

Master Builders Australia

Business Entry and Exit
in the
Building and Construction Industry

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1 Introduction

- 1.1 Master Builders Australia is the nation's peak BCI association which was federated on a national basis in 1890. Master Builders Australia's members are the Master Builder State and Territory Associations.
- 1.2 Over 125 years the movement has grown to over 32,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association that represents all three sectors, residential, commercial and engineering construction.
- 1.3 The Building and Construction Industry (BCI) is a major driver of the Australian economy and makes a major contribution to the generation of wealth and the welfare of the community, particularly through the provision of shelter.
- 1.4 At the same time, the wellbeing of the BCI is closely linked to the general state of the domestic economy

2 Overview

- 2.1 Master Builders Australia welcomes the Productivity Commission Inquiry (the Inquiry) into barriers to entries and exits of business in the Australian economy. We particularly welcome the attention to be given to the impact of regulation in business start-up and close down.
- 2.2 The Inquiry is important for the BCI given:
 - while the entry (start-up) rate for new firms in the industry was around the all-industry average; and,
 - the exit (close down) rate for new firms in the industry was noticeably above the all-industry average.
- 2.3 Of particular concern are the high attrition rates for new firms created within the BCI, with:
 - 27 per cent of new firms closing their doors within just one year of start-up; and,
 - 45 per cent within two years, and 56 per cent within three years, of starting operation.

- 2.4 Such attrition rates must be a matter for concern, pointing to losses of skills, entrepreneurship and competition within the BCI, and to the wider Australian economy.
- 2.5 Master Builders believes decisive action is required in two key areas to improve business entry, and to reduce business exit, rates in the BCI, and the economy more generally.
- 2.6 These priority areas are regulation reform, and business skills training.
- 2.7 In the area of regulation reform, Master Builders calls for meaningful action to, inter alia:
- substantially reduce State, Territory and Local Government variations to the National Construction Code (NCC);
 - eliminate the differential classification and treatment of employees and sub-contractors within and between jurisdictions; and,
 - improve third-party regulatory processes, especially where these regulations and their associated requirements are imported and/or referenced in Federal Government et al regulatory instruments.
- 2.8 As one builder told Master Builders in a series of member-focus groups convened to discuss the issues before the current Inquiry:

Battling with regulations and bureaucrats is taking me away from building my business. I should be out winning jobs and doing business.

And, another builder:

Have a look at everyone who regulates the building industry: the ABCB; Standards Australia; the Banks (as sources of finance); the insurance companies (given they provide insurance cover, when you can get it); local governments (God help us); and, the various State fair trading and consumer protection agencies. (No wonder) you have to price red tape into your quote.

And, yet another builder:

We need seamless, back-to-back regulation, particularly between State and Local Governments.

Can we do something about all of the local government variations to the National Construction Code.

2.9 In the area of skills training, Master Builders calls for meaningful action to, inter alia:

- greater harmonisation of apprenticeship systems and public sector funding policies around the nation;
- the development of “Passports of Competencies”; and,
- wider industry-owned qualification and competency development.

2.10 A recurrent message from our member-focus groups, when discussion turned to the issue of skills training, was the need for greater emphasis on training in business skills. For example:

We do a good job teaching young blokes how to bang in a nail. But we need to teach (apprentices and young builders) more about business management.

We need to do much more CPD (compulsory professional development), especially in how to run a business.

We should add one or two modules on business management to Cert 4.

Young blokes need more training in pricing work, managing cash flow, understanding their legal responsibilities, and in sales and marketing.

3 Terms of Reference

3.1 The Federal Government has directed the Productivity Commission to undertake a review of barriers to entries and exits of business in the Australian economy.

3.2 Key amongst the Terms of Reference (see PC, 2014: iii), which sets the framework for the inquiry, are investigations into, inter alia:

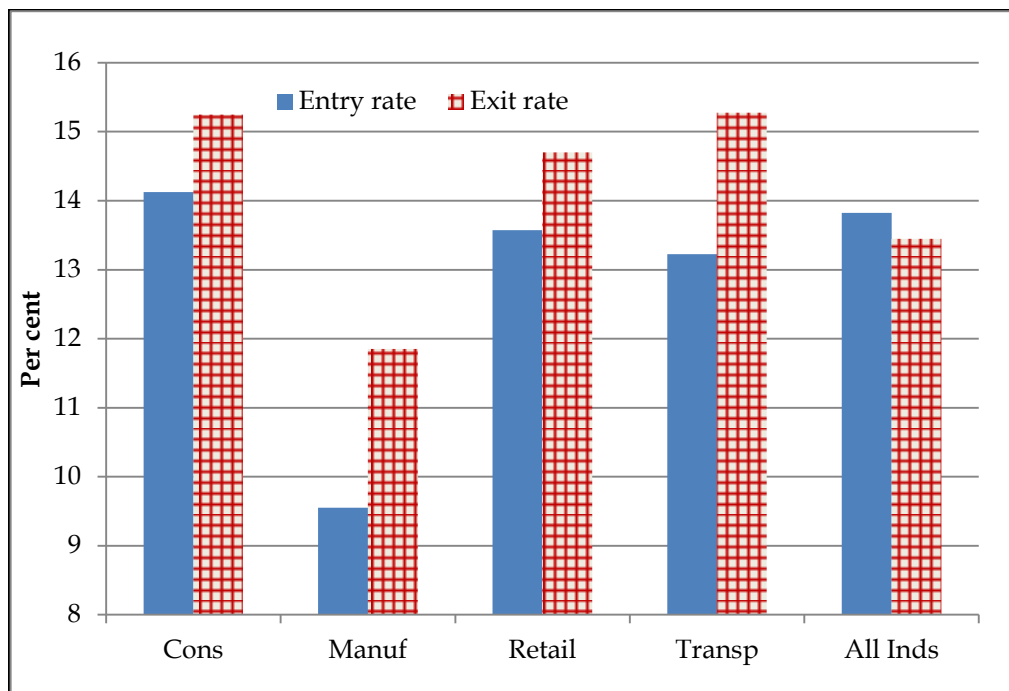
- the nature and extent of business entry and exit, and the impact on Australia’s economic performance; and,
- options and strategies for reducing barriers to entry and exit, ranging across, but not limited to, regulatory imposts by government, transfers and subsidies from governments, and personal and business insolvency regimes.

