

FIRST HOME OWNER GRANT AMENDMENT BILL 2002

Second Reading

Resumed from 28 March.

MR BARNETT (Cottesloe - Leader of the Opposition) [12.58 pm]: This is very simple legislation, which the Opposition obviously supports. It relates to administering and putting into practice the announcement made by the Prime Minister to extend the first home owner grant scheme. Last year, the grant was \$14 000. It was announced in October 2001 that the grant will continue at a level of \$10 000 from 1 January to 1 July 2002. This applies only to new homes. The addition to the first home owner grant - which was \$7 000, then increased to \$14 000 for a period and will be \$10 000 from 1 January to 1 July 2002 - has been targeted specifically at new homes. It was recognised by the Prime Minister that one of the consequences of the introduction of the goods and services tax was to bring forward a lot of pre-GST contracts that were being signed for homes and that there was a potential slump. It was having a destabilising effect on the normal rate of contracts for new home construction, and there was a genuine concern that there would be somewhat of a mini collapse in home building. The home building industry is very labour intensive and is a large employer. The first home owner grant supplements ensured not only that a slump has been avoided but also that the new home construction sector has continued to be extremely strong throughout the past 18 months.

The home building industry has welcomed the decision that the grant will be not \$7 000 but \$10 000 for the first six months of this year, and the announcement that although the grant will drop back to its normal level of \$7 000 after July 2002, it will continue on an indefinite basis. Although the extra grant payments have been for new homes, the grant of \$7 000 after July 2002 will be for both new and established homes. The legislation also includes a number of administrative changes that are fairly straightforward. Amendments are made to tighten the eligibility criteria and the residence requirements to ensure there is no misuse or misappropriation of funds and that the scheme operates in practice as it was intended to operate.

The home building industry in Western Australia is extremely important and successful. Unlike the other States of Australia, the home building industry in this State is based on a subcontracting system that has meant that housing affordability and quality have been superior when compared with the other States. That is recognised by any buyer of a new home or of home extensions. There is a significant difference in this State in the affordability of housing, perhaps in the order of 20 per cent. It has long been the case and is generally recognised that the quality of housing construction in Western Australia is high. For a long time in this State there has been a focus on double-brick construction and the like. People in Western Australia who buy a new house also get not only a cheaper house but also better quality workmanship and materials. In another sense, they get a larger house for the same amount of dollars. Western Australia stands out in not only Australia but internationally for the ability of people on average and low incomes to afford to purchase, with some government support, a high quality house on a residential block of land. There are few, if any, other places in the world where that is possible. For that reason, we as parliamentarians need to be very conscious of the home building industry and its welfare, not only for the employment that it provides but also for the quality and service it provides in making housing available and affordable.

I do not intend to branch off into a dissertation about the Labour Relations Reform Bill, but I again note in passing that the Bill has the potential to damage the home building industry and cause it to progressively shift from one based on independent contractors to one based on full-time permanent employees. Labor Party members, particularly those who come from the union movement, may think that is good; and I understand the reasons that they may argue that. However, it will inevitably lead to an increase in the price of housing in Western Australia. That will make it more difficult for newly married couples and young people on middle to low incomes to buy a house of the size and quality that has been assumed to be possible in the past two or three decades.

I have often said in this Parliament that a market - it does not matter what sort of market we are talking about; in this case it is the market for new housing construction - is like a big lump of jelly: if we squeeze it in one place, it will inevitably pop out in another place. If the Government squeezes the housing market by changing the flexibility of the subcontract system, it will pop out in the form of lesser quality, smaller and higher priced housing for consumers. That is not in the public interest. Coupled with that is the measures being taken by this Government to widen the application of payroll tax to include so-called subcontractors. That will have exactly the same effect. It will raise labour costs, and that will flow through to the cost of building a house. I do not know the exact figure, but labour costs probably amount to at least half the cost of building a house. If the Government squeezes labour costs through the labour relations legislation or through extending the net for the payment of payroll tax to areas to which it has not been applied previously, it will inevitably raise the cost of

housing in Western Australia. I give the Labor Party a bit of gratuitous advice. The public is very conscious of the quality and affordability of housing. That is a key public issue that we may not debate much in this House, but people in the community who save to buy a house are very conscious of the affordability of housing.

