HOUSING INDUSTRY ASSOCIATION

Submission to the
Office of Indsutrial Relations

Proposed changes to the QLeave Levies

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contents

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ABOUT THE HOUSING INDUSTRY ASSOCIATION

The Housing Industry Association (HIA) is Australia's only national industry association representing the interests of the residential building industry, including new home builders, renovators, trade contractors, land developers, related building professionals, and suppliers and manufacturers of building products.

As the voice of the industry, HIA represents some 60,000 member businesses throughout Australia.

HIA members comprise a diversity of businesses that operate in the residential building industry including the top Housing 100 volume builders, small to medium builders and renovators, residential developers, trade contractors, major building product manufacturers and suppliers and consultants to the industry. HIA members construct over 85 per cent of the nation's new building stock.

HIA exists to service the businesses it represents, lobby for the best possible business environment for the building industry and to encourage a responsible and quality driven, affordable residential building development industry. HIA's mission is to:

"promote policies and provide services which enhance our members' business practices, products and profitability, consistent with the highest standards of professional and commercial conduct."

The residential building industry is one of Australia's most dynamic, innovative and efficient service industries and is a key driver of the Australian economy. The residential building industry has a wide reach into manufacturing, supply, and retail sectors.

The aggregate residential industry contribution to the Australian economy is over $150 billion per annum, with over one million employees in building and construction, tens of thousands of small businesses, and over 200,000 sub-contractors reliant on the industry for their livelihood.

HIA develops and advocates policy on behalf of members to further advance new home building and renovating, enabling members to provide affordable and appropriate housing to the growing Australian population. New policy is generated through a grassroots process that starts with local and regional committees before progressing to the National Policy Congress by which time it has passed through almost 1,000 sets of hands.

Policy development is supported by an ongoing process of collecting and analysing data, forecasting, and providing industry data and insights for members, the general public and on a contract basis.

The association operates offices in 23 centres around the nation providing a wide range of advocacy, business support including services and products to members, technical and compliance advice, training services, contracts and stationary, industry awards for excellence, and member only discounts on goods and services.

1. INTRODUCTION

In May the Queensland Office of Industrial Relations released a consultation Regulatory Impact Statement setting out proposed changes to the QLeave levies (Consultation RIS).

HIA provides this submission in response to the Consultation RIS.

HIA opposes proposals that would see an increase in the levies payable and the reversal of the move made in 2014 that excluded GST in the cost of building and construction work on which the levies are calculated. There is little in the Consultation RIS to justify such moves.

If adopted, the industry would see levies increase from 0.475 to 0.53% with those percentages calculated on a higher, GST inclusive amount. HIA does not agree with the Consultation RIS that the benefits of these changes outweigh the negative impacts that increased costs will have on levy payers in the building and construction industry.

The Consultation RIS notes that the *'proposed levy in this RIS should be considered within the industry's broader regulatory environment'*, yet fails to acknowledge that the amount of legislative change that has affected the Queensland building industry over the past few years has been without precedent. It has, in particular adversely affected the small residential builders by whom a majority of residential construction work in Queensland is built. Any legislative changes must be simple, for example, re-introducing the GST into the cost of building and construction work complicates matters at a time when small players are already struggling with the plethora of new business processes the government has introduced.

HIA strongly recommends that no changes are made at this time.

1.1 The Residential Building Industry

Residential building activity has been at record levels over the last three years. However, even at this level the industry is just meeting the longer term housing needs of Australia's growing population and has not been able to make any inroads into the backlog of housing needs that has accumulated for over ten years.

The recent downturn in building activity has seen the number of building approvals across the country drop significantly. Nationally, building approvals are down 15.5% (February 19 - March 19) and down 27.3% (March 18 – March 19) for comparative periods.[1]

In Queensland approval figures for the last 12 months to March are down 19% in comparison to the previous 12 months. Throughout the last few years activity in the detached house market has been remarkably steady, averaging around 6,000 starts per quarter over the last five years. With 5,412 starts during the December 2018 quarter the result was noticeably down from the five year average and amongst the weakest quarters during this period. Detached house starts in the final quarter of 2018 were down by 14.5 per cent compared with the same period a year earlier.

