HOUSING INDUSTRY ASSOCIATION

Submission to
PEG Consulting

Investigation and Review of the Construction Industry Training Fund Act 1993

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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.

As the voice of the residential building industry, HIA represents a membership of 60,000 across Australia. Our members are involved in delivering more than 170,000 new homes each year through the construction of new housing estates, detached homes, low & medium-density housing developments, apartment buildings and completing renovations on Australia's 9 million existing homes.

HIA members comprise a diverse mix of companies, including volume builders delivering thousands of new homes a year through to small and medium home builders delivering one or more custom built homes a year. From sole traders to multi-nationals, HIA members construct over 85 per cent of the nation's new building stock.

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 the manufacturing, supply, and retail sectors.

Contributing over $100 billion per annum and accounting for 5.8 per cent of Gross Domestic Product, the residential building industry employs over one million people, representing tens of thousands of small businesses and over 200,000 sub-contractors reliant on the industry for their livelihood.

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."*

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 22 centres around the nation providing a wide range of advocacy, business support services and products for members, including legal, technical, planning, workplace health and safety and business compliance advice, along with training services, contracts and stationary, industry awards for excellence, and member only discounts on goods and services.

1. INTRODUCTION

HIA takes this opportunity to respond to the paper released in December 2022 *Investigation and Review of the Construction Industry Training Fund Act 1993* (Issues Paper) by PEG Consulting.

The *Construction Industry Training Fund Act 1993* (Act) governs the functions and composition of the Construction Industry Training Board (CITB) and the allocation and distribution of funds collected through the training levy.

The imposition of a training levy across the building and construction industry in South Australia is a long-standing feature of the industry. On the one hand it is said that such levies can give businesses a sense of ownership of, and involvement in, training. The levy may also further stimulate training, as the industry and/or employers are directly involved in managing the training fund and identifying priorities. On the other, a levy of this type is essentially another form of taxation and cost on business, ultimately impacting housing affordability.

Notwithstanding this, HIA recognises and supports the benefits of ongoing training, and the training levy is one way of facilitating this outcome and a careful balance must be struck between the cost burden imposed by the levy and the benefits to industry of dedicated resources targeting skills, training, and development.

Therefore, any amendments to the Act, including the collection and distribution of those funds, could have serious implications for the building and construction industry.

In sum, it is HIA's view that:

- There are opportunities to improve the composition, governance, and operation of the CITB.
- The current approach to the collection and distribution of the levy is appropriate, specifically:
    - The levy should be lowered in recognition of the amount currently in the Fund and the current circumstances facing the industry.
    - Funds should be distributed based on contribution. Funds should not be allocated to non-industry specific programs.
- The development of a well-researched and comprehensive training plan is key to ensuring funds are appropriately distributed according to need.

1.1 TRADE SHORTAGES WORST ON RECORD

This review comes at a time where labour shortages across the residential building industry are the worst on record.

Since the September quarter of 2021, the HIA Trades Availability index has recorded a trades shortage that is worse than all prior readings of the index, going back to 2003. Driven by this persistent shortage, the price of skilled trades rose by 10.4 per cent over the year to the September quarter 2022.

Nationally, this shortage of skilled trades has emerged as demand for detached housing and renovations has boomed. There were more than 104,000 detached homes under construction in

June Quarter 2022 – substantially above any quarter prior to COVID-19 and 81.2 per cent above the level immediately prior to the pandemic. Activity in renovations has also surged to record levels. Restricted access to skilled trades from overseas contributed to the shortage during the period when Australia's border was effectively closed.

The shortage is evident across all regions. However Regional South Australia (-1.00) features in the top three areas of the worst shortages, with Adelaide not falling that far behind (-0.76).

The shortage is also evident across all trades. The two trades with the most severe shortages are Bricklaying, with an index of -1.49, and Carpentry (-1.21). The fact these trades tend to be deployed at the start of building projects suggests the shortage of trades will persist for some time. It may even get worse in finishing trades, such as joiners, plastering, painting, etc., in coming quarters.

In addition to this, recent floods on the Murray River have led to 3,500 to 4,000 homes requiring major repair or total rebuilding, requiring workers across all trades to rectify the damage. This has exacerbated existing trade shortages and added further complications for the residential building industry.

HIA forecasts suggest the number of homes under construction will remain highly elevated for some time, meaning these shortages will remain troublesome.

Developing the workforce capabilities of the residential building industry is critical. Failing to support careers in the residential building industry will not just have immediate ramifications in terms of the current skills and labour shortages but will diminish the industries labour force productivity over the longer-term. This Act and the Construction Industry Training Fund (CITF) are a critical piece of this.

1.2 Mentoring is Key

Through the HIA Group Training Organisation, HIA is currently delivering apprentice mentoring programs in NSW and Tasmania, and we recently delivered mentoring nationally to more than 3,000 apprentices with support from the Australian Government.

