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Building and construction industry - Proposed changes to QLeave levies

J O'Dwyer

Master Electricians Australia (MEA) is the trade association representing electrical contractors recognised by industry, government and the community as the electrical industry's leading business partner, knowledge source and advocate. Our website is www.masterelectricians.com.au

Q Leave levy increase Regulatory Impact Statement (RIS)

Proposed changes to QLeave levies Consultation Regulatory Impact Statement (RIS) document is the Office of Industrial Relations paper that is proposing 3 increases in various parts of the Building and Construction Industry Levy.

- Qleave levy increase
- WHS levy increase
- GST Inclusion which increases all three levies including the Training levy.

According to the Queensland Guide for Better Regulation the RIS is the culmination in a number of steps within Government that leads to a point of consultation. A RIS should clearly and concisely identify the need for change and fully cost various options and that evidence based approach has been undertaken to justify that steps 1 to 5 of the Guide.

MEA, after reading the RIS, suggests the RIS has failed to identify a clear case being made by the QLeave Board or the Office of Industrial Relations (OIR) for an increase in the Qleave levy. The case has certainly not been made out to increase the Qleave LSL payment and there have been no cogent reasons identified for increasing the WHS levy or including GST in the calculations.

In support of the above MEA has reviewed the 2017 – 2018 QLeave Annual report in comparison to the information provided in the RIS. There are a number of issues we have identified that would indicate that the position of the Qleave fund as described in the RIS are somewhat contradictory. Extracts from the QLeave Annual report clearly demonstrate our concerns in our view:

> *ACTUARIAL REPORTING*
> *A full actuarial assessment is performed every two years to investigate the sufficiency of the Authority's funds and the adequacy of the rate of long service leave levy, to ensure the Scheme's financial viability to perpetuity, with an interim assessment every other year. QLeave's actuary is Mercer Consulting. Mercer Consulting works with QLeave's Investment Advisor, PricewaterhouseCoopers, and Funds Manager, Queensland Investment Corporation. Mercer Consulting forecasts as accurately as possible, whether investment strategies will continue to generate sufficient funds to meet future commitments for long service leave payments and maintain the long-term sustainability of the Scheme.*
>
> *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****.*

MEA has also reviewed the 2017/18 annual financial report and sees that the reported assumptions and earnings are within the expected range. There are no warnings of significant note that would demonstrate a need to increase the fund.

The OIR RIS has however made point that in December 2018 that the Assets to liabilities ratio had dipped to below the range of 105%, however the RIS goes on to say that was corrected in January of 2019.