- 3.3 The Productivity Commission has released a useful Issues Paper (PC, 2014) which discusses several of these, and other related, issues, under two broad headings: barriers to new business entry and start-up; and barriers to business transfer or exit.
- 3.4 Under the sub-heading of ‘barriers to new business entry and start-up’, the Productivity Commission discusses topics such as regulatory barriers to commencing business, access to finance for newer firms, and constraints on new business structures.
- 3.5 Under the sub-heading of ‘barriers to business transfer or exit’, the Productivity Commission considers topics such as personal and corporate insolvency regimes, impediments to the transfer of ownership, and government assistance policies and programs acting as barriers to firm closure.
- 3.6 The Productivity Commission also raises the question of business and social attitudes to risk and innovation, in particular relating to firms who ‘tried and failed, and want to try again’ – in effect, our national attitude to entrepreneurship.
- 3.7 Master Builders’ submission seeks to address a number of these, and several other, important issues relating to business entry and exit from the standpoint of the BCI . These include:
- the entry and exit rates for firms in the industry, both in aggregate, and by sector within it; and,
 - impediments to firm performance arising from poor regulatory design and practice, and from skills shortages.
- 3.8 The economic significance of the BCI is underscored by two important metrics:
- it accounts for almost 8 per cent of gross domestic product, and more than 9 per cent of employment, in Australia; and,
 - owner-occupied housing and other property investments account for over two-thirds of the asset portfolio and wealth of ordinary Australians.

4 BCI Entry and Exit – In Aggregate

- 4.1 The Australian Bureau of Statistics (ABS, 2014) collections on business entry and exits provide one of the best quantitative insights into the creation and termination of commercial activity in Australia.
- 4.2 Amongst the main messages emerging from a careful review of this collection are some of Australia’s key industries, including the fulcrum BCI are being caught in a tightening pincer of declining entry rates for new firms, and rising exit rates for existing firms.
- 4.3 Graph 1 reports the general pattern of business entries and exits for the BCI, the manufacturing, the retail and the transport industries, and an all-industry benchmark. All figures are entry or exit rates (that is, the number of entries or exits as a proportion of extant firms in the respective sectors), and are reported as averages for the four financial years up to and including 2012/13.

Graph 1: Business Entry and Exit for Selected Industries



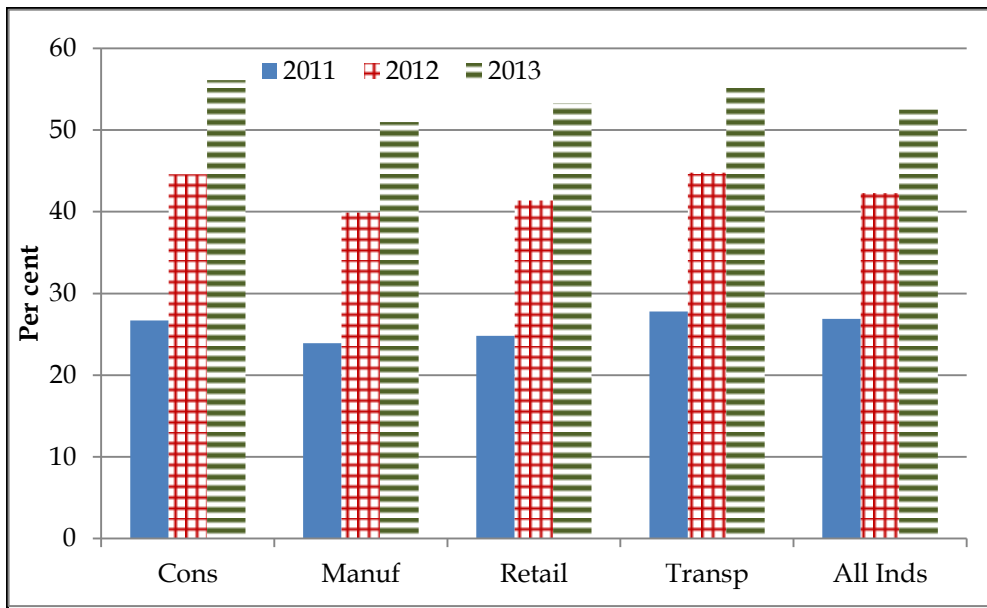
- 4.4 The entry rate for new firms in the BCI averaged 14.1 per cent per annum in the four financial years under review. However, this average figure conceals a marked decline in the entry rate for the industry, from 16.7 per cent in 2009/10 to 10.3 per cent in 2012/13, or a fall of some 38 per cent in new start-ups.

- 4.5 The average entry rate for the:
- retail industry was 13.6 per cent per annum for the four years under review, falling from 17 per cent in 2009/10 to just 8.8 per cent in 2012/13;
 - transport industry was 13.2 per cent per annum for the four years under review, dropping from 15.8 per cent in 2009/10 to 9.9 per cent in 2012/13; and,
 - manufacturing industry was 9.6 per cent per annum for the four years under review, down from 11.6 per cent in 2009/10 to just 6.5 per cent in 2012/13.
- 4.6 The all-industry average entry rate for the four years under review was 13.8 per cent per annum (dropping from 16.7 per cent in 2009/10 to 11.2 per cent in 2012/13).
- 4.7 By comparison, the exit rate figures tell a much different story. For all four of the specific industry sectors under review – building and construction, manufacturing, retail, and transport – exit rates exceeded entry rates, on average, over the four years under review.
- 4.8 Exit rates for firms in the BCI averaged 15.3 per cent per annum, rising from 14.8 per cent in 2009/10 to 16.5 per cent in 2012/13, or an increase of just over 11 per cent in business closures. The average exit rate for the:
- retail industry was 14.7 per cent per annum for the four years under review, increasing from 14.0 per cent in 2009/10 to 15.7 per cent in 2012/13;
 - transport industry was 15.3 per cent per annum for the four years under review, rising from 15.0 per cent in 2009/10 to 15.6 per cent in 2012/13; and,
 - manufacturing industry was 11.9 per cent per annum for the four years under review, lifting from 11.8 per cent in 2009/10 to 12.5 per cent in 2012/13.
- 4.9 The all-industry average exit rate for the four years under review was 13.5 per cent per annum, moving from 13.1 per cent in 2009/10 to 14.1 per cent in 2012/13.

4.10 Another perspective on the entry and exit rates for businesses can be obtained from an examination of attrition and survival rates for new firms. The attrition and the survival rates are complements of each other: 100 – attrition rate = survival rate; or, 100 – survival rate = attrition rate.

4.11 Graph 2 reports the attrition rates for new firms in each of the industry sectors under review which commenced operation in 2010 – that is, essentially new, and most likely small, businesses.

