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THE IMPACT OF THE PROHIBITIVE COST OF BUILDING IN VICTORIA

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About the author

Gideon Rozner is an Adjunct Fellow at the Institute of Public Affairs. He was admitted to the Supreme Court of Victoria in 2011 and spent several years practicing as a lawyer at one of Australia's largest commercial law firms, as well as acting as general counsel to an ASX-200 company. Gideon has also worked as a policy adviser to ministers in the Abbott and Turnbull Governments. Gideon holds a Bachelor of Laws (Honours) and a Bachelor of Arts from the University of Melbourne.

Introduction

On Wednesday 30 November 2016, the Australian Senate passed the Building and Construction Industry (Improving Productivity) Bill.¹

The main object of the Bill is to:

“...provide an improved workplace relations framework for building work to ensure that building work is carried out fairly, efficiently and productively, for the benefit of all building industry participants and for the benefit of the Australian economy as a whole.”²

The building and construction industry employs hundreds of thousands of Australians and is responsible for almost 10 per cent of the nation’s GDP.

Yet, this important industry has a dubious track record of violence, intimidation, excessive industrial action and inflated costs.

International labour cost comparison

As a result of EBAs in the construction sector, labour costs per square metre in Melbourne are among the highest in the world, second only to places like New York. Indeed, the four Australian cities measured in the 2016 Turner & Townsend survey (Brisbane, Melbourne, Perth and Sydney) all featured in the Topic 10 most expensive cities by labour costs, as shown in Table 1 & Figure 1.

Table 1: Comparative Construction Labour Costs - Melbourne vs International³

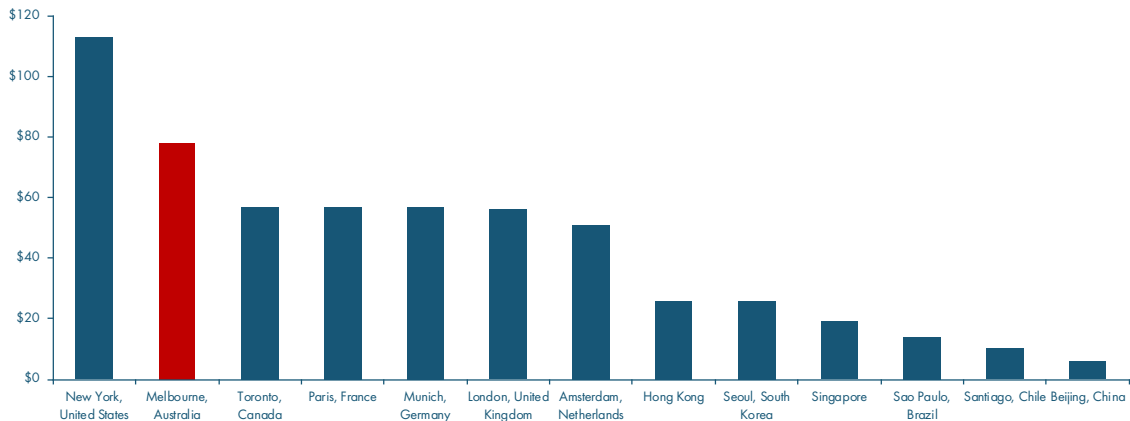
	Approximate labour costs per square metre (AUD)		
	Labourer	Carpenter	Site foreman
Melbourne, Australia	\$55	\$78	\$95
Sao Paulo, Brazil	\$12	\$14	\$39
Toronto, Canada	\$49	\$57	\$77
Santiago, Chile	\$7	\$10	\$17
Beijing, China	\$3	\$6	\$8
Paris, France	\$36	\$57	\$57
Munich, Germany	\$41	\$57	\$62
Hong Kong	\$14	\$26	\$30
Amsterdam, Netherlands	\$36	\$51	\$59
Singapore	\$16	\$19	\$26
Seoul, South Korea	\$18	\$26	\$38
London, United Kingdom	\$35	\$56	\$71
New York, United States	\$100	\$113	\$169

1 Building and Construction Industry (Improving Productivity) Bill 2013, http://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r5692, Viewed 9 January 2017.

2 Building and Construction Industry (Improving Productivity) Bill 2013, p.2, http://parlinfo.aph.gov.au/parlInfo/download/legislation/bills/r5692_first-reps/toc_pdf/16097b01.pdf;fileType=application%2Fpdf, Viewed 9 January 2017.

3 Turner & Townsend, *International construction market survey 2016*

Figure 1: Approximate Labour Costs Per Square Meter (Avg) - Carpentry



**Union EBA premiums on Melbourne Metro:
What else could taxpayers' money buy?**

Union EBAs in the construction industry can add up to 30 per cent to construction costs.⁴

This is particularly problematic for government projects. Governments are less price sensitive than private enterprise because they are able to pay for these higher wage bills out of consolidated revenue – typically by raising taxes or incurring larger deficits. Victorian taxpayers deserve value for money.