Detached house approvals lead starts by around a month (statistically) and these dropped away further in the first few months of 2019. Starts are likely to follow suit. This presents a markedly weaker picture of the Queensland market than earlier forecasts suggested.

Detached house starts in 2018/19 are estimated to have declined by around 15.1 per cent compared with 2017/18. This more significant decline in detached house starts sees the market reach the low point of the cycle ahead of schedule.

HIA would contend that increasing levies at a time when the industry is experiencing such a downturn in building activity has the potential to further stifle activity.

HIA submits that the Department must consider the proposed increase in the levy in conjunction with the range of additional charges levied against the construction sector such as the proposed waste levy, annually

[1] Australian Bureau of Statistics, 'March Key Figures' https://www.abs.gov.au/ausstats/abs@.nsf/mf/8731.0

increased license and insurance fees, increased local government fees and charges and increased utility provider charges all of which simply result in an ever increasing cost of construction work in Queensland.

Additionally, consideration needs to be given to the nature of the Queensland residential building industry and the high level of independent contracting businesses who underpin the sector, most of whom are not eligible to claim on the scheme. HIA would argue it is unreasonable to increase the levy on a sector when the majority of those participating will not benefit.

2. PROPOSED INCREASES TO LEVIES

2.1 Portable Long Service Leave Levy

The Consultation RIS notes that there is no proposal to lower the threshold from the current $150,000. HIA supports this and notes that the $150,000 must not be lowered in real terms.

In HIA's view that the case for a levy increase on construction work has not been adequately made-out.

The Q-leave annual report, similar to the consultation paper, states:

> *"A full actuarial assessment was undertaken in 2017-18 to examine the financial position of the Scheme in relation to the long service leave entitlements accrued up to 30 June 2018. The Actuary found the Scheme is currently in a sound financial position, as assets are more than required to cover Accrued Benefits Liabilities and Vested Benefits."*[2]

The Consultation RIS notes that:

> *"The QLeave 2017-18 annual report shows that the scheme is currently financially sound but also notes a number of future pressures, notably the increasing number of workers becoming eligible for long service leave as the scheme matures, and that these will have an impact on the funding ratio for the scheme in the medium to long term."*

It is unclear where it is articulated in the Q-leave 2017-2018 annual report that the future pressures of the scheme justify an increase.

Additionally, the Consultation RIS claims that the levy must be increased to respond to the influx of registered workers but provides no analysis of why there has been an increase. HIA would suggest that evidence exists supporting a contrary view. HIA would question whether all workers registered are actually "substantially engaged" in the construction industry.

HIA does not support increasing the PLSL levy. We note that if the construction activity improves then the amount of the levy collected will also improve due to increased construction activity.

2.2 Work Health and Safety Levy

HIA acknowledges that mental health, particularly amongst males, is a significant societal issue and, as noted in the Consultation RIS a significant one for the construction industry. Consequently, HIA has partnered with Beyond Blue through HIA's charitable foundation which generates funds through participation by HIA members.

HIA acknowledges the good work that Mates in Construction undertakes and the fact that Beyond Blue also supports Mates in Construction. HIA is also aware that Construction Skills Queensland also supports "Mates" via funds generated through the training levy already collected from the industry.

There are many organisations, and a growing number of statutory bodies, that support mental health in one form or another. The Queensland WorkCover 'Mentally Health Workplaces Toolkit' lists a total of 22 organisations that have additional resources for mental health. The money flowing from state and federal governments, statutory bodies and the private sector is significant and appears to be growing.