We have experienced, in conjunction with the first home owner scheme and its increased level from \$7 000 to \$14 000, and now for this period to \$10 000, very buoyant activity in the home building industry. That has been assisted directly by the first home owner grant as announced by Prime Minister Howard. It has also been facilitated by a period of almost historically low interest rates. Interest rates have been at the levels that applied typically 30 years ago. That factor, as much as the first home owner grant, has again enhanced the affordability of housing. This morning we had the first upward movement of interest rates for three years. It is only one-quarter of one per cent, which does not sound very much, but it is inevitable that although we will not have a great escalation in interest rates, they will edge up gradually. The first home owner grant is to be marginally reduced, interest rates are now starting to edge up rather than fall, and there is potential pressure in the form of the labour relations legislation and payroll tax. That is not necessarily a benign set of circumstances for the housing industry. It has almost belied logic that the home building industry has been so strong for so long. The pent up demand has largely been met. I suspect that although there will not be a recession in housing, the rate of new housing construction will, because of natural market trends and the other factors I have outlined, probably slow a bit over the remainder of this year. Some of the builders are already seeing evidence of that.

The other part of the building industry that is growing in importance is home additions. I am trying to work out the exact numbers, but it seems to me that in my electorate of Cottesloe, almost every second house has had some sort of major renovation in the past few years. In my street, which has only about 20 houses, five or six new houses have been built in the past couple of years. The home renovation business has been very successfully tackled by the home building industry and forms an important part of its work. To some extent the ability, particularly of baby boomers, to decide to change their style of accommodation or renovate their accommodation has provided a major source of economic activity in addition to the traditional first home owner or new home purchaser.

The home building industry is an industry that any Government needs to be very conscious of and watch very carefully. It is subject to the vagaries of consumer demand. It is very subject to cyclical effects, particularly as brought about by changes in interest rates and consumer confidence. It relies very much on a competitive and efficient mode of operation brought about principally by the choice of builders to use the very competitive and efficient subcontract system that exists in this State. The individuals who work in the building industry, whether they be bricklayers, tilers or carpenters, or whatever else they may do, like the idea of having their own business. While they may do almost all of their work for Dale Alcock Homes Pty Ltd, BGC (Australia) Pty Ltd or some other builder, they are proud of the fact that they are independent business people, and they should be entitled to continue to be so. They should not be deemed to be employees for the purpose of payroll tax or be forced into union structures if they do not wish to be part of that. The competitive market system is very strong in the home building industry. However, I fear that the combined labour relations and tax measures that this Government is undertaking will damage the home building industry in this State, and that will reduce the affordability and quality of housing for new home purchasers. They and their families will be very sensitive to those changes if they occur, and I assure members opposite I will remind them of that.

MR OMODEI (Warren-Blackwood) [1.09 pm]: I support the legislation. It is a step in the right direction that will allow people to afford to buy their first home with assistance from government. There is no doubt that the proposal by the federal Government has helped to keep the building industry at a viable level and this legislation will ensure that that continues into the future. Having young children of my own, I understand the struggle people go through to raise enough money to buy a home. Many young people pay medium to high rents for accommodation when those funds could be better directed towards buying a new home.

The comments made by the Leader of the Opposition are valid. The first home owner grant initiative has been successful across Australia. It gives young people hope and has been well received by them. It goes without saying that today some of the younger generation find it difficult to make their way in society. Initiatives like this give them some hope and some incentive to purchase their own home. There is no doubt that a person's home is his castle. This grant gives people added security and helps them to buy a place of which they can be proud and in which they can raise a family and be good citizens.

I express my appreciation for this excellent initiative. It is very good for young people across Australia who are seeking to buy their first home and have that prized possession. A house of one's own to live in and raise a family is the main possession anyone can have. I support the legislation.

MR RIPPER (Belmont - Treasurer) [1.12 pm]: I thank the Opposition for supporting this legislation. Essentially, it will implement what is now happening administratively; that is, the Commonwealth's first home owner grant, the additional grant and further tapering mechanisms announced by the Commonwealth

Government. The assistance scheme for the housing industry was not implemented just because the Commonwealth Government believes that the housing industry is worthy of special assistance. The need for the scheme arose because of the introduction of the goods and services tax. New entrants to the housing market would have been severely disadvantaged because of the application of the GST on new housing construction had it not been for the first home owner grant.

One of the features of the GST arrangement is that the States are required to run a first home owner grant scheme. Currently, the Commonwealth funds the scheme because it gives the States budget balancing assistance to return them to the position they would have been in but for the GST reforms. In the future, when GST revenues take us past the point that we would have been at with pre-existing taxation arrangements, the first home owner grant will be funded from the State's revenues, including the GST revenues. Currently, if the Commonwealth decides to change the scheme, it does not have much of an impact on the States' finances because the Commonwealth increases the budget balancing assistance it pays to the States. However, once we reach that crossover point whereby GST revenues exceed the revenues from pre-existing taxation arrangements, or the projected revenues from those pre-existing taxation arrangements, we will be on our own and we will be required to fund the first home owner grant.