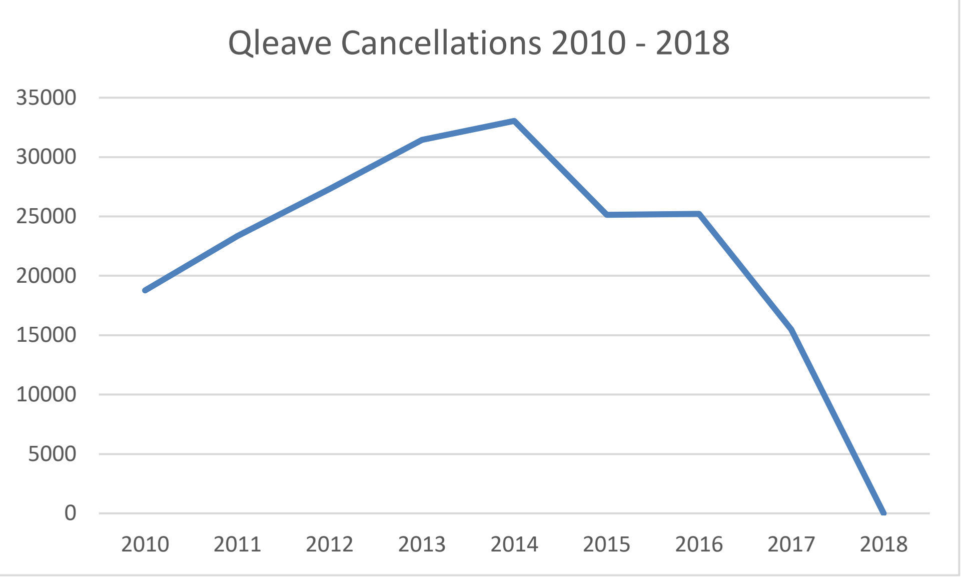
> *2.2.5 Financial viability of the PLSL scheme QLeave's 2017-18 annual report9 confirms the scheme is currently financially sound while also providing a snapshot of the scheme's levy revenue and claims paid since 2013-14 (see page 3). In 2017-18, $76.5 million in levy revenue was collected from across 35,7078 notified project works. This is compared to $107.5 million in levy revenue collected in 2013-14 from 35,817 projects. The annual report also shows that the number of workers registered in the scheme has increased from 285,027 in 2013-14 to 337,854 in 2017-18. There has also been an increase in the number and total value of claims paid over this period with $72.2 million paid across 10,292 claims in 2013-14 compared to $97.8 million paid for 14,532 claims in 2017-18.*
>
> *The changes noted above, combined with the loss of revenue from the scheme since 2014, suggest that a review of the current levy rate and structure is timely to ensure the longer term financial viability of the scheme.* ***The target range for funding ratio of assets to the Accrued Benefit Liabilities (the present value of expected future PLSL payments) is 105%-120% and the scheme has operated comfortably within this range. However, it may not be possible to continue operating in this range in the medium-term. The ratio of liabilities to assets fell below the bottom range target to 102% in December 2018, before rising to 105.04% in January.*** *The scheme will continue to see an increase in the number of workers becoming eligible for long service leave as their entitlements mature and this will have an impact on the funding ratio for the scheme. To inform consideration of the scheme's viability over the medium to long term, the Queensland Government is consulting on the current levy rate and structure of the scheme and in particular, on some of the changes introduced in 2014 which have not previously been subject to wider industry consultation.*

The RIS make no effort to explain what "medium term" is nor does it annunciate what assumptions, trends or forecast it relies on to make such a suggestion.

The RIS also clearly identifies that the fund is sound but that the number of participants in the fund has increased and that this is also cause for concern.

MEA however questions that the RIS has not made any attempt to explain or take into account the change in policy / process for the handling of the "4-year cancellation rule". The Qleave 2017/18 annual report shows that over the last 4 years there has been a decrease of removals from the funds register of employees who qualify, with a small asterixis stating that it's been postponed due to data cleansing issues. In 2013/14 Q leave removed 33,044 names, however in 2017/18 none have been removed. The question then arises: has the retention of workers within the Queensland building and construction industry changed significantly in the last 4 years? This then raises concerns about the integrity of the RIS assumptions. Prior to 2013/14 year we see the following results from eac Annual Report for cancellations.