Graph 2: Attrition Rates for New Firms in Selected Industries



4.12 The attrition rate for new firms established in 2010 in the BCI rose from 26.7 per cent of these firms after one year, to 44.6 per cent by the second year, to 56.1 per cent in the third year.

4.12.1 (All attrition rates are cumulative, so figures for the second year include those for the first year, with those for the third year including the two preceding years.) That is, over half of all new firms established in the BCI in 2010 had failed by 2013.

4.13 By comparison, the attrition rates for new firms established in the:

- manufacturing sector were 23.9 per cent in the first year, and 51 per cent by the third year;
- retail sector were 24.8 per cent in the first year, and 53.3 per cent by the third year; and,

- transport sector were 27.8 per cent in the first year, and 55.4 per cent by the third year.
- 4.14 The all-industries average attrition rates were 26.9 per cent in the first year, 42.3 per cent by the second year, and 52.5 per cent by the third year.
- 4.15 Nevertheless, it would at least appear the marginal rate of attrition (the change from one year to the next) appears to moderate with time, evident in the step-change in attrition between the third and second year of operation is smaller than that between second and first year of operation. However, further data collections and reports on business entries and exits will be required from the ABS to see if this 'flattening of the attrition rate curve' emerges for firms after four, five or more years in operation.

5 BCI Entry and Exit – By Sector

- 5.1 The ABS (ABS, 2014) also usefully reports business entry and exit rates for various sub-sectors within the BCI, summaries of which for the 2013 reporting year can be found in Tables 1 and 2, respectively.

Table 1: Entry Rates by Building Sector

	Entry Rate (%)	Entry Rate (%)	Entry Rate (%)
	All Firms	No Emps	1-19 Emps
Air Conditioning and Heating Services	9.4	11.6	7.8
Bricklaying Services	10.1	10.3	9.9
Carpentry Services	12.4	12.5	12.4
Concreting Services	11.2	11.7	10.9
Electrical Services	10.2	10.9	9.7
Fire and Security Alarm Install Services	8.1	8.4	8.2
Glazing Services	10.0	11.2	9.2
Hire of Cons. Machinery with Operator	4.5	3.4	6.4
House Construction	9.2	9.5	9.0
Land Development and Subdivision	4.8	4.9	4.6
Landscape Construction Services	9.9	10.8	8.8
Non-Residential Building Construction	7.7	7.0	9.6
Other Building Installation Services	9.9	9.1	11.0
Other Construction Services n.e.c.	12.0	12.1	12.4
Other Heavy and Civil Eng Construction	8.1	7.9	8.8
Other Residential Building Construction	7.4	7.1	8.6
Painting and Decorating Services	11.2	11.7	10.2
Plastering and Ceiling Services	14.6	14.4	15.1
Plumbing Services	9.9	11.5	8.4
Road and Bridge Construction	9.3	8.2	11.7
Roofing Services	12.5	14.4	11.0
Site Preparation Services	9.6	9.1	10.8
Structural Steel Erection Services	11.4	10.6	13.0
Tiling and Carpeting Services	11.4	10.7	13.2
Mean	9.8	10.0	10.0
Std Dev	2.3	2.7	2.3
CV	0.23	0.27	0.23
Min	4.5	3.4	4.6
Max	14.6	14.4	15.1

5.2 Looking first at entry rates for all firms in the BCI :

- the highest entry rates were experienced in the plastering and ceiling (14.8 per cent), roofing services (12.5 per cent) and carpentry services (12.4 per cent) sectors; and,
- the lowest entry rates were experienced in the hire of machinery with operator (4.5 per cent), the land development and subdivision (4.8 per cent) and the other residential building construction (7.4 per cent) sectors.

- The overall entry rate for all firms in the BCI was 9.8 per cent.

5.3 Turning to entry rates for firms without employees (essentially sole traders) the pattern is broadly similar to that for all firms:

- the highest entry rates were experienced in the plastering and ceiling (14.4 per cent), roofing services (14.4 per cent) and carpentry services (12.5 per cent) sectors; and,
- the lowest entry rates were experienced in the hire of machinery with operator (3.4 per cent), the land development and subdivision (4.9 per cent) and the other residential building construction (7.0 per cent) sectors.
- The overall entry rate for firms without any employees was 10.0 per cent.

5.4 The entry rate profile for firms in the BCI employing between 1 and 19 persons is slightly different:

- the highest entry rates were experienced in the plastering and ceiling (15.1 per cent), tiling and carpeting services (13.2 per cent) and structural steel erection services (13.0 per cent) sectors; and,
- the lowest entry rates were experienced in the land development and subdivision (4.6 per cent), the hire of construction machinery with operator (6.4 per cent) and the air-conditioning and heating services (7.8 per cent) sectors.
- The overall entry rate for firms employing between 1 and 19 persons was 10.0 per cent.

Table 2: Exit Rates by Building Sector

	Exit Rate (%)	Exit Rate (%)	Exit Rate (%)
	All Firms	No Emps	1 - 19 Emps
Air Conditioning and Heating Services	11.9	16.2	7.2
Bricklaying Services	12.6	13.4	7.3
Carpentry Services	17.5	19.2	7.2
Concreting Services	15.2	20.2	7.5
Electrical Services	12.9	22.0	7.8
Fire and Security Alarm Instal Services	15.4	21.2	9.8
Glazing Services	15.3	19.0	8.4
Hire of Cons Machinery with Operator	13.2	26.5	8.8
House Construction	13.9	18.2	8.3
Land Development and Subdivision	13.2	20.3	8.2
Landscape Construction Services	19.5	23.3	9.2
Non-Residential Building Construction	15.8	25.7	8.4
Other Building Installation Services	13.7	19.6	13.2
Other Construction Services n.e.c.	15.0	20.7	10.8
Other Heavy and Civil Eng Construction	20.0	20.1	7.5
Other Residential Building Construction	14.0	21.8	10.3
Painting and Decorating Services	17.2	19.2	11.9
Plastering and Ceiling Services	17.5	23.0	11.2
Plumbing Services	18.9	23.5	8.2
Road and Bridge Construction	17.5	20.2	11.6
Roofing Services	20.4	25.1	11.3
Site Preparation Services	18.7	22.2	11.8
Structural Steel Erection Services	19.0	26.5	12.5
Tiling and Carpeting Services	22.8	26.6	14.1
Mean	16.3	21.4	9.7
Std Dev	2.9	3.3	2.1
CV	0.18	0.15	0.22
Min	11.9	13.4	7.2
Max	22.8	26.6	14.1

5.5 Looking first at exit rates for all firms in the BCI :

- the highest exit rates were experienced in the plastering and ceiling (22.8 per cent), other construction services (20.4 per cent) and the bricklaying (20.0 per cent) sectors; and,
- the lowest exit rates were in the hire of construction machinery with operator (11.9 per cent), land development and sub-division (12.6 per cent), and fire and security alarm installation (12.9 per cent) sectors.

