including simplified and streamlined processes for smaller investors in infrastructure);

- Minimising the political risk associated with investment in infrastructure, in particular ‘start-stop’ decision-making, and changing the processes, rules or other key elements of a project once underway;
- Expanding the use of privatisation or other mechanisms for the transfer of existing and prospective infrastructure assets to the private sector, including ‘capital recycling’ (using revenue from the sale of existing infrastructure assets to fund the development of new infrastructure); and
- Developing and marketing, as appropriate, public infrastructure bonds as tradeable financial instruments on terms and conditions which appeal to a broad spectrum of investors.

8 EDUCATION AND PROFESSIONAL STANDARDS

- 8.1 Building and construction work encompasses a wide variety of careers and potential locations of work. A carpenter working on small scale residential building and residential could spend his or her working career in the same town or part of a city. At the same time, a plumber specialising in resources sector construction work could be highly mobile and work in different states and territories including remote areas over the course of a year.
- 8.2 Between these extremes, the cyclical and project based nature of construction work means that there will often be a mismatch between the location of construction skills and the location of construction work. An example of this was the significant number of unemployed tradespeople in Queensland in recent years, while jobs were available in Victoria and Western Australia.
- 8.3 The Draft Report correctly identifies licensing as one element that can discourage movement between jurisdictions (p. 236). However, mutual recognition arrangements have been in place for some years and in most cases work well. While Master Builders supports further strengthening of mutual recognition (for example moving

towards a 'driver's licence' approach), the recent national licensing exercise was deeply flawed and did not make the case for an Australia-wide licensing system.

- 8.4 Non licensing barriers, such as the difficulty of accessing Builders Warranty Insurance, can in some states be a larger impediment to working in that jurisdiction than licensing. State-based variations to building codes and standards, industrial relations issues and inconsistency in legislated OHS requirements are other elements that militate against labour mobility in building and construction. It is important that COAG work more proactively with business to remove or rationalise such barriers to working across jurisdictions.
- 8.5 A large proportion of workers still get their start in the construction industry through traditional trades apprenticeships. Apprenticeships are registered with state governments and inconsistency of apprenticeship rules (e.g. the duration of apprenticeships) can make it unnecessarily difficult for employers and apprentices to relocate positions across jurisdictions. Master Builders encourages COAG to accelerate its agenda to harmonise apprenticeship rules to allow more streamlined transfer of Contracts of Training. Master Builders also supports moving to more industry-led apprenticeship support arrangements from 2015 that may offer a greater consistency of sign-on and follow up services nationwide.
- 8.6 The Draft Report notes that transfer of children across school systems can be an impediment to geographic labour mobility. As well as 'mainstream' subjects, VET-in-schools programs and school based apprenticeships in fields such as construction are good examples of where there is little consistency and where it is unlikely a student would be able to transfer programs successfully.
- 8.7 Similar issues apply to post-secondary skills training and higher education, which may affect either dependent students or workers studying part-time. Although skills training mostly makes use of national training packages, the same qualification may be structured and taught differently in different locations. Moving to a new TAFE or private training provider can therefore be a non-trivial

exercise even in the best of circumstances. Where the student wishes (or needs to) change qualifications, recognition of prior learning is often poorly and inconsistently applied and constitutes a key unaddressed issue in the Australian training system. Even more work in this area needs to be done in higher education, where universities have long resisted any formalised transfer arrangements, and it is generally up to the individual student to make the case for credit transfer.

9 CONCLUSION

- 9.1 Master Builders welcomes the Productivity Commission's Draft Report on Geographic Labour Mobility. While noting that decisions to relocate are often highly personal, the Draft Report identifies a range of regulatory and market issues that may impede mobility, including housing supply, taxation, employment services, licensing and infrastructure.
- 9.2 Master Builders argues that very significant issues exist in the areas of housing, infrastructure and education/professional standards that justify government intervention. In the housing area these include simplified approvals processes, reduced taxes and charges and the implementation of credible land release plans. Concerning infrastructure, key proposals include increased public infrastructure spending, reduced bid costs, minimisation of political risk and development of innovative financing mechanisms. In education/professional standards, important steps include reducing licensing and non-licensing barriers to the movement of tradespeople and professionals, harmonising apprenticeship arrangements, and facilitating more effective credit transfer and recognition of prior learning for people moving location of study.