[2] Q-leave Annual report 2017-2018, page 10, available here: https://www.parliament.qld.gov.au/documents/tableOffice/TabledPapers/2018/5618T1560.pdf

The Consultation RIS notes that the WHS Levy:

> *"… supports the work of government in regulating WHS in this high priority industry."*

However, from the QLeave annual reports it is difficult to ascertain or track how the WHS levy is spent. It is therefore difficult to place weight in the assertions outlined in the Consultation RIS that additional monies collected will be spent on mental health. There also seems to be no way to verify this at some future point in time.

As such, HIA would urge caution when considering an increase in the WHS levy in order to fund activities targeted at mental health. While a worthy cause, existing arrangements would seem appropriate.

HIA also queries whether it would be more beneficial for an overarching approach to this national issue be adopted. Further, nominating a specific organisation as the beneficiary may cause issues about fairness and transparency.

2.3 Reinstating a Single Base Rate For the Levies

HIA is not opposed to reinstating a single base rate for the levies.

3. TREATMENT OF GST

HIA opposes this recommendation. The Consultation RIS provides little to justify the proposed change.

Making the change, in 2014, to exclude the GST from the cost of construction for the purpose of the calculation of the levy was thoroughly considered at that time and the reasons for the change remain valid.

In the submission to the Committee process that examined the 2014 changes[3] the Director General of the Department of Justice and Attorney-General (Office of the Director General) noted that removal of the GST from the calculation of building work would *"…cut red tape and reduce the cost of doing business in Queensland, the Bill removes the inclusion of GST in the total cost of building and construction work. This amendment simplifies the process of calculating the total cost of work and reduces the cost of levies paid."*

Such observations remain relevant and apposite.

The 2014 changes represented significant cost savings, particularly for small business. HIA supports those cost savings for business.[4]

These significant cost savings were outlined by the then Attorney-General and Minister for Justice to parliament[5] who noted:

> *"The bill and associated regulatory changes will provide savings and less red tape in the following ways: … It is estimated that the removal of GST from the leviable cost of work will save the industry approximately $10 million per annum... By reducing red tape and the cost of doing business, it delivers reforms that provide certainty and transparency for businesses and the Queensland workforce. The bill and associated regulatory changes enable significant improvements to the administration of the scheme. These amendments are evidence of the government's commitment to reducing costs for the building and construction industry."*

Additionally, the proposed change would not only require levy payers to abandon business practices adopted just 4 years ago, the re-introduction of the GST into the calculation would also lower the current $150,000 threshold. The Consultation RIS states that this is not the purpose of the review. Logically, if the government was to re-introduce GST than the threshold would have to be raised to $165,000.

Whilst the Consultation RIS observes that *"….the Queensland Government wishes to consult with stakeholders in the building and construction industry about the scheme's current levy structure as the 2014 changes were*

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[3] https://www.parliament.qld.gov.au/work-of-committees/committees/LACSC/inquiries/past-inquiries/Construction2014
[4] See second reading https://www.parliament.qld.gov.au/documents/tableOffice/BillMaterial/140318/Construction.pdf
[5] https://www.parliament.qld.gov.au/documents/tableOffice/BillMaterial/140318/Construction.pdf

not subject to a comprehensive public consultation process at the time of their introduction", from the archived parliamentary records there appears to have been adequate opportunity for consultation.[6]

HIA is further opposed to charging a levy on other taxation liabilities of business (i.e a tax-on-a-tax). Whilst we note the distinction between the GST and a levy it is all money coming out of actual building work in the construction industry. HIA opposes the ability of the state to levy payments on other taxes paid by industry.

4. CONCLUSION

HIA does support applying the same rate to all projects over $150,000 particularly given the higher rate of eligibility amongst workers on larger projects.

Based on the information provided and given the suite of other levies and charges imposed on the residential building industry, HIA does not support increasing the cost of construction through:

- increasing the Q-leave levy
- including GST in the calculation
- introducing a new mental health levy.

[6] https://www.parliament.qld.gov.au/work-of-committees/committees/LACSC/inquiries/past-inquiries/Construction2014