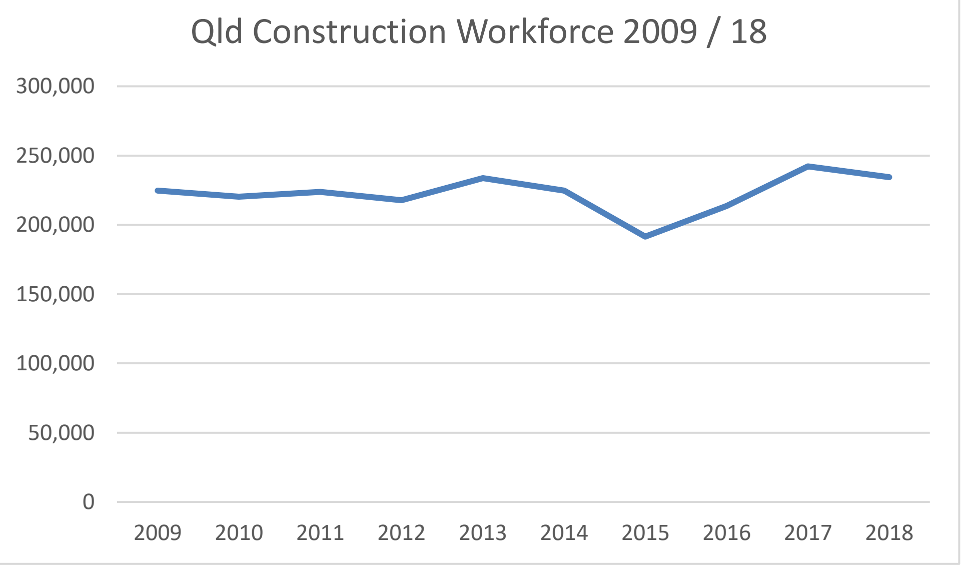
Year	**Cancellations**	**Year**	**Cancellations**
2010	18757	2015	25129
2011	23351	2016	25210
2012	27324	2017	15469
2013	31454	2018	0
2014	33044		



6291.0.55.003 Labour Force, Australia, Detailed, Quarterly details in February 2019 Queensland had approximately 248,700 workers employed and at the following levels:

Year	No. of Workers
2018	234,400
2017	242,200
2016	213,700
2015	191,500
2014	224,600

Year	No. of Workers
2013	233,700
2012	217,800
2011	223,700
2010	220,400
2009	224,800



The RIS make no assessment of this or its impact or give reasons for the recommended changes, however assumes later in the paper that the fund in the mid-term is ‘at risk’, however does not provide any detailed financial modelling that demonstrates the cause for concern.

The non-withdrawal of non-qualifying employees is a significant impact on the viability of the fund and its outstanding liabilities we believe are possible overstated by somewhere between 50,000 and 100,000 employees. Based on our estimate this could mean that up to $200 million of liabilities have been overestimated in the RIS.

MEA also draws attention to the inverse increase in claims payouts when the 4 years rule reductions have occurred. In the same period claim payouts have far exceeded those of the past without any significant increase in labour retention rates within the industry however a discernible decrease in the number of 4-year claimants not being removed over the same period. These trends can be seen in the annual report extracts supplied above.

The financial modelling of the RIS does not examine any impact on the cost of building or renovation sectors of the industry. The RIS suggestion to include GST in the threshold, will affect consumers in the owner/occupier space which is a significant source of income for builders and electrical contractors. More pressure on costs will have a disproportionately large impact on curtailing activity in the industry. However, the RIS does not examine or make any attempt to quantify this impact. According to the ACIF Building Industry report released November 2018 Queensland is facing a 6.6% decrease and 4.4% decrease, respectively, over the next two financial years being 2018/19 and 2019/20 in residential building activity. Increasing costs and the effect they will have at the owner occupier and small investor is an import consideration that has not been undertaken in the RIS.

QLD Value of Work Done by Type ($ million)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
			Actual ($ million)					Forecast ($ million)		
Residental Building	14,051	15,733	18,478	19,114	18,190	*16,993*	*16,208*	*16,727*	*17,455*	*19,300*
Non-Residental Building	7,563	6,994	7,313	7,192	7,728	*7,767*	*8,112*	*8,366*	*8,256*	*7,978*
Engineering Constructon	46,998	30,706	18,577	19,113	21,229	*22,770*	*23,430*	*24,511*	*24,301*	*23,918*
Total Constructon	**68,612**	**53,433**	**44,368**	**45,419**	**47,146**	***47,529***	***47,751***	***49,604***	***50,013***	***51,195***
			% change (YoY)					% change (YoY)		
Residental Building	7.9	12.0	17.4	3.4	- 4.8	*- 6.6*	*- 4.6*	*3.2*	*4.4*	*10.6*
Non-Residental Building	5.0	- 7.5	4.6	- 1.7	7.5	*0.5*	*4.5*	*3.1*	*- 1.3*	*- 3.4*
Engineering Constructon	5.5	- 34.7	- 39.5	2.9	11.1	*7.3*	*2.9*	*4.6*	*- 0.9*	*- 1.6*
Total Constructon	**5.9**	**- 22.1**	**- 17.0**	**2.4**	**3.8**	***0.8***	***0.5***	***3.9***	***0.8***	***2.4***