In HIA's experience, mentoring and the provision of pastoral care greatly improves completion rates and adds significant depth to the apprentice experience. This 'value add' forms the cornerstone of both attracting and retaining apprentices who may find the transition from school to the workforce challenging, unfamiliar and intimidating.

HIA has experienced firsthand the value mentoring programs can bring in terms of retention, literacy and numeracy support, and professional work skills and how these programs improve opportunities for people from a range of equity groups.

HIA's training service provides a range of pathways for people beginning their career in the industry, along with professional development opportunities for those advancing their careers. HIA focuses on the training necessary to meet occupational licencing requirements in each state and territory.

HIA sees a role of the CITF in providing this type of support. HIA recommends:

- That the CITF consider how it can use funds collected to support industry mentoring for building apprentices.
- Continue to support an apprentice wage subsidy program to assist employers overcome the productivity deficit and risk of taking on apprentices, particularly in Years 1 and 2.
- Continue to support mature aged apprentices by supporting a wage subsidy to offset the difference between junior and adult apprentice wages. This is critical if those aged 21 and over are to be given equitable access to apprenticeship training opportunities.

2. ECONOMIC OUTLOOK

While in 2022 detached starts are anticipated to be 18.2 per cent below the previous year, coming in at 9,910 this remains stronger than any prior year, going back to 2008. This highlights the strength of demand that emerged during the pandemic.

This level of activity is not sustainable and starts are expected to fall back significantly. It is expected there will be 8,475 starts in 2023. Starts step down to 7,360 in 2024, as interest rates and rising costs bite into demand. The expected low point for starts is 7,360 in 2024. This is significantly above the post-GFC trough in 2012.

It is anticipated there will have been 3,150 multi-unit starts in 2022, up 10.6 per cent on the previous year. However, starts step back by 3.1 per cent to 3,050 in 2023, reflecting developer hesitancy to commit to long-term projects, given uncertainty around supplies of labour and materials. Starts are expected to remain around this level, at 3,090 in 2024.

More broadly, the ambitious and conflicting goals of the RBA and the Federal Government will impact the SA residential building industry.

On the one hand, the RBA has just increased the cash rate by 2.75 per cent in just six months, the fastest increase in a generation. Higher interest rates will bring the current building boom to an end. Sales of new homes are falling; loans for new housing have retreated to pre-pandemic levels and along with other leading indicators, this shows a market slowing.

It typically takes 6 to 12 months for a change in the cash rate to fully flow through to the wider economy. In this cycle, the lags are treacherously long. When the cash rate was increased for the first time in this cycle, in May 2022, there was a record volume of homes under construction. There was also a record volume of homes 'approved but not yet commenced'; a record volume of homes 'sold but not approved'; and sales of new homes remained strong.

This large pipeline of building work is still being completed and will continue to ensure that starts remain robust to mid-2023. This will delay the full adverse impact of the first increase in the cash rate on building activity, employment on site and consumption of materials, until 2024. This treacherously long lag raises a very real risk that the RBA goes too far, too soon, in this cycle of rate increases. The consequences of overshooting the cash rate in this cycle are a deeper slowdown in building activity in 2024 and beyond, which will slow wider economic activity, without necessarily lowering inflation to the RBA's target range sooner.

This cash rate-induced slowdown will also be compounded by rapidly rising costs for land, labour, and materials as well as the additional costs imposed on building through changes to the National Construction Code. These factors would have slowed building activity, without the intervention of the RBA.