- The overall exit rate for all firms was 16.3 per cent, which was well above the entry rate for all firms of 9.8 per cent (a 6.5 percentage point difference).

5.6 For firms without employees:

- the highest exit rates were experienced in the plastering and ceiling (26.6 per cent), roofing services, and other building installation services (both at 26.5 per cent) sectors; and,
- the lowest exit rates were experienced in the land development and subdivision (13.4 per cent), the hire of machinery with operator (16.2 per cent), and the site preparation (18.2 per cent) sectors.
- The overall exit rate for firms without any employees was 21.4 per cent, more than double the entry rate for such firms of 10.0 per cent.

5.7 For firms employing between 1 and 19 persons:

- the highest exit rates were experienced in the plastering and ceiling (14.1 per cent), bricklaying services (13.2 per cent) and the tiling and carpeting services (12.5 per cent) sectors; and,
- the lowest exit rates were experienced the air-conditioning and heating services, and the land development and subdivision (both 7.2 per cent), and the hire of construction machinery with operator (7.3 per cent) and sectors.
- the overall exit rate for firms employing between 1 and 19 persons was 9.7 per cent, compared to an entry rate for such firms of 10.0 per cent.

5.8 While there is a plethora of information contained in Tables 1 and 2 regarding entry and exit rates across 24 sectors across three types of firms in the BCI , of particular note must be the relatively high exit rates experienced by firms with no employees, averaging just over 21 per cent (or one-in-five of such firms).

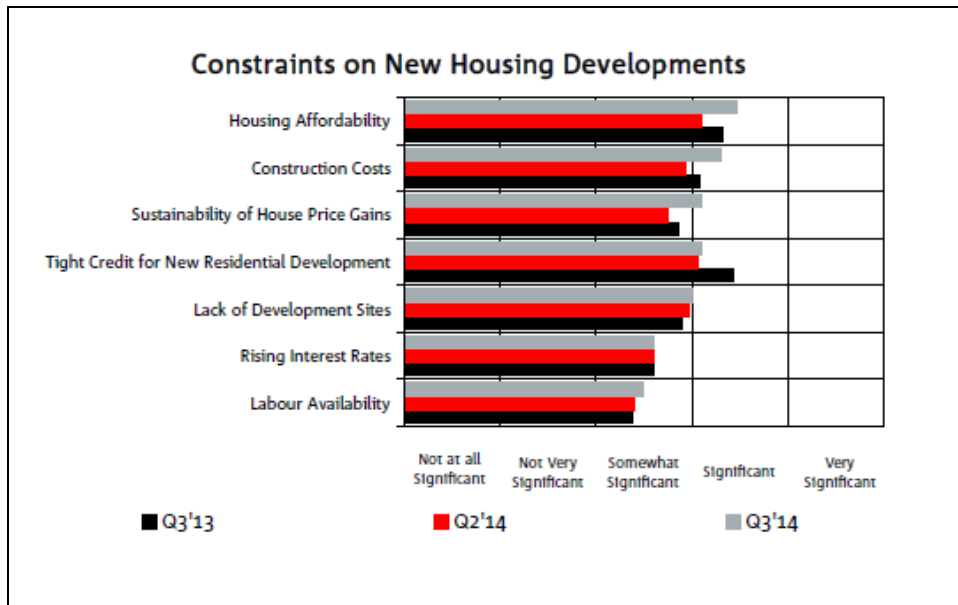
5.9 This relatively high exit rate should be a matter for concern, suggesting a potential wastage of training, and losses of skills, entrepreneurship and competition within the sectors concerned, and the BCI. However, it is not clear, or discernible from these aggregate figures, where these people go.

- 5.10 If they exit the industry completely, then there are substantial losses of investments in training, of entrepreneurship and competition, and of future capacity in the industry. However, if they transition from being firms with no employees to being firms with between 1 and 19 employees (even by taking on a single employee, such as an apprentice) then there may well be no loss (indeed, even a gain) to the industry.
- 5.11 Unfortunately, absent rigorous time series-panel data, such as regular and up-to-date releases of the ABS Business Longitudinal Database, it is not possible to say with any degree of certainty the operational trajectories of such firms.

6 Constraints and Challenges

- 6.1 Master Builders is not aware of any specific, published detailed analyses of the drivers of business commencements and terminations in the BCI. However, an insight into some of the pressures on firms in the industry can be obtained from indicators published by the National Australia Bank for both the residential property (NAB, 2014a) and commercial property (NAB, 2014b) sectors.
- 6.2 The NAB's residential property survey asks respondents to comment upon constraints experienced on new housing developments and on demand for existing property, while its commercial property survey asks respondents to comment upon the critical challenges likely to confront the sector over the coming year.
- 6.2.1 These constraints (for residential property) and challenges (for commercial property) can be viewed as proxy indicators of likely stresses being experienced by firms in, and possible drivers for their exit from, the BCI.
- 6.3 Graphs 4 and 5 report constraints being experienced within the residential housing sector (NAB, 2014a) while Graph 6 reports on the challenges being confronted by the commercial property sector (NAB, 2014b).