The introduction of the GST had some negative impacts on the housing industry. It resulted in housing demand being pulled forward, followed by a slump. That slump is one reason that the State's economy contracted by 1.8 per cent in the year 2000. I am sure that when the Leader of the Opposition reflects on the result of the February 2001 election, he will be only too well aware of that economic contraction in the year 2000. That cannot have helped the coalition's prospects in the February 2001 election.

Mr Barnett: We were very conscious that we were the first Liberal Government to be facing an election following the introduction of the GST. The GST and petrol prices were factors in the outcome.

Mr RIPPER: Equally, the poor performance of the State's economy in the year preceding the election was a factor in the election result.

The Commonwealth responded to the slump in housing demand, caused by the GST pull forward of demand, with an additional first home owner grant of \$7 000, which has been helpful in stimulating housing demand. However, it has again raised the prospect of another pull forward of demand followed by another slump. The Commonwealth has again responded to that with tapering mechanisms for smaller additional grants of \$3 000 between January and June this year. It has also responded by showing greater leniency on the contract and construction deadlines that were previously in the scheme. The Commonwealth Government has made some effort to reduce the impact of yet another pull forward of the housing demand followed by another slump. However, we are still faced with the circumstance that all of this has the potential to produce a contraction in housing demand. Presumably, some of the housing demand that we would expect later this year or in the next financial year has been taken up already as a result of the implementation of the additional first home owner grant. I share the Leader of the Opposition's concern that there may be a lessening of housing demand in the next financial year with consequent impacts on the State's economy

Mr Barnett: The demographics suggest that is almost certain.

Mr RIPPER: That occurred in 2000 as a result of the GST pull forward of demand, and it might occur again in the next financial year as a result of the first home owner additional grant pull forward of demand followed by another slump.

Another issue to which the Leader of the Opposition referred that has had a potentially negative affect on the housing industry is the rise in interest rates. Interest rates have risen once recently and most commentators are predicting further rises. That is out of the control of the State Government. Technically speaking, it is also out of the control of the federal Government because of the independence of the Reserve Bank of Australia. However, one could point to Peter Costello running down the surplus in the pre-election spending spree as a factor that could add to the pressure for interest rate increases.

Mr Barnett: It is hardly a spending spree; a few things have happened internationally.

Mr RIPPER: A few things have happened internationally; however, the surpluses that were in the budget year and in the forward estimates were largely eroded by John Howard and Peter Costello over a year of decision making in the run-up to the federal election. The erosion of those surpluses must add to the pressure for increases in interest rates.

The Leader of the Opposition also referred to two other factors that will potentially concern the housing industry; that is, labour relations and payroll tax issues. I found it fascinating that the Leader of the Opposition chose to debate labour relations today on this first home owner grant Bill. Perhaps he should have been in the upper House last night when there was an opportunity for the Liberal Party to debate it, but somehow it was missing in

action. Nevertheless, the Leader of the Opposition is making up for it by debating that Bill on the occasion of another Bill being before the Parliament.

Mr Omodei interjected.

Mr RIPPER: I would prefer the Liberal Party to follow its pattern last night rather than the mode of operation that the member suggested. In any case, the Government certainly does not believe that its labour relations legislation will have a negative impact on the housing industry. We like the quality of the housing that is built in Western Australia and the employment that the housing industry creates. We certainly wish the industry to remain in good health. In any case, we will have plenty of other opportunities to debate labour relations legislation.

I was interested to hear the Leader of the Opposition's comments on payroll tax. I have had discussions with the Housing Industry Association on the application of payroll tax to subcontractors in the housing industry, and I believe I have reached an agreement with the HIA on how arrangements might work in a way that does not impact negatively on that industry. Therefore, I do not think that the housing industry should fear the application of payroll tax to that industry. Late last year I had discussions with the HIA on that matter, and I think a settlement has been reached.

I believe that we are facing a reduction in housing demand. That is certainly the advice that has been given to me. In some ways, that is part of the usual cycle; in other ways, it represents yet another flow-on effect from the introduction of the goods and services tax and subsequent remedial measures. Nevertheless, the housing industry has been extremely important in the State's good economic growth in this financial year, and the State Government is pleased to support this legislation and the commonwealth initiatives, because those initiatives lessen the possibility of that pull forward of housing demand followed by the slump phenomenon about which I have been talking.

Question put and passed.

Bill read a second time, proceeded through remaining stages without debate, and transmitted to the Council.