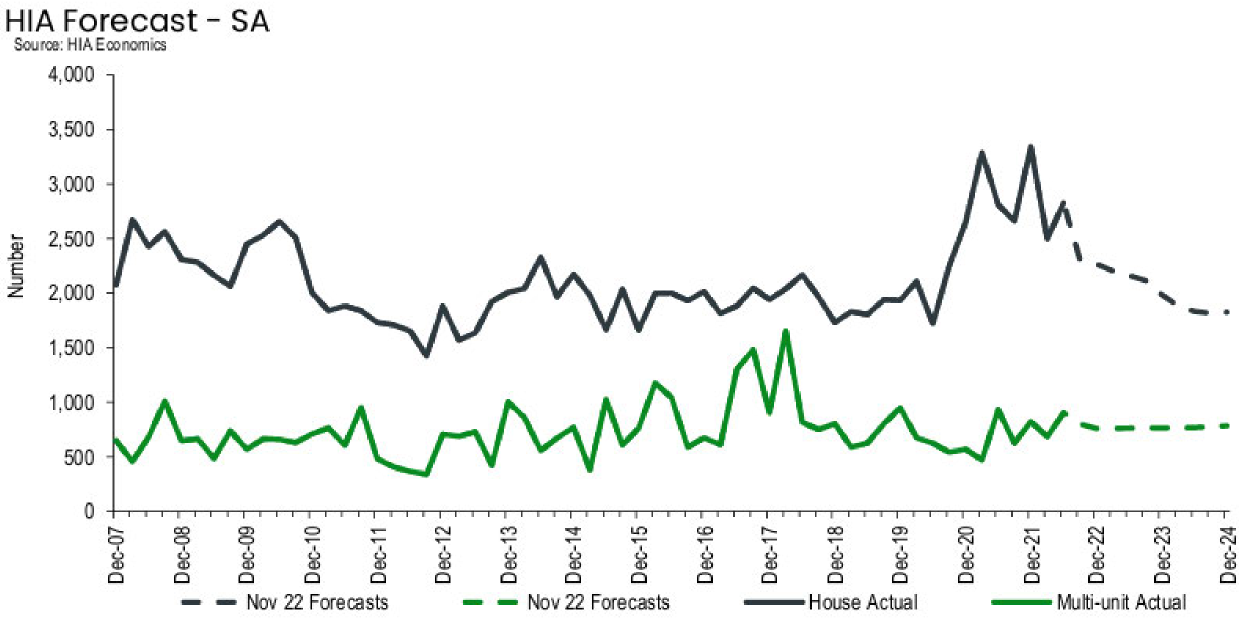
On the other hand, the Australian Government has announced an ambitious goal to build more than one million homes over the next five years. In the five years to 2018 there were more than 1.1 million new homes built in Australia, peaking at 234,780 in 2015/16. This included a record boom in apartment building as east coast capital cities played catchup from the 'Sydney is full' era of underbuilding and detached home building remained strong off the back of rapid house price growth. This boom cycle came to an end as house price growth slowed due to the large volume of supply. It was further exacerbated by the RBA, APRA and ASIC tightening access to finance through macro-prudential restrictions.

One million homes started within 5 years will be sufficient to ensure that the acute shortage of housing supply does not deteriorate further, but it will not be sufficient to address the undersupply. Achieving this goal will also require state and local councils to improve the supply of land and infrastructure and lower the cost of delivery. It is also necessary for the Australian government to minimise additional costs imposed through building code changes and reduce costs imposed on suppliers of building products, many of which are energy intensive.

The conflict between the RBA slowing housing activity to cool the economy, and the Australian Government seeking to increase housing supply, will be the most significant factors affecting starts over the next five years. A return of stable and reliable migration, strong employment growth and demand for exports should ensure a return to a robust national economy that is able to withstand changes in global economic cycles. A stabilisation in housing density, a partial return to working from the office, and the end of supply chain challenges will add to this stability.

It is forecast that 965,760 homes will commence construction in the five years to 2028, less than 35,000 short of the Government's goal. This assumes no further increase in the cash rate, ongoing growth in the number of multi units commencing construction, backed by foreign investors, and a return of overseas migrants, students and tourists. It also assumes that land supply is not the major constraint on detached home building.

If, however, the RBA continues to increase the cash rate in 2023, this forecast will be downgraded significantly. Households have only seen half of the increase in the cash rate impact their monthly mortgage payments. The adverse impact of further rate increases from February 2023 will have a significant adverse impact on confidence.



3. CITB COMPOSITION, ADMINSTRATION AND OPERATION

Clearly the composition, administration, and operation of the CITB is critical to ensuing funds collected by the training levy are distributed appropriately. In a broad sense, the governance of training levies should ensure that those industry's making contributions have a direct voice and role in the provision of strategic training advice and policy development.

How effective is the CITB, as currently comprised and administered, in attaining the objects of the CITF Act through the exercise of its functions and powers (as outlined in Sections 11 and 12 of the CITF Act)?

Without a set of objectives, it is difficult to determine the effectiveness of the CITB. In respect of those matters set out in the long title, the CITB appears to be carrying out these functions and fulfilling its role as set out under section 11 of the Act. However, such matters could be better addressed and assessed by including clear objects in the Act.

Therefore, HIA supports the inclusion of clear objects in the Act to better outline the purpose of the CITF and the functions of the CITB. While HIA supports the inclusion of matters such as 'addressing skill shortages, upskilling and entry level training as supported by data and evidence', other matters such as the following should be included:

- Offering quality training.
- Improving the uptake of training and developing in the industry.
- Collection of the levy and administration of the Fund.
- Development of a Training Plan.

Further consultation is required to determine what these objects are.

What opportunities exist to support the achievement of these objects in relation to:

- ***The composition of the CITB***
- ***The staffing of its organisation***

- ***Other governance or operational arrangements?***

The CITB should be composed of members of the building and construction industry. This is important to ensure that members can add value in a tangible way. Equally important is that members have knowledge and experience across the construction industry training landscape. HIA recommends the inclusion of members – plural – with extensive knowledge of the industry and the contemporary training landscape.