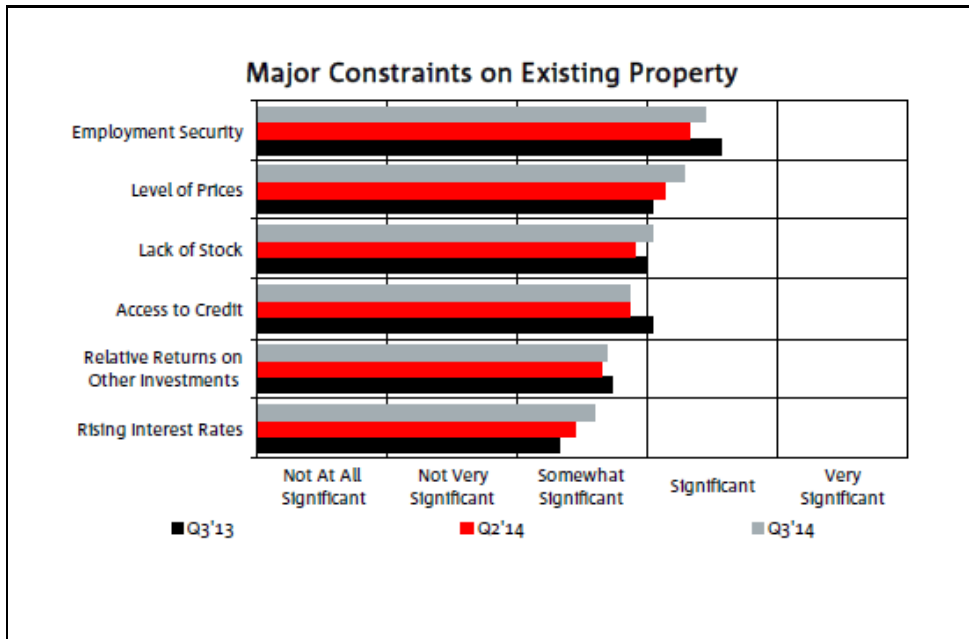
Graph 4: Constraints on New (Residential) Housing Developments



6.4 The most significant constraints on new housing development borne by the residential building sector relate to housing affordability, construction costs, tight credit for new residential development, and lack of development sites.

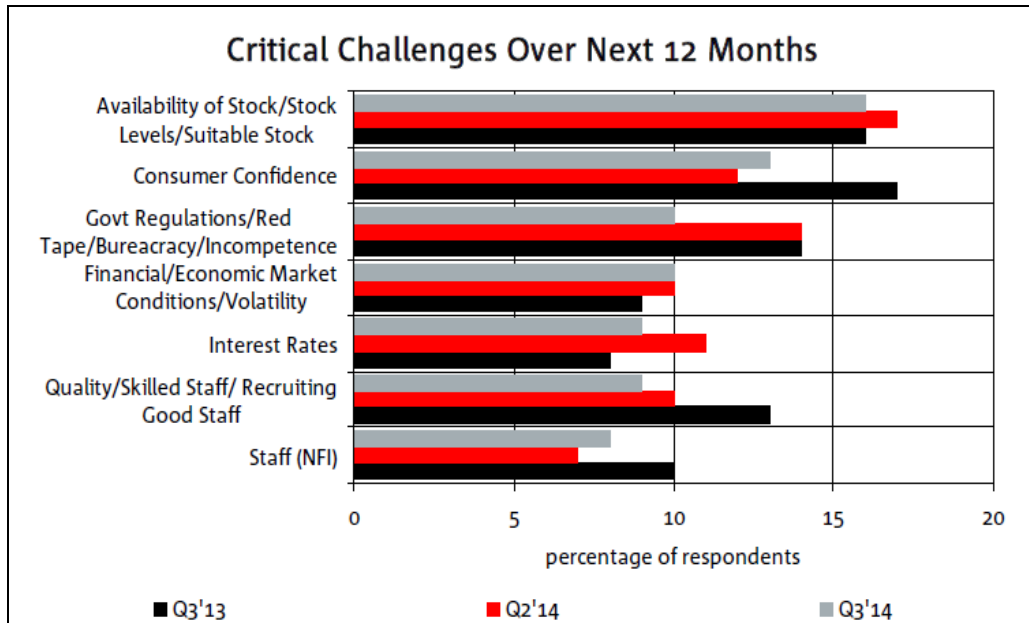
6.4.1 Constraints such as housing affordability and lack of development sites (both of which capture elements such as inadequate land supply, and poor planning and zoning arrangements), and construction costs (which can capture inefficient and unnecessary regulatory environments) can be traced back to government failure.

Graph 5: Major Constraints on Existing (Residential) Property



6.5 The most significant constraints on the existing residential property sector are essentially macroeconomic in nature, namely employment security and inflation (level of prices), although lack of stock and access also generally rank as somewhat significant barriers.

Graph 6: Critical Challenges for Commercial Property



- 6.6 The most important critical challenges confronting the commercial property sector are the availability of suitable stock, consumer confidence and poor government regulation/bureaucratic incompetence, the latter of which is indicative of government failure.

7 Regulations

- 7.1 Regulation, whether 'red' or 'green' tape, is a significant burden on the BCI, which is one of the most intensely regulated in Australia, with regulation imposed by all three tiers of government.
- 7.2 The compliance and reporting burden of regulation diverts scarce business resources away from entrepreneurial and innovative activities into form-filling (often of duplicative and/or of questionable value), and in the BCI this adds to the cost of housing supply and thus compounds other housing affordability stresses.
- 7.2.1 Anecdotal evidence provided to Master Builders by our rank-and-file members indicates regulations add between eight and twelve per cent to the cost of construction of the average Australian residential dwelling.
- 7.3 The Abbott Government has adopted an active and constructive regulation review, reform and repeal (4R) agenda, into which Master Builders has and will continue to advocate for a less burdensome and more efficient approach to regulation, in its design, in its administration, and in compliance.
- 7.4 In this context, Master Builders welcomes key initiatives taken by the Abbott Government, such as:
- publication of its "Australian Government Guide to Regulation", which will strengthen and make more transparent the regulatory development processes of federal agencies;
 - publication of its "Regulator Performance Framework", which will improve the consistency and the transparency with which regulators undertake their responsibilities; and,
 - twice-yearly regulation repeal days, which have, to date, made useful contributions to eliminating redundant regulations (although a sizeable challenge remains).

- 7.5 Nevertheless, Master Builders has identified a number of priority areas where further meaningful action is required, all of which will contribute to reducing the regulatory burden imposed on businesses in the BCI.
- 7.6 These include:
- substantially reducing State, Territory and Local Government variations to the National Construction Code (NCC);
 - eliminating the differential classification and treatment of employees and sub-contractors within and between jurisdictions; and,
 - improving third-party regulatory processes, especially where these regulations and their associated requirements are imported and/or referenced in Federal Government et al regulatory instruments.
- 7.7 Of particular irritation to rank-and-file builders are the sizeable (and growing) number of variations to the (supposedly) uniform NCC by State/Territory, but more significantly, Local Governments around the nation.
- 7.8 Such variations add to uncertainty in regulatory compliance for builders, and to the costs of construction for home and business owners. Rank-and-file builders have told Master Builders, inter alia:

There are too many documents to supply to councils that take too much time to get and in most cases are extremely expensive. e.g. Bushfire reports, acoustic reports, flood reports, shadow diagrams, site analysis, waste management plans, traffic management plans, streetscape analysis plans, hydraulic details, landscape plans, external colours, arborist reports, road opening permits and a myriad of council application documents.