“YoY” = year-on-year

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Source: ABS and ACIF CFC

The OIR has previously suggested to cabinet increasing cost for consumers in relation to other home building / related activities such as retrospective fitting of Electrical Safety Switches on homes. Cabinet however rejected such increase or analysis. The RIS does not analyse the multitude of combinations as suggested and define a final clear cost. Based on the Qleave RIS we estimate a minimum increase of $400 - $600 for consumers, this figure is a comparative cost of RCD installation in many Queensland homes. Qleave increase is arguably broader due to the inclusion of consumers undertaking renovations as well as building work.

OBJECTIVES OF GOVERNMENT

The RIS states that the objective is to consult about changes made from 4 years ago. MEA has not heard of any complaints regarding the changes made, nor has any member or industry participant raised concern about the current structure or level of the current levy. In our view there have been no cogent reasons communicated in the RIS that make a change either advisable or necessary.

Scheme Tiered Levy Option 1, 2 and 3

MEA opposes any change being made to the current levy, no analysis of the impact on the industry has been undertaken and there has been no analysis or explanation as to the level of the underfunding in the medium term and whether or not the additional $7 million in funding is too much or too little to address the situation.

The RIS also does not demonstrate based on current whole of industry expenditure the increase or altering affects. The RIS simple gives example of projects rather than analysis across the impact of the whole industry.

Reintroduction of GST

MEA opposes the imposition or reintroduction of GST into the calculation. GST is a tax and as such we see a Tax on a Tax being implemented. Again, at the smaller end of construction industry owner occupiers, small builders and renovations are done by private consumers and as such cannot claim back the GST as suggested by the department as an operating cost in consultations.

Increasing the PLSL rate

The RIS again gives limited explanation concerning the so called medium term lack of funds to justify the increase to the PLSL rate. Given our concerns regarding the veracity of this analysis and the ACIF reports that residential building and construction for at least the next 2 years is look at a 6.6 and 4% reduction year on year. **MEA opposes the increasing of the PLSL rate**.

Mental Health and WHS Fund

MEA supports option 2, that is, funding to remain but that dedicated funds be set aside. The WHS Contribution that industry makes to its own WHS resource is unique in Australia. The increase in funding may also have other unintended consequences whereby current employers who are providing services will withdraw their efforts on the basis that the Qld Government and any related supplier of delivery will be solely responsible. In all other industries outside of construction, many employers have their own Employee Assistance Programs (EAP) and these work well to set employers apart from others in the labour market. Suicide and its prevention is relevant in all industries as the Suicide Action plan explains however there are many other groups that work and are within all industries in need of resources from OIR.

The RIS reference to the Best Practice Review makes an assertion that due to the Government's decision on the recommendations to create additional departments, such as the WHS Prosecutors office, which will act across all industries, is not due to just the construction industry. Workplace deaths occur in other industries such as transport and agriculture however the RIS seems to suggest that Building and Construction should pay additional costs because the State Government has increased its own spending to fulfil its duty as the state regulator.

MEA also has concerns that the OIR rather than developing internal resources and activities will simply be a fund / grant manager of the additional WHS fee. This adds no value to the industry or to Queensland workplaces in general. MEA is concerned that the intellectual property of programs and resources will not be owned by Queensland tax payers. We see that there is expertise in government departments in this area already that would be able to deliver outcomes for industry rather than relying solely on external service providers.