HIA does not support the appointment of Deputy Members. Only the Members as appointed by the Minister should be on the CITB.

HIA also supports:

- The flexibility of the Minister to advertise publicly for expressions of interest.
- The Presiding Member exercising a casting vote.
- The provision for a majority Board decision remaining.
- The CITB members' overriding fiduciary duty being to the CITB and its objects under the Act.
- The Act formalising a requirement to consult with sector committees during the preparation of the Training Plan.
- The appointment of an Independent Chair of the Finance and Audit Committee to be facilitated by permitting the Minister to approve remuneration of the Chair of committees.
- The Act's position in relation to the use of public service employees reflecting that in the South Australian Skills Act 2008 to enable more integrated and complementary connections between the Board and Government.

4. THE LEVY

Are the exemptions to paying the levy as described in Section 23 of the CITF Act and in the Regulations appropriate?

Businesses should be exempt from the training levy where a comparable sum of contribution is directed to accredited-level training.

Is the current levy collection method effective?

Yes. The collection of the levy through the development approval process is the most efficient and sensible approach and ensures that the levy is paid. Equally, the approach ensures that the entity on which the obligation to pay the levy is imposed can ensure that it is paid.

To that end, HIA does not support the definition of project owner being changed.

HIA has concerns with proposals that would see changes to how funds are allocated across the applicable sectors. Funds should be allocated in proportion with the amounts raised by a particular industry/sector. HIA would not support a greater allocation of funds to the civil or any other sector at the expense of investment in the residential building industry.

HIA does not support the adoption of the Queensland approach, particularly with respect to the payment of a 'combined levy'. HIA sees that this approach has the potential to 'muddy the waters' with respect to the accounting for and allocation of funds.

Is the current levy rate of 0.25% of the estimated value of building or construction work (or such other percentage not exceeding 0.5% of that value as may be prescribed in regulations) appropriate to meet the workforce needs of the sector?

The current levy rate of 0.25% is appropriate and should not be increased. In fact, given the challenges faced by the residential building industry, consideration should be given to lowering the levy rate.

Further:

- Any reference to 0.5% should be removed from the Act and Regulations.
- The amount levied should exclude GST.
- The $40,000 threshold should be increased, regardless of exemptions.

Are there alternative collection methods that would improve levy collection?

No.

Compliance and education

Compliance with the requirements under the Act is obviously important due to it's impacts on the funds collected and looks to combat the 'free rider problem' associated with the use of industry levies, i.e. that despite not directly contributing an industry participant may benefit from funds accumulated through the levy. However, HIA would be concerned if funds collected via the levy were used for compliance and education activities instead of training etc.

As a first step, HIA suggests that an education plan be compiled relying on industry representatives to support and disseminate.

In addition, HIA supports the SA Government working with CITB to establish a way to identify projects that may avoid the levy due to the fact that they are not captured by the usual planning approval processes.

5. ALLOCATION OF FUNDS

Does Section 32(3) of the Act, which requires money for the provision of training to a given sector in "approximately the same proportion" as the amount contributed by the sector:

- ***Create barriers to holistic workforce and skills development across the building and construction industry?***
- ***Result in challenges addressing any particular areas of need such as upskilling, higher-level training, or cross-sector skilling?***

Funds expended for training in the residential building industry should be in proportion with the funds raised by the industry. Notably the latest annual report indicates that across the three sectors covered by the CITF, Housing has consistently made the largest contribution.

The proposal to contribute a minimum of 60 per cent of total funds obtained by the levy to training, and the remainder to then be allocated to holistic or cross-sector programs, is not supported. The current approach in which funds are allocated to sectors based on contributions is strongly supported.

While HIA does not support the proposed approach, further consideration should be given to:

- How levies spent on administration can be minimised.
- Making funding available to entry level training as the highest priority, to meet long term industry needs and benefit the industry as a whole (including subsidising the cost to group training organisations of providing 1st and 2nd year apprentices).

Any allocation of funds to administration activities such as research, data, analyses, education, and compliance must be in a transparent and proportionate way that are linked to the primary purpose and object of the Fund. The allocation of funds to administration activities should not interfere with or direct funds away from training.

6. TRAINING PLANS

What impact does the requirement under Section 32(1) for the CITB to produce a training plan on an annual basis have on:

- ***Longer term workforce planning?***
- ***Addressing longer term skills and workforce requirements?***
- ***Investment in multi-year projects or programs?***

HIA supports:

- Government and CITB developing processes that facilitate information and market intelligence sharing in the formative stage of the development of a Training Plan.
- The annual planning cycle being replaced by four-year rolling reviews of the overall strategic direction developed through the CITB's investment decisions, with capacity for annual adjustments and reallocation of funds.

HIA contends there should be more emphasis on the ability to rapidly respond to industry needs.