We deal with over 50 Councils and each one has a different set of application paperwork, documents, fees, contributions, building controls, cut and fill policies, stormwater policies and tree preservation policies.

The time taken to approve very simple homes can take between 3 weeks to 3 months. If councils are busy e.g., Baulkham Hills, Blacktown or Liverpool then the time taken is ridiculous in most cases, up to 15 weeks.

Additional quotes from our member-focus groups on regulation issues can be found at Appendix A.

- 7.9 Master Builders recommends the Federal Department of Industry be charged with compiling and reporting on its website by the end of 2015 (with annual updates) a definitive and exhaustive list of all State, Territory and Local Government variations from the NCC.
- 7.10 In the short term, such a listing would promote greater transparency and competitive benchmarking of the incidence and impact of, as well as acting as the platform for subsequent program of work in reviewing, rationalising and potentially eliminating, such variations.
- 7.11 The BCI continues to have a very serious problem with the differential classification and treatment of employees and sub-contractors between and within jurisdictions in Australia. In the federal domain, this problem is particularly onerous under industrial relations and taxation law.
- 7.12 The status and treatment of employees vs sub-contractors under federal law is a significant issue for the BCI given these people, whether professionals such as architects, engineers or the like, or tradespeople, such as electricians, plumbers, concreters or the like, are the backbone of the industry.
- 7.13 Master Builders has identified a practical and workable solution to this problem, centred on a system of statutory registration, administered by the Australian Taxation Office, for those who choose to operate as an independent contractor.
- 7.14 Under our approach, persons looking to register for independent contractor status would be subject to a single set of tests, recognised across agencies and jurisdictions, which reflect the operation and conduct of a modern building sector. The tests would also establish clear separation between commercial law which should govern independent contractors, and workplace relations law which should govern employers and employees.
- 7.15 Master Builders recommends the Treasurer direct the Australian Taxation Office to establish a Government-Industry Working Party to implement by the end of 2015 the proposed system of statutory registration for independent contractors, and advance the necessary changes in federal law, regulation and/or administration.

- 7.16 Master Builders welcomes the directions set down in the “Australian Government Guide to Regulation” requiring regulators to consider alternatives to regulatory interventions, greater use and rigor in preparing high-quality cost/benefit and regulatory impact analyses, and increased transparency in the regulation development/review processes.
- 7.17 Of specific importance to the BCI is the obligation for Federal Government agencies, departments et al using standards et al created by third parties, such as Standards Australia, to ensure these instruments meet the Regulatory Impact Statement (RIS) requirements set down in the Guide.
- 7.18 This new threshold for the inclusion of third party standards or performance requirements into Federal regulations is significant for the BCI, given the expansive practice of the Australian Building Codes Board (ABCB) of importing Australian Standards into the NCC.
- 7.19 While Master Builders sees merit-in-principle in the privatisation of the regulatory process, through entities such as Standards Australia, this must not come at the expense of analytical rigor in the development and evaluation of the instruments thus created.
- 7.20 Master Builders recommends the ABCB be directed by the relevant Minister(s) that Standards or the like promoted or developed by third parties imported into federal government regulation be required to meet, as minimum, the performance thresholds set down in “The Australian Government Guide to Regulation”.
- 7.21 At the very least, this must include rigorous and transparent Preliminary Impact Analyses, Cost/Benefit Analyses and RISs for each and every third party instrument adopted or imported into federal legislation or regulation.
- 7.22 To ensure third party instruments remain relevant to current practices, and do not unnecessarily impede innovation and change in future practices, such instruments where adopted or imported in to federal legislation or regulation should be subject to mandatory, defined (preferably not more than five year) sunset provisions.

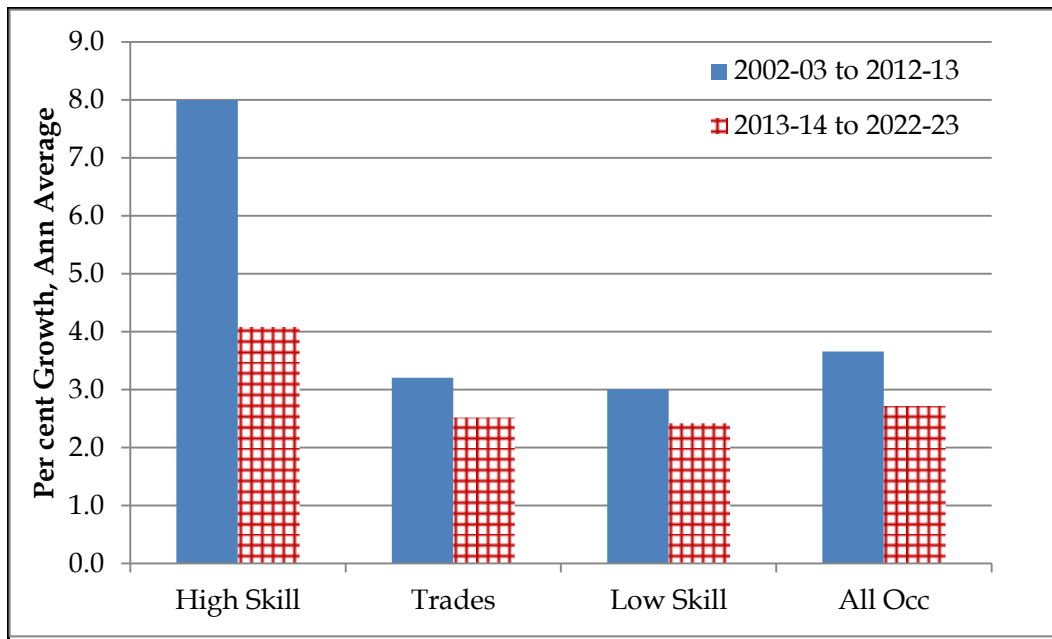
8 Skills and Training

- 8.1 The BCI is 'moving up the skills curve', evident in the changing skills composition of its labour force – a trend which Master Builders expects to continue well into the foreseeable future. However, the gradient and the pace with which the industry is able to move up this 'skills curve' is, according to our rank-and-file members, being held back by shortages of skilled and para-professional labour.
- 8.2 At the same time, the nature of employment in the BCI is changing due to the introduction of new technologies and pre-fabrication. This is leading to altered work practices which no longer guarantee traditional career paths will generate the mix of skills needed to meet the future demands of the industry, and through it the Australian economy.
- 8.3 This situation is being compounded by the mismatch between Australia's industrial relations and its workplace relations systems.
- 8.3.1 Consultations with our members continually report the workplace relations system does not currently complement the Australian Apprenticeship system and has created potential barriers to the apprenticeship system being able to deliver maximum productivity benefits.
- 8.4 Other key messages coming from our member consultations, such as the member-focus groups conducted specifically for this submission, include:
- If the young blokes don't have business or entrepreneurial skills then they won't last very long in the industry.*
- Getting (home warranty insurance) is a huge issue for new builders. But, they don't teach them this at trade school.*
- The industry needs more business skills training. As an industry we do a poor job of teaching apprentices about business management.*
- We should add one or two modules on business management to Cert 4.*
- 8.5 Additional quotes from our member focus groups on skills and training issues can be found at Appendix B