Jason ODwyer

Manager Policy and Advocacy

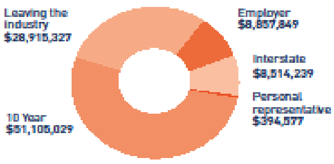
CUSTOMER SERVICE DELIVERY

PERFORMANCE MEASURES	2013-14	2014-15	2015-16	2016-17	2017-18
Workers registered	285,027	290,255	290,306	303,578	**337,854**
Employers registered	19,151	19,406	19,957	18,037	**18,621**
Number of claims paid	10,292	12,026	13,922	14,894	**14,532**
Value of claims paid	$72.2m	$83.9m	$98m	$98.6m	**$97.8m**
Capped weekly rate of pay	$1,850	$1,940	$1,960	$1,980	**$1,980**
4 year rule cancellations	33,044	25,129	25,210	15,469	**-***
Missing service requests	1,693	1,404	1,522	1,667	**2,117**
Worker claims – % online	40%	55.5%	79.3%	88.2%	**89.0%**
Employer reimbursement – % online	55%	70.2%	80.7%	89.6%	**87.8%**
Worker service returns – % lodged online	71%	79%	86%	94%	**92.6%**
Levies collected	$107,539,000	$68,612,000	$82,750,000	$84,206,000	**$76,555,000**
Works notified	35,817	32,143	33,980	35,519	**35,078**
% Works notified online	58%	65%	69%	87%	**98%**

* QLeave postponed the four year rule cancellation process in 2017-18 to focus on data cleansing, with a view to restarting this process in the next financial year.

VALUE OF CLAIMS PAID TO DATE ($ MILLION)

VALUE OF CLAIMS PAID IN 2017-18



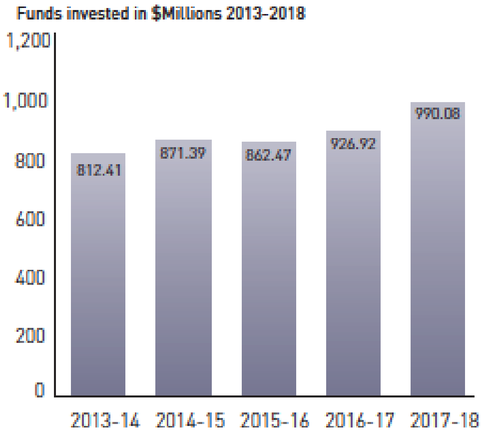
FINANCIAL MANAGEMENT

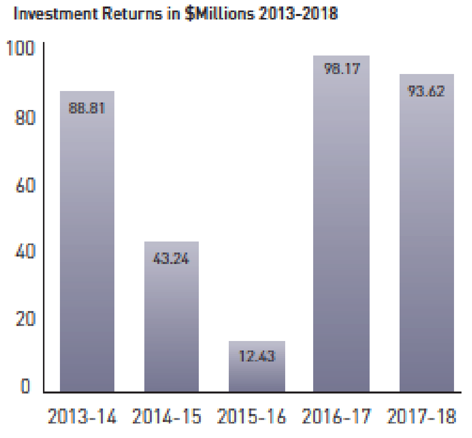
An overall surplus of $23.89 million was achieved in 2017-18. This can be attributed to these major factors:

- higher than expected investment return, and
- lower than expected long service leave payments.

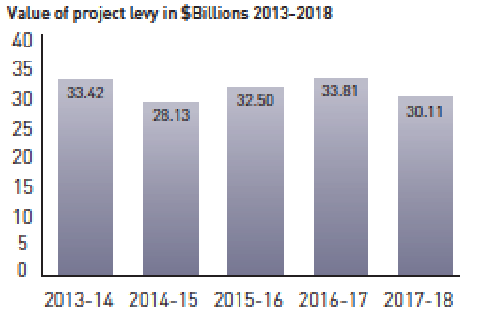
The Authority's equity is $119.57 million.

INVESTMENT MARKET PERFORMANCE





BUILDING ACTIVITY



LONG SERVICE LEAVE CLAIMS PAID