Of the estimated \$10.9 billion in construction costs⁵ on the Melbourne Metro rail project, an estimated \$3.27 billion can be attributed to the cost premium of the relevant EBA. This money could build:⁶



225 new primary schools; or



105 new secondary schools; or



Five new hospitals; or



125 new suburban trains; or



200 new 24-hour police stations.

4 Daily Telegraph, 6 February 2014, "Ransoming Our Future Unions... Managers Push Construction Costs Sky High." <http://www.dailytelegraph.com.au/news/ransoming-our-future-unions-managers-push-construction-costs-sky-high/story-fni0cx4q-1226820165712>, Viewed 9 January 2017.

5 Melbourne Metro Rail Authority, Metro Tunnel: Frequently Asked Questions. <http://metrotunnel.vic.gov.au/about-the-project/faq>, Viewed 9 January 2017.

6 Terry McCrann, 'Mad taxes and cynical lies', *Herald Sun*, 16 April 2015.

The prohibitive cost of building in Victoria

Enterprise bargaining agreements (EBA) in the construction sector are resulting in unsustainably high wages that are blowing out the cost of major projects in Victoria.

Analysis shows (Table 2 vs Table 3) that the wages of even entry-level unskilled labourers under EBAs with unions like the CFMEU are well above comparable positions in almost every other profession.

Table 2: Comparative Wages - Union Negotiated Construction Agreements

	Job Title	Salary	Source
CFMEU pattern agreement	Carpenter	\$163,825	Deloitte Access Economics/Master Builders Association of Victoria, Construction sector – Outlook, labour costs and productivity (March 2016) Link
	Entry-level labourer	\$151,794	Deloitte Access Economics/Master Builders Association of Victoria, Construction sector – Outlook, labour costs and productivity (March 2016) Link
CityLink Tulla widening project	Entry-level labourer (less than three months experience)	\$143,199	CityLink Tulla Widening Bulla Road to Power Street Enterprise Agreement 2016 Link
	Traffic controller	\$157,739	CityLink Tulla Widening Bulla Road to Power Street Enterprise Agreement 2016 Link
	Concrete paver	\$171,611	CityLink Tulla Widening Bulla Road to Power Street Enterprise Agreement 2016 Link
Grocon CFMEU agreement	Bricklayer	\$149,313	Grocon Victoria Workplace Agreement 2011-2015 Link
	Jack Hammerman	\$138,741	Grocon Victoria Workplace Agreement 2011-2015 Link
	Crane operator	\$167,603	Grocon Victoria Workplace Agreement 2011-2015 Link
Metro rail tunnel project	Electrician	\$167,439	Metro Trains Melbourne Infrastructure Enterprise Agreement 2016 Link
	Line worker	\$177,618	Metro Trains Melbourne Infrastructure Enterprise Agreement 2016 Link
	Senior foreman	\$241,256	Metro Trains Melbourne Infrastructure Enterprise Agreement 2016 Link

Table 3: Comparative Wages - Other Occupations

	Job Title	Salary	Source
Accounting and finance	Bookkeeper	\$55,000 - \$65,000	2016 Hudson Salary Guide – Accounting and Finance Link
	Entry-level accountant (Newly-qualified)	\$70,000 - \$90,000	2016 Hudson Salary Guide – Accounting and Finance Link
	Accountant (Over four years experience)	\$90,000 - \$140,000	2016 Hudson Salary Guide – Accounting and Finance Link
Law	Entry-level lawyer (Newly-admitted)	\$67,000 - \$75,000	2016 Hudson Salary Guide – Legal Link
	Lawyer (Over four years experience)	\$93,000 - \$110,000	2016 Hudson Salary Guide – Legal Link
Office support	Mailroom clerk	\$40,000 - \$50,000	2016 Hudson Salary Guide – Office support Link
	Receptionist	\$45,000 - \$55,000	2016 Hudson Salary Guide – Office support Link
	Office manager	\$65,000 - \$90,000	2016 Hudson Salary Guide – Office support Link
Teaching	Classroom teacher (Entry-level)	\$63,356	Department of Education and Training Link
	Classroom teacher (Five years' experience)	\$73,238	Department of Education and Training Link
Healthcare	Registered nurse (Entry-level)	\$53,783	Health Times analysis Link
	Registered nurse (Top salary band)	\$71,198	Health Times analysis Link
Police	Constable	\$65,145	Glassdoor analysis Link
	Sergeant	\$94,580	Glassdoor analysis Link

Conclusion

While companies still have two years before they are required to comply with the new Australian Building Code, the disparity in construction costs between Australia and other countries demonstrates the cost savings that are possible if companies voluntarily comply.

In 2014, the newly-elected Victorian Andrews Government abolished a similar Victorian Building Code that applied to Victorian Government-backed projects. The Victorian Government needs to read the writing on the wall, adopt the principles of the new Australian Code and allow some of these important projects to be built at a more affordable cost.

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