8.6 Graph 7 reports the changing skills composition of the BCI over the period 2002-03 to 2012-13 (n = 11 years), and then our forecasts of what we expect to happen over the 2013-14 to 2022-23 (n = 10 years).

8.6.1 The actual and forecast figures cover high skilled occupations (such as engineers and surveyors), tradespeople (such as electricians, plumbers), and lower skilled labour (such as general hand labourers).

Graph 7: Building Labour Force: Actuals and Forecasts



8.7 As can be seen, high skilled labour expanded by 8 per cent per annum, annual average, over the period 2003-03 to 2012-13, far-and-away ahead of the comparable growth rates for trades-skilled person (3.2 per cent) and low-skilled labour (3.0 per cent).

8.8 Master Builders expects this outperformance to continue over the 2013-14 to 2022-23 period, albeit with a narrower gap between the growth of highly skilled compared to trades- and low-skilled labour.

8.8.1 The growth rate for highly skilled labour is forecast to average around 4.1 per cent per annum over the forecast horizon, ahead of that for trades-skilled (2.5 per cent) and low-skilled (2.4 per cent).

8.9 Looked at another way, highly skilled labour accounted for 11 per cent of the labour force in the BCI in 2002/03. Master Builders forecasts this share will increase to 16.4 per cent by 2022/23.

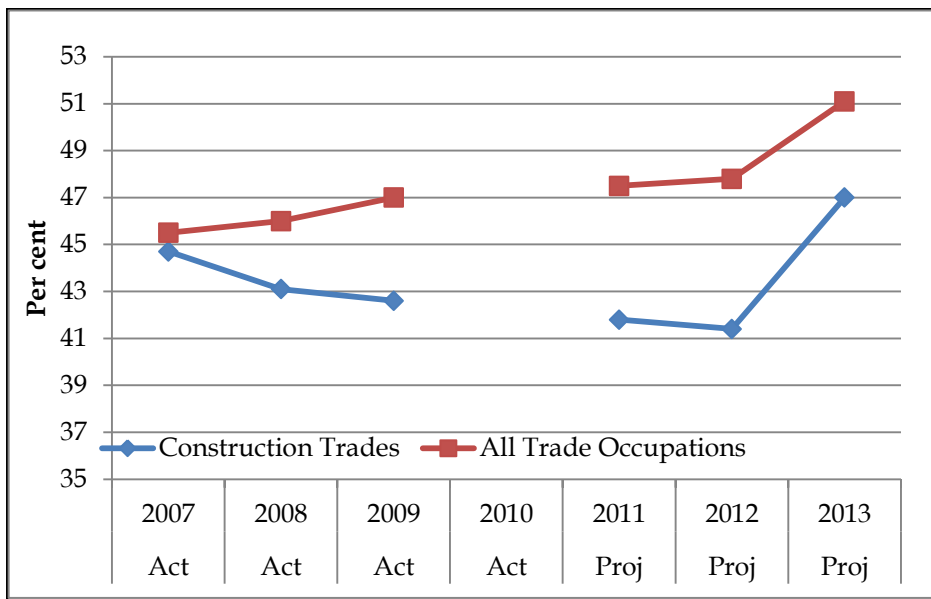
8.9.1 This increase will be accounted for by declines in the shares of both trades-skilled (down from 53 per cent to 50.4 per cent), and low-skilled (down from 36 per cent to 33.2 per cent) over the same period.

8.10 While the faster growth/rise in the share of highly skilled labour in the BCI is to be welcomed, of concern is the slower/growth decline in the share of skilled trades people in the industry, which if left unactioned could cause serious 'labour bottlenecks' in the building supply chain, and the efficiency and productivity of the industry.

8.11 This problem in part reflects, and is likely to be compounded by, the relatively lower completion/higher attrition rates for apprentices in the BCI (NCVER 2014).

8.12 Graph 8 reports completion rates for apprentices and trainees in the BCI, and all trades occupations, over the 2007 to 2009 (actual) and the 2011 to 2013 (projections) period (all data are derived from NCVER 2014).

Graph 8: Completion Rates



- 8.13 As can be seen, the completion rates for apprentices and trainees in the BCI (the blue line; diamond marker) has fallen below that for all trade occupations (red line; square marker) over the period under review.
- 8.13.1 Completion rates for apprentices and trainees in the BCI averaged 43.4 per cent for the six years for which there are reported observations, compared to 47.5 per cent for all trades occupations, a difference which is statistically significant ($t = 4.93$; $t\text{-crit} = 2.57$; $p = 0.00$) – that is, highly unlikely to be due to chance alone.
- 8.14 From a practical standpoint, it is deeply disturbing to observe more than half of all apprentices and trainees in the BCI (and indeed, in all trades occupations) fail to complete their apprentice/trainee-ships.
- 8.14.1 This situation amounts to an inefficient use of labour resources (both amongst the apprentice/trainee, and their mentors), the diversion of scarce financial resources (especially amongst smaller builders/firms) into activities which do not appear to generate a return to the individuals and the firm(s) concerned, and to the wider industry and the national economy.
- 8.15 This ‘loss of return on investment’ is especially disconcerting when it is realised (NCVER 2014) 34 per cent of apprentices/trainees in the BCI (and 31 per cent across all trades occupations) cease their training within just one year of commencement.
- 8.16 For many employers/mentors, this situation amounts to ‘money down the drain’, as few apprentices/trainees have acquired sufficient proficiency or skill in this short time frame to deliver any economic return-on-investment to their employer/mentor.
- 8.17 Master Builders has identified three potential initiatives which will help our industry and, if taken up and more widely applied elsewhere, the wider Australian economy to take meaningful action to deal with the existing, and potentially increasingly acute, shortage of skilled labour.
- 8.18 These initiatives are:
- greater harmonisation of apprenticeship systems and public sector funding policies around the nation;

- the development of “Passports of Competencies”; and,
- wider industry-owned qualification and competency development.

Harmonisation of apprenticeship systems:

8.19 The inconsistency of the apprenticeship system between State and Territories is a significant issue for the BCI, and it is important the development and enforcement processes of national qualifications be simplified.

8.20 The harmonisation of apprenticeship pathways and funding of qualifications is a micro-economic reform that is required to provide national consistency in the implementation of apprenticeship reform. This reform is necessary to reduce barriers to apprentice labour mobility and to reduce costs for business.

8.21 Against this background, Master Builders proposes the Vocational Education Training (VET) system become:

- nationally focussed with greater collaboration between the Commonwealth, and the States and Territories to meet the needs of industry and the economy including improved implementation and outcomes across jurisdictions;
- leading edge in the design and development of national training packages that are flexible to meet the needs of industry and provide clear guidance to Registered Training Organisations (RTOs) on the training and skills outcomes sought by industry. They must also clearly codify the skills and knowledge that a worker needs to perform a task or job; and,
- responsive to the ever changing needs of industry to compete within a globally competitive economy;

“Passport to Competencies”:

8.22 This initiative recognises Australia’s apprenticeship system is currently heavily focussed on the completion of full qualifications, despite the completion rate for publicly funded VET qualifications being only 36 per cent. A result of this is that in many trades the proportion of workers holding formal qualifications is actually dropping over time.

- 8.23 Part-qualifications, or skill sets, which may be appropriate to undertake a particular job role in the industry, should be recognised as a viable pathway to a job. Skill sets should not be seen as the end to training, but the “building blocks” to gain a full qualification over time where it is supported by the worker and employer.
- 8.24 Master Builders recommends the introduction of a ‘skills passport’ for the BCI where skill sets and individual units of competency can be undertaken in stages as a person’s skills needs develop over time.
- 8.25 The ‘passport’ would allow for improved safety and quality outcomes and enable employers to quickly access workers’ existing skills. The introduction of the Unique Student Identifier will be beneficial in helping employers and workers track their competencies.
- 8.26 By combining a series of units of competency and skill sets within the passport, students and workers could obtain a full qualification over time. The passport would be a mechanism to support life-long learning. In order to achieve this aim, the funding of skill sets and individual units of competency would need to be agreed on a national basis as currently there are different funding guidelines in each jurisdiction.

Industry-owned qualification and competency development:

- 8.27 Master Builders supports the Australian Government’s review into *Industry Engagement in Training Packages: Towards a Contestable Model*. The centrality of industry in training package design, development, implementation and review is the cornerstone of the National Training System.
- 8.28 As VET is essentially an economic strategy to develop a skilled workforce to enable Australia to compete globally, the Government must remain committed to supporting their continual development and review to ensure they are meeting the needs of industry. Training packages are an essential component of the national VET system. In fact, they are one of the few truly national components of the system.

8.29 Master Builders recommends training packages, inter alia:

- be informed by real time intelligence that identifies the changing nature of industry, work practices and disruptive events including technological change and its resulting impact on required skills and knowledge;
- specify the knowledge and skills required to perform effectively in the workplace as determined by industry;
- provide clear guidance to RTOs on the skills and knowledge students are expected to acquire; and inform course design and assessment practices to ensure consistent outcomes across VET; and,
- be responsive to changing industry requirements including ensuring licensing requirements for specific occupations are considered in training package development and continually updated as needed.

8.30 Absent such reforms the BCI will likely find it increasingly difficult over the coming decade, and potentially beyond, to meet the rising demand for a skilled workforce against a background of a decreasing number of apprentices in accredited training, high drop-out training rates, an ageing workforce and an exit rate of existing workers of 30,000 persons per annum.

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Appendix A: Focus Groups on Regulation

“It really frustrates me that so many bureaucrats are really just trying to make work for themselves at my cost.”

“I’m a small business, and really don’t have the ‘free time’ for dealing with regulations. NSW is just so pro-reg.”

“I’m not sure building regulators are always up to speed with the building regulations. Some of the things they ask for just make me wonder.”

“The costs of going through the (regulator name here) are so prohibitive; we just had to settle (the claim) even though we were in the right. Our barrister just said ‘pay up, and close it off’. We had to do, and fund, the remediation work when really it (the claim) was a maintenance issue which is the client’s responsibility.”

“The ATO (Australian Taxation Office) and some of the (State name here) regulators want builders to become their (enforcement) agents, which isn’t right.”

“You have to price red tape into your quote.”

“Regulators don’t understand the cash flow constraints small business in this industry work under. Workcover is the worst, with all of its upfront fees.”

“There should be more use of ‘one stop regulatory shops’ – one place where you can go for advice and to get everything done, rather than having to run around all over the place.”

“One area where they should tighten the regulations is owner builders.”

“There really is two standards – one for registered builders, and one for owner-builders.”

“Owner builders are a pain. They watch these (home renovation) shows on television, and think they can do it. Then we have to come along and clean up the mess.”

“The worst thing (about local government) is inconsistency. One method or rule is applied in Gippsland, and another one in Kew.”

“It is almost a lottery by postcode.”

“Local governments are virtually unaccountable to anyone; little baronies.”

“Regulations are a case of rolling with the punches.”

“You can’t afford to alienate local government. They get back at you, such as by delaying your paperwork.”

Appendix B: Focus Groups on Skills and Training

“We need to train young builders much better in running a business. There is not enough ‘running a business’ (training) in Cert Four.”

“We have to inculcate in apprentices that they are running a business – in building.”

“If we sell a business, then ‘long tail liabilities’ go with the business.”

“Most builders need to be ‘off the tools’ by the time they are forty (years of age). Their bodies just can’t take it. So they need to have skills in project management.”

“Building licences are too easy to get. We need to have a tiered licencing system. HWI (home warranty insurance) at the moment in (State name here) really is the de facto licencing system.”

“HWI is really the framework for licencing – what you can do, the value of the work you can do.”

“(Regulators and the industry) should look at a bronze/silver/gold tiered licensing system, which applies as the business scales up.”

“We need tiering (of licences). Younger builders should have to get at least two years post ticket experience. They should also have a diversity of experience across a range of projects before they can get an unrestricted licence.”